

**THE POMPTON LAKES BOROUGH  
MUNICIPAL UTILITIES AUTHORITY  
(A Component Unit of the  
Borough of Pompton Lakes)**

**FINANCIAL STATEMENTS**

**YEARS ENDED MAY 31, 2011 AND 2010**

THIS PAGE INTENTIONALLY LEFT BLANK

**THE POMPTON LAKES BOROUGH MUNICIPAL UTILITIES AUTHORITY**  
**(A Component Unit of the Borough of Pompton Lakes)**

**INDEX TO FINANCIAL STATEMENTS**

**Page**

**Exhibit**

**FINANCIAL SECTION**

|       |   |   |
|-------|---|---|
| 1-2   | Independent Auditor's Report                              |   |
| 3-9   | Management's Discussion and Analysis                      |   |
|       | Basic Financial Statements:                               |   |
| 10-12 | Statement of Net Assets                                   | A |
| 13    | Statement of Revenues, Expenses and Changes in Net Assets | B |
| 14-15 | Statement of Cash Flows                                   | C |
| 16-37 | Notes to Financial Statements                             |   |

**Schedule**

**REQUIRED SUPPLEMENTARY INFORMATION**

|       |  |   |
|-------|--|---|
| 38-39 | Schedule of Revenues, Expenses and Changes in Net Assets                                       | 1 |
| 40-42 | Schedule of Cash Receipts, Cash Disbursements and Changes in Cash and Investments              | 2 |
| 43-45 | Schedule of Operating Revenue and Costs Funded by Operating Revenue Compared to Budget         | 3 |
| 46    | Schedule of Capital Financing Sources and Costs Funded by Financing Sources Compared to Budget | 4 |
| 47-52 | Schedule of Revenue and Junior Lien Revenue Bonds Payable                                      | 5 |
| 53    | Members of the Authority   | 6 |

**THE POMPTON LAKES BOROUGH MUNICIPAL UTILITIES AUTHORITY**  
**(A Component Unit of the Borough of Pompton Lakes)**

**INDEX TO FINANCIAL STATEMENTS, (continued)**

**Page**

**Exhibit**

**SINGLE AUDIT SECTION**

|    |   |   |
|----|---|---|
| 54 | 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  |   |
| 56 | Report on Compliance with Requirements that Could Have a Direct and Material Effect on Each Major Federal and State Program and on Internal Control over Compliance in Accordance with OMB Circular A-133 and N.J. OMB Circular 04-04 |   |
| 58 | Schedule of Expenditures of Federal Awards  | 7 |
| 59 | Schedule of Expenditures of State Financial Assistance  | 8 |
| 60 | Notes to the Schedules of Expenditures of Federal and State Awards  |   |
| 61 | Schedule of Findings and Questioned Costs   |   |
| 65 | General Comments  |   |
| 67 | Status of Prior Year's Audit Findings/Recommendations   |   |



## **Financial Section**

THIS PAGE INTENTIONALLY LEFT BLANK

# Ferraioli, Wielkottz, Cerullo & Cuva, P.A.

Charles J. Ferraioli, Jr., MBA, CPA, RMA  
Steven D. Wielkottz, CPA, RMA  
James J. Cerullo, CPA, RMA  
Paul J. Cuva, CPA, RMA  
Thomas M. Ferry, CPA, RMA

Certified Public Accountants  
401 Wanaque Avenue  
Pompton Lakes, New Jersey 07442  
973-835-7900  
Fax 973-835-6631

Newton Office  
100B Main Street  
Newton, N.J. 07860  
973-579-3212  
Fax 973-579-7128

## INDEPENDENT AUDITOR'S REPORT

August 23, 2011

Honorable Chairman and Members of the  
Pompton Lakes Borough Municipal Utilities Authority  
2000 Lincoln Avenue  
Pompton Lakes, New Jersey 07442

Ladies and Gentlemen:

We have audited the accompanying statement of net assets of The Pompton Lakes Borough Municipal Utilities Authority (A Component Unit of the Borough of Pompton Lakes) at May 31, 2011 and 2010 and the related statement of revenues, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of The Pompton Lakes Borough Municipal Utilities Authority's management. Our responsibility is to express an opinion 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 in accordance with the 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 audits 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 audit provided 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 Pompton Lakes Borough Municipal Utilities Authority (A Component Unit of the Borough of Pompton Lakes) at May 31, 2011 and 2010, and the results of its operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.





Honorable Chairman and Members of the  
Pompton Lakes Borough Municipal Utilities Authority  
August 23, 2011  
Page 2.

In accordance with Government Auditing Standards, we have also issued our report dated August 23, 2011 on our consideration of the Pompton Lakes Borough Municipal Utilities Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 compliance. This report is an integral part of our audit performed in accordance with Government Auditing Standards and should be considered in assessing results of our audit.

The Management Discussion and Analysis and Supplementary Information are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board and the Division of Local Government Services, Department of Community Affairs, State of New Jersey. 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 performed for the purpose of forming opinions on the financial statements that collectively comprise the Pompton Lakes Borough Municipal Utilities Authority's basic financial statements. The accompanying supplementary schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The introductory section and supplementary schedules have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

The accompanying schedules of federal awards and state financial assistance are 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 New Jersey OMB's Circular 04-04, *Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid*, and are not a required part of the basic financial statements. Such information has been subjected to the auditing 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.

*Ferraioli, Wielkotz, Cerullo & Cuva P.A.*  
FERRAIOLI, WIELKOTZ, CERULLO & CUVA, P.A.  
Certified Public Accountants

## **Management Discussion and Analysis**

THIS PAGE INTENTIONALLY LEFT BLANK



**THE POMPTON LAKES BOROUGH MUNICIPAL UTILITIES AUTHORITY**  
**(A Component Unit of the Borough of Pompton Lakes)**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**MAY 31, 2011**

*As management of the Pompton Lakes Borough Municipal Utilities Authority, we offer the Authority's financial statements this narrative overview and analysis of the Authority's financial performance during the fiscal years ended May 31, 2011 and 2010. Please read this analysis in conjunction with the Authority's financial statements, which follow this section.*

**Financial Highlights**

- The Authority's assets exceeded its liabilities by \$12,914,849 (net assets) for the fiscal year reported. This compares to the previous year when assets exceeded liabilities by \$12,686,693.
- Total net assets are comprised of the following:
  - (1) Capital assets, net of related debt, of \$10,032,376 includes property and equipment, net of accumulated depreciation, and reduced for outstanding debt related to the purchase or construction of capital assets.
  - (2) Restricted net assets of \$1,044,200 are restricted by constraints imposed from outside the Authority such as debt covenants, grantors, laws, or regulations.
  - (3) Unrestricted net assets of \$1,838,273 represent the portion available to maintain the Authority's continuing obligations to citizens and creditors.
- Total liabilities of the Authority increased by \$547,705 to \$4,442,878 during the fiscal year.

**Overview of the Financial Statements**

This annual report includes this management discussion, the independent auditor's report and the basic financial statements of the Authority. The financial statements also include notes that explain in more detail some of the information in the financial statements.

***Required Financial Statements***

The financial statements of the Authority report information of the Authority using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information about its activities. The *Statement of Net Assets* includes all of the Authority's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to Authority creditors (liabilities). It also provides the basis for evaluating the capital structure of the Authority and assessing the liquidity and financial flexibility of the authority.

**THE POMPTON LAKES BOROUGH MUNICIPAL UTILITIES AUTHORITY**  
**(A Component Unit of the Borough of Pompton Lakes)**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**  
**MAY 31, 2011**

All of the current year's revenues and expenses are accounted for in the *Statement of Revenues, Expenses and Changes in Net Assets*. This statement measures the results of the Authority's operations over the past year and can be used to determine whether the Authority has recovered all its costs through its user fees and other charges, operational stability and credit worthiness.

The final required financial statement is the *Statement of Cash Flows*. This statement reports cash receipts and cash payments, and net changes in cash resulting from operations, investing and financing activities and provides answers to such questions as what operational sources provided cash, what was the cash used for, and what was the change in cash balance during the reporting period.

***Notes to the Financial Statements***

The accompanying notes to the financial statements provide information essential to a full understanding of the financial statements. The notes to the financial statements begin immediately following the basic financial statements.

***Other Information***

In addition to the basic financial statements and accompanying notes, this report presents certain required supplementary information. This supplementary information follows the notes to the financial statements.

**Financial Analysis of the Authority**

One of the most important questions asked about the Authority's finances is "Is the Authority as a whole better able to fulfill its mission as a result of this year's activities?" The *Statement of Net Assets* and the *Statement of Revenues, Expenses and Changes in Net Assets* report information about the Authority's activities in a way that will help answer this question. These two statements report net assets of the Authority and the changes in those assets. The reader can think of the Authority's net assets – the difference between assets and liabilities – as one way to measure financial health or financial position. Over time, increases or decreases in the Authority's net assets are one indicator of whether its financial health is improving or deteriorating. However, one will need to consider the non-financial factors such as changes in economic conditions, population growth, development, and new or changed government regulation.



**THE POMPTON LAKES BOROUGH MUNICIPAL UTILITIES AUTHORITY**  
**(A Component Unit of the Borough of Pompton Lakes)**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**  
**MAY 31, 2011**

**Net Assets**

As year-to-year financial information is accumulated on a consistent basis, changes in net assets may be observed and used to discuss the changing financial position of the Authority as a whole.

The Authority's net assets at fiscal year-end are \$12,914,849. This is a \$228,156 increase over last year's net assets of \$12,686,693. A summary of the Authority's statement of net assets is presented in the following table:

**Condensed Statement of Net Assets**

|  | <u>FY 2011</u>    | <u>FY 2010</u>    | <u>Dollar<br/>Change</u> | <u>Percent<br/>Change</u> | <u>FY 2009</u>    |
|--|-------------------|-------------------|--------------------------|---------------------------|-------------------|
| Current and Other Assets                           | 4,237,367         | 5,525,322         | (1,287,955)              | (23.31)%                  | 2,968,687         |
| Capital Assets                                     | <u>13,120,360</u> | <u>11,056,544</u> | <u>2,063,816</u>         | 18.67%                    | <u>10,438,709</u> |
| Total Assets                                       | <u>17,357,727</u> | <u>16,581,866</u> | <u>775,861</u>           |                           | <u>13,407,396</u> |
| Long-term Debt                                     |                   |                   |                          |                           |                   |
| Outstanding  | 3,944,003         | 3,513,156         | 430,847                  | 12.26%                    | 1,914,364         |
| Other Liabilities                                  | <u>498,875</u>    | <u>382,017</u>    | <u>116,858</u>           | 30.59%                    | <u>327,111</u>    |
| Total Liabilities                                  | <u>4,442,878</u>  | <u>3,895,173</u>  | <u>547,705</u>           |                           | <u>2,241,475</u>  |
| Invested in Capital Assets,<br>Net of Related Debt | 10,032,376        | 9,917,745         | 114,631                  | 1.16%                     | 8,480,417         |
| Restricted   | 1,044,200         | 992,600           | 51,600                   | 5.20%                     | 967,500           |
| Unrestricted                                       | <u>1,838,273</u>  | <u>1,776,348</u>  | <u>61,925</u>            | 3.49%                     | <u>1,718,004</u>  |
| Total Net Assets                                   | <u>12,914,849</u> | <u>12,686,693</u> | <u>228,156</u>           | 1.80%                     | <u>11,165,921</u> |

While the *Statement of Net Assets* shows the change in financial position of nets assets, the *Statement of Revenues, Expenses and Changes in Net Assets* provides answers as to the nature and source of these changes. As can be seen in the following table, net assets increased by \$228,156.

**THE POMPTON LAKES BOROUGH MUNICIPAL UTILITIES AUTHORITY**  
(A Component Unit of the Borough of Pompton Lakes)

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**  
**MAY 31, 2011**

**Net Assets (Continued)**

**Condensed Statement of Revenues, Expenses  
and Changes in Net Assets**

|                             | <u>FY 2011</u>    | <u>FY 2010</u>    | <u>Dollar<br/>Change</u> | <u>Percent<br/>Change</u> | <u>FY 2009</u>    |
|-----------------------------|-------------------|-------------------|--------------------------|---------------------------|-------------------|
| Operating Revenues          | 3,139,876         | 3,007,014         | 132,862                  | 4.42%                     | 3,120,507         |
| Non-Operating Revenues      | <u>125,921</u>    | <u>98,715</u>     | <u>27,206</u>            | 27.56%                    | <u>105,589</u>    |
| Total Revenues              | <u>3,265,797</u>  | <u>3,105,729</u>  | <u>160,068</u>           |                           | <u>3,226,096</u>  |
| Depreciation                | 622,084           | 570,402           | 51,682                   | 9.06%                     | 530,322           |
| Other Operating Expenses    | 2,512,523         | 2,304,876         | 207,647                  | 9.01%                     | 2,333,138         |
| Other Non-Operating Expense | <u>113,464</u>    | <u>118,273</u>    | <u>(4,809)</u>           | (4.07)%                   | <u>134,882</u>    |
| Total Expenses              | <u>3,248,071</u>  | <u>2,993,551</u>  | <u>254,520</u>           |                           | <u>2,998,342</u>  |
| Contributions               | <u>210,430</u>    | <u>1,408,594</u>  | <u>(1,198,164)</u>       |                           | <u>          </u> |
| Change in Net Assets        | 228,156           | 1,520,772         | (1,292,616)              | (85.00)%                  | 227,754           |
| Beginning Net Assets        | <u>12,686,693</u> | <u>11,165,921</u> | <u>1,520,772</u>         | 13.62%                    | <u>10,938,167</u> |
| Ending Net Assets           | <u>12,914,849</u> | <u>12,686,693</u> | <u>228,156</u>           | 1.80%                     | <u>11,165,921</u> |

The Authority's Operating Revenues increased by \$132,862 to \$3,139,876 in 2011 from \$3,007,014 in 2010. This increase is primarily due to an increase in water and sewer charges. Nonoperating Revenues increased by \$27,206 to \$125,921 from \$98,715 due to an increase in the Authority's budget appropriation for reserve for retiree health benefits.

**Budgetary Highlights**

The State of New Jersey requires local authorities to prepare and adopt annual budgets in accordance with the Local Authorities Fiscal Control Law and regulations adopted by the Local Finance Board pursuant to this statute and codified as N.J.A.C. 5:31-1 et seq. The statutory budget was designed to demonstrate to the Bureau of Authority Regulation of the Division of Local Government Services that the cash flows of the Authority for the coming year will be sufficient to cover operating expenses, interest accruing on bonded indebtedness and cash payments of maturing bond and loan principal.

**THE POMPTON LAKES BOROUGH MUNICIPAL UTILITIES AUTHORITY**  
**(A Component Unit of the Borough of Pompton Lakes)**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**  
**MAY 31, 2011**

The following table provides a 2011 budget comparison:

|                            | <b>Budget vs. Actual<br/>FY 2011</b> |                      |                        |
|----------------------------|--------------------------------------|----------------------|------------------------|
|                            | <u><b>Budget</b></u>                 | <u><b>Actual</b></u> | <u><b>Variance</b></u> |
| Revenues:                  |                                      |                      |                        |
| Operating                  | 2,416,172                            | 2,925,738            | 509,566                |
| Non-Operating              | <u>404,000</u>                       | <u>414,059</u>       | <u>10,059</u>          |
|                            | <u>2,820,172</u>                     | <u>3,339,797</u>     | <u>519,625</u>         |
| Expenses:                  |                                      |                      |                        |
| Operating                  | 2,605,100                            | 2,512,523            | 92,577                 |
| Non-Operating              | <u>215,072</u>                       | <u>231,396</u>       | <u>(16,324)</u>        |
|                            | <u>2,820,172</u>                     | <u>2,743,919</u>     | <u>76,253</u>          |
| Income Before Depreciation | <u>          </u>                    | <u>595,878</u>       | <u>595,878</u>         |

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

At the end of fiscal year 2011, the Authority had invested \$24,711,866 in capital assets. Included in that amount is \$1,237,625 of capital that was contributed to the Authority in the form of federal and state grants and other property. The Authority's net property, plant and equipment at fiscal year end was \$13,120,360. This is a \$2,063,816 increase over last year's net property, plant and equipment of \$11,056,544. A summary of the Authority's capital assets is presented in the following table:



**THE POMPTON LAKES BOROUGH MUNICIPAL UTILITIES AUTHORITY**  
**(A Component Unit of the Borough of Pompton Lakes)**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**  
**MAY 31, 2011**

**CAPITAL ASSETS**

|  | <u>FY 2011</u>      | <u>FY 2010</u>      | <u>Dollar<br/>Change</u> | <u>FY 2009</u>      |
|--|---------------------|---------------------|--------------------------|---------------------|
| Land                                       | 65,652              | 65,652              |                          | 65,652              |
| Buildings, Force Mains<br>and Interceptors | 19,682,976          | 17,633,563          | 2,049,413                | 17,633,563          |
| Vehicles and Equipment                     | <u>4,181,664</u>    | <u>2,840,172</u>    | <u>1,341,492</u>         | <u>2,696,642</u>    |
| Total Property, Plant and Equipment        | 23,930,292          | 20,539,387          | 3,390,905                | 20,395,857          |
| Less: Accumulated Depreciation             | <u>(11,591,506)</u> | <u>(10,969,421)</u> | <u>(622,085)</u>         | <u>(10,414,019)</u> |
|  | 12,338,786          | 9,569,966           | 2,768,820                | 9,981,838           |
| Construction in Progress                   | <u>781,574</u>      | <u>1,486,578</u>    | <u>(705,004)</u>         | <u>456,871</u>      |
| Net Property, Plant and Equipment          | <u>13,120,360</u>   | <u>11,056,544</u>   | <u>2,063,816</u>         | <u>10,438,709</u>   |

The Authority's on going capital plan is reviewed each year by the Authority's consulting engineer. Notable future capital improvements are listed below.

**Debt Administration**

At May 31, 2011, the Authority had outstanding revenue and revenue refunding bonds in the amount of \$4,282,251 (gross). The debt service schedule goes out to 2030. Interest rates range from 0.00% to 5.00%.

**Economic Factors, Future Years' Budgets and Rates**

The Commissioners and management of the Authority consider many factors when preparing each year's budget and annual charges. Two of the main factors are growth in the Authority's system and new regulations issued by the State and Federal governments.



**THE POMPTON LAKES BOROUGH MUNICIPAL UTILITIES AUTHORITY**  
**(A Component Unit of the Borough of Pompton Lakes)**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**  
**MAY 31, 2011**

**Contacting the Authority**

This financial report is designed to provide our customers and creditors with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the fees it receives. If you have any questions about this report or need additional information, contact the Pompton Lakes Borough Municipal Utilities Authority, 2000 Lincoln Avenue, Pompton Lakes, New Jersey 07442.

