

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

**FINANCIAL STATEMENTS**

**YEARS ENDED MAY 31, 2013 AND 2012**

THIS PAGE INTENTIONALLY LEFT BLANK

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

**INDEX TO FINANCIAL STATEMENTS**

**Page**

**Exhibit**

**FINANCIAL SECTION**

1-3	Independent Auditor's Report	
4-10	Management's Discussion and Analysis	
	Basic Financial Statements:	
11-13	Statement of Net Position	A
14	Statement of Revenues, Expenses and Changes in Net Position	B
15-16	Statement of Cash Flows	C
17-39	Notes to Financial Statements	

**Schedule**

**REQUIRED SUPPLEMENTARY INFORMATION**

40-41	Schedule of Revenues, Expenses and Changes in Net Position	1
42-44	Schedule of Cash Receipts, Cash Disbursements and Changes in Cash and Investments	2
45-47	Schedule of Operating Revenue and Costs Funded by Operating Revenue Compared to Budget	3
48	Schedule of Capital Financing Sources and Costs Funded by Financing Sources Compared to Budget	4
49-56	Schedule of Revenue and Junior Lien Revenue Bonds Payable	5
57	Schedule of Expenditures of State Financial Assistance	6
58	Members of the Authority	7

**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**

59	Independent Auditor's 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
61	Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Federal Program and Internal Control Over Compliance in Accordance with OMB Circular A-133
64	Schedule of Expenditures of Federal Awards
65	Notes to the Schedules of Expenditures of Federal Awards
66	Schedule of Findings and Questioned Costs
69	General Comments
71	Status of Prior Year's Audit Findings/Recommendations

## **Financial Section**

THIS PAGE INTENTIONALLY LEFT BLANK

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

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

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

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

## **INDEPENDENT AUDITOR'S REPORT**

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

Ladies and Gentlemen:

### **Report on the Financial Statements**

We have audited the accompanying statements of net position of the Pompton Lakes Borough Municipal Utilities Authority (A Component Unit of the Borough of Pompton Lakes) as of May 31, 2013 and 2012, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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



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

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

### ***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 as of May 31, 2013, and the respective changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matters***

As discussed in Note 18 to the financial statements, in 2012 the Authority adopted new accounting guidance, GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprises the Pompton Lakes Borough Municipal Utilities Authority's financial statements. The schedule of revenues, expenses and changes in net position - restricted and unrestricted; schedule of cash receipts, cash disbursements and changes in cash and investments - unrestricted and restricted; schedule of operating revenue and costs funded by operating revenue compared to budget; schedule of capital budget program funded by financing services; schedule of revenue and revenue refunding bonds; schedule of expenditures of state financial assistance; and roster of officials (collectively referred to as the "Supplementary Schedules") and schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* are presented for purposes of additional analysis and are not a required part of the financial statements.

The supplemental schedules listed in the table of contents and the schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, the schedule of federal financial awards are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental information listed in the table of contents, schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated September 6, 2013 on our consideration of the Pompton Lakes Borough Municipal Utilities Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Pompton Lakes Borough Municipal Utilities Authority's internal control over financial reporting and compliance.

Very truly yours,

*Ferraioli, Wielkatz, Cerullo & Cura, P.A.*

FERRAIOLI, WIELKOTZ, CERULLO & CUVA, P.A.  
Certified Public Accountants  
Pompton Lakes, New Jersey

September 6, 2013



THIS PAGE INTENTIONALLY LEFT BLANK

## **Management Discussion and Analysis**

THIS PAGE INTENTIONALLY LEFT BLANK

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**MAY 31, 2013**

*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, 2013 and 2012. 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 \$12,109,715 (net position) for the fiscal year reported. This compares to the previous year when assets exceeded liabilities by \$12,452,576.
- Total net position is comprised of the following:
  - (1) Capital assets, net of related debt, of \$9,335,411 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 position of \$1,041,856 are restricted by constraints imposed from outside the Authority such as debt covenants, grantors, laws, or regulations.
  - (3) Unrestricted net position of \$1,732,448 represent the portion available to maintain the Authority's continuing obligations to citizens and creditors.
- Total liabilities of the Authority decreased by \$249,513 to \$5,579,964 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 Position* 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, 2013**

