

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

FINANCIAL STATEMENTS

YEARS ENDED MAY 31, 2012 AND 2011

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
47-54	Schedule of Revenue and Junior Lien Revenue Bonds Payable	5
55	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

56	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	
58	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	
60	Schedule of Expenditures of Federal Awards	7
61	Schedule of Expenditures of State Financial Assistance	8
62	Notes to the Schedules of Expenditures of Federal and State Awards	
63	General Comments	
65	Schedule of Findings and Questioned Costs	
68	Status of Prior Year's Audit Findings/Recommendations	

Financial Section

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

INDEPENDENT AUDITOR'S REPORT

August 14, 2012

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, 2012 and 2011 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States; 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Pompton Lakes Borough Municipal Utilities Authority (A Component Unit of the Borough of Pompton Lakes) at May 31, 2012 and 2011, 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 14, 2012
Page 2.

In accordance with Government Auditing Standards, we have also issued our report dated August 14, 2012 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 is not a required part of the basic financial statements but is 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 & Cova P.A.
FERRAIOLI, WIELKOTZ, CERULLO & CUVA, P.A.
Certified Public Accountants



Management Discussion and Analysis

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
MAY 31, 2012

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, 2012 and 2011. 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 \$12,565,197 (net assets) for the fiscal year reported. This compares to the previous year when assets exceeded liabilities by \$12,914,849.
- Total net assets are comprised of the following:
 - (1) Capital assets, net of related debt, of \$9,757,529 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 \$1,037,975 are restricted by constraints imposed from outside the Authority such as debt covenants, grantors, laws, or regulations.
 - (3) Unrestricted net assets of \$1,769,693 represent the portion available to maintain the Authority's continuing obligations to citizens and creditors.
- Total liabilities of the Authority increased by \$1,384,076 to \$5,826,954 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, 2012

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 years 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, 2012

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 \$12,565,197. This is a \$349,652 decrease under last year's net assets of \$12,914,849. A summary of the Authority's statement of net assets is presented in the following table:

Condensed Statement of Net Assets

	<u>FY 2012</u>	<u>FY 2011</u>	<u>Dollar Change</u>	<u>Percent Change</u>	<u>FY 2010</u>
Current and Other Assets	4,535,724	4,237,367	298,357	7.04%	5,525,322
Capital Assets	<u>13,856,427</u>	<u>13,120,360</u>	<u>736,067</u>	5.61%	<u>11,056,544</u>
Total Assets	<u>18,392,151</u>	<u>17,357,727</u>	<u>1,034,424</u>		<u>16,581,866</u>
Long-term Debt					
Outstanding	5,248,850	3,944,003	1,304,847	33.08%	3,513,156
Other Liabilities	<u>578,104</u>	<u>498,875</u>	<u>79,229</u>	15.88%	<u>382,017</u>
Total Liabilities	<u>5,826,954</u>	<u>4,442,878</u>	<u>1,384,076</u>		<u>3,895,173</u>
Invested in Capital Assets,					
Net of Related Debt	9,757,529	10,032,376	(274,847)	(2.74)%	9,917,745
Restricted	1,037,975	1,044,200	(6,225)	(0.60)%	992,600
Unrestricted	<u>1,769,693</u>	<u>1,838,273</u>	<u>(68,580)</u>	(3.73)%	<u>1,776,348</u>
Total Net Assets	<u>12,565,197</u>	<u>12,914,849</u>	<u>(349,652)</u>	(2.71)%	<u>12,686,693</u>

While the *Statement of Net Assets* shows the change in financial position of net 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 decreased by \$349,652.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
MAY 31, 2012

Net Assets (Continued)

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

	<u>FY 2012</u>	<u>FY 2011</u>	<u>Dollar Change</u>	<u>Percent Change</u>	<u>FY 2010</u>
Operating Revenues	3,019,570	3,139,876	(120,306)	(3.83)%	3,007,014
Non-Operating Revenues	<u>124,706</u>	<u>125,921</u>	<u>(1,215)</u>	(0.96)%	<u>98,715</u>
Total Revenues	<u>3,144,276</u>	<u>3,265,797</u>	<u>(121,521)</u>		<u>3,105,729</u>
Depreciation	818,770	622,084	196,686	31.62%	570,402
Other Operating Expenses	2,518,106	2,512,523	5,583	0.22%	2,304,876
Other Non-Operating Expense	<u>157,052</u>	<u>113,464</u>	<u>43,588</u>	38.42%	<u>118,273</u>
Total Expenses	<u>3,493,928</u>	<u>3,248,071</u>	<u>245,857</u>		<u>2,993,551</u>
Contributions	<u> </u>	<u>210,430</u>	<u>(210,430)</u>		<u>1,408,594</u>
Change in Net Assets	(349,652)	228,156	(577,808)	(253.25)%	1,520,772
Beginning Net Assets	<u>12,914,849</u>	<u>12,686,693</u>	<u>228,156</u>	1.80%	<u>11,165,921</u>
Ending Net Assets	<u>12,565,197</u>	<u>12,914,849</u>	<u>(349,652)</u>	(2.71)%	<u>12,686,693</u>

The Authority's Operating Revenues decreased by \$120,306 to \$3,019,570 in 2012 from \$3,139,876 in 2011. This increase is primarily due to a decrease in water and sewer charges. Nonoperating Revenues decreased by \$1,215 to \$124,706 from \$125,921 due to a decrease in interest income.

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, 2012

The following table provides a 2012 budget comparison:

Budget vs. Actual FY 2012			
	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues:			
Operating	2,683,828	2,791,399	107,571
Non-Operating	<u>421,250</u>	<u>464,127</u>	<u>42,877</u>
	<u>3,105,078</u>	<u>3,255,526</u>	<u>150,448</u>
Expenses:			
Operating	2,791,500	2,518,106	273,394
Non-Operating	<u>313,578</u>	<u>325,846</u>	<u>(12,268)</u>
	<u>3,105,078</u>	<u>2,843,952</u>	<u>261,126</u>
Income Before Depreciation	<u><u> </u></u>	<u><u>411,574</u></u>	<u><u>411,574</u></u>

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2012, the Authority had invested \$26,186,715 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 \$13,856,427. This is a \$736,067 increase over last year's net property, plant and equipment of \$13,120,360. 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, 2012

CAPITAL ASSETS

	<u>FY 2012</u>	<u>FY 2011</u>	<u>Dollar Change</u>	<u>FY 2010</u>
Land	65,652	65,652		65,652
Buildings, Force Mains and Interceptors	20,888,860	19,682,976	1,205,884	17,633,563
Vehicles and Equipment	<u>4,318,584</u>	<u>4,181,664</u>	<u>136,920</u>	<u>2,840,172</u>
Total Property, Plant and Equipment	25,273,096	23,930,292	1,342,804	20,539,387
Less: Accumulated Depreciation	<u>(12,330,288)</u>	<u>(11,591,506)</u>	<u>(738,782)</u>	<u>(10,969,421)</u>
	12,942,808	12,338,786	604,022	9,569,966
Construction in Progress	<u>913,619</u>	<u>781,574</u>	<u>132,045</u>	<u>1,486,578</u>
Net Property, Plant and Equipment	<u>13,856,427</u>	<u>13,120,360</u>	<u>736,067</u>	<u>11,056,544</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, 2012, the Authority had outstanding revenue and revenue refunding bonds in the amount of \$5,061,419 (gross). The debt service schedule goes out to 2031. 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. The main factors are maintaining the Authority's existing system, plans for improvements, respond to new regulations issued by the State and Federal governments and understanding the current economic conditions impacting the Authority and our customers.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
MAY 31, 2012

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.