THIS PAGE INTENTIONALLY LEFT BLANK

## **Basic Financial Statements**

THIS PAGE INTENTIONALLY LEFT BLANK

The Pompton Lakes Borough Municipal Utilities Authority  
(A Component Unit of the Borough of Pompton Lakes)  
Statement of Net Assets

May 31,

| <u>ASSETS</u>                                  | <u>2011</u>         | <u>2010</u>      |
|--|---------------------|------------------|
| <b><u>Current Assets:</u></b>                  |                     |                  |
| <b><u>Unrestricted:</u></b>                    |                     |                  |
| Cash and Cash Equivalents                      | \$ 848,451          | 824,170          |
| Investments                                    | 827,005             | 827,005          |
| Accounts Receivable-User Charges               | 161,284             | 154,916          |
| Accrued Interest Receivable                    | 37,221              | 37,038           |
| Miscellaneous Receivables                      | 9,094               | 9,556            |
| Prepaid Expenses                               | 35,658              | 5,579            |
| Total Current Assets                           | <u>1,918,713</u>    | <u>1,858,264</u> |
| <b><u>Non-Current Assets</u></b>               |                     |                  |
| <b><u>Restricted:</u></b>                      |                     |                  |
| <b><u>Operating Reserve Fund:</u></b>          |                     |                  |
| Cash and Cash Equivalents                      | <u>697,875</u>      | <u>651,275</u>   |
| <b><u>Current Debt Service Fund:</u></b>       |                     |                  |
| Cash and Cash Equivalents                      | <u>194,103</u>      | <u>186,282</u>   |
| <b><u>Debt Service Reserve Fund:</u></b>       |                     |                  |
| Investments                                    | <u>216,325</u>      | <u>216,325</u>   |
| <b><u>Construction Fund:</u></b>               |                     |                  |
| Cash and Cash Equivalents                      | 281,836             | 229,787          |
| Due From NJ Environmental Infrastructure Trust | 754,491             | 2,211,486        |
|  | <u>1,036,327</u>    | <u>2,441,273</u> |
| <b><u>Customer Deposits:</u></b>               |                     |                  |
| Cash and Cash Equivalents                      | <u>43,898</u>       | <u>43,639</u>    |
| <b><u>Escrow Deposits:</u></b>                 |                     |                  |
| Cash and Cash Equivalents                      | <u>27,201</u>       | <u>27,187</u>    |
| Total Restricted Assets:                       | <u>\$ 2,215,729</u> | <u>3,565,981</u> |

The accompanying "Independent Auditor's Report" and the "Notes to the Financial Statements" are an integral part of this report.

**The Pompton Lakes Borough Municipal Utilities Authority**  
**(A Component Unit of the Borough of Pompton Lakes)**  
**Statement of Net Assets**

May 31,

|  | <u>2011</u>                 | <u>2010</u>              |
|--|-----------------------------|--------------------------|
| <b>Capital Assets:</b>                   |                             |                          |
| Property, Plant and Equipment            | \$ 23,930,292               | 20,539,387               |
| Construction In Progress                 | 781,574                     | 1,486,578                |
| Less: Accumulated Depreciation           | <u>(11,591,506)</u>         | <u>(10,969,421)</u>      |
| Total Capital Assets                     | <u>13,120,360</u>           | <u>11,056,544</u>        |
| <b>Other Assets:</b>                     |                             |                          |
| Unamortized Debt Issue Costs (Less       |                             |                          |
| Accumulated Amortization of \$381,743 in |                             |                          |
| 2011 and \$373,976 in 2010)              | <u>102,925</u>              | <u>101,077</u>           |
| Total Non-Current Assets                 | <u>15,439,014</u>           | <u>14,723,602</u>        |
| <b>TOTAL ASSETS</b>                      | <b><u>\$ 17,357,727</u></b> | <b><u>16,581,866</u></b> |

The accompanying "Independent Auditor's Report" and the "Notes to the Financial Statements" are an integral part of this report.



The Pompton Lakes Borough Municipal Utilities Authority  
(A Component Unit of the Borough of Pompton Lakes)  
Statement of Net Assets

May 31, 2011

|   | <u>2011</u>                        | <u>2010</u>                     |
|---|------------------------------------|---------------------------------|
| <b><u>LIABILITIES</u></b>                       |                                    |                                 |
| <b><u>Current Liabilities:</u></b>              |                                    |                                 |
| <b>Payable From Unrestricted Assets:</b>        |                                    |                                 |
| Accounts Payable                                | \$ 56,476                          | 55,128                          |
| Accrued Liabilities:                            |                                    |                                 |
| Compensated Absences                            | 23,964                             | 26,788                          |
| Total Current Liabilities Payable               |                                    |                                 |
| From Unrestricted Assets                        | <u>80,440</u>                      | <u>81,916</u>                   |
| <b>Payable From Restricted Assets:</b>          |                                    |                                 |
| Customer Deposits                               | 43,898                             | 43,639                          |
| Escrow Deposits Payable                         | 27,201                             | 27,187                          |
| Accrued Interest on Bonds Payable               | 64,103                             | 61,282                          |
| Unamortized Bond Premium                        | 76,678                             | 39,411                          |
| Revenue and Junior Lien Revenue Bonds           |                                    |                                 |
| Payable - Current Portion                       | <u>206,555</u>                     | <u>128,582</u>                  |
| Total Current Liabilities Payable               |                                    |                                 |
| From Restricted Assets                          | <u>418,435</u>                     | <u>300,101</u>                  |
| <b><u>Non-Current Liabilities :</u></b>         |                                    |                                 |
| Long-Term Portion of Revenue and Junior         |                                    |                                 |
| Lien Revenue Bonds Payable                      | <u>3,944,003</u>                   | <u>3,513,156</u>                |
| <b>TOTAL LIABILITIES</b>                        | <b>\$ <u>4,442,878</u></b>         | <b><u>3,895,173</u></b>         |
| <b><u>NET ASSETS</u></b>                        |                                    |                                 |
| Invested in Capital Assets, net of related debt | 10,032,376                         | 9,917,745                       |
| Restricted:                                     |                                    |                                 |
| Operating Reserve                               | 697,875                            | 651,275                         |
| Current Debt Service                            | 130,000                            | 125,000                         |
| Debt Service Reserve                            | 216,325                            | 216,325                         |
| Unrestricted:                                   |                                    |                                 |
| Designated                                      | 288,250                            | 201,000                         |
| Undesignated                                    | <u>1,550,023</u>                   | <u>1,575,348</u>                |
| <b>TOTAL NET ASSETS</b>                         | <b>\$ <u><u>12,914,849</u></u></b> | <b><u><u>12,686,693</u></u></b> |

The accompanying "Independent Auditor's Report" and the "Notes to the Financial Statements" are an integral part of this report.

THIS PAGE INTENTIONALLY LEFT BLANK

The Pompton Lakes Borough Municipal Utilities Authority  
(A Component Unit of the Borough of Pompton Lakes)  
Statement of Revenues, Expenses and Changes in Net Assets

For The Year Ended May 31,

|  | <u>2011</u>          | <u>2010</u>       |
|--|----------------------|-------------------|
| <b>Operating Revenues:</b>                       |                      |                   |
| Water Charges                                    | \$ 670,637           | 580,708           |
| Sewer Charges                                    | 2,255,101            | 2,213,786         |
| Other  | 190,772              | 190,357           |
| Interest On Delinquent Accounts                  | 23,366               | 22,163            |
|  | <u>3,139,876</u>     | <u>3,007,014</u>  |
| <b>Total Operating Revenues</b>                  |                      |                   |
| <b>Operating Expenses:</b>                       |                      |                   |
| Costs of Providing Services                      | 1,549,179            | 1,451,478         |
| Administrative, General and<br>Employee Benefits | 963,344              | 853,398           |
| Depreciation                                     | 622,084              | 570,402           |
|  | <u>3,134,607</u>     | <u>2,875,278</u>  |
| <b>Total Operating Expenses</b>                  |                      |                   |
| <b>Operating Income</b>                          | <u>5,269</u>         | <u>131,736</u>    |
| <b>Non-Operating Revenues (Expenses):</b>        |                      |                   |
| Interest on Investments                          | 75,921               | 75,715            |
| Interest Expense                                 | (97,814)             | (90,935)          |
| Amortization                                     | (15,650)             | (17,338)          |
| Reserve for Retiree Health Benefits              | 50,000               | 23,000            |
| Loss on Disposal of Equipment                    | <u>(10,000)</u>      | <u>(10,000)</u>   |
| <b>Non-Operating Income / (Loss)</b>             | <u>12,457</u>        | <u>(19,558)</u>   |
| <b>Income before Contributions</b>               | 17,726               | 112,178           |
| <b>Capital Contributions:</b>                    |                      |                   |
| ARRA Principal Forgiveness                       | <u>210,430</u>       | <u>1,408,594</u>  |
| <b>Change in Net Assets</b>                      | 228,156              | 1,520,772         |
| <b>Net Assets - June 1,</b>                      | <u>12,686,693</u>    | <u>11,165,921</u> |
| <b>Net Assets - May 31,</b>                      | <u>\$ 12,914,849</u> | <u>12,686,693</u> |

The accompanying "Independent Auditor's Report" and the "Notes to the Financial Statements" are an integral part of this report.

THIS PAGE INTENTIONALLY LEFT BLANK

The Pompton Lakes Borough Municipal Utilities Authority  
(A Component Unit of the Borough of Pompton Lakes)  
Statement Of Cash Flows

For The Years Ended May 31,

|  | <u>2011</u>         | <u>2010</u>        |
|--|---------------------|--------------------|
| <b><u>Cash Flow from Operating Activities:</u></b>           |                     |                    |
| Cash received from customers and users                       | \$ 3,133,970        | 3,015,340          |
| Interest received  | 75,738              | 75,715             |
| Cash Paid to suppliers and employees                         | (2,493,804)         | (2,259,448)        |
| Interest paid  | (94,993)            | (93,235)           |
| <b>Net Cash Provided by Operating Activities</b>             | <u>620,911</u>      | <u>738,372</u>     |
| <b><u>Cash Flow from Investing Activities:</u></b>           |                     |                    |
| Purchase of Property, Plant and Equipment                    | (2,685,901)         | (1,182,422)        |
| <b>Net Cash Provided by (used in) Investing Activities</b>   | <u>(2,685,901)</u>  | <u>(1,182,422)</u> |
| <b><u>Cash Flow from Financing Activities:</u></b>           |                     |                    |
| Payment of 1998 Refunding Bonds                              | (125,000)           | (115,000)          |
| Payment of NJEIT Loans                                       | (3,582)             |                    |
| Issue Costs Paid - NJEIT                                     | (9,615)             |                    |
| Loans Received - NJEIT                                       | 625,430             |                    |
| Premium Received - NJEIT                                     | 41,356              |                    |
| Capital Contributions  | 210,430             |                    |
| Received from NJEIT Trust/Fund                               | 1,456,995           | 916,551            |
| <b>Net Cash Used in Financing Activities</b>                 | <u>2,196,014</u>    | <u>801,551</u>     |
| <b>Net Increase/(Decrease) in Cash and Cash Equivalents</b>  | 131,024             | 357,501            |
| <b>Cash and Cash Equivalents at Beginning of Year</b>        | <u>1,962,340</u>    | <u>1,604,839</u>   |
| <b>Cash and Cash Equivalents at End of Year</b>              | <u>\$ 2,093,364</u> | <u>1,962,340</u>   |
| <br><b><u>Reconciliation to Statement of Net Assets:</u></b> |                     |                    |
| Unrestricted Assets  | \$ 848,451          | 820,588            |
| Restricted Assets:   |                     |                    |
| Operating Reserve Fund                                       | 697,875             | 651,275            |
| Current Debt Service Fund                                    | 194,103             | 189,864            |
| Construction Fund  | 281,836             | 229,787            |
| Customer Deposit Account                                     | 43,898              | 43,639             |
| Escrow Accounts  | 27,201              | 27,187             |
|  | <u>\$ 2,093,364</u> | <u>1,962,340</u>   |

The accompanying "Independent Auditor's Report" and the "Notes to the Financial Statements" are an integral part of this report.



The Pompton Lakes Borough Municipal Utilities Authority  
(A Component Unit of the Borough of Pompton Lakes)  
Statement Of Cash Flows

For The Years Ended May 31,

|   | <u>2011</u>       | <u>2010</u>    |
|---|-------------------|----------------|
| <b>Reconciliation of change in net assets to net cash provided (used) by operating activities</b> |                   |                |
| Change in Net Assets  | \$ 228,156        | 1,520,772      |
| Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:       |                   |                |
| Depreciation  | 622,084           | 570,402        |
| Loss on Disposal of Equipment   |                   | 10,000         |
| Amortization  | 3,678             | 5,366          |
| Amortization of Deferred Loss on Refunding - Series 1998  | 11,972            | 11,972         |
| Contributions   | (210,430)         | (1,408,594)    |
| <b>(Increase) Decrease In:</b>  |                   |                |
| Accounts Receivable-User Charges  | (6,368)           | 4,328          |
| Miscellaneous Receivables   | 462               | 3,999          |
| Accrued Interest Receivable   | (183)             |                |
| Prepaid Expenses  | (30,079)          | 34,030         |
| <b>Increase (Decrease) In:</b>  |                   |                |
| Accounts Payable  | 1,348             | (6,966)        |
| Loans Payable   |                   | (10,160)       |
| Accrued Interest Payable  | 2,822             | (2,302)        |
| Customer Deposits   | 259               | (375)          |
| Escrow Deposits Payable   | 14                | 14             |
| Accrued Liabilities   | (2,824)           | 5,886          |
| <b>Net Cash Provided by Operating Activities</b>  | <b>\$ 620,911</b> | <b>738,372</b> |



## **Notes to Financial Statements**

THIS PAGE INTENTIONALLY LEFT BLANK

**THE POMPTON LAKES BOROUGH MUNICIPAL UTILITIES AUTHORITY**  
**(A Component Unit of the Borough of Pompton Lakes)**

**NOTES TO FINANCIAL STATEMENTS**  
**YEARS ENDED MAY 31, 2011 AND 2010**

**1. GENERAL**

The Pompton Lakes Borough Municipal Utilities Authority was created to construct and operate a water distribution system and a wastewater collection and treatment system to serve the Borough of Pompton Lakes, New Jersey. The Authority bills and collects its revenue only from the users of the systems. On May 1, 1993 the Authority entered into a service contract with the Borough of Pompton Lakes.

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Basis of Financial Statements**

The financial statements of the Pompton Lakes Borough Municipal Utilities Authority Authority have been prepared on the accrual basis of accounting in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Authority also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The significant of the Authority's accounting policies are described below.

**B. Grants**

Contributions received from various sources as grants are recorded in the period received. Developer financed construction is recorded in the period in which applicable construction costs are incurred. Donated assets are recorded at fair market value at the date of the gift. Grants not externally restricted and utilized to finance operations are identified to non-operating purposes are recorded as contributed capital and identified as grants-in-aid.

**C. Accounts Receivable**

Bad debts are charged to operations in the year in which the account is determined uncollectable. If the reserve method of accounting for uncollectable accounts were used, it would not have a material effect on the financial statements.

**THE POMPTON LAKES BOROUGH MUNICIPAL UTILITIES AUTHORITY**  
**(A Component Unit of the Borough of Pompton Lakes)**

**NOTES TO FINANCIAL STATEMENTS**  
**YEARS ENDED MAY 31, 2011 AND 2010**  
**(continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)**

**D. Inventories**

Inventories of materials and supplies are considered expenditures when purchased.

**E. Property, Plant and Equipment**

Property, plant and equipment is stated at cost which included direct construction costs and other expenditures related to construction.

System construction costs are changed to construction in progress until such time as given segments of the system are completed and put into operation.

Depreciation is determined on the straight-line method for all property, plant equipment.

Depreciation on assets acquired with grants-in-aid and contributed capital assets is recorded as a reduction of contributed capital.

**F. Restricted Accounts**

In accordance with the 1989 Resolution and the 1998 Supplemental Resolution No. 4 authorizing the issuance of Junior Lien Revenue Bonds, the Authority has established the following cash and investment accounts for the deposit, in the priority of the order listed, of all revenues received by the Authority.

| <u>Account</u> | <u>Amount</u>  | <u>Use for Which Restricted</u>                   |
|----------------|--|---|
| Revenue Fund   | All revenues received by the Authority in excess of the amounts required under the Resolution. | Transfer to the various accounts described below. |



THE POMPTON LAKES BOROUGH MUNICIPAL UTILITIES AUTHORITY  
(A Component Unit of the Borough of Pompton Lakes)

NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED MAY 31, 2011 AND 2010  
(continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

F. Restricted Accounts, (continued)

| <u>Account</u>    | <u>Amount</u>  | <u>Use for Which Restricted</u>  |
|-------------------|--|--|
| Bond Service Fund | The amount of money equal to any unpaid interest then due, plus any interest to become due at or before the first (1st) day of June next ensuing, plus any unpaid principal then due, plus any principal maturing at or before the first (1st) day of June next ensuing. | Principal and interest on Bonds.   |
| Sinking Fund      | The amount needed (if any) to increase the amount then or theretofore paid during the fiscal year into the Sinking Fund so that it equals the aggregate amount of all Sinking Fund Installments (if any) required to be paid on the next succeeding June 1.              | The amount of money required by or pursuant to a Supplemental Resolution of the Authority to be paid by the Authority on a particular date toward the requirement of any particular Outstanding Junior Lien Bonds which mature on a single date in a fiscal year beginning after said particular date. The Authority has not adopted any such Supplemental Resolution. |
| Bond Reserve Fund | An amount of money equal to the Maximum Annual Bond Service.   | To make up the deficiency, if any, in the Bond Service Fund.   |



THE POMPTON LAKES BOROUGH MUNICIPAL UTILITIES AUTHORITY  
(A Component Unit of the Borough of Pompton Lakes)

NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED MAY 31, 2011 AND 2010  
(continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

F. Restricted Accounts, (continued)

|                              |  |  |
|------------------------------|--|--|
| Renewal and Replacement Fund | An amount of money equal to the System Reserve Requirement, which is \$0.00 or the sum (if larger) approved by the Authority and stated as required as a reserve in the Consulting Engineer's Certificate most recently filed with the Trustee. No such Certificate has been filed with the Trustee. | (1) If the amount in the Bond Reserve Fund shall be less than the bond reserve requirement as of such date, to increase the amount in the Bond Reserve Fund so that it equals such bond reserve requirement; (2) for reasonable and necessary expenses of the Authority with respect to the System, for improvements, construction, reconstruction, major repairs, renewals, replacements or maintenance items of a type not recurring annually or at shorter intervals and for cost of equipment.   |
| General Fund                 | Any balance remaining in the revenue account after making all transfers required to be made to the foregoing accounts.   | (1) If the amount in the Bond Reserve Fund shall be less than the bond reserve requirement as of any date, to increase the amount in the Bond Service Fund so that it equals such bond reserve requirement; (2) provided the amounts in the Bond Service Fund, Sinking Fund, Bond Reserve Fund, and Renewal and Replacement Fund equal or exceed the minimum requirements in each such fund and the Authority is not in default in the payment of the principal of or interest on or the Redemption Price of any of the Junior Lien Bonds, any balance in the General Fund may be withdrawn by the Authority and may be spent by the Authority for any lawful purpose. |

**THE POMPTON LAKES BOROUGH MUNICIPAL UTILITIES AUTHORITY**  
**(A Component Unit of the Borough of Pompton Lakes)**

**NOTES TO FINANCIAL STATEMENTS**  
**YEARS ENDED MAY 31, 2011 AND 2010**  
**(continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)**

**F. Restricted Accounts, (continued)**

In addition to the above, the Authority has also established the following restricted accounts:

Customer deposit for monies received from customer to assure payment or performance. Deposits are retained in the account until the customer withdraws from the system and satisfies all outstanding debts to the Authority.