All of the current year's revenues and expenses are accounted for in the *Statement of Revenues, Expenses and Changes in Net Position*. 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 Position* and the *Statement of Revenues, Expenses and Changes in Net Position* report information about the Authority's activities in a way that will help answer this question. These two statements report net position of the Authority and the changes in those assets. The reader can think of the Authority's net position – 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 position 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, 2013**

**Net Position**

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

The Authority's net position at fiscal year-end are \$12,109,715. This is a \$342,861 decrease under last year's net assets of \$12,452,576. A summary of the Authority's statement of net position is presented in the following table:

**Condensed Statement of Net Position**

	<u>FY 2013</u>	<u>(Restated) FY 2012</u>	<u>Dollar Change</u>	<u>Percent Change</u>	<u>FY 2011</u>
Current and Other Assets	3,555,496	4,423,103	(867,607)	(19.62)%	4,237,367
Capital Assets	<u>14,137,196</u>	<u>13,856,427</u>	<u>280,769</u>	2.03%	<u>13,120,360</u>
Total Assets	<u>17,692,692</u>	<u>18,279,530</u>	<u>(586,838)</u>		<u>17,357,727</u>
Deferred Outflows of Resources	<u>107,748</u>	<u>119,721</u>	<u>(11,973)</u>		
Long-term Debt Outstanding	5,043,669	5,368,571	(324,902)	(6.05)%	3,944,003
Other Liabilities	<u>536,295</u>	<u>460,906</u>	<u>75,389</u>	16.36%	<u>498,875</u>
Total Liabilities	<u>5,579,964</u>	<u>5,829,477</u>	<u>(249,513)</u>		<u>4,442,878</u>
Deferred Inflows of Resources	<u>110,761</u>	<u>117,198</u>	<u>(6,437)</u>		
Invested in Capital Assets, Net of Related Debt	<u>9,335,411</u>	9,644,908	(309,497)	(3.21)%	10,032,376
Restricted	1,041,856	1,037,975	3,881	0.37%	1,044,200
Unrestricted	<u>1,732,448</u>	<u>1,769,693</u>	<u>(37,245)</u>	(2.10)%	<u>1,838,273</u>
Total Net Position	<u>12,109,715</u>	<u>12,452,576</u>	<u>(342,861)</u>	(2.75)%	<u>12,914,849</u>

While the *Statement of Net Position* shows the change in financial position of nets assets, the *Statement of Revenues, Expenses and Changes in Net Position* provides answers as to the nature and source of these changes. As can be seen in the following table, net position decreased by \$342,861.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**  
**MAY 31, 2013**

**Net Position (Continued)**

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

	<u>FY 2013</u>	<u>(Restated) FY 2012</u>	<u>Dollar Change</u>	<u>Percent Change</u>	<u>FY 2011</u>
Operating Revenues	3,032,981	3,019,570	13,411	0.44%	3,139,876
Non-Operating Revenues	<u>90,617</u>	<u>124,706</u>	<u>(34,089)</u>	(27.34)%	<u>125,921</u>
Total Revenues	<u>3,123,598</u>	<u>3,144,276</u>	<u>(20,678)</u>		<u>3,265,797</u>
Depreciation	863,298	818,770	44,528	5.44%	622,084
Other Operating Expenses	2,466,309	2,518,106	(51,797)	(2.06)%	2,512,523
Other Non-Operating Expense	<u>136,852</u>	<u>148,366</u>	<u>(11,514)</u>	(7.76)%	<u>113,464</u>
Total Expenses	<u>3,466,459</u>	<u>3,485,242</u>	<u>(18,783)</u>		<u>3,248,071</u>
Contributions	_____	_____	_____		<u>210,430</u>
Change in Net Position	(342,861)	(340,966)	(1,895)	0.56%	228,156
Beginning Net Position	<u>12,452,576</u>	<u>12,793,542</u>	<u>(340,966)</u>	(2.67)%	<u>12,686,693</u>
Ending Net Position	<u>12,109,715</u>	<u>12,452,576</u>	<u>(342,861)</u>	(2.75)%	<u>12,914,849</u>

The Authority's Operating Revenues increased by \$13,411 to \$3,032,981 in 2013 from \$3,019,570 in 2012. This increase is primarily due to an increase in water and sewer charges. Nonoperating Revenues decreased by \$34,089 to \$90,617 from \$124,706 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, 2013**

The following table provides a 2013 budget comparison:

**Budget vs. Actual**  
**FY 2013**

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues:			
Operating	2,731,000	2,804,760	73,760
Non-Operating	<u>399,248</u>	<u>409,727</u>	<u>10,479</u>
	<u>3,130,248</u>	<u>3,214,487</u>	<u>84,239</u>
Expenses:			
Operating	2,766,600	2,466,309	300,291
Non-Operating	<u>363,648</u>	<u>374,164</u>	<u>(10,516)</u>
	<u>3,130,248</u>	<u>2,840,473</u>	<u>289,775</u>
Income Before Depreciation	<u>          </u>	<u>374,014</u>	<u>374,014</u>

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

At the end of fiscal year 2013, the Authority had invested \$27,330,783 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 \$14,137,196. This is a \$280,769 increase over last year's net property, plant and equipment of \$13,856,427. 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, 2013**

**CAPITAL ASSETS**

	<u>FY 2013</u>	<u>FY 2012</u>	<u>Dollar Change</u>	<u>FY 2011</u>
Land	65,652	65,652		65,652
Buildings, Force Mains and Interceptors	22,511,841	20,888,860	1,622,981	17,633,563
Vehicles and Equipment	<u>4,664,700</u>	<u>4,318,584</u>	<u>346,116</u>	<u>2,840,172</u>
Total Property, Plant and Equipment	27,242,193	25,273,096	1,969,097	20,539,387
Less: Accumulated Depreciation	<u>(13,193,587)</u>	<u>(12,330,288)</u>	<u>(863,299)</u>	<u>(10,969,421)</u>
	14,048,606	12,942,808	1,105,798	9,569,966
Construction in Progress	<u>88,590</u>	<u>913,619</u>	<u>(825,029)</u>	<u>1,486,578</u>
Net Property, Plant and Equipment	<u>14,137,196</u>	<u>13,856,427</u>	<u>280,769</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, 2013, the Authority had outstanding revenue and revenue refunding bonds in the amount of \$5,368,572 (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, 2013**

**Contacting the Authority**

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

THIS PAGE INTENTIONALLY LEFT BLANK

## **Basic Financial Statements**

THIS PAGE INTENTIONALLY LEFT BLANK

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

	<u>May 31,</u>	
	<u>2013</u>	<u>2012</u> <u>(Restated)</u>
<b><u>ASSETS</u></b>		
<b><u>Current Assets:</u></b>		
<b>Unrestricted:</b>		
Cash and Cash Equivalents	\$ 1,602,734	774,853
Investments		827,005
Accounts Receivable-User Charges	163,511	179,559
Accrued Interest Receivable		37,038
Miscellaneous Receivables	6,549	11,086
Prepaid Expenses	39,413	36,500
	<u>1,812,207</u>	<u>1,866,041</u>
<b>Total Unrestricted Assets</b>		
<b>Restricted:</b>		
<b>Operating Reserve Fund:</b>		
Cash and Cash Equivalents	685,531	691,650
	<u>685,531</u>	<u>691,650</u>
<b>Current Debt Service Fund:</b>		
Cash and Cash Equivalents	199,557	191,079
	<u>199,557</u>	<u>191,079</u>
<b>Debt Service Reserve Fund:</b>		
Cash and Cash Equivalents	216,325	
Investments		216,325
	<u>216,325</u>	<u>216,325</u>
<b>Construction Fund:</b>		
Cash and Cash Equivalents	551,449	147,629
Due From NJ Environmental Infrastructure Trust	18,350	1,239,747
	<u>569,799</u>	<u>1,387,376</u>
<b>Customer Deposits:</b>		
Cash and Cash Equivalents	45,246	43,725
	<u>45,246</u>	<u>43,725</u>
<b>Escrow Deposits:</b>		
Cash and Cash Equivalents	26,831	26,907
	<u>26,831</u>	<u>26,907</u>
<b>Total Current Assets:</b>	\$ <u>3,555,496</u>	<u>4,423,103</u>

See accompanying notes to the financial statements.

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

	<u>May 31,</u>	
	<u>2013</u>	<u>2012</u> <u>(Restated)</u>
<b><u>Non-Current Assets:</u></b>		
<b><u>Capital Assets:</u></b>		
Property, Plant and Equipment	\$ 27,242,193	25,273,096
Construction In Progress	88,590	913,619
Less: Accumulated Depreciation	<u>(13,193,587)</u>	<u>(12,330,288)</u>
Total Capital Assets	<u>14,137,196</u>	<u>13,856,427</u>
<b>TOTAL ASSETS</b>	<b>\$ <u>17,692,692</u></b>	<b><u>18,279,530</u></b>
 <b><u>DEFERRED OUTFLOWS OF RESOURCES</u></b>		
Loss on Advanced Refunding of Debt	<u>107,748</u>	<u>119,721</u>
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<b><u>107,748</u></b>	<b><u>119,721</u></b>

See accompanying notes to the financial statements.