Basic Financial Statements

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>2012</u>	<u>2011</u>
<u>Current Assets:</u>		
<u>Unrestricted:</u>		
Cash and Cash Equivalents	\$ 774,853	848,451
Investments	827,005	827,005
Accounts Receivable-User Charges	179,559	161,284
Accrued Interest Receivable	37,038	37,221
Miscellaneous Receivables	11,086	9,094
Prepaid Expenses	36,500	35,658
Total Current Assets	1,866,041	1,918,713
<u>Non-Current Assets</u>		
<u>Restricted:</u>		
<u>Operating Reserve Fund:</u>		
Cash and Cash Equivalents	691,650	697,875
<u>Current Debt Service Fund:</u>		
Cash and Cash Equivalents	191,079	194,103
<u>Debt Service Reserve Fund:</u>		
Investments	216,325	216,325
<u>Construction Fund:</u>		
Cash and Cash Equivalents	147,629	281,836
Due From NJ Environmental Infrastructure Trust	1,239,747	754,491
	<u>1,387,376</u>	<u>1,036,327</u>
<u>Customer Deposits:</u>		
Cash and Cash Equivalents	43,725	43,898
<u>Escrow Deposits:</u>		
Cash and Cash Equivalents	26,907	27,201
Total Restricted Assets:	\$ 2,557,062	2,215,729

The accompanying notes are an integral part of these financial statements.

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

May 31,

	<u>2012</u>	<u>2011</u>
Capital Assets:		
Property, Plant and Equipment	\$ 25,273,096	23,930,292
Construction In Progress	913,619	781,574
Less: Accumulated Depreciation	<u>(12,330,288)</u>	<u>(11,591,506)</u>
Total Capital Assets	<u>13,856,427</u>	<u>13,120,360</u>
Other Assets:		
Unamortized Debt Issue Costs (Less		
Accumulated Amortization of \$82,967 in		
2012 and \$74,282 in 2011)	<u>112,621</u>	<u>102,925</u>
Total Non-Current Assets	<u>16,526,110</u>	<u>15,439,014</u>
TOTAL ASSETS	<u><u>\$ 18,392,151</u></u>	<u><u>17,357,727</u></u>

The accompanying notes are an integral part of these financial statements.

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

May 31, 2012

	<u>2012</u>	<u>2011</u>
<u>LIABILITIES</u>		
<u>Current Liabilities:</u>		
Payable From Unrestricted Assets:		
Accounts Payable	\$ 67,840	56,476
Accrued Liabilities:		
Compensated Absences	28,508	23,964
Total Current Liabilities Payable		
From Unrestricted Assets	96,348	80,440
Payable From Restricted Assets:		
Customer Deposits	43,725	43,898
Escrow Deposits Payable	26,907	27,201
Accrued Interest on Bonds Payable	61,079	64,103
Unamortized Bond Premium	117,198	76,678
Revenue and Junior Lien Revenue Bonds		
Payable - Current Portion	232,847	206,555
Total Current Liabilities Payable		
From Restricted Assets	481,756	418,435
<u>Non-Current Liabilities :</u>		
Long-Term Portion of Revenue Bonds		
and Loans Payable	5,248,850	3,944,003
TOTAL LIABILITIES	\$ 5,826,954	4,442,878

NET ASSETS

Invested in Capital Assets, net of related debt	9,757,529	10,032,376
Restricted:		
Operating Reserve	691,650	697,875
Current Debt Service	130,000	130,000
Debt Service Reserve	216,325	216,325
Unrestricted:		
Designated	481,600	288,250
Undesignated	1,288,093	1,550,023
TOTAL NET ASSETS	\$ 12,565,197	12,914,849

The accompanying notes are an integral part of these financial statements.

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>2012</u>	<u>2011</u>
Operating Revenues:		
Water Charges	\$ 590,732	670,637
Sewer Charges	2,200,667	2,255,101
Other	204,387	190,772
Interest On Delinquent Accounts	23,784	23,366
Interest On Investments and Deposits		
Total Operating Revenues	<u>3,019,570</u>	<u>3,139,876</u>
Operating Expenses:		
Costs of Providing Services	1,494,999	1,549,179
Administrative, General and Employee Benefits	1,023,107	963,344
Depreciation	<u>818,770</u>	<u>622,084</u>
Total Operating Expenses	<u>3,336,876</u>	<u>3,134,607</u>
Operating Income	<u>(317,306)</u>	<u>5,269</u>
Non-Operating Revenues (Expenses):		
Interest on Investments	74,706	75,921
Interest Expense	(119,291)	(97,814)
Amortization	(14,221)	(15,650)
Reserve for Retiree Health Benefits	50,000	50,000
Loan Deobligation	(2,151)	
Loss on Disposal of Equipment	<u>(21,389)</u>	
Non-Operating Income / (Loss)	<u>(32,346)</u>	<u>12,457</u>
Income before Contributions	(349,652)	17,726
Capital Contributions:		
ARRA Principal Forgiveness		<u>210,430</u>
Change in Net Assets	(349,652)	228,156
Net Assets - June 1,	<u>12,914,849</u>	<u>12,686,693</u>
Net Assets - May 31,	<u>\$ 12,565,197</u>	<u>12,914,849</u>

The accompanying notes are an integral part of these financial statements.

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>2012</u>	<u>2011</u>
<u>Cash Flow from Operating Activities:</u>		
Cash received from customers and users	\$ 2,999,303	3,133,970
Interest received	74,889	75,738
Cash Paid to suppliers and employees	(2,453,507)	(2,493,804)
Interest paid	(122,315)	(94,993)
Net Cash Provided by Operating Activities	<u>498,370</u>	<u>620,911</u>
<u>Cash Flow from Investing Activities:</u>		
Purchase of Property, Plant and Equipment	(1,550,347)	(2,685,901)
Net Cash Provided by (used in) Investing Activities	<u>(1,550,347)</u>	<u>(2,685,901)</u>
<u>Cash Flow from Financing Activities:</u>		
Payment of 1998 Refunding Bonds	(130,000)	(125,000)
Payment of NJEIT Loans	(76,554)	(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	1,041,010	1,456,995
Net Cash Used in Financing Activities	<u>834,456</u>	<u>2,196,014</u>
Net Increase/(Decrease) in Cash and Cash Equivalents	(217,521)	131,024
Cash and Cash Equivalents at Beginning of Year	<u>2,093,364</u>	<u>1,962,340</u>
Cash and Cash Equivalents at End of Year	<u>\$ 1,875,843</u>	<u>2,093,364</u>
<u>Reconciliation to Statement of Net Assets:</u>		
Unrestricted Assets	\$ 774,853	848,451
Restricted Assets:		
Operating Reserve Fund	691,650	697,875
Current Debt Service Fund	191,079	194,103
Construction Fund	147,629	281,836
Customer Deposit Account	43,725	43,898
Escrow Accounts	26,907	27,201
	<u>\$ 1,875,843</u>	<u>2,093,364</u>

The accompanying notes are an integral part of these financial statements.