Payroll agency account for the retention of various payroll deductions, pending payment to the appropriate agency.

Escrow deposit accounts for the payment of costs of various projects.

NJEIT capital account for the payment of costs of various projects funded by the New Jersey Environmental Infrastructure Trust.

**G. Accrued Vacation Benefits**

Pompton Lakes Borough Municipal Utilities Authority employees are granted sick and vacation leave in varying amounts. Employees are permitted to accumulate sick days, however no reimbursement is given upon termination or resignation. In the event of termination, an employee is reimbursed for accumulated vacation days. Accrued vacation benefits amounting to \$23,964, as of May 31, 2011, has been recorded as an expenditure and a liability of the Authority.

**H. Allowance for Doubtful Accounts**

The Authority does not provide an allowance for doubtful accounts because of the Authority's ability to compel payments through the lien or shut off process.

**I. Operating Fund Budget**

The budget amounts included in the schedule of operating revenues and cost funded by operating revenues compared to budget were approved in accordance with the requirements of the "Local Finance Board" of the State of New Jersey, and were adopted by the Commissioners after a public hearing.



**THE POMPTON LAKES BOROUGH MUNICIPAL UTILITIES AUTHORITY**  
**(A Component Unit of the Borough of Pompton Lakes)**

**NOTES TO FINANCIAL STATEMENTS**  
**YEARS ENDED MAY 31, 2011 AND 2010**  
**(continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)**

**J. Use of Estimates**

The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**K. Capitalized Interest**

Interest expense is capitalized on qualified projects, net of interest revenue earned on the proceeds, from the time of borrowing funds for the project until the completion of the project. Thus, during the construction of a qualified project, there would be no impact upon operating results for interest expense or income. Instead, the net interest cost would be added to the cost of the project.

**L. Recent Accounting Pronouncements**

The Authority has not completed the process of evaluating the impact that will result from implementing GASB Statement No. 51, Accounting and Financial Reporting for Intangible Assets. The Authority is therefore unable to disclose the impact GASB Statement No. 51 will have on its financial position, results of operations, and cash flows when such Statement is adopted. This statement amends GASB Statement 34, paragraphs 19-21, and GASB Statement No. 42, Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries, paragraphs 9e, 16 and 18 and relates to the recognition and recording of intangible assets as capital assets in the statement of net assets. The requirements of this Statement are for financial statements for periods beginning after June 15, 2009.

The Authority has not completed the process of evaluating the impact that will result from implementing GASB Statement No. 53, Accounting and Financial Reporting for Derivative Instruments. The Authority is therefore unable to disclose the impact GASB Statement No. 53 will have on its financial position results of operations, and cash flows when such Statement is adopted. This Statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments, and addresses hedge accounting requirements. This statement is effective for financial statements for periods beginning after June 15, 2009. As of May 31, 2011, there were no outstanding derivative agreements.



**THE POMPTON LAKES BOROUGH MUNICIPAL UTILITIES AUTHORITY**  
**(A Component Unit of the Borough of Pompton Lakes)**

**NOTES TO FINANCIAL STATEMENTS**  
**YEARS ENDED MAY 31, 2011 AND 2010**  
**(continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)**

**L. Recent Accounting Pronouncements, (continued)**

The Authority has not completed the process of evaluating the impact that will result from implementing GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The Statement governs the presentation of fund balances, which in total is the difference between assets and liabilities, into amounts that are non-spendable and amounts that can be spent. This Statement is effective for financial statements for periods beginning after June 15, 2010.

The Government Accounting Standards Board issued GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The hierarchy for generally accepted accounting principles establishes what literature or authority that preparers of financial statements should use. The requirements of this Statement will help guide preparers of financial statements for state and local governments to apply all relevant accounting principles found in GASB literature. The Statement is effective immediately and is not expected to change current practice. The Authority is in compliance.

The Government Accounting Standards Board issued GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*. This Statement will incorporate into the GASB literature certain guidance found in the AICPA Statements on Auditing Standards. The Statement addresses three issues not included in the authoritative literature that establishes accounting standards: related party transactions, going concern considerations and subsequent events. The Authority expects that the Statement will improve reporting but will not materially affect current practice. The Statement is effective immediately. The Authority is in compliance.

The Authority has not completed the process of evaluating the impact that will result from implementing GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. This Statement is intended to improve consistency in the measurement and financial reporting of other postemployment retirement benefits ("OPEB") such as retiree health insurance. This Statement amends Statement No. 43, *Financial Reporting for Postretirement Benefit Plans Other Than Pension Plans*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The Authority will determine if the provisions of Statement No. 57 related to the use and reporting of alternative measurement methods will be applicable for its OPEB plan and financial statement disclosures issued for the period ending May 31, 2011.



**THE POMPTON LAKES BOROUGH MUNICIPAL UTILITIES AUTHORITY**  
**(A Component Unit of the Borough of Pompton Lakes)**

**NOTES TO FINANCIAL STATEMENTS**  
**YEARS ENDED MAY 31, 2011 AND 2010**  
**(continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)**

**L. Recent Accounting Pronouncements, (continued)**

The Government Accounting Standards Board issued GASB Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*. This Statement is intended to improve consistency in the measurement and financial reporting of OPEB such as retiree health insurance. The Authority has determined that this Statement is not applicable.

The Authority has not completed the process of evaluating the impact that will result from implementing GASB Statement No. 59, *Financial Instruments Omnibus*. This Statement updates and improves standards regarding financial reporting of certain financial instruments and external investment pools. This Statement is effective for periods beginning after June 15, 2010.

The Government Accounting Standards Board issued GASB Statement No. 60, *Accounting and Financial Reporting for Services Concession Arrangements*. This Statement addresses how to account for and report service concession arrangements (SCAs), a type of public-private or private-public partnership that state and local governments are increasingly entering into. The Authority is currently evaluating the affect, if any, this statement will have on current practice. This Statement is effective for periods beginning after December 15, 2011 and will be applied retroactively for all periods presented.

The Government Accounting Standards Board issued GASB Statement No. 61, *The Financial Reporting Entity: Omnibus - an amendment to No. 14 and No. 34*. This Statement will improve the information presented about the financial reporting entity, which is comprised of a primary government and related entities (component units). The Authority does not believe this Statement will materially affect its current practice. This Statement is effective for periods beginning after June 15, 2012.

The Government Accounting Standards Board issued GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 1989 FASB and AICPA Pronouncements*. This Statement is effective for periods beginning after December 15, 2011 and will be applied retroactively for all periods presented.

**3. CASH AND CASH EQUIVALENTS**

**Deposits:**

New Jersey statutes require that Authorities deposit public funds in public depositories located in New Jersey which are insured by the Federal Deposit Insurance Corporation, the Federal Savings and Loan Insurance Corporation, or by any other agency of the United States that insures deposits made in public depositories. Authorities are also permitted to deposit public funds in the State of New Jersey Cash Management Fund.



**THE POMPTON LAKES BOROUGH MUNICIPAL UTILITIES AUTHORITY**  
**(A Component Unit of the Borough of Pompton Lakes)**

**NOTES TO FINANCIAL STATEMENTS**  
**YEARS ENDED MAY 31, 2011 AND 2010**  
**(continued)**

**3. CASH AND CASH EQUIVALENTS, (continued)**

New Jersey statutes require public depositories to maintain collateral for deposits of public funds that exceed depository insurance limits as follows:

The market value of the collateral must equal at least 5% of the average daily balance of collected public funds on deposit.

In addition to the above collateral requirement, if the public funds deposited exceed 75% of the capital funds of the depository, the depository must provide collateral having a market value at least equal to 100% of the amount exceeding 75%.

All collateral must be deposited with the Federal Reserve Bank of New York, the Federal Reserve Bank of Philadelphia, the Federal Home Loan Bank of New York, or a banking institution that is a member of the Federal Reserve System and has capital funds of not less than \$25,000,000.

**Custodial Credit Risk - Deposits.** Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Authority's policy is based on New Jersey Statutes requiring cash be deposited only in New Jersey based on banking institutions that participate in New Jersey Governmental Depository Protection Act (GUDPA) or in qualified investments established in New Jersey Statutes 40A:5-15.1(a) that are treated as cash equivalents. As of May 31, 2011, \$0- of the Authority's bank balance of \$2,167,537 was exposed to custodial credit risk.

**4. INVESTMENTS**

Investments are stated at cost which approximates market.

The Authority's investments of funds are governed by the 1989 Junior Lien Revenue Bond Resolution and the 1998 Supplemental Bond Resolution.

The Authority has entered into an Investment Agreement (the "Agreement") dated as of October 4, 1994 is entered into by and between BAYERISCHE LANDESBANK GIROZENTRALE (the "Depository"), acting through its New York Branch, and THE BANK OF NEW YORK NA, as trustee (the "Trustee"), pursuant to that Junior Lien Bond Resolution adopted August 30, 1989, as amended and supplemented (the "Resolution") as adopted by The Pompton Lakes Borough Municipal Utilities Authority (Passaic County, New Jersey)(the "Issuer") providing for the issuance of \$12,803,598 principal amount of the Issuer's Junior Lien Revenue Bonds (1989 Series A and B and 1992 Series C)(collectively, the "Bonds"). This Investment Agreement has a maturity date of June 1, 2012 and has an interest rate of 7.10%. This investment is secured only by the Depository and there is no other security for the investment. As of May 31, 2011, the investment balance was \$1,043,330.

**THE POMPTON LAKES BOROUGH MUNICIPAL UTILITIES AUTHORITY**  
**(A Component Unit of the Borough of Pompton Lakes)**

**NOTES TO FINANCIAL STATEMENTS**  
**YEARS ENDED MAY 31, 2011 AND 2010**  
**(continued)**

**4. INVESTMENTS, (continued)**

**Interest Rate Risk.** The Authority does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. However, New Jersey Statutes 40A:5-15.1(a) limits the length of time for most investments to 397 days.

**Credit Risk.** New Jersey Statutes 40A:5-15.1(a) limits municipal investments to those specified in the Statutes. The type of allowance investments are Bonds of the United States of America or the local unit or school districts of which the local unit is a part of: obligations of federal agencies not exceeding 397 days; government money market mutual funds; the State of New Jersey Cash Management Plan; local government investment pools; or repurchase of fully collateralized securities.

**Concentration of Credit Risk.** The Authority places no limit on the amount it may invest in any one issuer.

**5. PROPERTY, PLANT AND EQUIPMENT, CONTRIBUTED CAPITAL**

The classification of property, plant and equipment and contributed capital at May 31, 2011 and 2010, together with the estimated useful life is as follows:

|                              | 2011                          |                     |                      |
|------------------------------|-------------------------------|---------------------|----------------------|
|                              | Property, Plant and Equipment |                     | Contributed Capital  |
|                              | Original                      | Estimated Useful    | Original             |
|                              | <u>Cost</u>                   | <u>Life (Years)</u> | <u>Reimbursement</u> |
| Land                         | \$65,652                      |                     | \$62,475             |
| Water Mains                  | 1,456,555                     | 75 years            | 462,232              |
| Sewer Mains and Interceptors | 3,342,807                     | 75 years            | 636,624              |
| Buildings and Pump Stations  | 14,677,703                    | 15-40 years         | 76,294               |
| Upgrade Treatment Facility   | 205,911                       | 33 years            |                      |
| Heavy Equipment              | 1,628,194                     | 20 years            |                      |
| Other Equipment              | 1,315,861                     | 10 years            |                      |
| Computer Equipment           | 169,050                       | 5 years             |                      |
| Vehicles                     | 257,144                       | 5 years             |                      |
| Other Equipment              | 463,156                       | 5-7 years           |                      |
| Other Equipment              | <u>348,259</u>                | 25-30 years         |                      |
|                              | <u>\$23,930,292</u>           |                     | <u>\$1,237,625</u>   |



**THE POMPTON LAKES BOROUGH MUNICIPAL UTILITIES AUTHORITY**  
**(A Component Unit of the Borough of Pompton Lakes)**

**NOTES TO FINANCIAL STATEMENTS**  
**YEARS ENDED MAY 31, 2011 AND 2010**  
**(continued)**

5. **PROPERTY, PLANT AND EQUIPMENT, CONTRIBUTED CAPITAL, (continued)**

|                              | 2010                                 |                         |                            |
|------------------------------|--------------------------------------|-------------------------|----------------------------|
|                              | <u>Property, Plant and Equipment</u> |                         | <u>Contributed Capital</u> |
|                              | <u>Original</u>                      | <u>Estimated Useful</u> | <u>Original</u>            |
|                              | <u>Cost</u>                          | <u>Life (Years)</u>     | <u>Reimbursement</u>       |
| Land                         | \$65,652                             |                         | \$62,475                   |
| Water Mains                  | 1,456,555                            | 75 years                | 462,232                    |
| Sewer Mains and Interceptors | 3,342,807                            | 75 years                | 636,624                    |
| Buildings and Pump Stations  | 12,628,290                           | 15-40 years             | 76,294                     |
| Upgrade Treatment Facility   | 205,911                              | 33 years                |                            |
| Heavy Equipment              | 950,467                              | 20 years                |                            |
| Other Equipment              | 1,127,380                            | 10 years                |                            |
| Computer Equipment           | 155,334                              | 5 years                 |                            |
| Vehicles                     | 257,144                              | 5 years                 |                            |
| Other Equipment              | 309,251                              | 5-7 years               |                            |
| Other Equipment              | 40,596                               | 25-30 years             |                            |
|                              | <u>\$20,539,387</u>                  |                         | <u>\$1,237,625</u>         |

Activity for the property, plant and equipment is summarized below:

|                                   | <u>Balance</u>      |                    |                    | <u>Balance</u>      |
|-----------------------------------|---------------------|--------------------|--------------------|---------------------|
|                                   | <u>May 31, 2010</u> | <u>Increases</u>   | <u>Decreases</u>   | <u>May 31, 2011</u> |
| Land                              | \$65,652            | \$                 | \$                 | \$65,652            |
| Building, Pumps, Mains            | 17,633,563          | 2,049,413          |                    | 19,682,976          |
| Equipment and Vehicles            | <u>2,840,172</u>    | <u>1,341,492</u>   |                    | <u>4,181,664</u>    |
|                                   | 20,539,387          | 3,390,905          |                    | 23,930,292          |
| Less: Accumulated Depreciation    | <u>10,969,421</u>   | <u>622,085</u>     |                    | <u>11,591,506</u>   |
|                                   | 9,569,966           | 2,768,820          |                    | 12,338,786          |
| Construction in Progress          | <u>1,486,578</u>    | <u>2,685,901</u>   | <u>3,390,905</u>   | <u>781,574</u>      |
| Net Plant, Property and Equipment | <u>\$11,056,544</u> | <u>\$5,454,721</u> | <u>\$3,390,905</u> | <u>\$13,120,360</u> |

**THE POMPTON LAKES BOROUGH MUNICIPAL UTILITIES AUTHORITY**  
**(A Component Unit of the Borough of Pompton Lakes)**

**NOTES TO FINANCIAL STATEMENTS**  
**YEARS ENDED MAY 31, 2011 AND 2010**  
**(continued)**

**6. UNAMORTIZED DEBT ISSUANCE COSTS**

Deferred debt issuance costs of \$131,210 in connection with the 1998 Series refunding bonds; \$36,381 in connection with the Series 2009 NJEIT financing; and \$9,616 in connection with the Series 2010 NJEIT financing are being amortized over the lives of the bonds using the straight-line method. Accumulated amortization at May 31, 2011 is \$74,282 and at May 31, 2010 is \$66,514.

**7. UNAMORTIZED PREMIUM**

The Authority received a premium of \$40,422 in connection with the Series 2009 NJEIT financing and \$41,356 in connection with the Series 2010 NJEIT financing. These premiums are being amortized on a straight-line basis over the remaining lives of the bonds. Accumulated amortization at May 31, 2011 is \$5,099 and at May 31, 2010 is \$1,011.