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

May 31, 2013

	<u>2013</u>	<u>2012</u> <u>(Restated)</u>
<b><u>LIABILITIES</u></b>		
<b><u>Current Liabilities:</u></b>		
Payable From Unrestricted Assets:		
Accounts Payable	\$ 53,795	67,840
Accrued Liabilities:		
Compensated Absences	25,964	28,508
Total Current Liabilities Payable		
From Unrestricted Assets	79,759	96,348
Payable From Restricted Assets:		
Customer Deposits	45,246	43,725
Escrow Deposits Payable	26,831	26,907
Accrued Interest on Bonds Payable	59,557	61,079
Revenue and Junior Lien Revenue Bonds		
Payable - Current Portion	324,902	232,847
Total Current Liabilities Payable		
From Restricted Assets	456,536	364,558
<b><u>Non-Current Liabilities :</u></b>		
Long-Term Portion of Revenue Bonds		
and Loans Payable	5,043,669	5,368,571
<b>TOTAL LIABILITIES</b>	<b>\$ 5,579,964</b>	<b>5,829,477</b>
<b><u>DEFERRED INFLOWS OF RESOURCES</u></b>		
Unamortized Bond Premium	110,761	117,198
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>110,761</b>	<b>117,198</b>
<b><u>NET POSITION</u></b>		
Net Investment in Capital Assets	9,335,411	9,644,908
Restricted:		
Operating Reserve	685,531	691,650
Current Debt Service	140,000	130,000
Debt Service Reserve	216,325	216,325
Unrestricted:		
Designated	511,509	481,600
Undesignated	1,220,939	1,288,093
<b>TOTAL NET POSITION</b>	<b>\$ 12,109,715</b>	<b>12,452,576</b>

See accompanying notes to the financial statements.

THIS PAGE INTENTIONALLY LEFT BLANK

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

**For The Year Ended May 31,**

	<b><u>2013</u></b>	<b><u>2012 (Restated)</u></b>
<b>Operating Revenues:</b>		
Water Charges	\$ 604,392	590,732
Sewer Charges	2,200,368	2,200,667
Other	202,502	204,387
Interest On Delinquent Accounts	25,719	23,784
<b>Total Operating Revenues</b>	<b><u>3,032,981</u></b>	<b><u>3,019,570</u></b>
<b>Operating Expenses:</b>		
Costs of Providing Services	1,460,745	1,494,999
Administrative, General and Employee Benefits	1,005,564	1,023,107
Depreciation	863,298	818,770
<b>Total Operating Expenses</b>	<b><u>3,329,607</u></b>	<b><u>3,336,876</u></b>
<b>Operating Income</b>	<b><u>(296,626)</u></b>	<b><u>(317,306)</u></b>
<b>Non-Operating Revenues (Expenses):</b>		
Interest on Investments	906	74,706
FEMA Reimbursement	89,711	
Interest Expense	(131,317)	(119,291)
Amortization	(5,535)	(5,535)
Reserve for Retiree Health Benefits		50,000
Loan Deobligation		(2,151)
Loss on Disposal of Equipment		(21,389)
<b>Non-Operating Income / (Loss)</b>	<b><u>(46,235)</u></b>	<b><u>(23,660)</u></b>
<b>Change in Net Position</b>	<b><u>(342,861)</u></b>	<b><u>(340,966)</u></b>
<b>Net Position - June 1, as previously reported</b>	<b>12,452,576</b>	<b>12,914,849</b>
<b>Prior Period Adjustment:</b>		
Cumulative effect of change in accounting principle - Implementation of GASB Statement No. 65		<u>(121,307)</u>
<b>Net Position - June 1, as restated</b>	<b><u>12,452,576</u></b>	<b><u>12,793,542</u></b>
<b>Net Position - May 31,</b>	<b><u>\$ 12,109,715</u></b>	<b><u>12,452,576</u></b>

See accompanying notes to the financial statements.