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

Exhibit C
Page 2 of 2

For The Years Ended May 31,

	<u>2012</u>	<u>2011</u>
Reconciliation of change in net assets to net cash provided (used) by operating activities		
Change in Net Assets	\$ (349,652)	228,156
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	818,770	622,084
Loss on Disposal of Equipment	21,389	
Deobligation of NJEIT Loan	2,151	
Amortization	2,249	3,678
Amortization of Deferred Loss on Refunding - Series 1998	11,972	11,972
Contributions		(210,430)
(Increase) Decrease In:		
Accounts Receivable-User Charges	(18,275)	(6,368)
Miscellaneous Receivables	(1,992)	462
Accrued Interest Receivable	183	(183)
Prepaid Expenses	(842)	(30,079)
Increase (Decrease) In:		
Accounts Payable	11,364	1,348
Accrued Interest Payable	(3,024)	2,822
Customer Deposits	(173)	259
Escrow Deposits Payable	(294)	14
Accrued Liabilities	4,544	(2,824)
Net Cash Provided by Operating Activities	\$ 498,370	620,911

The accompanying notes are an integral part of these financial statements.

Notes to 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, 2012 AND 2011

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, 2012 AND 2011
(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 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, 2012 AND 2011
(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, 2012 AND 2011
(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, 2012 AND 2011
(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 \$28,508, as of May 31, 2012, 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, 2012 AND 2011
(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 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.

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

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED MAY 31, 2012 AND 2011
(continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

L. Recent Accounting Pronouncements, (continued)

The Government Accounting Standards Board issued GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Inflows of Resources, and Net Position*. This Statement provides financial reporting guidance for deferred outflows of resources, inflows of resources, and net position as defined under the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. Since the Authority reports only business-type activities as a program-specific entity, the provisions of this Statement are not applicable.

The Government Accounting Standards Board issued GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions - an amendment of GASB Statement No. 53*. The objective of this statement is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty of swap counterparty's credit support provider. The Authority has determined that this Statement is not applicable for the reporting period ending May 31, 2012.

The Government Accounting Standards Board issued GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement reclassifies certain items currently being reported as assets and liabilities as outflows of resources and deferred inflows of resources. In addition, this Statement recognizes certain items currently being reported as assets and liabilities as outflows of resources and inflows of resources. The Authority has determined that Statement No. 65 is not applicable for the reporting period ending May 31, 2012.

The Government Accounting Standards Board issued GASB Statement No. 66, *Technical Corrections - 2012 - an amendment of GASB Statement No. 10 and No. 62*. This Statement amends Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, by removing the provision that limits fund-based reporting of a state and local government's risk financing activities to the general fund and the internal service fund type. As a result, governments would base their decisions about governmental fund type usage for risk financing activities on the definitions in Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions. This Statement also amends Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight-line basis, (2) the difference between the

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

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED MAY 31, 2012 AND 2011
(continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

L. Recent Accounting Pronouncements, (continued)

initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) servicing fee rate. These changes would eliminate any uncertainty regarding the application of Statement No. 13, Accounting for Operating Leases with Scheduled Rent Increases, and result in guidance that is consistent with the requirements in Statement No. 48, Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues, respectively. The Authority has determined that Statement No. 66 is not applicable for the reporting period ending May 31, 2012.

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.

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.

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

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED MAY 31, 2012 AND 2011
(continued)

3. CASH AND CASH EQUIVALENTS, (continued)

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, 2012, \$-0- of the Authority's bank balance of \$2,340,030 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, 2012, the investment balance was \$1,043,330.

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.

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

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED MAY 31, 2012 AND 2011
(continued)

5. PROPERTY, PLANT AND EQUIPMENT, CONTRIBUTED CAPITAL

The classification of property, plant and equipment and contributed capital at May 31, 2012 and 2011, together with the estimated useful life is as follows:

	2012		
	<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	15,871,056	15-40 years	76,294
Upgrade Treatment Facility	218,442	33 years	
Heavy Equipment	1,634,547	20 years	
Other Equipment	1,378,651	10 years	
Computer Equipment	169,050	5 years	
Vehicles	240,311	5 years	
Other Equipment	557,930	5-7 years	
Other Equipment	338,095	25-30 years	
	<u>\$25,273,096</u>		<u>\$1,237,625</u>
	2011		
	<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	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	348,259	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, 2012 AND 2011
(continued)

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

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

	<u>Balance</u> <u>May 31, 2011</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>May 31, 2012</u>
Land	\$65,652	\$	\$	\$65,652
Building, Pumps, Mains	19,682,976	1,233,732	27,848	20,888,860
Equipment and Vehicles	<u>4,181,664</u>	<u>210,448</u>	<u>73,528</u>	<u>4,318,584</u>
	23,930,292	1,444,180	101,376	25,273,096
Less: Accumulated Depreciation	<u>11,591,506</u>	<u>818,770</u>	<u>79,988</u>	<u>12,330,288</u>
	12,338,786	625,410	21,388	12,942,808
Construction in Progress	<u>781,574</u>	<u>1,601,904</u>	<u>1,469,859</u>	<u>913,619</u>
Net Plant, Property and Equipment	<u>\$13,120,360</u>	<u>\$2,227,314</u>	<u>\$1,491,247</u>	<u>\$13,856,427</u>

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; \$9,616 in connection with the Series 2010 NJEIT financing; and \$18,381 in connection with the Series 2012 NJEIT financing are being amortized over the lives of the bonds using the straight-line method. Accumulated amortization at May 31, 2012 is \$82,967 and at May 31, 2011 is \$74,282.

7. UNAMORTIZED PREMIUM

The Authority received a premium of \$40,422 in connection with the Series 2009 NJEIT financing; \$41,356 in connection with the Series 2010 NJEIT financing; and \$46,956 in connection with the Series 2012 NJEIT financing. These premiums are being amortized on a straight-line basis over the remaining lives of the bonds. Accumulated amortization at May 31, 2012 is \$11,536 and at May 31, 2011 is \$5,099.

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

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED MAY 31, 2012 AND 2011
(continued)

8. LONG-TERM DEBT

The following is a summary of the Authority's long-term debt for the fiscal year ended May 31, 2012:

	<u>Balance</u> <u>May 31, 2011</u>	<u>Issued</u>	<u>Deobligated/ Retired</u>	<u>Balance</u> <u>May 31, 2012</u>
1998 Refunding Bonds	\$1,945,000	\$	\$130,000	\$1,815,000
NJEIT Trust Loan Series 2009A	735,000		25,000	710,000
NJEIT Fund Loan Series 2009A	704,297		37,730	666,567
NJEIT Trust - Direct Loan	71,914		3,078	68,836
NJEIT Fund - Direct Loan	200,610		10,747	189,863
NJEIT Trust Loan Series 2010	415,000			415,000
NJEIT Fund Loan Series 2010	210,430		2,151	208,279
NJEIT Trust Loan Series 2012		370,000		370,000
NJEIT Fund Loan Series 2012		<u>1,157,873</u>		<u>1,157,873</u>
	<u>\$4,282,251</u>	<u>\$1,527,873</u>	<u>\$208,706</u>	<u>\$5,601,418</u>

The Authority has issued and outstanding the following bonds and loans as of May 31, 2012 and 2011:

	<u>Interest Rate</u>	<u>2012</u>	<u>2011</u>
1998 Refunding Bonds	4.00% - 4.50%	\$1,815,000	\$1,945,000
NJEIT Trust Loan Series 2009A	2.00% - 4.00%	710,000	735,000
NJEIT Fund Loan Series 2009A	0.00%	666,567	704,297
NJEIT Trust - Direct Loan	.610% - 4.18%	68,836	71,914
NJEIT Fund - Direct Loan	0.00%	189,863	200,610
NJEIT Trust Loan Series 2010	5.00%	415,000	415,000
NJEIT Fund Loan Series 2010	0.00%	208,279	210,430
NJEIT Trust Loan Series 2012	2.00% - 5.00%	370,000	
NJEIT Fund Loan Series 2012	0.00%	<u>1,157,873</u>	
		5,601,418	4,282,251
Unamortized losses resulting from refunding transactions:			
1998 Refunding of 1992 Series C		<u>(119,721)</u>	<u>(131,693)</u>
Net Carrying Amount of Debt		<u>\$5,481,697</u>	<u>\$4,150,558</u>
Current Portion		232,847	206,555
Long-Term Portion		<u>5,248,850</u>	<u>3,944,003</u>
		<u>\$5,481,697</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, 2012 AND 2011
(continued)

8. LONG-TERM DEBT, (continued)

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>
2013	\$232,847	\$132,275	\$365,122
2014	247,873	124,844	372,717
2015	329,938	131,696	461,634
2016	334,987	122,780	457,767
2017	340,050	113,486	453,536
2018-2022	1,876,578	405,625	2,282,203
2023-2027	1,274,691	152,781	1,427,472
2028-2032	898,101	37,312	935,413
2033	<u>66,353</u>	<u>406</u>	<u>66,759</u>
Total	<u>\$5,601,418</u>	<u>\$1,221,205</u>	<u>\$6,822,623</u>

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.

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

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED MAY 31, 2012 AND 2011
 (continued)

10. AMORTIZATION OF DEFERRED LOSSES ON REFUNDING TRANSACTIONS, (continued)

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 carrying value of the Authority's bonds at May 31, 2012, net of unamortized deferred losses on refunding transactions, is as follows:

Bonds Payable - May 31, 2012	\$5,601,418
Less: Unamortized Balance of Loss on Refunding at May 31, 2012	<u>(119,721)</u>
	<u>\$5,481,697</u>
Short Term	\$232,847
Long Term	<u>5,248,850</u>
	<u>\$5,481,697</u>

11. NEW JERSEY ENVIRONMENTAL INFRASTRUCTURE TRUST

The Authority issued bonds in FY2012 and FY2011 through the New Jersey Environmental Infrastructure Trust to finance the cost of various capital improvements being made to its facilities as follows:

	<u>Balance May 31, 2011</u>	<u>Loans</u>	<u>Deobligated/ Received</u>	<u>Balance May 31, 2012</u>
NJEIT Trust - Series 2009A	\$189,088	\$	\$135,464	\$53,624
NJEIT Trust - Direct Loan	4,254		4,254	0
NJEIT Fund - Direct Loan	12,759		12,759	0
NJEIT Trust - Series 2010B	287,135		282,835	4,300
NJEIT Fund - Series 2010	261,255		261,255	0
NJEIT Trust - Series 2012		398,575	85,582	312,993
NJEIT Fund - Series 2012		<u>1,157,873</u>	<u>289,043</u>	<u>868,830</u>
	<u>\$754,491</u>	<u>\$1,556,448</u>	<u>\$1,071,192</u>	<u>\$1,239,747</u>

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

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

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED MAY 31, 2012 AND 2011
(continued)

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, 2012 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.

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 certain qualified members. Membership is mandatory for 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. 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.

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

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED MAY 31, 2012 AND 2011
(continued)

13. PENSION PLAN, (continued)

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

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.

Chapter 78, P.L. 2011, provides that new members of PERS hired on or after June 28, 2011 (Tier 5 members) will need 30 years of creditable service and age 65 for receipt of the early retirement benefit without a reduction of $\frac{1}{4}$ of 1% for each month that the member is under age 65. Tier 5 members will be eligible for a service retirement benefit at age 65.

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.

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

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED MAY 31, 2012 AND 2011
(continued)

13. PENSION PLAN, (continued)

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 funds provide for employee contributions based on 5.5% for PERS. This amount has increased to 6.5% plus an additional 1% phased in over 7 years beginning 2012, of the employee's annual compensation, as defined by law. Employers are required to contribute at an actuarially determined rate in all Funds except the SACT. The actuarially determined employer contribution includes funding for cost-of-living adjustments and noncontributory death benefits in the PERS. In the PERS, the employer contribution includes funding for post-retirement medical premiums.

Three-Year Trend Information for PERS

<u>Year</u> <u>Funding</u>	<u>Annual</u> <u>Pension</u> <u>Cost(APC)</u>	<u>Percentage</u> <u>of APC</u> <u>Contributed</u>	<u>Net</u> <u>Pension</u> <u>Obligation</u>
5/31/12	\$87,485	100%	\$0
5/31/11	77,623	100	0
5/31/10	57,771	100	0

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 \$1,500.00 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.

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

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED MAY 31, 2012 AND 2011
(continued)

13. PENSION PLAN, (continued)

If the eligible elected or appointed official will earn less than \$5,000.00 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 remain 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.

Contributions made by employees for DCRP are currently at 5.5% of the base wages. Member contributions are matched by a 3.0% employer contribution.

14. POSTEMPLOYMENT BENEFITS OTHER THAN PENSION

The Authority offers certain postemployment benefits other than pension for eligible employees upon retirement. Employees who retire with adequate years of age and service under the rules of the New Jersey State Health Benefits Plan (NJSHBP) and the Authority's Employee Contract (current contract for period 6/1/2010 - 5/31/2013) qualify for full paid or cost-sharing of premiums for retirement health insurance benefits including coverage for their spouse.

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

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED MAY 31, 2012 AND 2011
(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 adequate years of age and 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
(A Component Unit of the Borough of Pompton Lakes)

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED MAY 31, 2012 AND 2011
(continued)

14. POSTEMPLOYMENT BENEFITS OTHER THAN PENSION, (continued)

Funding Policy, (continued)

The Pompton Lakes Borough Municipal Utilities Authority contributions to SHBP for retirees for the years ended May 31, 2012, 2011 and 2010 were \$27,790, \$27,483 and \$27,046, respectively, which equaled the required contributions for each year. There were approximately 2, 2 and 2 retired participants eligible at May 31, 2012, 2011 and 2010, respectively.

The Authority maintains and funds a reserve account each year for the current and potential cost of retiree health benefits.

15. AMOUNTS REQUIRED BY BOND RESOLUTIONS

The following cash and investment account is required by the 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>
Bond Debt Service Principal and Interest Fund	
Cash and Investments on Hand	\$191,079
Debt Service Principal and Interest Requirements	<u>191,079</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, 2012 met the requirements of the 1989, 1992, 1997 and 1998 Junior Lien Bond Resolutions.

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

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED MAY 31, 2012 AND 2011
(continued)

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.

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.

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

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED MAY 31, 2012 AND 2011
(continued)

18. OTHER MATTERS

Since 2008, the Authority has dealt with the NJDEP Bureau of Dam Safety & Flood Control in the evaluation of the condition of the Lower Twin Lakes Dam, built in 1926, located on Authority property deeded to the Authority in the 1970's. Ongoing analysis and evaluation continues, including bi-annual inspections with the next one scheduled for 2013. A plan for rehabilitation has been submitted to the NJDEP for review. While no decisions have been made by the Authority regarding whether rehabilitation is necessary or will be done, estimates on the cost of rehabilitation could be between approximately \$400,000 and \$1,200,000 and the permitting process and work could commence in 2015.