**8. LONG-TERM DEBT**

The following is a summary of the Authority's long-term debt for the fiscal year ended May 31, 2011:

|                               | <u>Balance</u><br><u>May 31, 2010</u> | <u>Issued</u>    | <u>Retired</u>   | <u>Balance</u><br><u>May 31, 2011</u> |
|-------------------------------|---------------------------------------|------------------|------------------|---------------------------------------|
| 1998 Refunding Bonds          | \$2070,000                            | \$               | \$125,000        | \$1,945,000                           |
| NJEIT Trust Loan Series 2009A | 735,000                               |                  |                  | 735,000                               |
| NJEIT Fund Loan Series 2009A  | 704,297                               |                  |                  | 704,297                               |
| NJEIT Trust - Direct Loan     | 71,914                                |                  |                  | 71,914                                |
| NJEIT Fund - Direct Loan      | 204,192                               |                  |                  | 204,192                               |
| NJEIT Trust Loan Series 2010  |                                       | 415,000          |                  | 415,000                               |
| NJEIT Fund Loan Series 2010   |                                       | 210,430          | 3,582            | 206,848                               |
|                               | <u>\$3,785,403</u>                    | <u>\$625,430</u> | <u>\$128,582</u> | <u>\$4,282,251</u>                    |

**THE POMPTON LAKES BOROUGH MUNICIPAL UTILITIES AUTHORITY**  
**(A Component Unit of the Borough of Pompton Lakes)**

**NOTES TO FINANCIAL STATEMENTS**  
**YEARS ENDED MAY 31, 2011 AND 2010**  
**(continued)**

**8. LONG-TERM DEBT, (continued)**

The Authority has issued and outstanding the following bonds and loans as of May 31, 2011 and 2010:

|  | <u>Interest<br/>Rate</u> | <u>2011</u>        | <u>2010</u>        |
|--|--------------------------|--------------------|--------------------|
| 1998 Refunding Bonds   | 4.00% - 4.50%            | \$1,945,000        | \$2,070,000        |
| NJEIT Trust Loan Series 2009A                                | 2.00% - 4.00%            | 735,000            | 735,000            |
| NJEIT Fund Loan Series 2009A                                 | 0.00%                    | 704,297            | 704,297            |
| NJEIT Trust - Direct Loan                                    | .610% - 4.18%            | 71,914             | 71,914             |
| NJEIT Fund - Direct Loan                                     | 0.00%                    | 200,610            | 204,192            |
| NJEIT Trust Loan Series 2010                                 | 5.00%                    | 415,000            |                    |
| NJEIT Fund Loan Series 2010                                  | 0.00%                    | <u>210,430</u>     |                    |
|  |                          | 4,282,251          | <u>3,785,403</u>   |
| Unamortized losses resulting from<br>refunding transactions: |                          |                    |                    |
| 1998 Refunding of 1992 Series C                              |                          | <u>(131,693)</u>   | <u>(143,665)</u>   |
| Net Carrying Amount of Debt                                  |                          | <u>\$4,150,558</u> | <u>\$3,641,738</u> |
| Current Portion  |                          | 206,555            | 128,582            |
| Long-Term Portion  |                          | <u>3,944,003</u>   | <u>3,513,156</u>   |
|  |                          | <u>\$4,150,558</u> | <u>\$3,641,738</u> |

Presented below is a summary of debt service requirements to maturity by year.

| <u>May 31,</u> | <u>Principal</u>   | <u>Interest</u>    | <u>Total</u>       |
|----------------|--------------------|--------------------|--------------------|
| 2012           | \$206,555          | \$118,073          | \$324,628          |
| 2013           | 232,847            | 132,275            | 365,122            |
| 2014           | 247,873            | 124,844            | 372,717            |
| 2015           | 252,909            | 116,602            | 369,511            |
| 2016           | 257,958            | 108,061            | 366,019            |
| 2017-2021      | 1,435,958          | 397,181            | 1,833,139          |
| 2022-2026      | 1,043,825          | 147,447            | 1,191,272          |
| 2027-2031      | <u>604,326</u>     | <u>38,047</u>      | <u>642,373</u>     |
| Total          | <u>\$4,282,251</u> | <u>\$1,182,530</u> | <u>\$5,464,781</u> |



**THE POMPTON LAKES BOROUGH MUNICIPAL UTILITIES AUTHORITY**  
**(A Component Unit of the Borough of Pompton Lakes)**

**NOTES TO FINANCIAL STATEMENTS**  
**YEARS ENDED MAY 31, 2011 AND 2010**  
**(continued)**

**9. JUNIOR LIEN REVENUE REFUNDING BONDS (SERIES 1998)**

On October 19, 1998, the Pompton Lakes Borough Municipal Utilities Authority issued \$2,720,000 in Junior Lien Revenue Refunding Bonds with a net interest cost of 4.483 percent in order to advance refund \$2,335,000 of outstanding 1992 Series C Junior Lien Revenue Bonds maturing on or after June 1, 2003 with a net interest cost of 6.893 percent, and to pay the expenses incidental to the authorization, issuance and delivery of the bonds. As a result of this refunding, that portion of the 1992 Junior Lien Revenue Bonds are considered to be defeased and the liability for those bonds has been removed from the balance sheet.

Although the advance refunding resulted in an accounting loss of \$287,326 for the fiscal year ended May 31, 1999, the Authority in effect reduced its aggregate debt service payments by \$534,264 over the next 22 years and obtained a gross present value debt service savings of \$296,409. Under the guidelines of GASB 23, this loss is being amortized on a straight line method.

**10. AMORTIZATION OF DEFERRED LOSSES ON REFUNDING TRANSACTIONS**

On December 31, 1993 the Governmental Accounting Standards Board issued Statement No. 23, entitled "Accounting and Financial Report for Refunding of Debt Reported by Proprietary Activities" ("GASB 23"). GASB 23 requires that the difference between the reacquisition price and the net carrying amount of retired debt be deferred and amortized as a component of interest expense in a systematic and rational manner over the remaining life of the old debt or the life of the new debt, whichever is shorter. GASB 23 also states that the deferred amount should be reported on the balance sheet as a deduction or addition from the new debt.

**Series 1998 Junior Lien Revenue Refunding Bonds**

On October 19, 1998, the Authority defeased a portion of its 1992 Junior Lien Revenue Bonds (Series C) and realized a net loss of \$287,326 on the transaction. Under the guidelines of GASB 23, the Authority has deferred this loss and is amortizing it as a component of interest expense. The effects of this refunding on the Authority's 1998 Junior Lien Revenue Refunding Bonds are as follows:

|   |                    |
|---|--------------------|
| Balance - May 31, 2011  | <u>\$4,150,558</u> |
| <u>Analysis</u>   |                    |
| Bonds Payable - May 31, 2011                                      | \$4,282,251        |
| Less: Unamortized Balance of Loss on<br>Refunding at May 31, 2011 | <u>(131,693)</u>   |
|   | <u>\$4,150,558</u> |
| Short Term  | \$206,555          |
| Long Term   | <u>3,944,003</u>   |
|   | <u>\$4,150,558</u> |

**THE POMPTON LAKES BOROUGH MUNICIPAL UTILITIES AUTHORITY**  
**(A Component Unit of the Borough of Pompton Lakes)**

**NOTES TO FINANCIAL STATEMENTS**  
**YEARS ENDED MAY 31, 2011 AND 2010**  
**(continued)**

**11. NEW JERSEY ENVIRONMENTAL INFRASTRUCTURE TRUST**

The Authority issued bonds in FY2011 and FY2010 through the New Jersey Environmental Infrastructure Trust to finance the cost of various capital improvements being made to its facilities as follows:

|                            | <u>Balance</u><br><u>May 31, 2010</u> | <u>Loans</u>     | <u>Received</u>    | <u>Balance</u><br><u>May 31, 2011</u> |
|----------------------------|---------------------------------------|------------------|--------------------|---------------------------------------|
| NJEIT Trust - Series 2009A | \$741,763                             | \$               | \$552,675          | \$189,088                             |
| NJEIT Fund - Series 2009A  | 1,236,238                             |                  | 1,236,238          | 0                                     |
| NJEIT Trust - Direct Loan  | 59,217                                |                  | 54,963             | 4,254                                 |
| NJEIT Fund - Direct Loan   | 174,268                               |                  | 161,509            | 12,759                                |
| NJEIT Trust - Series 2010B |                                       | 446,740          | 159,605            | 287,135                               |
| NJEIT Fund - Series 2010   | <u>                    </u>           | <u>420,860</u>   | <u>159,605</u>     | <u>261,255</u>                        |
|                            | <u>\$2,211,486</u>                    | <u>\$867,600</u> | <u>\$2,324,595</u> | <u>\$754,491</u>                      |

These funds shall be disbursed to the Authority under the terms of its loan agreements with the New Jersey Environmental Infrastructure Trust.

**12. VERIFICATION OF DELINQUENT WATER AND SEWER CHARGES**

A test verification of delinquent charges and current fiscal year payments was made in accordance with generally accepted auditing standards.

The result of the test, which was made as of May 31, 2011 is not yet known, but a separate report will be rendered if any irregularities develop.

**13. PENSION PLAN**

Description of Systems

Substantially all of the Authority's employees participate in the Public Employees' Retirement System (PERS), a defined benefit public employee retirement system which has been established by State statute. This system is sponsored and administered by the State of New Jersey. The Public Employees' Retirement System is considered a cost sharing multiple-employer plan. 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 POMPTON LAKES BOROUGH MUNICIPAL UTILITIES AUTHORITY**  
**(A Component Unit of the Borough of Pompton Lakes)**

**NOTES TO FINANCIAL STATEMENTS**  
**YEARS ENDED MAY 31, 2011 AND 2010**  
**(continued)**

**13. PENSION PLAN, (continued)**

*Public Employees' Retirement System (PERS)*

The Public Employees' Retirement System was established in January, 1955 under the provisions of N.J.S.A. 43:15A to provide coverage including post-retirement health care to substantially all full time employees of the State or any county, municipality, school district or public agency provided the employee is not required to be a member of another State-administered retirement system. Membership is mandatory for such employees and vesting occurs after 8-10 years of service and 25 years for health care coverage. Members are eligible for retirement at age 60 with an annual benefit generally determined to be 1/55th of the average annual compensation for the highest three fiscal years' compensation for each year of membership during years of creditable service. Early retirement is available to those under age 60 with 25 or more years of credited service. Members are always fully vested for their own contributions and, after three years of service credit, become vested for 2% of related interest earned on contributions. In case of death before retirement, members' beneficiaries are entitled to full interest credited to the members' accounts.

Chapter 103, P.L. 2007 amended the early retirement reduction formula for members hired on or after July 1, 2007 and retiring with 25 years of service to be reduced by 1% for every year between age 55 and 60, plus 3% for every year under age 55.

Chapter 89, P.L. 2008 increased the PERS eligibility age for unreduced benefits from age 60 to age 62 for members hired on or after November 1, 2008; increased the minimum annual compensation required for membership eligibility for new members. Also, it amended the early retirement reduction formula for members hired on or after November 1, 2008 and retiring with 25 years of service to be reduced by 1% for every year between age 55 and 62, plus 3% for every year under age 55.

Chapter 1, P.L. 2010, effective May 21, 2010, changed the membership eligibility criteria for new members of PERS from the amount of compensation to the number of hours worked weekly. Also, it returned the benefit multiplier for new members of PERS to 1/60 from 1/55, 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. 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 as 1/7th 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 PERS with disability insurance coverage similar to that provided by the State to individuals enrolled in the State's Defined Contribution Retirement Program.



THE POMPTON LAKES BOROUGH MUNICIPAL UTILITIES AUTHORITY  
(A Component Unit of the Borough of Pompton Lakes)

NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED MAY 31, 2011 AND 2010  
(continued)

13. PENSION PLAN, (continued)

*Public Employees' Retirement System (PERS), (continued)*

The State of New Jersey, Department of the Treasury, Division of Pensions and Benefits, issues publicly available financial reports that include the financial statements and required supplementary information for PERS. The financial reports may be obtained by writing to the State of New Jersey, Department of the Treasury, Divisions of Pensions and Benefits, P.O. Box 295, Trenton, NJ 08625-0295.

**Significant Legislation-** - On March 17, 2009, the legislative of the State of New Jersey enacted Public Laws 2009, c.19(S-21) the "Pension Deferral Program". This law allows the Division of Pensions and Benefits to provide non-state government pension system employers the option of paying their full amount, or an amount that reflects a 50 percent reduction of the normal and accrued liability component of the Public Employees' Retirement System and/or the Police and Firemen's Retirement System obligation for payment due to the State Fiscal Year ending June 30, 2009. The amount deferred will be repaid starting in April 2012 over a 15-year period at 8¼ percent. The amount will fluctuate based on pension system investment earnings on the deferred amount. The local employer is allowed to payoff the obligation at any time prior to April 2012.

The Pompton Lakes Municipal Utilities Authority did not opt for this deferral.

**Contribution Requirements** - The contribution policy is set by laws of the State of New Jersey and, in most retirement systems, contributions are required by active members and contributing employers. Plan member and employer contributions may be amended by State of New Jersey legislation. The pension fund provides for employee contributions based on 5.0% of the employee's annual compensation, as defined through June 30, 2007. Under Chapter 92, P.L. 2007 and Chapter 103, P.L. 2007, the PERS and employee contribution rate will increase to 5.5 percent effective July 1, 2007. Employers are required to contribute at an actuarially determined rate. The actuarially determined employer contribution includes funding for cost-of-living adjustments and noncontributory death benefits and post-retirement medical premiums.

Three-Year Trend Information for PERS

| <u>Year</u><br><u>Funding</u> | <u>Annual</u><br><u>Pension</u><br><u>Cost(APC)</u> | <u>Percentage</u><br><u>of APC</u><br><u>Contributed</u> | <u>Net</u><br><u>Pension</u><br><u>Obligation</u> |
|-------------------------------|---|--|---|
| 5/31/11                       | \$77,623  | 100%   | \$0   |
| 5/31/10                       | 57,771  | 100  | 0   |
| 5/31/09                       | 51,436  | 100  | 0   |



**THE POMPTON LAKES BOROUGH MUNICIPAL UTILITIES AUTHORITY**  
**(A Component Unit of the Borough of Pompton Lakes)**

**NOTES TO FINANCIAL STATEMENTS**  
**YEARS ENDED MAY 31, 2011 AND 2010**  
**(continued)**

**13. PENSION PLAN, (continued)**

**Defined Contribution Retirement Program** - The Defined Contribution Retirement Program (DCRP) was established on July 1, 2007 for certain public employees under the provisions of Chapter 92, P.L. 2007 and Chapter 103, P.L. 2007. The program provides eligible members, with a minimum base salary of \$1,500 or more, with a tax-sheltered, defined contribution retirement benefit, in addition to life insurance and disability coverage. The DCRP is jointly administered by the Division of Pensions and Benefits and Prudential Financial.

If the eligible elected or appointed official will earn less than \$5,000 annually, the official may choose to waive participation in the DCRP for that office or position. The waiver is irrevocable.

This retirement program is a new pension system where the value of the pension is based on the amount of the contribution made by the employee, employer and through investment earnings. It is similar to a Deferred Compensation Program where the employee has a portion of tax deferred salary placed into an account that the employee manages through investment option provided by the employer.

The law requires that three classes of employees enroll in the DCRP detailed as follows:

All elected officials taking office on or after July 1, 2007, except that a person who is reelected to an elected office held prior to that date without a break in service may retain in the PERS. A Governor appointee with advice and consent of the Legislature or who serves at the pleasure of the Governor only during that Governor's term of office.

Other employees commencing service after July 1, 2007, pursuant to an appointment by an elected official or elected governing body which include the statutory untenured Chief Administrative Officer such as the Business Administrator, County Administrator, or Municipal or County Manager, Department Heads, Legal Counsel, Municipal or County Engineer, Municipal Prosecutor and the Municipal Court Judge.

Notwithstanding the foregoing requirements, other employees who hold a professional license or certificate or meet other exceptions are permitted to remain to join or remain in PERS.

**14. POSTEMPLOYMENT BENEFITS OTHER THAN PENSION**

The Authority offers certain postemployment benefits other than pension for eligible, full-time employees upon termination or retirement. Certain employees who retire with twenty-five years of service may continue to receive paid health coverage through the New Jersey State Health Benefits Plan (NJSHBP).



**THE POMPTON LAKES BOROUGH MUNICIPAL UTILITIES AUTHORITY**  
**(A Component Unit of the Borough of Pompton Lakes)**

**NOTES TO FINANCIAL STATEMENTS**  
**YEARS ENDED MAY 31, 2011 AND 2010**  
**(continued)**

**14. POSTEMPLOYMENT BENEFITS OTHER THAN PENSION, (continued)**

**New Jersey State Health Benefits Program**

**Plan Description**

The Pompton Lakes Borough Municipal Utilities Authority contributes to the State Health Benefits Program (SHBP) a cost-sharing, multi-employer defined benefit post-employment healthcare plan administered by the State of New Jersey Division of Pensions and Benefits. The SHBP was established in 1961 under N.J.S.A. 52:14-17.25 et seq. to provide health benefits to State employees, retirees, and their dependents. Rules governing the operation and administration of the program are found in Title 17, Chapter 9 of the New Jersey Administrative Code. SHBP provides medical, prescription drugs, mental health/substance abuse, and Medicare Part B reimbursement to retirees and their covered dependents.

The SHBP was extended to employees, retirees, and dependents of participating local public employers in 1964. Local employers must adopt a resolution to participate in the SHBP. In 2007, the Pompton Lakes Borough Municipal Utilities Authority authorized participation in the SHBP's post-retirement benefit program through a resolution adopted December 11, 2007. Under the provisions of Chapter 88, P.L. 1974, as amended by Chapter 436, P.L. 1981, members enrolled in the New Jersey State Health Benefits Program who retire from the Pompton Lakes Borough Municipal Utilities Authority with at least 25 years of service in the State of New Jersey pension system, or an approved disability retirement, shall be eligible for paid retirement medical coverage which includes surviving spouses.

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 <http://www.state.nj.us/treasury/pensions/gasb-43-sept2008.pdf>

**Funding Policy**

Participating employers are contractually required to contribute based on the amount of premiums attributable to their retirees. Post-retirement medical benefits under the plan have been funded on a pay-as-you-go basis since 1994. Prior to 1994, medical benefits were funded on an actuarial basis.

Contributions to pay for the health premiums of participating retirees in the SHBP are billed to the Pompton Lakes Borough Municipal Utilities Authority on a monthly basis.

The Pompton Lakes Borough Municipal Utilities Authority contributions to SHBP for retirees for the years ended May 31, 2011, 2010 and 2009 were \$27,483, \$27,046 and \$13,510, respectively, which equaled the required contributions for each year. There were approximately 2, 2 and 2 retired participants eligible at May 31, 2011, 2010 and 2009, respectively.

**THE POMPTON LAKES BOROUGH MUNICIPAL UTILITIES AUTHORITY**  
**(A Component Unit of the Borough of Pompton Lakes)**

**NOTES TO FINANCIAL STATEMENTS**  
**YEARS ENDED MAY 31, 2011 AND 2010**  
**(continued)**

**15. AMOUNTS REQUIRED BY BOND RESOLUTIONS**

The following cash and investment account is required by the 1989, 1992, 1997 and 1998 Junior Lien Revenue Bond Resolutions:

|   |                |
|---|----------------|
| Bond Debt Service Reserve Fund                    |                |
| Cash and Investments on Hand                      | \$216,325      |
| Bond Reserve Fund                                 | <u>216,325</u> |
| Excess (Deficiency)                               | <u>\$ -0-</u>  |
| <br>Bond Debt Service Principal and Interest Fund |                |
| Cash and Investments on Hand                      | \$194,103      |
| Debt Service Principal and Interest Requirements  | <u>194,103</u> |
| Excess (Deficiency)                               | <u>\$ -0-</u>  |

**16. COMPLIANCE WITH CONTRACTUAL PROVISION OF BOND RESOLUTION**

The 1989 Junior Lien Revenue Bond Resolution requires that the Authority establish Service Charges (1) to pay all operating expenses, and (2) to provide one hundred per centum (100%) of the Bond Service for such Fiscal Year (except any part thereof the payment of which has been provided for by the deposit of proceeds of Junior Lien Bonds in the Bond Service Fund).