THIS PAGE INTENTIONALLY LEFT BLANK

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

**For The Years Ended May 31,**

	<u>2013</u>	<u>2012</u>
<b><u>Cash Flow from Operating Activities:</u></b>		
Cash received from customers and users	\$ 3,053,567	2,999,303
Interest received	37,944	74,889
Cash Paid to suppliers and employees	(2,484,365)	(2,453,507)
Interest paid	(132,839)	(122,315)
<b>Net Cash Provided by Operating Activities</b>	<u>474,307</u>	<u>498,370</u>
<b><u>Cash Flow from Investing Activities:</u></b>		
Investment Maturities	1,043,330	
Purchase of Property, Plant and Equipment	(1,144,068)	(1,550,347)
<b>Net Cash Provided by (used in) Investing Activities</b>	<u>(100,738)</u>	<u>(1,550,347)</u>
<b><u>Cash Flow from Financing Activities:</u></b>		
Payment of 1998 Refunding Bonds	(130,000)	(130,000)
Payment of NJEIT Loans	(102,847)	(76,554)
FEMA Reimbursement	89,711	
Received from NJEIT Trust/Fund	1,221,397	1,041,010
<b>Net Cash Used in Financing Activities</b>	<u>1,078,261</u>	<u>834,456</u>
<b>Net Increase/(Decrease) in Cash and Cash Equivalents</b>	1,451,830	(217,521)
<b>Cash and Cash Equivalents at Beginning of Year</b>	<u>1,875,843</u>	<u>2,093,364</u>
<b>Cash and Cash Equivalents at End of Year</b>	<u>\$ 3,327,673</u>	<u>1,875,843</u>
<b><u>Reconciliation to Statement of Net Position -</u></b>		
<b><u>Cash and Cash Equivalents:</u></b>		
Unrestricted Assets	\$ 1,602,734	774,853
Restricted Assets:		
Operating Reserve Fund	685,531	691,650
Current Debt Service Fund	199,557	191,079
Debt Service Reserve Fund	216,325	
Construction Fund	551,449	147,629
Customer Deposit Account	45,246	43,725
Escrow Accounts	26,831	26,907
	<u>\$ 3,327,673</u>	<u>1,875,843</u>

See accompanying notes to the 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>2013</u>	<u>2012</u>
<b>Reconciliation of change in net position to net cash provided (used) by operating activities</b>		
Change in Net Position	\$ (342,861)	(340,966)
Adjustments to Reconcile Change in Net Position to Net Cash Provided by Operating Activities:		
Depreciation	863,298	818,770
Loss on Disposal of Equipment		21,389
Deobligation of NJEIT Loan		2,151
FEMA Reimbursement	(89,711)	
Amortization	(6,436)	(6,437)
Amortization of Deferred Loss on Refunding - Series 1998	11,973	11,972
<b>(Increase) Decrease In:</b>		
Accounts Receivable-User Charges	16,048	(18,275)
Miscellaneous Receivables	4,537	(1,992)
Accrued Interest Receivable	37,038	183
Prepaid Expenses	(2,913)	(842)
<b>Increase (Decrease) In:</b>		
Accounts Payable	(14,045)	11,364
Accrued Interest Payable	(1,522)	(3,024)
Customer Deposits	1,521	(173)
Escrow Deposits Payable	(76)	(294)
Accrued Liabilities	(2,544)	4,544
<b>Net Cash Provided by Operating Activities</b>	<b>\$ 474,307</b>	<b>498,370</b>

See accompanying notes to the financial statements.

## **Notes to Financial Statements**

THIS PAGE INTENTIONALLY LEFT BLANK



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

**NOTES TO FINANCIAL STATEMENTS**  
**YEARS ENDED MAY 31, 2013 AND 2012**

**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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.

**A. Basis of Presentation and Accounting**

**Basis of Presentation**

The financial statements of the Pompton Lakes Borough Municipal Utilities Authority have been prepared in accordance with generally accepted accounting principles (GAAP) applicable to enterprise funds of state and local governmental units. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing services to the general public on a continuing basis be financed or recovered primarily through user charges, or where the governing body has decided that the periodic determination of revenues earned, expenses incurred, and or net income is appropriate for capital maintenance, public policy, accountability or other purposes. The Governmental Accounting Standards Board GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant of the Authority's accounting policies are described below.