19. 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.

20. 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	\$180,600
Designated for Retiree Health Benefits	<u>301,000</u>
	<u>\$481,600</u>

At May 31, 2012, the Authority reported a total amount of \$481,600 of Unrestricted Net Assets — Designated for the purposes describe above.

Required Supplementary Information

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, 2012 and 2011

	Invested in Capital Assets	Restricted			Unrestricted		Total (Memo)	
		Operating Reserve Fund	Current Debt Service Reserve Fund	Debt Service Reserve Fund	Designated	Undesignated	2012	2011
Operating Revenues:								
Water Charges						590,732	590,732	670,637
Sewer Charges						2,200,667	2,200,667	2,255,101
Other						204,387	204,387	190,772
Interest on Delinquent Accounts						23,784	23,784	23,366
Total Operating Revenues						3,019,570	3,019,570	3,139,876
Operating Expenses:								
Costs of Providing Services						1,494,999	1,494,999	1,549,179
Administrative, General and Employee Benefits						1,023,107	1,023,107	963,344
Depreciation						818,770	818,770	622,084
Total Operating Expenses						3,336,876	3,336,876	3,134,607
Operating Income (Loss)						(317,306)	(317,306)	5,269

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, 2012 and 2011

	Invested in Capital Assets	Restricted			Unrestricted		Total (Memo)	
		Operating Reserve Fund	Current Debt Service Reserve Fund	Debt Service Reserve Fund	Designated	Undesignated	2012	2011
Non-Operating Revenue and (Expenses):								
Interest Income				74,076		630	74,706	75,921
Interest Expense						(119,291)	(119,291)	(97,814)
Amortization						(14,221)	(14,221)	(15,650)
Budget Appropriation	(2,151)				50,000		50,000	50,000
Loan Deobligation						(2,151)	(2,151)	
Loss on Disposal of Equipment						(21,389)	(21,389)	
	(2,151)			74,076	50,000	(154,271)	(32,346)	12,457
Net Income (Loss) Before Transfers and Capital Contributions	(2,151)			74,076	50,000	(471,577)	(349,652)	17,726
Transfers:								
Interest Income				(74,076)		74,076		
Other	(272,696)	(6,225)			143,350	135,571		
Capital Contributions:								
ARRA Principal Forgiveness								210,430
Increase (Decrease) in Net Assets	(274,847)	(6,225)			193,350	(261,930)	(349,652)	228,156
Net Assets - June 1,	10,032,376	697,875	130,000	216,325	288,250	1,550,023	12,914,849	12,686,693
Net Assets - May 31,	9,757,529	691,650	130,000	216,325	481,600	1,288,093	12,565,197	12,914,849

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, 2012

	Operating Account	General Fund	Payroll Fund	Construction Fund
Cash, Cash Equivalents and Investments -				
June 1, 2011	68,152	627,586	5,738	11,517
Cash Receipts:				
Interest on Investments		35		28
Water and Sewer Charges	2,876,996			
Customer Deposits				
Other	112,516			122,519
Employee/Employer Payroll Tax Contributions			468,490	
Net Payroll Transfers			450,084	
Transfers	2,621,581	75,893		286,200
Total Cash Receipts	5,611,093	75,928	918,574	408,747
Cash and Investments Available	5,679,245	703,514	924,312	420,264
Cash Disbursements:				
Operations	2,705,402		450,084	
Capital Expenditures				400,452
Employee/Employer Payroll Tax Contributions			468,626	
Bond Principal Payments				
Bond Interest Payments				
Customer Deposits				
Other				
Transfers	2,909,593	286,200		
Total Cash Disbursements	5,614,995	286,200	918,710	400,452
Cash, Cash Equivalents and Investments -				
May 31, 2012	64,250	417,314	5,602	19,812
Analysis of Balance:				
Cash and Cash Equivalents	64,250	417,314	5,602	19,812
Investments	-	-	-	-
	64,250	417,314	5,602	19,812
Unrestricted	64,250	417,314	5,602	19,812
Restricted	-	-	-	-
	64,250	417,314	5,602	19,812

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, 2012

	Trustee Revenue Fund	Debt Service Interest Fund	Bond Reserve Fund	Customer Deposit Account
Cash, Cash Equivalents and Investments - June 1, 2011	755,000	172,980	1,043,330	43,898
Cash Receipts:				
Interest on Investments	1	7	74,076	338
Water and Sewer Charges				
Customer Deposits				5,545
Other				
Employee/Employer Payroll Tax Contributions				
Net Payroll Transfers				
Transfers	2,983,669	210,410		
Total Cash Receipts	<u>2,983,670</u>	<u>210,417</u>	<u>74,076</u>	<u>5,883</u>
Cash and Investments Available	<u>3,738,670</u>	<u>383,397</u>	<u>1,117,406</u>	<u>49,781</u>
Cash Disbursements:				
Operations				
Capital Expenditures				
Employee/Employer Payroll Tax Contributions				
Bond Principal Payments		130,000		
Bond Interest Payments		83,172		
Customer Deposits				6,056
Other				
Transfers	2,907,884		74,076	
Total Cash Disbursements	<u>2,907,884</u>	<u>213,172</u>	<u>74,076</u>	<u>6,056</u>
Cash, Cash Equivalents and Investments - May 31, 2012	<u>830,786</u>	<u>170,225</u>	<u>1,043,330</u>	<u>43,725</u>
Analysis of Balance:				
Cash and Cash Equivalents	830,786	170,225	-	43,725
Investments	-	-	1,043,330	-
	<u>830,786</u>	<u>170,225</u>	<u>1,043,330</u>	<u>43,725</u>
Unrestricted	118,282	-	827,005	-
Restricted	712,504	170,225	216,325	43,725
	<u>830,786</u>	<u>170,225</u>	<u>1,043,330</u>	<u>43,725</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, 2012

	NJEIT Capital Account	Escrow Deposit Fund	Retiree Health Benefit Reserve Account	Total
Cash, Cash Equivalents and Investments -				
June 1, 2011	281,836	27,201	99,456	3,136,694
Cash Receipts:				
Interest on Investments	421	14	137	75,057
Water and Sewer Charges				2,876,996
Customer Deposits				5,545
Other	1,041,010		50,000	1,326,045
Employee/Employer Payroll Tax Contributions				468,490
Net Payroll Transfers				450,084
Transfers				6,177,753
Total Cash Receipts	<u>1,041,431</u>	<u>14</u>	<u>50,137</u>	<u>11,379,970</u>
Cash and Investments Available	<u>1,323,267</u>	<u>27,215</u>	<u>149,593</u>	<u>14,516,664</u>
Cash Disbursements:				
Operations				3,155,486
Capital Expenditures	1,175,638			1,576,090
Employee/Employer Payroll Tax Contributions				468,626
Bond Principal Payments				130,000
Bond Interest Payments				83,172
Customer Deposits				6,056
Other		308		308
Transfers				6,177,753
Total Cash Disbursements	<u>1,175,638</u>	<u>308</u>	<u>-</u>	<u>11,597,491</u>
Cash, Cash Equivalents and Investments -				
May 31, 2012	<u>147,629</u>	<u>26,907</u>	<u>149,593</u>	<u>2,919,173</u>
Analysis of Balance:				
Cash and Cash Equivalents	147,629	26,907	149,593	1,875,843
Investments	-	-	-	1,043,330
	<u>147,629</u>	<u>26,907</u>	<u>149,593</u>	<u>2,919,173</u>
Unrestricted	-	-	149,593	1,601,858
Restricted	<u>147,629</u>	<u>26,907</u>	<u>-</u>	<u>1,317,315</u>
	<u>147,629</u>	<u>26,907</u>	<u>149,593</u>	<u>2,919,173</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