The service charges in effect during the year ended May 31, 2011 met the requirements of the 1989, 1992, 1997 and 1998 Junior Lien Bond Resolutions.

**17. COMMITMENTS AND CONTINGENT LIABILITIES**

The Authority's Attorney advises us of the following unsettled or pending lawsuits, judgments or claims in which the Authority was a party:

Proceedings: Letter and Invoice submitted to the Authority by the New Jersey Department of Environmental Protection on May 4, 2011. The Authority responded by letter on June 21, 2011 asking for more details. As of the date of this letter, there has been no response.



THE POMPTON LAKES BOROUGH MUNICIPAL UTILITIES AUTHORITY  
(A Component Unit of the Borough of Pompton Lakes)

NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED MAY 31, 2011 AND 2010  
(continued)

17. COMMITMENTS AND CONTINGENT LIABILITIES, (continued)

Claim Asserted: The Department claims that additional loan proceeds paid to the Authority in 1998, supplementing a 1989 loan to the Authority through the Wastewater Treatment Trust program, was not included in the loan repayment schedule and remains outstanding.

Amount Sought: \$170,373.00

Whether Covered by Insurance: No

Objective Sought: Payment of \$170,373.00

Progress of Case to Date: Exchange of correspondence as set forth in 1(a) above.

Management Response: The Authority states that all periodic loan payments called for on the loan repayment schedule were made until the loan balance was paid off as part of a refunding/refinance. The State does not dispute that, but claims that the additional sum of \$170,373.00 was not included in the repayment schedule and is still outstanding. Should the State respond to the Authority's letter of June 21, 2011, the Authority expects to direct its counsel to research the matter and to make a recommendation to the Authority whether to contest the claim or to initiate settlement negotiations.

Likelihood of Unfavorable Outcome and Estimate of Range of Loss: Without a response from the State containing the information requested by the Authority, it is not possible to predict the outcome. If the claim is litigated to conclusion, the Authority's exposure would be \$170,373.00 plus legal fees in an amount that cannot yet be determined. If interest were to be sought, it would run from May, 2011, when the demand was made.

18. RISK MANAGEMENT

The Pompton Lakes Borough Municipal Utilities 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. The Pompton Lakes Borough Municipal Utilities Authority is currently a member of the New Jersey Utility Authorities Joint Insurance Fund, a public entity risk pool currently composed of 46 member authorities. The Fund provides members with Property, Liability, and Workers Compensation Insurance, and Public Officials Liability Insurance.



**THE POMPTON LAKES BOROUGH MUNICIPAL UTILITIES AUTHORITY**  
**(A Component Unit of the Borough of Pompton Lakes)**

**NOTES TO FINANCIAL STATEMENTS**  
**YEARS ENDED MAY 31, 2011 AND 2010**  
**(continued)**

**19. DESIGNATION OF UNRESTRICTED NET ASSETS**

The Authority's General and Operating Accounts maintain funds that, although may be spent for any lawful purpose by the Authority, have been designated by the Board as follows:

|  |                  |
|--|------------------|
| Appropriated in Subsequent Year's Budget | \$161,250        |
| Designated for Retiree Health Benefits   | <u>127,000</u>   |
|  | <u>\$288,250</u> |

At May 31, 2011, the Authority reported a total amount of \$288,250 of Unrestricted Net Assets — Designated for the purposes describe above.

**20. SUBSEQUENT EVENTS**

On August 19, 2011, the Authority submitted an application to the Local Finance Board for the issuance of \$2,800,000 Subordinate Bonds to finance certain eligible costs relating to the improvement of its wastewater treatment plant and facilities, including the installation of approximately 12,200 linear feet of 8-inch diameter water mains. The Authority expects to finance the project with a "market" interest rate loan from the New Jersey Environmental Infrastructure Trust (the "NJEIT") and a 0% loan from the State of New Jersey (the "State"). The Subordinate Bonds will be secured by the Authority's existing 1992 Amended Service Contract, as amended, by and between the Authority and the Borough of Pompton Lakes.

## **Required Supplementary Information**

THIS PAGE INTENTIONALLY LEFT BLANK



The Pompton Lakes Borough Municipal Utilities Authority  
(A Component Unit of the Borough of Pompton Lakes)  
Schedule Of Revenues, Expenses And  
Changes In Net Assets -  
Restricted And Unrestricted

For The Years Ended May 31, 2011 and 2010

|                                      | Invested in<br>Capital<br>Assets | Restricted                |                              | Unrestricted |              | Total (Memo) |           |
|--------------------------------------|----------------------------------|---------------------------|------------------------------|--------------|--------------|--------------|-----------|
|                                      |                                  | Operating<br>Reserve Fund | Debt Service<br>Reserve Fund | Designated   | Undesignated | 2011         | 2010      |
| Operating Revenues:                  |                                  |                           |                              |              |              |              |           |
| Water Charges                        |                                  |                           |                              |              | 670,637      | 670,637      | 580,708   |
| Sewer Charges                        |                                  |                           |                              |              | 2,255,101    | 2,255,101    | 2,213,786 |
| Other                                |                                  |                           |                              |              | 190,772      | 190,772      | 190,357   |
| Interest on Delinquent Accounts      |                                  |                           |                              |              | 23,366       | 23,366       | 22,163    |
| Interest on Investments and Deposits |                                  |                           |                              |              |              |              |           |
| Total Operating Revenues             |                                  |                           |                              |              | 3,139,876    | 3,139,876    | 3,007,014 |
| Operating Expenses:                  |                                  |                           |                              |              |              |              |           |
| Costs of Providing Services          |                                  |                           |                              |              | 1,549,179    | 1,549,179    | 1,451,478 |
| Administrative, General and          |                                  |                           |                              |              | 963,344      | 963,344      | 853,398   |
| Employee Benefits                    |                                  |                           |                              |              | 622,084      | 622,084      | 570,402   |
| Depreciation                         |                                  |                           |                              |              |              |              |           |
| Total Operating Expenses             |                                  |                           |                              |              | 3,134,607    | 3,134,607    | 2,875,278 |
| Operating Income (Loss)              |                                  |                           |                              |              | 5,269        | 5,269        | 131,736   |

The Pompton Lakes Borough Municipal Utilities Authority  
(A Component Unit of the Borough of Pompton Lakes)

Schedule Of Revenues, Expenses And

Changes In Net Assets -

Restricted And Unrestricted

For The Years Ended May 31, 2011 and 2010

|   | Invested in<br>Capital<br>Assets | Restricted                |   |                              | Unrestricted |                 | Total (Memo) |            |
|---|----------------------------------|---------------------------|---|------------------------------|--------------|-----------------|--------------|------------|
|   |                                  | Operating<br>Reserve Fund | Current<br>Debt Service<br>Reserve Fund | Debt Service<br>Reserve Fund | Designated   | Undesignated    | 2011         | 2010       |
| <b>Non-Operating Revenue and (Expenses):</b>                            |                                  |                           |   |                              |              |                 |              |            |
| Interest Income   |                                  |                           |   | 75,921                       |              |                 | 75,921       | 75,715     |
| Interest Expense  |                                  |                           |   |                              |              | (97,814)        | (97,814)     | (90,935)   |
| Amortization  |                                  |                           |   |                              |              | (15,650)        | (15,650)     | (17,338)   |
| Legal Settlement  |                                  |                           |   |                              | 50,000       |                 | 50,000       | 23,000     |
| Budget Appropriation  |                                  |                           |   |                              |              |                 |              |            |
| Other Expenses  |                                  |                           |   |                              |              |                 |              |            |
| Loss on Disposal of Equipment   |                                  |                           |   |                              |              |                 |              | (10,000)   |
|   |                                  |                           |   | 75,921                       | 50,000       | (113,464)       | 12,457       | (19,558)   |
| <b>Net Income (Loss) Before Transfers<br/>and Capital Contributions</b> |                                  |                           |   | 75,921                       | 50,000       | (108,195)       | 17,726       | 112,178    |
| <b>Transfers:</b>   |                                  |                           |   |                              |              |                 |              |            |
| Interest Income   |                                  |                           |   |                              |              |                 |              |            |
| Other   | (95,799)                         | 46,600                    | 5,000                                   | (75,921)                     | 37,250       | 75,921<br>6,949 |              |            |
| <b>Capital Contributions:</b>   |                                  |                           |   |                              |              |                 |              |            |
| ARRA Principal Forgiveness  | 210,430                          |                           |   |                              |              |                 | 210,430      | 1,408,594  |
| <b>Increase (Decrease) in Net Assets</b>                                | 114,631                          | 46,600                    | 5,000                                   |                              | 87,250       | (25,325)        | 228,156      | 1,520,772  |
| <b>Net Assets - June 1,</b>   | 9,917,745                        | 651,275                   | 125,000                                 | 216,325                      | 201,000      | 1,575,348       | 12,686,693   | 11,165,921 |
| <b>Net Assets - May 31,</b>   | 10,032,376                       | 697,875                   | 130,000                                 | 216,325                      | 288,250      | 1,550,023       | 12,914,849   | 12,686,693 |

The Pompton Lakes Borough Municipal Utilities Authority  
(A Component Unit of the Borough of Pompton Lakes)  
Schedule Of Cash Receipts, Cash Disbursements  
And Changes In Cash and Investments  
Unrestricted And Restricted Accounts  
For The Year Ended May 31, 2011

|  | Operating<br>Account | General<br>Fund | Payroll<br>Fund | Construction<br>Fund |
|--|----------------------|-----------------|-----------------|----------------------|
| <b>Cash, Cash Equivalents and Investments -<br/>June 1, 2010</b> | 899,845              | 421,240         | 5,716           | 5,116                |
| <b>Cash Receipts:</b>  |                      |                 |                 |                      |
| Interest on Investments  | 21,692               | 60              |                 | 82                   |
| Water and Sewer Charges  | 2,919,370            |                 |                 |                      |
| Customer Deposits  |                      |                 |                 |                      |
| Other  | 190,781              |                 |                 | 116,115              |
| Employee/Employer Payroll Tax Contributions                      |                      |                 | 423,896         |                      |
| Net Payroll Transfers  |                      |                 | 491,503         |                      |
| Transfers  | 3,521,894            | 516,886         |                 | 300,600              |
| <b>Total Cash Receipts</b>                                       | <b>6,653,737</b>     | <b>516,946</b>  | <b>915,399</b>  | <b>416,797</b>       |
| <b>Cash and Investments Available</b>                            | <b>7,553,582</b>     | <b>938,186</b>  | <b>921,115</b>  | <b>421,913</b>       |
| <b>Cash Disbursements:</b>                                       |                      |                 |                 |                      |
| Operations   | 2,542,263            |                 |                 |                      |
| Capital Expenditures   |                      |                 |                 | 410,396              |
| Employee/Employer Payroll Tax Contributions                      |                      |                 | 423,874         |                      |
| Net Payroll Transfers  |                      |                 | 491,503         |                      |
| Bond Principal Payments  |                      |                 |                 |                      |
| Bond Interest Payments   |                      |                 |                 |                      |
| Customer Deposits  |                      |                 |                 |                      |
| Other  | 119,435              |                 |                 |                      |
| Transfers  | 4,823,732            | 310,600         |                 |                      |
| <b>Total Cash Disbursements</b>                                  | <b>7,485,430</b>     | <b>310,600</b>  | <b>915,377</b>  | <b>410,396</b>       |
| <b>Cash, Cash Equivalents and Investments -<br/>May 31, 2011</b> | <b>68,152</b>        | <b>627,586</b>  | <b>5,738</b>    | <b>11,517</b>        |
| <b>Analysis of Balance:</b>                                      |                      |                 |                 |                      |
| Cash and Cash Equivalents  | 68,152               | 627,586         | 5,738           | 11,517               |
| Investments  | -                    | -               | -               | -                    |
|  | <b>68,152</b>        | <b>627,586</b>  | <b>5,738</b>    | <b>11,517</b>        |
| Unrestricted   | 68,152               | 627,586         | 5,738           | 11,517               |
| Restricted   | -                    | -               | -               | -                    |
|  | <b>68,152</b>        | <b>627,586</b>  | <b>5,738</b>    | <b>11,517</b>        |



The Pompton Lakes Borough Municipal Utilities Authority  
(A Component Unit of the Borough of Pompton Lakes)  
Schedule Of Cash Receipts, Cash Disbursements  
And Changes In Cash and Investments  
Unrestricted And Restricted Accounts  
For The Year Ended May 31, 2011

|  | Trustee Revenue<br>Fund | Debt Service<br>Interest<br>Fund | Bond Reserve<br>Fund | Customer<br>Deposit<br>Account |
|--|-------------------------|----------------------------------|----------------------|--------------------------------|
| <b>Cash, Cash Equivalents and Investments -<br/>June 1, 2010</b> | 2                       | 280,523                          | 1,043,330            | 43,639                         |
| <b>Cash Receipts:</b>  |                         |                                  |                      |                                |
| Interest on Investments  |                         | 17                               | 75,921               |                                |
| Water and Sewer Charges  |                         |                                  |                      |                                |
| Customer Deposits  |                         |                                  |                      | 5,219                          |
| Other  |                         |                                  |                      |                                |
| Employee/Employer Payroll Tax Contributions                      |                         |                                  |                      |                                |
| Net Payroll Transfers  |                         |                                  |                      |                                |
| Transfers  | 3,780,311               | 215,935                          |                      |                                |
| <b>Total Cash Receipts</b>                                       | <u>3,780,311</u>        | <u>215,952</u>                   | <u>75,921</u>        | <u>5,219</u>                   |
| <b>Cash and Investments Available</b>                            | <u>3,780,313</u>        | <u>496,475</u>                   | <u>1,119,251</u>     | <u>48,858</u>                  |
| <b>Cash Disbursements:</b>                                       |                         |                                  |                      |                                |
| Operations   |                         |                                  |                      |                                |
| Capital Expenditures   |                         |                                  |                      |                                |
| Employee/Employer Payroll Tax Contributions                      |                         |                                  |                      |                                |
| Net Payroll Transfers  |                         |                                  |                      |                                |
| Bond Principal Payments  |                         | 125,000                          |                      |                                |
| Bond Interest Payments   |                         | 88,435                           |                      |                                |
| Customer Deposits  |                         |                                  |                      | 4,960                          |
| Other  |                         |                                  |                      |                                |
| Transfers  | 3,025,313               | 110,060                          | 75,921               |                                |
| <b>Total Cash Disbursements</b>                                  | <u>3,025,313</u>        | <u>323,495</u>                   | <u>75,921</u>        | <u>4,960</u>                   |
| <b>Cash, Cash Equivalents and Investments -<br/>May 31, 2011</b> | <u>755,000</u>          | <u>172,980</u>                   | <u>1,043,330</u>     | <u>43,898</u>                  |
| <b>Analysis of Balance:</b>                                      |                         |                                  |                      |                                |
| Cash and Cash Equivalents  | 755,000                 | 172,980                          | -                    | 43,898                         |
| Investments  | -                       | -                                | 1,043,330            | -                              |
|  | <u>755,000</u>          | <u>172,980</u>                   | <u>1,043,330</u>     | <u>43,898</u>                  |
| Unrestricted   | 36,002                  | -                                | 827,005              | -                              |
| Restricted   | 718,998                 | 172,980                          | 216,325              | 43,898                         |
|  | <u>755,000</u>          | <u>172,980</u>                   | <u>1,043,330</u>     | <u>43,898</u>                  |

The Pompton Lakes Borough Municipal Utilities Authority  
(A Component Unit of the Borough of Pompton Lakes)  
Schedule Of Cash Receipts, Cash Disbursements  
And Changes In Cash and Investments  
Unrestricted And Restricted Accounts  
For The Year Ended May 31, 2011

|  | NJEIT<br>Capital<br>Account | Escrow Deposit<br>Fund | Retiree Health<br>Benefit Reserve<br>Account | Total      |
|--|-----------------------------|------------------------|--|------------|
| Cash, Cash Equivalents and Investments -<br>June 1, 2010 | 229,787                     | 27,187                 | 49,285                                       | 3,005,670  |
| Cash Receipts:   |                             |                        |  |            |
| Interest on Investments                                  | 1,330                       | 14                     | 171  | 99,287     |
| Water and Sewer Charges                                  |                             |                        |  | 2,919,370  |
| Customer Deposits  |                             |                        |  | 5,219      |
| Other  | 2,286,002                   |                        | 50,000                                       | 2,642,898  |
| Employee/Employer Payroll Tax Contributions              |                             |                        |  | 423,896    |
| Net Payroll Transfers                                    |                             |                        |  | 491,503    |
| Transfers  | 10,000                      |                        |  | 8,345,626  |
| Total Cash Receipts                                      | 2,297,332                   | 14                     | 50,171                                       | 14,927,799 |
| Cash and Investments Available                           | 2,527,119                   | 27,201                 | 99,456                                       | 17,933,469 |
| Cash Disbursements:                                      |                             |                        |  |            |
| Operations   |                             |                        |  | 2,542,263  |
| Capital Expenditures                                     | 2,245,108                   |                        |  | 2,655,504  |
| Employee/Employer Payroll Tax Contributions              |                             |                        |  | 423,874    |
| Net Payroll Transfers                                    |                             |                        |  | 491,503    |
| Bond Principal Payments                                  |                             |                        |  | 125,000    |
| Bond Interest Payments                                   |                             |                        |  | 88,435     |
| Customer Deposits  |                             |                        |  | 4,960      |
| Other  | 175                         |                        |  | 119,610    |
| Transfers  |                             |                        |  | 8,345,626  |
| Total Cash Disbursements                                 | 2,245,283                   | -                      | -  | 14,796,775 |
| Cash, Cash Equivalents and Investments -<br>May 31, 2011 | 281,836                     | 27,201                 | 99,456                                       | 3,136,694  |
| Analysis of Balance:                                     |                             |                        |  |            |
| Cash and Cash Equivalents                                | 281,836                     | 27,201                 | 99,456                                       | 2,093,364  |
| Investments  | -                           | -                      | -  | 1,043,330  |
|  | 281,836                     | 27,201                 | 99,456                                       | 3,136,694  |
| Unrestricted   | -                           | -                      | 99,456                                       | 1,675,456  |
| Restricted   | 281,836                     | 27,201                 | -  | 1,461,238  |
|  | 281,836                     | 27,201                 | 99,456                                       | 3,136,694  |

THIS PAGE INTENTIONALLY LEFT BLANK



The Pompton Lakes Borough Municipal Utilities Authority  
(A Component Unit of the Borough of Pompton Lakes)  
Schedule Of Operating Revenue And Costs Funded  
By Operating Revenue Compared To Budget