On June 1, 2012, the Authority adopted the provisions of Governmental Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which amends the net asset reporting requirement of Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and other pronouncements by incorporating deferred outflows from resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The classifications of net position are defined as follows:

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

**NOTES TO FINANCIAL STATEMENTS**  
**YEARS ENDED MAY 31, 2013 AND 2012**  
**(continued)**

**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES,**  
**(continued)**

**A. Basis of Presentation and Accounting, (continued)**

- *Invested in capital assets, net of related debt* - This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are any significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of invested in capital assets, net of related debt. Rather that portion of the debt is included in the same net assets component as the unspent proceeds.
- *Restricted* - This component of net position consists of constraints placed on net assets used through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- *Unrestricted* - This component of net position consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

**Basis of Accounting**

The Pompton Lakes Borough Municipal Utilities Authority prepares its financial statements on the accrual basis of accounting in accordance with generally accepted accounting principles. Under the accrual basis of accounting, revenues are recognized when they are earned and expenses are recognized when the liability is incurred.

**Reporting Entity**

GASB has issued Statement No. 61 which amends GASB 14 and requires the financial reporting entity to include both the primary government and those component units. Component units are legally separate organizations for which the Authority is financially accountable or other organizations for which the nature and significance of their relationship with the primary government is such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The Authority is financially accountable to the Borough of Pompton Lakes (the "Borough") since the Borough appoints a voting majority of the Authority's board, and (1) the Borough is able to significantly influence the programs or services performed or provided by the Authority; or (2) the Borough is legally entitled to or can otherwise access 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, 2013 AND 2012**  
**(continued)**

**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES,**  
**(continued)**

**A. Basis of Presentation and Accounting, (continued)**

Authority's resources; the Borough is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the Authority; or the Borough is obligated for the debt of the Authority. Component units may also include organizations that are fiscally dependent on the Borough in that the Borough approves the budget, the issuance of debt or the levying of taxes. Based on the foregoing criteria, the Authority is a component unit of the Borough.

**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.

**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.

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

**NOTES TO FINANCIAL STATEMENTS**  
**YEARS ENDED MAY 31, 2013 AND 2012**  
**(continued)**

**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES,**

**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.
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.

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

**NOTES TO FINANCIAL STATEMENTS**  
**YEARS ENDED MAY 31, 2013 AND 2012**  
**(continued)**

**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES,**  
**(continued)**

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

<u>Account</u>	<u>Amount</u>	<u>Use for Which Restricted</u>
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.
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, 2013 AND 2012**  
**(continued)**

**1. ORGANIZATION AND 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 \$25,964, as of May 31, 2013, 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, 2013 AND 2012**  
**(continued)**

**1. ORGANIZATION AND 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. Net Position**

Equity is classified as net position and displayed in three components:

- 1) Net investment in capital assets - consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds that are attributable to the acquisition, construction, or improvement of those assets.
- 2) Restricted - when constraints placed on net position are either a) externally imposed by creditors (such as debt covenants), grants, contributors, or laws or regulations of other governments or b) imposed by law through constitutional provisions or enabling legislation.
- 3) Unrestricted - any other net position that does not meet the definition of "restricted" or "net investment in capital assets."

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

**NOTES TO FINANCIAL STATEMENTS**  
**YEARS ENDED MAY 31, 2013 AND 2012**

(continued)

**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES,**  
**(continued)**

**M. Recent Accounting Pronouncements**

The Government Accounting Standards Board issued GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The Authority has applied GASB No. 65 for the year ending December 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*. The objective of this Statement is to improve accounting and financial reporting for a government financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statement No. 54, *Fund Balance Reporting Guidance Contained in Pre-November 20, 1989 FASB and AICPA Pronouncements*. This Statement is effective for periods beginning after December 15, 2012. The Authority does not believe this Statement will materially affects its current practice.

The Government Accounting Standards Board issued GASB Statement No. 67, *Financial Reporting for Pension Plans - an amendment of GASB Statement No. 25*. The objective of this Statement is to improve financial reporting by state and local government pension plans. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision - useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency. This Statement replaces the requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 25 and 50 remain applicable to pension plans that are not administered through trusts covered by the scope of this Statement and to defined contribution plans that provide postemployment benefits other than pensions. This Statement is effective for financial statements for fiscal years beginning after June 15, 2013. The Authority is currently reviewing what effect, if any, this Statement might have on future 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, 2013 AND 2012**  
**(continued)**

**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES,**  
**(continued)**

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

The Government Accounting Standards Board issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*. The primary objective of this Statement is to improve financial reporting by state and local government for pensions. It also improves information provided by state and local governmental employees about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating transparency. This Statement is effective for financial statements for fiscal years beginning after June 15, 2014. The Authority is currently reviewing what effect, if any, this Statement might have on future financial statements.