For The Year Ended May 31, 2012

	2012 Budget	2012 Budget After Modifications	2012 Actual	2011 Actual
Revenues:				
Net Assets Appropriated	161,250	161,250	161,250	124,000
Water Charges	650,000	650,000	590,732	670,637
Sewer Charges	2,033,828	2,033,828	2,200,667	2,255,101
Other	160,000	160,000	204,387	190,772
Interest on Delinquent Accounts	20,000	20,000	23,784	23,366
Interest on Investments and Deposits	80,000	80,000	74,706	75,921
Total Operating Revenues	3,105,078	3,105,078	3,255,526	3,339,797
Expenses:				
Cost of Providing Services:				
Operating Salaries	620,000	620,000	638,103	552,468
Overtime Salaries	35,000	35,000	33,843	37,408
Professional Fees - Other	30,000	30,000	19,200	30,000
Engineering - Retainer	10,500	10,500	10,500	10,200
Engineering - Miscellaneous	15,000	15,000	21,531	5,356
Chemicals	70,000	70,000	76,198	58,234
Systems and Equipment - Repairs and Maintenance	150,000	150,000	113,538	89,633
Truck Expenses - Gas, Oil, License	18,000	18,000	15,428	21,708
Truck Expenses - Repairs	8,000	8,000	5,215	7,844
Vehicle & Equipment Leases	5,000	5,000		
Electricity	460,000	460,000	344,557	439,405
Water Consumed in Operations	2,000	2,000	1,684	1,267
Sludge Removal	165,000	165,000	109,142	171,374
Uniforms	7,000	7,000	6,037	7,433
Fees and Permits	50,000	50,000	33,856	40,195
Lab Supplies and Expenses	35,000	35,000	31,857	39,973
Customer Refunds	1,000	1,000	2,751	4,939
Miscellaneous Supplies and Expenses	30,000	30,000	31,559	31,742
Sub-total Cost of Providing Services	1,711,500	1,711,500	1,494,999	1,549,179
Administrative, General Expenses and Employee Benefits:				
Administrative Salaries	295,000	295,000	285,418	274,426
Commissioners' Salaries	26,000	26,000	26,038	24,555
Administrative Trustees Fees	25,000	25,000	17,779	14,329
Customer Billing - Postage	5,000	5,000	5,791	5,236
Computer Programming	20,000	20,000	13,494	12,610
Computer Retainer	10,500	10,500	10,500	10,200
Auditing	21,500	21,500	24,905	20,750
Legal - Retainer	10,500	10,500	10,500	10,200
Legal - Miscellaneous	10,000	10,000	4,484	6,886
Office Supplies and Postage	10,000	10,000	8,125	9,489
Conferences and Seminars	10,000	10,000	5,920	5,080

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, 2012

	<u>2012</u> <u>Budget</u>	<u>2012</u> <u>Budget After</u> <u>Modifications</u>	<u>2012</u> <u>Actual</u>	<u>2011</u> <u>Actual</u>
Administrative, General Expenses and				
Employee Benefits (continued):				
Special Accounting Services	6,000	6,000	3,500	4,170
Printing and Publications	10,000	10,000	8,271	7,509
Telephone and Alarm System	27,000	27,000	20,175	25,808
Insurance	35,000	35,000	35,405	39,963
Building Repairs and Maintenance	20,000	20,000	16,541	15,765
Heating	8,000	8,000	5,968	6,779
Bank Sweep Fees	2,500	2,500	3,691	2,619
Employee Benefits:				
Public Employee Retirement System	100,000	100,000	87,485	77,623
Social Security Tax	75,000	75,000	72,609	66,921
Unemployment Compensation Insurance	3,000	3,000	4,403	4,060
Worker's Compensation Insurance	25,000	25,000	28,226	19,898
Medical Insurance Premium	245,000	245,000	246,089	220,985
Retiree Health Benefits	30,000	30,000	27,790	
Retiree Health Benefits Reserve	50,000	50,000	50,000	77,483
	<u>1,080,000</u>	<u>1,080,000</u>	<u>1,023,107</u>	<u>963,344</u>
Debt Service:				
Bond Principal	206,555	206,555	206,555	133,582
Interest on Bonds	<u>107,023</u>	<u>107,023</u>	<u>119,291</u>	<u>97,814</u>
	<u>313,578</u>	<u>313,578</u>	<u>325,846</u>	<u>231,396</u>
Total Costs Funded by Operating Revenues	<u><u>3,105,078</u></u>	<u><u>3,105,078</u></u>	<u><u>2,843,952</u></u>	<u><u>2,743,919</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

For The Year Ended May 31, 2012

	<u>2012</u> <u>Budget</u>	<u>2012</u> <u>Budget After</u> <u>Modifications</u>	<u>2012</u> <u>Actual</u>	<u>2011</u> <u>Actual</u>
Excess of Actual Revenues Over Expenses			411,574	595,878
Reconciliation of Budgetary Basis to GAAP:				
Undesignated Retained Earnings			(161,250)	(124,000)
ARRA Principal Forgiveness				210,430
Retiree Health Benefits Reserve			50,000	50,000
Depreciation			(818,770)	(622,084)
Amortization			(14,221)	(15,650)
Loss on Disposal of Equipment			(21,389)	
Loan Deobligation			(2,151)	
Bond Principal			206,555	133,582
Total Adjustments			(761,226)	(367,722)
Change in Net Assets			(349,652)	228,156

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, 2012

	<u>2012</u>	<u>2012</u>	<u>2012</u>	<u>2011</u>
	<u>Budget</u>	<u>Budget After</u>	<u>Actual</u>	<u>Actual</u>
		<u>Modifications</u>		
Financing Sources:				
Sewer Rents				
Debt Authorization - NJEIT			1,175,571	2,245,110
Unrestricted Fund Balances	725,000	725,000	400,453	410,395
Total Financing Sources	<u>725,000</u>	<u>725,000</u>	<u>1,576,024</u>	<u>2,655,505</u>
Capital Outlays:				
Well #1 Pump Upgrade/Camera Inspection	50,000	50,000	40,874	
Well #2 Emergency Electrical Power	30,000	30,000	46,334	
Replacement F450 Dump Truck	50,000	50,000	41,001	
Dam Bi-Annual Inspection	40,000	40,000	6,000	
Water Storage Tank Exterior Painting	50,000	50,000	11,600	
Wastewater Treatment Plant SCADA	20,000	20,000	15,000	
Milling and Paving Treatment Plant	60,000	60,000	12,531	
Treatment Plant Thickener Upgrade	50,000	50,000	29,765	
Lime Silo Upgrade	10,000	10,000	5,800	
Wastewater Effluent PCB Analysis	20,000	20,000	5,532	
Tablet Chlorination System				39,476
Insert Valves	20,000	20,000		29,352
5 Ton Dump Truck				52,500
Cannonball Rd. 6" Main Abandonment			7,381	47,924
Miscellaneous Upgrades to Water System	30,000	30,000	9,335	
Miscellaneous Building Maintenance	20,000	20,000	17,700	
Dam Geotechnical Analysis			10,660	31,334
Miscellaneous Infrastructure Upgrades	30,000	30,000	6,336	13,716
Office/Computer Equipment	20,000	20,000	9,371	
Miscellaneous Paving	10,000	10,000		11,925
Misc. Upgrades to Pump Stations	40,000	40,000	36,938	36,433
Upgrades to Pump Station Controls				53,700
S. Pump Station Generator & ATS Repl.	125,000	125,000	7,930	
Covered Equipment Trailer				3,297
Miscellaneous Treatment Plant Upgrades	50,000	50,000	80,365	81,843
Sewer Main Treatment Plant Upgrades				8,895
South Pumping Station Grinder Replacement			1,900 ⁽¹⁾	6,475 ⁽¹⁾
South Pumping Station Wet Well Stair Repl.			4,104 ⁽¹⁾	95,614 ⁽¹⁾
Final Treatment Building Sand Filters			93,585 ⁽¹⁾	1,337,805 ⁽¹⁾
New Sludge Thickener System			348,286 ⁽¹⁾	388,583 ⁽¹⁾
Aeration Tank Equipment Replacement			6,353 ⁽¹⁾	345,794 ⁽¹⁾
Water Main Replacements			719,903 ⁽¹⁾	⁽¹⁾
Various Capital Projects Funded by NJEIT			1,440 ⁽¹⁾	70,839 ⁽¹⁾
Total Capital Outlay	<u>725,000</u>	<u>725,000</u>	<u>1,576,024</u>	<u>2,655,505</u>
Excess of Actual Revenues Over Expenses				
Total	<u>725,000</u>	<u>725,000</u>	<u>1,576,024</u>	<u>2,655,505</u>