For The Year Ended May 31, 2011

|  | 2011<br>Budget   | 2011<br>Budget After<br>Modifications | 2011<br>Actual   | 2010<br>Actual   |
|--|------------------|---------------------------------------|------------------|------------------|
| <b>Revenues:</b>   |                  |                                       |                  |                  |
| Undesignated Retained Earnings                                     | 124,000          | 124,000                               | 124,000          |                  |
| Water Charges  | 650,000          | 650,000                               | 670,637          | 580,708          |
| Sewer Charges  | 1,766,172        | 1,766,172                             | 2,255,101        | 2,213,786        |
| Other  | 160,000          | 160,000                               | 190,772          | 190,357          |
| Interest on Delinquent Accounts                                    | 20,000           | 20,000                                | 23,366           | 22,163           |
| Interest on Investments and Deposits                               | 100,000          | 100,000                               | 75,921           | 75,715           |
| <b>Total Operating Revenues</b>                                    | <u>2,820,172</u> | <u>2,820,172</u>                      | <u>3,339,797</u> | <u>3,082,729</u> |
| <b>Expenses:</b>   |                  |                                       |                  |                  |
| <b>Cost of Providing Services:</b>                                 |                  |                                       |                  |                  |
| Operating Salaries   | 565,000          | 565,000                               | 552,468          | 495,433          |
| Overtime Salaries  | 30,000           | 30,000                                | 37,408           | 30,184           |
| Professional Fees - Other  | 30,000           | 30,000                                | 30,000           | 34,884           |
| Engineering - Retainer   | 10,200           | 10,200                                | 10,200           | 9,900            |
| Engineering - Miscellaneous  | 15,000           | 15,000                                | 5,356            | 12,255           |
| Chemicals  | 60,000           | 60,000                                | 58,234           | 55,618           |
| Systems and Equipment - Repairs<br>and Maintenance                 | 150,000          | 150,000                               | 89,633           | 88,380           |
| Truck Expenses - Gas, Oil, License                                 | 17,500           | 17,500                                | 21,708           | 17,045           |
| Truck Expenses - Repairs   | 8,000            | 8,000                                 | 7,844            | 7,874            |
| Vehicle & Equipment Leases   | 5,000            | 5,000                                 |                  | 343              |
| Electricity  | 460,000          | 460,000                               | 439,405          | 425,186          |
| Water Consumed in Operations                                       | 2,000            | 2,000                                 | 1,267            | 1,411            |
| Sludge Removal   | 165,000          | 165,000                               | 171,374          | 169,736          |
| Uniforms   | 6,000            | 6,000                                 | 7,433            | 6,024            |
| Fees and Permits   | 50,000           | 50,000                                | 40,195           | 33,250           |
| Lab Supplies and Expenses  | 35,000           | 35,000                                | 39,973           | 33,428           |
| Customer Refunds   | 1,000            | 1,000                                 | 4,939            | 431              |
| Miscellaneous Supplies and Expenses                                | 25,000           | 25,000                                | 31,742           | 30,096           |
| <b>Sub-total Cost of Providing Services</b>                        | <u>1,634,700</u> | <u>1,634,700</u>                      | <u>1,549,179</u> | <u>1,451,478</u> |
| <b>Administrative, General Expenses and<br/>Employee Benefits:</b> |                  |                                       |                  |                  |
| Administrative Salaries  | 270,000          | 270,000                               | 274,426          | 238,327          |
| Commissioners' Salaries  | 27,000           | 27,000                                | 24,555           | 25,814           |
| Administrative Trustees Fees                                       | 15,000           | 15,000                                | 14,329           | 4,285            |
| Customer Billing - Postage   | 5,000            | 5,000                                 | 5,236            | 5,093            |
| Computer Programming   | 10,000           | 10,000                                | 12,610           | 16,283           |
| Computer Retainer  | 10,200           | 10,200                                | 10,200           | 9,900            |
| Auditing   | 21,000           | 21,000                                | 20,750           | 20,500           |
| Legal - Retainer   | 10,200           | 10,200                                | 10,200           | 9,900            |
| Legal - Miscellaneous  | 10,000           | 10,000                                | 6,886            | 5,087            |
| Office Supplies and Postage  | 8,000            | 8,000                                 | 9,489            | 7,317            |
| Conferences and Seminars   | 10,000           | 10,000                                | 5,080            | 5,599            |

The Pompton Lakes Borough Municipal Utilities Authority  
(A Component Unit of the Borough of Pompton Lakes)  
Schedule Of Operating Revenue And Costs Funded  
By Operating Revenue Compared To Budget

For The Year Ended May 31, 2011

|   | <u>2011</u><br><u>Budget</u> | <u>2011</u><br><u>Budget After</u><br><u>Modifications</u> | <u>2011</u><br><u>Actual</u> | <u>2010</u><br><u>Actual</u> |
|---|------------------------------|--|------------------------------|------------------------------|
| Administrative, General Expenses and            |                              |  |                              |                              |
| Employee Benefits (continued):                  |                              |  |                              |                              |
| Special Accounting Services                     | 6,000                        | 6,000  | 4,170                        | 7,338                        |
| Printing and Publications                       | 10,000                       | 10,000   | 7,509                        | 4,755                        |
| Telephone and Alarm System                      | 25,000                       | 25,000   | 25,808                       | 24,559                       |
| Insurance                                       | 40,000                       | 40,000   | 39,963                       | 44,157                       |
| Building Repairs and Maintenance                | 20,000                       | 20,000   | 15,765                       | 21,463                       |
| Heating   | 8,000                        | 8,000  | 6,779                        | 6,139                        |
| Bank Sweep Fees                                 | 2,500                        | 2,500  | 2,619                        | 2,780                        |
| Employee Benefits:                              |                              |  |                              |                              |
| Public Employee Retirement System               | 70,000                       | 70,000   | 77,623                       | 57,771                       |
| Social Security Tax                             | 70,000                       | 70,000   | 66,921                       | 59,149                       |
| Unemployment Compensation Insurance             | 2,500                        | 2,500  | 4,060                        | 3,063                        |
| Worker's Compensation Insurance                 | 32,000                       | 32,000   | 19,898                       | 30,102                       |
| Medical Insurance Premium                       | 210,000                      | 210,000  | 220,985                      | 193,971                      |
| Retiree Health Benefits Reserve                 | 78,000                       | 78,000   | 77,483                       | 50,046                       |
|   | <u>970,400</u>               | <u>970,400</u>   | <u>963,344</u>               | <u>853,398</u>               |
| Debt Service:                                   |                              |  |                              |                              |
| Bond Principal                                  | 133,582                      | 133,582  | 133,582                      | 125,000                      |
| Interest on Bonds                               | <u>81,490</u>                | <u>81,490</u>  | <u>97,814</u>                | <u>90,935</u>                |
|   | <u>215,072</u>               | <u>215,072</u>   | <u>231,396</u>               | <u>215,935</u>               |
| <b>Total Costs Funded by Operating Revenues</b> | <u><u>2,820,172</u></u>      | <u><u>2,820,172</u></u>                                    | <u><u>2,743,919</u></u>      | <u><u>2,520,811</u></u>      |

The Pompton Lakes Borough Municipal Utilities Authority  
(A Component Unit of the Borough of Pompton Lakes)  
Schedule Of Operating Revenue And Costs Funded  
By Operating Revenue Compared To Budget

Schedule 3  
 Page 3 of 3

For The Year Ended May 31, 2011

|  | <u>2011</u>   | <u>2011</u>         | <u>2011</u>   | <u>2010</u>   |
|--|---------------|---------------------|---------------|---------------|
|  | <u>Budget</u> | <u>Budget After</u> | <u>Actual</u> | <u>Actual</u> |
| Excess of Actual Revenues Over Expenses    |               |                     | 595,878       | 561,918       |
| Reconciliation of Budgetary Basis to GAAP: |               |                     |               |               |
| Undesignated Retained Earnings             |               |                     | (124,000)     |               |
| ARRA Principal Forgiveness                 |               |                     | 210,430       | 1,408,594     |
| Retiree Health Benefits Reserve            |               |                     | 50,000        | 23,000        |
| Depreciation                               |               |                     | (622,084)     | (570,402)     |
| Amortization                               |               |                     | (15,650)      | (17,338)      |
| Loss on Disposal of Equipment              |               |                     |               | (10,000)      |
| Bond Principal                             |               |                     | 133,582       | 125,000       |
| Total Adjustments                          |               |                     | (367,722)     | 958,854       |
| Change in Net Assets                       |               |                     | 228,156       | 1,520,772     |



THIS PAGE INTENTIONALLY LEFT BLANK

The Pompton Lakes Borough Municipal Utilities Authority  
(A Component Unit of the Borough of Pompton Lakes)  
Schedule Of Capital Financing Sources And Costs Funded  
By Financing Sources Compared To Budget

For The Year Ended May 31, 2011

|  | 2011<br>Budget   | 2011<br>Budget After<br>Modifications | 2011<br>Actual           | 2010<br>Actual   |
|--|------------------|---------------------------------------|--------------------------|------------------|
| <b>Financing Sources:</b>                      |                  |                                       |                          |                  |
| Sewer Rents                                    |                  |                                       |                          | 287,192          |
| Debt Authorization - NJEIT                     | 1,000,000        | 1,000,000                             | 2,245,110                | 895,230          |
| Unrestricted Fund Balances                     | 830,000          | 830,000                               | 410,395                  |                  |
| <b>Total Financing Sources</b>                 | <u>1,830,000</u> | <u>1,830,000</u>                      | <u>2,655,505</u>         | <u>1,182,422</u> |
| <b>Capital Outlays:</b>                        |                  |                                       |                          |                  |
| Upgrade to Water Meter System                  |                  |                                       |                          | 50,096           |
| Tablet Chlorination System                     |                  |                                       | 39,476                   | 15,578           |
| Insert Valves                                  | 60,000           | 60,000                                | 29,352                   | 8,777            |
| Well #2 Emerg. Electrical Power Connection     | 30,000           | 30,000                                |                          |                  |
| 5 Ton Dump Truck                               | 60,000           | 60,000                                | 52,500                   |                  |
| Cannonball Rd. 6" Main Abandonment             | 100,000          | 100,000                               | 47,924                   | 7,735            |
| Upgrades to Water Storage / Well Controls      |                  |                                       |                          | 48,068           |
| Miscellaneous Upgrades to Water System         | 30,000           | 30,000                                |                          |                  |
| Miscellaneous Building Maintenance             | 20,000           | 20,000                                |                          | 3,600            |
| Well House Emergency Generator                 | 75,000           | 75,000                                |                          | 4,075            |
| Dam Geotechnical Analysis                      | 40,000           | 40,000                                | 31,334                   |                  |
| Miscellaneous Infrastructure Upgrades          | 20,000           | 20,000                                | 13,716                   | 6,948            |
| 2009 Heavy Duty Utility Truck                  |                  |                                       |                          | 31,633           |
| Office/Computer Equipment                      | 15,000           | 15,000                                |                          | 18,311           |
| Excavator With Trailer                         |                  |                                       |                          | 44,650           |
| Water Storage Tank Exterior Painting           | 50,000           | 50,000                                |                          |                  |
| Miscellaneous Paving and Concrete Repairs      | 20,000           | 20,000                                | 11,925                   | 3,850            |
| Misc. Upgrades to Pump Stations                | 50,000           | 50,000                                | 36,433                   | 12,238           |
| Upgrades to Pump Station Controls              | 65,000           | 65,000                                | 53,700                   |                  |
| S. Pump Station Generator & ATS Repl.          | 125,000          | 125,000                               |                          |                  |
| 2009 Crew Cab Pickup Truck                     |                  |                                       |                          | 31,633           |
| Covered Equipment Trailer                      | 10,000           | 10,000                                | 3,297                    |                  |
| Miscellaneous Treatment Plant Upgrades         | 50,000           | 50,000                                | 33,783                   |                  |
| Sewer Main Treatment Plant Upgrades            | 10,000           | 10,000                                | 8,895                    |                  |
| South Pumping Station Grinder Replacement      |                  |                                       | 6,475 <sup>(1)</sup>     | 71,073           |
| South Pumping Station Wet Well Stair Repl.     |                  |                                       | 95,614 <sup>(1)</sup>    | 55,301           |
| Final Treatment Building Sand Filters          |                  |                                       | 1,337,805 <sup>(1)</sup> | 587,670          |
| New Sludge Thickener System                    |                  |                                       | 388,583 <sup>(1)</sup>   | 119,585          |
| Aeration Tank Equipment Replacement            | 1,000,000        | 1,000,000                             | 345,794 <sup>(1)</sup>   | 61,601           |
| Various Capital Projects Funded by NJEIT       |                  |                                       | 70,839 <sup>(1)</sup>    |                  |
| Redevelopment of Well #3                       |                  |                                       | 48,060                   |                  |
| <b>Total Capital Outlay</b>                    | <u>1,830,000</u> | <u>1,830,000</u>                      | <u>2,655,505</u>         | <u>1,182,422</u> |
| <b>Excess of Actual Revenues Over Expenses</b> |                  |                                       |                          |                  |
| <b>Total</b>                                   | <u>1,830,000</u> | <u>1,830,000</u>                      | <u>2,655,505</u>         | <u>1,182,422</u> |

(1) Funded by New Jersey Environmental Infrastructure Trust.

THIS PAGE INTENTIONALLY LEFT BLANK



The Pompton Lakes Borough Municipal Utilities Authority  
(A Component Unit of the Borough of Pompton Lakes)  
Schedule Of Revenue and Junior Lien Revenue Bonds Payable

May 31, 2011 and 2010

|                                     | Original Issuance |           | Interest<br>Rate | Maturities |         | Balance<br>June 1, 2010 | Issued | Redeemed/<br>Retired | Balance<br>May 31, 2011 |
|-------------------------------------|-------------------|-----------|------------------|------------|---------|-------------------------|--------|----------------------|-------------------------|
|                                     | Date              | Amount    |                  | Date       | Amount  |                         |        |                      |                         |
| Series 1998<br>Refunding<br>Bonds   | 11/10/1998        | 2,720,000 | 4.250%           | 06/01/2011 | 130,000 |                         |        |                      |                         |
|                                     |                   |           | 4.250%           | 06/01/2012 | 130,000 |                         |        |                      |                         |
|                                     |                   |           | 4.250%           | 06/01/2013 | 140,000 |                         |        |                      |                         |
|                                     |                   |           | 4.300%           | 06/01/2014 | 145,000 |                         |        |                      |                         |
|                                     |                   |           | 4.300%           | 06/01/2015 | 150,000 |                         |        |                      |                         |
|                                     |                   |           | 4.500%           | 06/01/2016 | 155,000 |                         |        |                      |                         |
|                                     |                   |           | 4.500%           | 06/01/2017 | 165,000 |                         |        |                      |                         |
|                                     |                   |           | 4.500%           | 06/01/2018 | 170,000 |                         |        |                      |                         |
|                                     |                   |           | 4.500%           | 06/01/2019 | 175,000 |                         |        |                      |                         |
|                                     |                   |           | 4.500%           | 06/01/2020 | 190,000 |                         |        |                      |                         |
|                                     |                   |           | 4.500%           | 06/01/2021 | 195,000 |                         |        |                      |                         |
|                                     |                   |           | 4.500%           | 06/01/2022 | 200,000 | 2,070,000               |        | 125,000              | 1,945,000               |
| NJGIT<br>Trust Loan<br>Series 2009A | 12/2/2009         | 735,000   | 2.000%           | 08/01/2011 | 25,000  |                         |        |                      |                         |
|                                     |                   |           | 3.000%           | 08/01/2012 | 25,000  |                         |        |                      |                         |
|                                     |                   |           | 5.000%           | 08/01/2013 | 30,000  |                         |        |                      |                         |
|                                     |                   |           | 5.000%           | 08/01/2014 | 30,000  |                         |        |                      |                         |
|                                     |                   |           | 5.000%           | 08/01/2015 | 30,000  |                         |        |                      |                         |
|                                     |                   |           | 5.000%           | 08/01/2016 | 30,000  |                         |        |                      |                         |
|                                     |                   |           | 5.000%           | 08/01/2017 | 35,000  |                         |        |                      |                         |
|                                     |                   |           | 5.000%           | 08/01/2018 | 35,000  |                         |        |                      |                         |
|                                     |                   |           | 4.000%           | 08/01/2019 | 35,000  |                         |        |                      |                         |
|                                     |                   |           | 4.000%           | 08/01/2020 | 40,000  |                         |        |                      |                         |
|                                     |                   |           | 4.000%           | 08/01/2021 | 40,000  |                         |        |                      |                         |
|                                     |                   |           | 3.500%           | 08/01/2022 | 40,000  |                         |        |                      |                         |
|                                     |                   |           | 4.000%           | 08/01/2023 | 45,000  |                         |        |                      |                         |
|                                     |                   |           | 4.000%           | 08/01/2024 | 45,000  |                         |        |                      |                         |
|                                     |                   |           | 3.750%           | 08/01/2025 | 45,000  |                         |        |                      |                         |
|                                     |                   |           | 4.000%           | 08/01/2026 | 50,000  |                         |        |                      |                         |
|                                     |                   |           | 4.000%           | 08/01/2027 | 50,000  |                         |        |                      |                         |
|                                     |                   |           | 4.000%           | 08/01/2028 | 50,000  |                         |        |                      |                         |
|                                     |                   |           | 4.000%           | 08/01/2029 | 55,000  | 735,000                 |        |                      | 735,000                 |

The Pompton Lakes Borough Municipal Utilities Authority  
(A Component Unit of the Borough of Pompton Lakes)  
Schedule Of Revenue and Junior Lien Revenue Bonds Payable

May 31, 2011 and 2010

|                                    | Original Issuance |         | Interest<br>Rate | Maturities |        | Balance<br>June 1, 2010 | Issued | Redeemed/<br>Retired | Balance<br>May 31, 2011 |
|------------------------------------|-------------------|---------|------------------|------------|--------|-------------------------|--------|----------------------|-------------------------|
|                                    | Date              | Amount  |                  | Date       | Amount |                         |        |                      |                         |
| NJEIT<br>Fund Loan<br>Series 2009A | 12/2/2009         | 704,297 | 0.000%           | 08/01/2011 | 25,153 |                         |        |                      |                         |
|                                    |                   |         | 0.000%           | 02/01/2012 | 12,577 |                         |        |                      |                         |
|                                    |                   |         | 0.000%           | 08/01/2012 | 25,153 |                         |        |                      |                         |
|                                    |                   |         | 0.000%           | 02/01/2013 | 12,577 |                         |        |                      |                         |
|                                    |                   |         | 0.000%           | 08/01/2013 | 25,153 |                         |        |                      |                         |
|                                    |                   |         | 0.000%           | 02/01/2014 | 12,577 |                         |        |                      |                         |
|                                    |                   |         | 0.000%           | 08/01/2014 | 25,153 |                         |        |                      |                         |
|                                    |                   |         | 0.000%           | 02/01/2015 | 12,577 |                         |        |                      |                         |
|                                    |                   |         | 0.000%           | 08/01/2015 | 25,153 |                         |        |                      |                         |
|                                    |                   |         | 0.000%           | 02/01/2016 | 12,577 |                         |        |                      |                         |
|                                    |                   |         | 0.000%           | 08/01/2016 | 25,153 |                         |        |                      |                         |
|                                    |                   |         | 0.000%           | 02/01/2017 | 12,577 |                         |        |                      |                         |
|                                    |                   |         | 0.000%           | 08/01/2017 | 25,153 |                         |        |                      |                         |
|                                    |                   |         | 0.000%           | 02/01/2018 | 12,577 |                         |        |                      |                         |
|                                    |                   |         | 0.000%           | 08/01/2018 | 25,153 |                         |        |                      |                         |
|                                    |                   |         | 0.000%           | 02/01/2019 | 12,577 |                         |        |                      |                         |
|                                    |                   |         | 0.000%           | 08/01/2019 | 25,153 |                         |        |                      |                         |
|                                    |                   |         | 0.000%           | 02/01/2020 | 12,577 |                         |        |                      |                         |
|                                    |                   |         | 0.000%           | 08/01/2020 | 25,153 |                         |        |                      |                         |
|                                    |                   |         | 0.000%           | 02/01/2021 | 12,577 |                         |        |                      |                         |
|                                    |                   |         | 0.000%           | 08/01/2021 | 25,153 |                         |        |                      |                         |
|                                    |                   |         | 0.000%           | 02/01/2022 | 12,577 |                         |        |                      |                         |
|                                    |                   |         | 0.000%           | 08/01/2022 | 25,153 |                         |        |                      |                         |
|                                    |                   |         | 0.000%           | 02/01/2023 | 12,577 |                         |        |                      |                         |
|                                    |                   |         | 0.000%           | 08/01/2023 | 25,154 |                         |        |                      |                         |
|                                    |                   |         | 0.000%           | 02/01/2024 | 12,577 |                         |        |                      |                         |
|                                    |                   |         | 0.000%           | 08/01/2024 | 25,153 |                         |        |                      |                         |
|                                    |                   |         | 0.000%           | 02/01/2025 | 12,577 |                         |        |                      |                         |
|                                    |                   |         | 0.000%           | 08/01/2025 | 25,154 |                         |        |                      |                         |
|                                    |                   |         | 0.000%           | 02/01/2026 | 12,577 |                         |        |                      |                         |
|                                    |                   |         | 0.000%           | 08/01/2026 | 25,153 |                         |        |                      |                         |
|                                    |                   |         | 0.000%           | 02/01/2027 | 12,577 |                         |        |                      |                         |
|                                    |                   |         | 0.000%           | 08/01/2027 | 25,154 |                         |        |                      |                         |
|                                    |                   |         | 0.000%           | 02/01/2028 | 12,577 |                         |        |                      |                         |
|                                    |                   |         | 0.000%           | 08/01/2028 | 25,153 |                         |        |                      |                         |
|                                    |                   |         | 0.000%           | 02/01/2029 | 12,577 |                         |        |                      |                         |
|                                    |                   |         | 0.000%           | 08/01/2029 | 25,154 |                         |        |                      |                         |
|                                    |                   |         |                  |            |        | 704,297                 |        |                      | 704,297                 |

The Pompton Lakes Borough Municipal Utilities Authority  
(A Component Unit of the Borough of Pompton Lakes)  
Schedule Of Revenue and Junior Lien Revenue Bonds Payable

May 31, 2011 and 2010

|                                   | Original Issuance |        | Interest<br>Rate | Maturities |        | Balance<br>June 1, 2010 | Issued | Redeemed/<br>Retired | Balance<br>May 31, 2011 |
|-----------------------------------|-------------------|--------|------------------|------------|--------|-------------------------|--------|----------------------|-------------------------|
|                                   | Date              | Amount |                  | Date       | Amount |                         |        |                      |                         |
| NJET<br>Trust Loan<br>Direct Loan | 2/23/2010         | 71,914 | 0.610%           | 08/01/2011 | 3,078  |                         |        |                      |                         |
|                                   |                   |        | 0.850%           | 08/01/2012 | 3,097  |                         |        |                      |                         |
|                                   |                   |        | 1.140%           | 08/01/2013 | 3,123  |                         |        |                      |                         |
|                                   |                   |        | 1.550%           | 08/01/2014 | 3,159  |                         |        |                      |                         |
|                                   |                   |        | 1.950%           | 08/01/2015 | 3,208  |                         |        |                      |                         |
|                                   |                   |        | 2.300%           | 08/01/2016 | 3,270  |                         |        |                      |                         |
|                                   |                   |        | 2.590%           | 08/01/2017 | 3,346  |                         |        |                      |                         |
|                                   |                   |        | 2.760%           | 08/01/2018 | 3,432  |                         |        |                      |                         |
|                                   |                   |        | 2.970%           | 08/01/2019 | 3,527  |                         |        |                      |                         |
|                                   |                   |        | 3.160%           | 08/01/2020 | 3,632  |                         |        |                      |                         |
|                                   |                   |        | 3.290%           | 08/01/2021 | 3,747  |                         |        |                      |                         |
|                                   |                   |        | 3.480%           | 08/01/2022 | 3,870  |                         |        |                      |                         |
|                                   |                   |        | 3.620%           | 08/01/2023 | 4,004  |                         |        |                      |                         |
|                                   |                   |        | 3.720%           | 08/01/2024 | 4,149  |                         |        |                      |                         |
|                                   |                   |        | 3.820%           | 08/01/2025 | 4,304  |                         |        |                      |                         |
|                                   |                   |        | 3.920%           | 08/01/2026 | 4,468  |                         |        |                      |                         |
|                                   |                   |        | 4.010%           | 08/01/2027 | 4,643  |                         |        |                      |                         |
|                                   |                   |        | 4.100%           | 08/01/2028 | 4,830  |                         |        |                      |                         |
|                                   |                   |        | 4.180%           | 08/01/2029 | 5,027  |                         |        |                      |                         |
|                                   |                   |        |                  |            |        | 71,914                  |        | 71,914               |                         |



The Pompton Lakes Borough Municipal Utilities Authority  
(A Component Unit of the Borough of Pompton Lakes)  
Schedule Of Revenue and Junior Lien Revenue Bonds Payable

May 31, 2011 and 2010

|                                    | Original Issuance |         | Interest Rate | Maturities |        | Balance June 1, 2010 | Issued | Redeemed/Retired | Balance May 31, 2011 |
|------------------------------------|-------------------|---------|---------------|------------|--------|----------------------|--------|------------------|----------------------|
|                                    | Date              | Amount  |               | Date       | Amount |                      |        |                  |                      |
| NJ/EIT<br>Fund Loan<br>Direct Loan | 2/23/2010         | 204,192 | 0.000%        | 08/01/2011 | 7,164  |                      |        |                  |                      |
|                                    |                   |         | 0.000%        | 02/01/2012 | 3,582  |                      |        |                  |                      |
|                                    |                   |         | 0.000%        | 08/01/2012 | 7,165  |                      |        |                  |                      |
|                                    |                   |         | 0.000%        | 02/01/2013 | 3,582  |                      |        |                  |                      |
|                                    |                   |         | 0.000%        | 08/01/2013 | 7,165  |                      |        |                  |                      |
|                                    |                   |         | 0.000%        | 02/01/2014 | 3,582  |                      |        |                  |                      |
|                                    |                   |         | 0.000%        | 08/01/2014 | 7,165  |                      |        |                  |                      |
|                                    |                   |         | 0.000%        | 02/01/2015 | 3,582  |                      |        |                  |                      |
|                                    |                   |         | 0.000%        | 08/01/2015 | 7,165  |                      |        |                  |                      |
|                                    |                   |         | 0.000%        | 02/01/2016 | 3,582  |                      |        |                  |                      |
|                                    |                   |         | 0.000%        | 08/01/2016 | 7,165  |                      |        |                  |                      |
|                                    |                   |         | 0.000%        | 02/01/2017 | 3,582  |                      |        |                  |                      |
|                                    |                   |         | 0.000%        | 08/01/2017 | 7,165  |                      |        |                  |                      |
|                                    |                   |         | 0.000%        | 02/01/2018 | 3,582  |                      |        |                  |                      |
|                                    |                   |         | 0.000%        | 08/01/2018 | 7,165  |                      |        |                  |                      |
|                                    |                   |         | 0.000%        | 02/01/2019 | 3,582  |                      |        |                  |                      |
|                                    |                   |         | 0.000%        | 08/01/2019 | 7,165  |                      |        |                  |                      |
|                                    |                   |         | 0.000%        | 02/01/2020 | 3,582  |                      |        |                  |                      |
|                                    |                   |         | 0.000%        | 08/01/2020 | 7,165  |                      |        |                  |                      |
|                                    |                   |         | 0.000%        | 02/01/2021 | 3,582  |                      |        |                  |                      |
|                                    |                   |         | 0.000%        | 08/01/2021 | 7,165  |                      |        |                  |                      |
|                                    |                   |         | 0.000%        | 02/01/2022 | 3,582  |                      |        |                  |                      |
|                                    |                   |         | 0.000%        | 08/01/2022 | 7,165  |                      |        |                  |                      |
|                                    |                   |         | 0.000%        | 02/01/2023 | 3,582  |                      |        |                  |                      |
|                                    |                   |         | 0.000%        | 08/01/2023 | 7,165  |                      |        |                  |                      |
|                                    |                   |         | 0.000%        | 02/01/2024 | 3,582  |                      |        |                  |                      |
|                                    |                   |         | 0.000%        | 08/01/2024 | 7,165  |                      |        |                  |                      |
|                                    |                   |         | 0.000%        | 02/01/2025 | 3,582  |                      |        |                  |                      |
|                                    |                   |         | 0.000%        | 08/01/2025 | 7,165  |                      |        |                  |                      |
|                                    |                   |         | 0.000%        | 02/01/2026 | 3,582  |                      |        |                  |                      |
| 0.000%                             | 08/01/2026        | 7,165   |               |            |        |                      |        |                  |                      |
| 0.000%                             | 02/01/2027        | 3,582   |               |            |        |                      |        |                  |                      |
| 0.000%                             | 08/01/2027        | 7,165   |               |            |        |                      |        |                  |                      |
| 0.000%                             | 02/01/2028        | 3,582   |               |            |        |                      |        |                  |                      |
| 0.000%                             | 08/01/2028        | 7,165   |               |            |        |                      |        |                  |                      |
| 0.000%                             | 02/01/2029        | 3,582   |               |            |        |                      |        |                  |                      |
| 0.000%                             | 08/01/2029        | 7,165   |               |            |        |                      |        |                  |                      |
|                                    |                   |         |               |            |        | 204,192              |        | 3,582            | 200,610              |

The Pompton Lakes Borough Municipal Utilities Authority  
(A Component Unit of the Borough of Pompton Lakes)  
Schedule Of Revenue and Junior Lien Revenue Bonds Payable

May 31, 2011 and 2010

|                                     | Original Issuance |            | Interest<br>Rate | Maturities |        | Balance<br>June 1, 2010 | Issued  | Redeemed/<br>Retired | Balance<br>May 31, 2011 |
|-------------------------------------|-------------------|------------|------------------|------------|--------|-------------------------|---------|----------------------|-------------------------|
|                                     | Date              | Amount     |                  | Date       | Amount |                         |         |                      |                         |
| NJFIT<br>Trust Loan<br>Series 2010B | 12/2/2010         | 415,000.00 | 5.000%           | 08/01/2012 | 15,000 |                         |         |                      |                         |
|                                     |                   |            | 5.000%           | 08/01/2013 | 15,000 |                         |         |                      |                         |
|                                     |                   |            | 5.000%           | 08/01/2014 | 15,000 |                         |         |                      |                         |
|                                     |                   |            | 5.000%           | 08/01/2015 | 15,000 |                         |         |                      |                         |
|                                     |                   |            | 5.000%           | 08/01/2016 | 15,000 |                         |         |                      |                         |
|                                     |                   |            | 5.000%           | 08/01/2017 | 15,000 |                         |         |                      |                         |
|                                     |                   |            | 5.000%           | 08/01/2018 | 20,000 |                         |         |                      |                         |
|                                     |                   |            | 5.000%           | 08/01/2019 | 20,000 |                         |         |                      |                         |
|                                     |                   |            | 5.000%           | 08/01/2020 | 20,000 |                         |         |                      |                         |
|                                     |                   |            | 5.000%           | 08/01/2021 | 20,000 |                         |         |                      |                         |
|                                     |                   |            | 5.000%           | 08/01/2022 | 20,000 |                         |         |                      |                         |
|                                     |                   |            | 5.000%           | 08/01/2023 | 25,000 |                         |         |                      |                         |
|                                     |                   |            | 5.000%           | 08/01/2024 | 25,000 |                         |         |                      |                         |
|                                     |                   |            | 5.000%           | 08/01/2025 | 25,000 |                         |         |                      |                         |
|                                     |                   |            | 5.000%           | 08/01/2026 | 30,000 |                         |         |                      |                         |
|                                     |                   |            | 5.000%           | 08/01/2027 | 30,000 |                         |         |                      |                         |
|                                     |                   |            | 5.000%           | 08/01/2028 | 30,000 |                         |         |                      |                         |
|                                     |                   |            | 5.000%           | 08/01/2029 | 30,000 |                         |         |                      |                         |
|                                     |                   |            | 5.000%           | 08/01/2030 | 35,000 |                         |         |                      |                         |
|                                     |                   |            |                  |            |        |                         | 415,000 |                      | 415,000                 |

The Pompton Lakes Borough Municipal Utilities Authority  
(A Component Unit of the Borough of Pompton Lakes)  
Schedule Of Revenue and Junior Lien Revenue Bonds Payable

May 31, 2011 and 2010

|                                  | Original Issuance |            | Interest<br>Rate | Maturities |        | Balance<br>June 1, 2010 | Issued  | Redeemed/<br>Retired | Balance<br>May 31, 2011 |
|----------------------------------|-------------------|------------|------------------|------------|--------|-------------------------|---------|----------------------|-------------------------|
|                                  | Date              | Amount     |                  | Date       | Amount |                         |         |                      |                         |
| NJET<br>Fund Loan<br>Series 2010 | 12/2/2010         | 210,430.00 | 0.0000%          | 08/01/2012 | 7,515  |                         |         |                      |                         |
|                                  |                   |            |                  | 02/01/2013 | 3,758  |                         |         |                      |                         |
|                                  |                   |            |                  | 08/01/2013 | 7,515  |                         |         |                      |                         |
|                                  |                   |            |                  | 02/01/2014 | 3,758  |                         |         |                      |                         |
|                                  |                   |            |                  | 08/01/2014 | 7,515  |                         |         |                      |                         |
|                                  |                   |            |                  | 02/01/2015 | 3,758  |                         |         |                      |                         |
|                                  |                   |            |                  | 08/01/2015 | 7,515  |                         |         |                      |                         |
|                                  |                   |            |                  | 02/01/2016 | 3,758  |                         |         |                      |                         |
|                                  |                   |            |                  | 08/01/2016 | 7,515  |                         |         |                      |                         |
|                                  |                   |            |                  | 02/01/2017 | 3,758  |                         |         |                      |                         |
|                                  |                   |            |                  | 08/01/2017 | 7,515  |                         |         |                      |                         |
|                                  |                   |            |                  | 02/01/2018 | 3,758  |                         |         |                      |                         |
|                                  |                   |            |                  | 08/01/2018 | 7,515  |                         |         |                      |                         |
|                                  |                   |            |                  | 02/01/2019 | 3,758  |                         |         |                      |                         |
|                                  |                   |            |                  | 08/01/2019 | 7,515  |                         |         |                      |                         |
|                                  |                   |            |                  | 02/01/2020 | 3,758  |                         |         |                      |                         |
|                                  |                   |            |                  | 08/01/2020 | 7,515  |                         |         |                      |                         |
|                                  |                   |            |                  | 02/01/2021 | 3,758  |                         |         |                      |                         |
|                                  |                   |            |                  | 08/01/2021 | 7,515  |                         |         |                      |                         |
|                                  |                   |            |                  | 02/01/2022 | 3,758  |                         |         |                      |                         |
|                                  |                   |            |                  | 08/01/2022 | 7,515  |                         |         |                      |                         |
|                                  |                   |            |                  | 02/01/2023 | 3,758  |                         |         |                      |                         |
|                                  |                   |            |                  | 08/01/2023 | 7,515  |                         |         |                      |                         |
|                                  |                   |            |                  | 02/01/2024 | 3,758  |                         |         |                      |                         |
|                                  |                   |            |                  | 08/01/2024 | 7,515  |                         |         |                      |                         |
|                                  |                   |            |                  | 02/01/2025 | 3,758  |                         |         |                      |                         |
|                                  |                   |            |                  | 08/01/2025 | 7,515  |                         |         |                      |                         |
|                                  |                   |            |                  | 02/01/2026 | 3,758  |                         |         |                      |                         |
|                                  |                   |            |                  | 08/01/2026 | 7,515  |                         |         |                      |                         |
|                                  |                   |            |                  | 02/01/2027 | 3,758  |                         |         |                      |                         |
|                                  |                   |            |                  | 08/01/2027 | 7,515  |                         |         |                      |                         |
|                                  |                   |            |                  | 02/01/2028 | 3,758  |                         |         |                      |                         |
|                                  |                   |            |                  | 08/01/2028 | 7,515  |                         |         |                      |                         |
|                                  |                   |            |                  | 02/01/2029 | 3,758  |                         |         |                      |                         |
|                                  |                   |            |                  | 08/01/2029 | 7,515  |                         |         |                      |                         |
|                                  |                   |            |                  | 02/01/2030 | 3,758  |                         |         |                      |                         |
|                                  |                   |            |                  | 08/01/2030 | 7,516  |                         |         |                      |                         |
|                                  |                   |            |                  |            |        | 210,430                 |         |                      | 210,430                 |
| Grand Total                      |                   |            |                  |            |        | 3,785,403               | 625,430 | 128,582              | 4,282,251               |



THE POMPTON LAKES BOROUGH MUNICIPAL UTILITIES AUTHORITY  
(A Component Unit of the Borough of Pompton Lakes)

MEMBERS OF THE AUTHORITY

FISCAL YEAR 2010 - 2011

JUNE 1, 2010 TO MAY 31, 2011

| <u>Official</u>  | <u>Position</u>         | <u>Term<br/>Expires<br/>February 1</u> |
|------------------|-------------------------|--|
| George Decker    | Chairman                | 2015                                   |
| Kevin P. Carroll | Vice-Chairman/Treasurer | 2016                                   |
| Lawrence DeMaio  | Secretary               | 2013                                   |
| Neal Galletta    | Assistant Secretary     | 2012                                   |
| Michael Longo    | Assistant Treasurer     | 2014                                   |

THIS PAGE INTENTIONALLY LEFT BLANK

## Single Audit Section



THIS PAGE INTENTIONALLY LEFT BLANK

# Ferraioli, Wielkotz, Cerullo & Cuva, P.A.

Charles J. Ferraioli, Jr., MBA, CPA, RMA  
Steven D. Wielkotz, CPA, RMA  
James J. Cerullo, CPA, RMA  
Paul J. Cuva, CPA, RMA  
Thomas M. Ferry, CPA, RMA

Certified Public Accountants  
401 Wanaque Avenue  
Pompton Lakes, New Jersey 07442  
973-835-7900  
Fax 973-835-6631

Newton Office  
100B Main Street  
Newton, N.J. 07860  
973-579-3212  
Fax 973-579-7128

## 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

Honorable Chairman and Members of the  
Pompton Lakes Borough Municipal Utilities Authority  
2000 Lincoln Avenue  
Pompton Lakes, New Jersey 07442

We have audited the financial statements of the Pompton Lakes Borough Municipal Utilities Authority (A Component Unit of the Borough of Pompton Lakes) as of and for the years ended May 31, 2011 and 2010, and have issued our report thereon dated August 23, 2011. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; audit requirements as prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey; and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Pompton Lakes Borough 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 the Pompton Lakes Borough Municipal Utilities Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effective of the Pompton Lakes Borough Municipal Utilities Authority's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control 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. However, we identified a certain deficiency in internal control over financial reporting described in the accompanying Schedule of Findings and Questioned Costs as Finding 2011-1 that we consider to be a significant deficiency in internal control over financial reporting.