(1) Funded by New Jersey Environmental Infrastructure Trust.

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, 2012 and 2011

	Original Issuance		Interest Rate	Maturities		Balance June 1, 2011	Issued	Redeemed/ Retired	Balance May 31, 2012
	Date	Amount		Date	Amount				
Series 1998 Refunding Bonds	11/10/1998	2,720,000	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				
									1,945,000
NJET Trust Loan Series 2009A	12/2/2009	735,000	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

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, 2012 and 2011

NJET Fund Loan Series 2009A	Original Issuance		Interest Rate	Maturities		Balance June 1, 2011	Issued	Redeemed/ Retired	Balance May 31, 2012
	Date	Amount		Date	Amount				
	12/2/2009	704,297	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		37,730	666,567

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, 2012 and 2011

	Original Issuance		Interest Rate	Maturities		Balance June 1, 2011	Issued	Redeemed/ Retired	Balance May 31, 2012
	Date	Amount		Date	Amount				
NJEIT									
Trust Loan									
Direct Loan	2/23/2010	71,914	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		3,078	68,836

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, 2012 and 2011

	Original Issuance		Interest Rate	Maturities		Balance June 1, 2011	Issued	Redeemed/ Retired	Balance May 31, 2012
	Date	Amount		Date	Amount				
NJ/EIT Fund Loan Direct Loan	2/23/2010	204,192	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				
						200,610		10,746	189,864

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, 2012 and 2011

	Original Issuance		Interest Rate	Maturities		Balance June 1, 2011	Issued	Redeemed/ Retired	Balance May 31, 2012
	Date	Amount		Date	Amount				
NJEIF Trust Loan Series 2010B	12/2/2010	415,000	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	25,000				
			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, 2012 and 2011

NJET Fund Loan Series 2010	Original Issuance		Interest Rate	Maturities		Balance June 1, 2011	Issued	Redeemed/ Retired	Balance May 31, 2012
	Date	Amount		Date	Amount				
	12/2/2010	210,430	0.000%	08/01/2012	7,515				
			0.000%	02/01/2013	3,758				
			0.000%	08/01/2013	7,515				
			0.000%	02/01/2014	3,758				
			0.000%	08/01/2014	7,515				
			0.000%	02/01/2015	3,758				
			0.000%	08/01/2015	7,515				
			0.000%	02/01/2016	3,758				
			0.000%	08/01/2016	7,515				
			0.000%	02/01/2017	3,758				
			0.000%	08/01/2017	7,515				
			0.000%	02/01/2018	3,758				
			0.000%	08/01/2018	7,515				
			0.000%	02/01/2019	3,758				
			0.000%	08/01/2019	7,515				
			0.000%	02/01/2020	3,758				
			0.000%	08/01/2020	7,515				
			0.000%	02/01/2021	3,758				
			0.000%	08/01/2021	7,515				
			0.000%	02/01/2022	3,758				
			0.000%	08/01/2022	7,515				
			0.000%	02/01/2023	3,758				
			0.000%	08/01/2023	7,515				
			0.000%	02/01/2024	3,758				
			0.000%	08/01/2024	7,515				
			0.000%	02/01/2025	3,758				
			0.000%	08/01/2025	7,515				
			0.000%	02/01/2026	3,758				
			0.000%	08/01/2026	7,515				
			0.000%	02/01/2027	3,758				
			0.000%	08/01/2027	7,515				
			0.000%	02/01/2028	3,758				
			0.000%	08/01/2028	7,515				
			0.000%	02/01/2029	3,758				
			0.000%	08/01/2029	7,515				
			0.000%	02/01/2030	3,758				
			0.000%	08/01/2030	5,365				
						210,430		2,151	208,279

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, 2012 and 2011

	Original Issuance		Interest Rate	Maturities		Balance June 1, 2011	Issued	Redeemed/ Retired	Balance May 31, 2012
	Date	Amount		Date	Amount				
NJBIT Trust Loan Series 2012A	05/3/2012	370,000	2.000%	08/01/2013	15,000				
			3.000%	08/01/2014	15,000				
			4.000%	08/01/2015	15,000				
			5.000%	08/01/2016	15,000				
			5.000%	08/01/2017	15,000				
			5.000%	08/01/2018	15,000				
			5.000%	08/01/2019	15,000				
			5.000%	08/01/2020	15,000				
			5.000%	08/01/2021	20,000				
			5.000%	08/01/2022	20,000				
			5.000%	08/01/2023	20,000				
			5.000%	08/01/2024	20,000				
			5.000%	08/01/2025	20,000				
			5.000%	08/01/2026	25,000				
			3.000%	08/01/2027	25,000				
			3.000%	08/01/2028	25,000				
			3.125%	08/01/2029	25,000				
			3.200%	08/01/2030	25,000				
			3.250%	08/01/2031	25,000				
							370,000		370,000

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, 2012 and 2011

	Original Issuance		Interest Rate	Maturities		Balance June 1, 2011	Issued	Redeemed/ Retired	Balance May 31, 2012
	Date	Amount		Date	Amount				
NJET Fund Loan Series 2012	05/3/2012	1,157,873	0.000%	08/01/2013	41,353				
			0.000%	02/01/2014	20,676				
			0.000%	08/01/2014	41,353				
			0.000%	02/01/2015	20,676				
			0.000%	08/01/2015	41,353				
			0.000%	02/01/2016	20,676				
			0.000%	08/01/2016	41,353				
			0.000%	02/01/2017	20,676				
			0.000%	08/01/2017	41,353				
			0.000%	02/01/2018	20,676				
			0.000%	08/01/2018	41,353				
			0.000%	02/01/2019	20,676				
			0.000%	08/01/2019	41,353				
			0.000%	02/01/2020	20,676				
			0.000%	08/01/2020	41,353				
			0.000%	02/01/2021	20,676				
			0.000%	08/01/2021	41,353				
			0.000%	02/01/2022	20,676				
			0.000%	08/01/2022	41,353				
			0.000%	02/01/2023	20,676				
			0.000%	08/01/2023	41,353				
			0.000%	02/01/2024	20,676				
			0.000%	08/01/2024	41,353				
			0.000%	02/01/2025	20,676				
			0.000%	08/01/2025	41,353				
			0.000%	02/01/2026	20,676				
			0.000%	08/01/2026	41,353				
			0.000%	02/01/2027	20,676				
			0.000%	08/01/2027	41,353				
			0.000%	02/01/2028	20,676				
			0.000%	08/01/2028	41,353				
			0.000%	02/01/2029	20,676				
			0.000%	08/01/2029	41,353				
			0.000%	02/01/2030	20,676				
			0.000%	08/01/2030	41,352				
			0.000%	02/01/2031	20,676				
			0.000%	08/01/2031	41,352				
							1,157,873		1,157,873
Grand Total						4,282,251	1,527,873	208,705	5,601,419