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

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Pompton Lakes Borough 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.

Pompton Lakes Borough Municipal Utilities Authority's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit Pompton Lakes Borough Municipal Utilities Authority's response and, accordingly, we express no opinion on it.

This report is intended solely for the information of governing body, management, the Division of Local Government Services, Department of Community Affairs, State of New Jersey, Federal Awarding Agencies and Pass Through Entities and is not intended to be and should not be used by anyone other than these specified parties.

*Ferraioli, Wielkatz, Cerullo & Cuva P.A.*  
FERRAIOLI, WIELKOTZ, CERULLO & CUVA, P.A.  
Certified Public Accountants

August 23, 2011



# Ferraioli, Wielkott, Cerullo & Cuva, P.A.

Charles J. Ferraioli, Jr., MBA, CPA, RMA  
Steven D. Wielkott, CPA, RMA  
James J. Cerullo, CPA, RMA  
Paul J. Cuva, CPA, RMA  
Thomas M. Ferry, CPA, RMA

Certified Public Accountants  
401 Wanaque Avenue  
Pompton Lakes, New Jersey 07442  
973-835-7900  
Fax 973-835-6631

Newton Office  
100B Main Street  
Newton, N.J. 07860  
973-579-3212  
Fax 973-579-7128

## REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR FEDERAL AND STATE PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 AND N.J. OMB CIRCULAR 04-04

Honorable Chairman and Members of the  
Pompton Lakes Borough Municipal Utilities Authority  
2000 Lincoln Avenue  
Pompton Lakes, New Jersey 07442

### Compliance

We have audited the compliance of the Pompton Lakes Borough Municipal Utilities Authority (A Component Unit of the Borough of Pompton Lakes) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* and the *New Jersey State Aid/Grant Compliance Supplement* that could have a direct and material effect on each of its major federal and state programs for the fiscal year ended May 31, 2011. Pompton Lakes Borough Municipal Utilities Authority's major federal and state 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 and state programs is the responsibility of the Pompton Lakes Borough Municipal Utilities Authority's management. Our responsibility is to express an opinion on the Pompton Lakes Borough 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; OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations" and the provisions of the New Jersey State Treasury Circular Letter 04-04 "Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid". Those standards and OMB Circular A-133 and N.J. OMB Circular 04-04 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 and state program occurred. An audit includes examining, on a test basis, evidence about the Pompton Lakes Borough 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 on the Pompton Lakes Borough Municipal Utilities Authority's compliance with those requirements.





In our opinion, the Pompton Lakes Borough Municipal Utilities Authority complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal and state programs for the fiscal year ended May 31, 2011.

Internal Control Over Compliance

The management of Pompton Lakes Borough 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 programs. In planning and performing our audit, we considered the Pompton Lakes Borough Municipal Utilities Authority's internal control over compliance with the requirements that could have a direct and material effect on a major federal and state program in order to determine our 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 and N.J. OMB Circular 04-04, 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 the Pompton Lakes Borough 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 or state 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 or state 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 of the management and the New Jersey State Department of Community Affairs, other state and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

*Ferraioli, Wielkutz, Cerullo & Cuva P.A.*  
FERRAIOLI, WIELKOTZ, CERULLO & CUVA, P.A.  
Certified Public Accountants

August 23, 2011

THE POMPTON LAKES BOROUGH MUNICIPAL UTILITIES AUTHORITY  
(A Component Unit of the Borough of Pompton Lakes)  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
MAY 31, 2011

| Federal Grantor/Pass-Through<br>Grantor/Program   | Federal CFDA<br>Number | Pass-Through Entity ID<br>Number | Program<br>Amount | Grant Period |          | Cash Received  |                 | Program Expenditures |                 |
|---|------------------------|----------------------------------|-------------------|--------------|----------|----------------|-----------------|----------------------|-----------------|
|   |                        |                                  |                   | From         | To       | Prior<br>Years | Current<br>Year | Prior<br>Years       | Current<br>Year |
| U.S. Department of Environmental Protection:<br><br>Pass Through New Jersey Department of<br>Environmental Protection<br>New Jersey Environmental<br>Infrastructure Fund (2009) | 66.458                 | S340636-04                       | \$ 704,297        | 06/01/09     | 05/31/10 | -              | 704,297         | -                    | 704,297         |
|   | 66.458                 | S340636-05                       | \$ 204,192        | 06/01/09     | 05/31/10 | 29,924         | 161,509         | 115,881              | 75,552          |
|   | 66.458                 | S340636-07                       | \$ 210,430        | 06/01/10     | 05/31/11 | -              | 53,202          | -                    | 121,630         |
| American Recovery and Reinvestment<br>Act:  | 66.458                 | S340636-04                       | \$ 1,408,594      | 06/01/09     | 05/31/10 | 876,653        | 531,941         | 955,577              | 453,017         |
|   | 66.458                 | S340636-07                       | \$ 210,430        | 06/01/10     | 05/31/11 | -              | 106,403         | -                    | 121,629         |
| Total Federal Financial Assistance  |                        |                                  |                   |              |          | 906,577        | 1,557,352       | 1,071,458            | 1,476,125       |
|   |                        |                                  |                   |              |          |                |                 |                      | 2,547,583       |



THIS PAGE INTENTIONALLY LEFT BLANK

- 59 -

THIS PAGE INTENTIONALLY LEFT BLANK



**THE POMPTON LAKES BOROUGH MUNICIPAL UTILITIES AUTHORITY**  
**(A Component Unit of the Borough of Pompton Lakes)**

**NOTES TO THE SCHEDULES OF EXPENDITURES  
OF FEDERAL AND STATE AWARDS  
MAY 31, 2011**

**NOTE 1. GENERAL**

The accompanying Schedules of Expenditures of Federal and State Awards present the activity of all federal and state award programs of the Pompton Lakes Borough Municipal Utilities Authority. The Authority is defined in Note 1 to the Authority's basic financial statements. All federal and state awards received directly from federal and state agencies, as well as federal and state financial assistance passed through other government agencies is included on the Schedule of Expenditures of Federal Awards and State Financial Assistance.

**NOTE 2. BASIS OF ACCOUNTING**

The accompanying Schedules of Expenditures of Awards and Financial Assistance are presented on the accrual basis of accounting. These bases of accounting are described in Notes 2(A) to the Authority's basic financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

**NOTE 3. RELATIONSHIP TO BASIC FINANCIAL STATEMENTS**

Awards and financial assistance revenues are reported in the Authority's basic financial statements on a GAAP basis as follows:

|         | Due from<br>NJEIT<br>May 31,<br><u>2010</u> | New<br><u>Loans</u> | Grants<br><u>Received</u> | Due from<br>NJEIT<br>May 31,<br><u>2011</u> |
|---------|---|---------------------|---------------------------|---|
| Federal | \$1,410,506                                 | \$420,860           | \$1,557,352               | \$274,014                                   |
| State   | <u>800,980</u>                              | <u>446,740</u>      | <u>767,243</u>            | <u>480,477</u>                              |
| Total   | <u>\$2,211,486</u>                          | <u>\$867,600</u>    | <u>\$2,324,595</u>        | <u>\$754,491</u>                            |

**NOTE 4. RELATIONSHIP TO FEDERAL AND STATE FINANCIAL REPORTS**

Amounts reported in the accompanying schedules agree with the amounts reported in the related federal and state financial reports.

THIS PAGE INTENTIONALLY LEFT BLANK

THE POMPTON LAKES BOROUGH MUNICIPAL UTILITIES AUTHORITY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED MAY 31, 2011

*Section I--Summary of Auditor's Results*

**Financial Statements**

|   |                          |                         |
|---|--------------------------|-------------------------|
| Type of auditor's report issued:                                      | <u>Unqualified</u>       |                         |
| Internal control over financial reporting:                            |                          |                         |
| 1) Material weakness(es) identified?                                  | _____ yes                | _____ <u>X</u> _____ no |
| 2) Significant deficiencies identified?                               | _____ <u>X</u> _____ yes | _____ none              |
| Noncompliance material to general-purpose financial statements noted? | _____ yes                | _____ <u>X</u> _____ no |

**Federal Awards**

|   |           |                           |
|---|-----------|---------------------------|
| Dollar threshold used to distinguish between type A and type B programs:  | \$        | <u>300,000</u>            |
| Auditee qualified as low-risk auditee?  | _____ yes | _____ <u>X</u> _____ no   |
| Internal Control over major programs:   |           |                           |
| 1) Material weakness(es) identified?  | _____ yes | _____ <u>X</u> _____ no   |
| 2) Significant deficiencies identified?   | _____ yes | _____ <u>X</u> _____ none |
| Type of auditor's report issued on compliance for major programs  |           | <u>Unqualified</u>        |
| Any audit findings disclosed that are required to be reported in accordance with .510(a) of OMB Circular A-133? | _____ yes | _____ <u>X</u> _____ no   |
| Identification of major programs:   |           |                           |

| <u>CFDA Number(s)</u> | <u>Name of Federal Program</u>                                 |
|-----------------------|--|
| 66.458                | Capitalization Grants for Clean Water<br>State Revolving Funds |
| 66.458                | American Recovery and Reinvestment Act                         |
|                       |  |
|                       |  |
|                       |  |



## Section I--Summary of Auditor's Results, (continued)

|   |                       |                       |
|---|-----------------------|-----------------------|
| Dollar threshold used to distinguish between type A and type B programs:  |                       | \$ <u>300,000</u>     |
| Auditee qualified as low-risk auditee?  | <u>          </u> yes | <u>    X    </u> no   |
| Internal Control over major programs:   |                       |                       |
| 1) Material weakness(es) identified?  | <u>          </u> yes | <u>    X    </u> no   |
| 2) Significant deficiencies identified?   | <u>          </u> yes | <u>    X    </u> none |
| Type of auditor's report issued on compliance for<br>major programs   |                       | <u>Unqualified</u>    |
| Any audit findings disclosed that are required to be reported<br>in accordance with NJ OMB Circular Letter 04-04? | <u>          </u> yes | <u>    X    </u> no   |
| Identification of major programs:   |                       |                       |

| <u>GMIS Number(s)</u> | <u>Name of State Program</u>          |
|-----------------------|---------------------------------------|
| N/A                   | NJ Environmental Infrastructure Trust |
|                       |                                       |
|                       |                                       |

THE POMPTON LAKES BOROUGH MUNICIPAL UTILITIES AUTHORITY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED MAY 31, 2011  
*Section II--Financial Statement Findings*

**FINDING 2011-1:**

**CONDITION:**

Absence of appropriate segregation of accounting functions consistent with appropriate control objectives.

**CRITERIA:**

Duties should be segregated such that the work of one individual provides a cross-check on the work of another individual. Generally, assigning different people the responsibilities of authorizing transactions, recording transactions and maintaining custody of related assets reduces the opportunities for an individual to both perpetrate and conceal errors or fraud in the normal course of duties.

**EFFECT:**

Opportunities for an individual to perpetrate and conceal errors or fraud exists. The duties of accounts receivable maintenance, billing, receiving of cash payments, and reconciling bank statements are often performed by one individual. In addition, the cash disbursement, payment and record keeping functions are often performed by the same individual.

**CAUSE:**

The Authority's small size and number of personnel makes it difficult to properly segregate accounting functions.

**RECOMMENDATION:**

The Authority should consider the costs/benefits of proper segregation of accounting functions.

**VIEWS OF RESPONSIBLE OFFICIALS/CORRECTIVE ACTIONS:**

The Authority will continue to evaluate the cost/benefit of designing an effective system of internal controls with appropriate segregation of accounting functions.

THE POMPTON LAKES BOROUGH MUNICIPAL UTILITIES AUTHORITY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED MAY 31, 2011

*Section III--Federal Awards and State Financial Assistance Findings and Questioned Costs*

No matters were reported.



**THE POMPTON LAKES BOROUGH MUNICIPAL UTILITIES AUTHORITY**  
**(A Component Unit of the Borough of Pompton Lakes)**

**GENERAL COMMENTS**

**Contracts and Agreements Required to be Advertised Per N.J.S. 40A:11-3**

N.J.S.A. 40A:11-2 contains definitions for terms used throughout N.J.S.A. 40A:11-1 et seq. and was amended under P.L. 1999, c.440. It includes as subsection (23) the term 'competitive contracting', which is defined as "the method described in sections 1 through 5 of P.L. 1999, c.440 (C.40:11-4.1 through C.40A:11-4.5) of contracting for specialized goods and services in which formal proposals are solicited from vendors' formal proposals are evaluated by the purchasing agent or counsel; and the governing body awards a contract to a vendor or vendors from among the formal proposals received."

N.J.S.A. 40A:11-3 was amended with P.L. 1999, c.440 to raise the bid threshold and require award by governing body resolution. "When the cost or price of any contract awarded by the purchasing agent in the aggregate does not exceed in a contract year the total sum of \$17,500, the contract may be awarded by a purchasing agent when so authorized by ordinance or resolution as appropriate to the contracting unit, of the governing body of the contracting unit without public advertising for bids and bidding therefore, except that the governing body may adopt an ordinance or resolution to set a lower threshold for the receipt of public bids or the solicitation of competitive quotations." If the purchasing agent is qualified pursuant to subsection b. of section 9 of P.L. 1971, c.198 (C.40A:11-9), the governing body of the contracting unit may establish that the bid threshold may be up to \$25,000. Such authorization may be granted for each contract or by a general delegation of the power to negotiate and award such contracts pursuant to this section.

N.J.S.A. 40A:11-4 states that every contract awarded by the contracting agent for the provision or performance of any goods or services, the cost of which in the aggregate exceeds the bid threshold, shall be awarded only by resolution of the governing body of the contracting unit to the lowest responsible bidder after public advertising for bids and bidding therefor, except as is provided otherwise in this act of specifically by any other law. The governing body of a contracting unit may, by resolution approved by a majority of the governing body and subject to subsections b. and c. of this section, disqualify a bidder who would otherwise be determined to be the lowest responsible bidder, if the governing body finds that it has had prior negative experience with the bidder.

Effective July 1, 2010, the bid threshold, in accordance with N.J.S.A. 40A:11-3 and 40A:11-4 (as amended) is \$26,000 and with a qualified purchasing agent the threshold may be up to \$36,000.

Effective January 1, 2011, P.L., 2009, c.166 eliminated the previous lower non-qualified purchasing agent threshold of \$26,000. Thus a contracting unit without a qualified purchasing agent now has a maximum bid threshold of \$17,500.

**THE POMPTON LAKES BOROUGH MUNICIPAL UTILITIES AUTHORITY**  
**(A Component Unit of the Borough of Pompton Lakes)**

**GENERAL COMMENTS, (continued)**

N.J.S.A. 40A:11-15 was amended with P.L. 1999, c.440 to extend the base contract period. "Any contract made pursuant to this section may be awarded for a period of 24 consecutive months, except that contracts for professional services pursuant to paragraph (1) of subsection (a) of N.J.S.A. 40A:11-5 may be awarded for a period not exceeding 12 consecutive months."

The governing body of the Authority has the responsibility of determining whether the expenditures in any category will exceed the statutory threshold within the contract year. Where question arises as to whether any contract or agreement might result in violation of the statute, the Authority Counsel's opinion should be sought before a commitment is made.

Resolutions were adopted authorizing the awarding of contracts and agreements for "Professional Services" N.J.S. 40A:11-5.

Inasmuch as the system of records did not provide for an accumulation of payments for categories for the performance of any work or the furnishing or hiring of any material or supplies, the results of such an accumulation could not reasonably be ascertained. Disbursements were reviewed, however, to determine whether any clear cut violation existed. No violations were disclosed.

The results of our examination indicated that no individual payments, contracts, or agreements were made "for the performance of any work or the furnishing or hiring of any materials or supplies," in excess of the statutory thresholds where there had been no advertising for bids in accordance with the provision of N.J.S.A. 40A:11-4.



THE POMPTON LAKES BOROUGH MUNICIPAL UTILITIES AUTHORITY  
(A Component Unit of the Borough of Pompton Lakes)

STATUS OF PRIOR YEARS' AUDIT FINDINGS/RECOMMENDATIONS

A review was performed on all prior years' recommendations and corrective action was not taken on the following item:

Finding 2010-1

Absence of appropriate segregation of duties consistent with appropriate control objectives.

\* \* \* \* \*

Problems and weaknesses noted in our review were not of such magnitude that they would effect our ability to express an opinion on the financial statements taken as a whole.

Should any questions arise as to our comments or recommendations, or should you desire assistance in implementing our recommendations, do not hesitate to call us.

We would like to express our gratitude to the management and staff of the Authority for their assistance extended to us throughout the audit.

Very truly yours,

*Ferraioli, Wielkottz, Cerullo & Cuva P.A.*  
FERRAIOLI, WIELKOTZ, CERULLO & CUVA, P.A.  
Certified Public Accountants