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

MEMBERS OF THE AUTHORITY

FISCAL YEAR 2011 - 2012

JUNE 1, 2011 TO MAY 31, 2012

<u>Official</u>	<u>Position</u>	<u>Term Expires February 1</u>
George Decker	Chairman	2015
Kevin P. Carroll	Vice-Chairman/Treasurer	2016
Lawrence DeMaio	Secretary	2013
Neal Galletta	Assistant Secretary	2017
Michael Longo	Assistant Treasurer	2014

POMPTON LAKES BOROUGH MUNICIPAL UTILITIES AUTHORITY

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PART II

**REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS**

COMMENTS AND RECOMMENDATIONS

YEAR ENDED MAY 31, 2012

Single Audit Section

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, 2012 and 2011, and have issued our report thereon dated August 14, 2012. 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

Management of the Pompton Lakes Borough Municipal Utilities Authority is responsible for establishing and maintaining effective 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 effectiveness 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 2012-1 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, WIELKOTZ, CERULLO & CUVA, P.A.
Certified Public Accountants

August 14, 2012

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

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

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* that could have a direct and material effect on each of its major federal programs for the fiscal year ended May 31, 2012. Pompton Lakes Borough Municipal Utilities Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of 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 and OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations". Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about 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 programs for the fiscal year ended May 31, 2012.

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

August 14, 2012

THE POMPTON LAKES BOROUGH MUNICIPAL UTILITIES AUTHORITY
 (A Component Unit of the Borough of Pompton Lakes)
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
MAY 31, 2012

Federal Grantor/Pass-Through Grantor/Program	Federal CFDA Number	Pass-Through Entity ID Number	Program Amount	Grant Period		Cash Received		Program Expenditures		
				From	To	Prior Years	Current Year	Prior Years	Current Year	Total
U.S. Department of Environmental Protection:										
Pass Through New Jersey Department of Environmental Protection:										
New Jersey Environmental Infrastructure Fund (2009)	66.458	042-40-4860-510-009	\$ 204,192	06/01/11	05/31/12	191,433	12,759	191,433	12,759	204,192
New Jersey Environmental Infrastructure Fund (2010)	66.458	042-40-4860-711-005	\$ 208,279	06/01/11	05/31/12	53,202	155,077	121,630	86,649	208,279
New Jersey Environmental Infrastructure Fund (2012)	66.468	042-4840-707-006/008	\$ 1,157,873	06/01/11	05/31/12		289,043		289,043	
American Recovery and Reinvestment Act:										
Principal Forgiveness	66.458	042-40-4860-711-005	\$ 208,279	06/01/11	05/31/12	106,403	101,876	121,629	86,650	208,279
Subtotal						351,038	558,755	434,692	475,101	909,793
U.S. Department of Homeland Security:										
Pass Through New Jersey Department of Law & Public Safety:										
Public Assistance Grants	97.036	066-00-1200-100-A70	\$ 53,308	06/01/11	05/31/12	-	53,308	-	53,308	53,308
Total Federal Financial Assistance										
						351,038	612,063	434,692	528,409	963,101

THE POMPTON LAKES BOROUGH MUNICIPAL UTILITIES AUTHORITY
(A Component Unit of the Borough of Pompton Lakes)
SCHEDULE OF STATE FINANCIAL ASSISTANCE
MAY 31, 2012

State Grantor/Pass-Through Grantor/Program	Pass Through Entity ID No.	State Account Number	Program Amount	Grant Period		Cash Received		Program Expenditures			
				From	To	Prior Years	Current Year	Total	Prior Years	Current Year	Total
<u>New Jersey Department of Environmental Protection:</u>											
New Jersey Environmental Infrastructure Trust (2009)	n/a	526 042 4800 006 998200	\$ 741,763	06/01/11	05/31/12	552,675	135,464	688,139	552,675	135,464	688,139
			\$ 69,191	06/01/11	05/31/12	64,937	4,254	69,191	64,937	4,254	69,191
New Jersey Environmental Infrastructure Trust (2010)	n/a	526 042 4800 006 998200	\$ 446,740	06/01/11	05/31/12	159,605	282,835	442,440	243,259	199,181	442,440
New Jersey Environmental Infrastructure Trust (2012)	n/a	526 042 4800 006 998200	\$ 398,575	06/01/11	05/31/12		85,582	85,582		96,348	96,348
Total State Financial Assistance						777,217	508,135	1,285,352	860,871	435,247	1,296,118

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, 2012**

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 NJEIT May 31, <u>2011</u>	New Loans	Grants Received	Deobligations	Due from NJEIT May 31, <u>2012</u>
Federal	\$274,014	\$1,211,181	\$612,063	\$4,302	\$868,830
State	<u>480,477</u>	<u>398,575</u>	<u>508,135</u>	<u> </u>	<u>370,917</u>
Total	<u>\$754,491</u>	<u>\$1,609,756</u>	<u>\$1,120,198</u>	<u>\$4,302</u>	<u>\$1,239,747</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.

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
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED MAY 31, 2012

Section I--Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

1) Material weakness(es) identified? yes X no
 2) Significant deficiencies identified? X yes none

Noncompliance material to general-purpose financial statements noted? yes X no

Federal Awards

Dollar threshold used to distinguish between type A and type B programs: \$ 300,000

Auditee qualified as low-risk auditee? X yes no

Internal Control over major programs:

1) Material weakness(es) identified? yes X no
 2) Significant deficiencies identified? yes X none

Type of auditor's report issued on compliance for major programs Unqualified

Any audit findings disclosed that are required to be reported in accordance with .510(a) of OMB Circular A-133? yes X no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program</u>
66.468	Capitalization Grants for Drinking Water State Revolving Funds
_____	_____
_____	_____
_____	_____
_____	_____

THE POMPTON LAKES BOROUGH MUNICIPAL UTILITIES AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED MAY 31, 2012
Section II--Financial Statement Findings

FINDING 2012-1:

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 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, 2012**

Section III--Federal Award Findings and Questioned Costs

No matters were reported.

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 2011-1

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

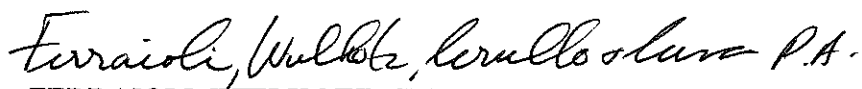
* * * * *

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, WIELKOTZ, CERULLO & CUVA, P.A.
Certified Public Accountants