The Government Accounting Standards Board issued GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*. This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term "government combinations" includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations. This Statement is effective for financial statements beginning after December 15, 2013. The Authority does not believe this Statement will materially affect its current practice.

The Government Accounting Standards Board issued GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. The requirements of this Statement will enhance comparability of financial statements among governments by requiring consistent reporting by those governments that extend nonexchange financial guarantees and by those governments that receive nonexchange financial guarantees. This Statement also will enhance the information disclosed about a government's obligations and risk exposure from extending nonexchange financial guarantees. This Statement also will augment the ability of financial statement users to assess the probability that governments will repay obligation holders by requiring disclosures about obligations that are issued with this type of financial guarantee. The provisions of this Statement are effective for reporting periods beginning after June 15, 2013. The Authority is currently reviewing what effect, if any, this Statement might have on future 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, 2013 AND 2012**  
**(continued)**

**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES,**  
**(continued)**

**N. Reclassification**

Certain reclassifications have been made to the 2011 amounts to conform to the 2012 financial statement presentation and Governmental Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. With the exception to the adjustments mentioned in Note 20, these reclassifications had no effect on the previously reported results of operations for 2011.

**2. 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.

**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, 2013, \$0- of the Authority's bank balance of \$3,396,895 was exposed to custodial credit risk.

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

**NOTES TO FINANCIAL STATEMENTS**  
**YEARS ENDED MAY 31, 2013 AND 2012**  
**(continued)**

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

The classification of property, plant and equipment and contributed capital at May 31, 2013 and 2012, together with the estimated useful life is as follows:

	2013	
	<u>Property, Plant and Equipment</u>	<u>Contributed Capital</u>
	Original <u>Cost</u>	Estimated Useful <u>Life (Years)</u>  Original <u>Reimbursement</u>
Land	\$ 65,652	\$62,475
Water Mains	2,998,472	75 years 462,232
Sewer Mains and Interceptors	3,342,807	75 years 636,624
Buildings and Pump Stations	15,880,336	15-40 years 76,294
Upgrade Treatment Facility	290,226	33 years
Heavy Equipment	1,634,547	20 years
Other Equipment	1,661,732	10 years
Computer Equipment	180,450	5 years
Vehicles	240,311	5 years
Other Equipment	567,570	5-7 years
Other Equipment	<u>380,090</u>	25-30 years
	<u>\$27,242,193</u>	<u>\$1,237,625</u>

	2012	
	<u>Property, Plant and Equipment</u>	<u>Contributed Capital</u>
	Original <u>Cost</u>	Estimated Useful <u>Life (Years)</u>  Original <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	<u>338,095</u>	25-30 years
	<u>\$25,273,096</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, 2013 AND 2012**  
**(continued)**

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

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

	<u>Balance</u> <u>May 31, 2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>May 31, 2013</u>
Capital Assets Being Depreciated:				
Buildings, Pumps, Mains	\$20,888,860	\$1,622,981	\$	\$22,511,841
Equipment and Vehicles	<u>4,318,584</u>	<u>346,116</u>	<u>          </u>	<u>4,664,700</u>
Total Capital Assets Being Depreciated	<u>25,207,444</u>	<u>1,969,097</u>	<u>          </u>	<u>27,176,541</u>
Capital Assets Not Being Depreciated:				
Land	65,652			65,652
Construction in Progress	<u>913,619</u>	<u>1,144,068</u>	<u>(1,969,097)</u>	<u>88,590</u>
Total Capital Assets Not Being Depreciated	<u>979,271</u>	<u>1,144,068</u>	<u>(1,969,097)</u>	<u>154,242</u>
Total Capital Assets	26,186,715	3,113,165	(1,969,097)	27,330,783
Accumulated Depreciation	<u>(12,330,288)</u>	<u>(863,299)</u>	<u>          </u>	<u>(13,193,587)</u>
	<u>\$13,856,427</u>	<u>\$2,249,866</u>	<u>(\$1,969,097)</u>	<u>\$14,137,196</u>

**4. UNAMORTIZED PREMIUM - DEFERRED INFLOW OF RESOURCES**

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, 2013 is \$17,973 and at May 31, 2012 is \$11,536. The unamortized balance as of May 31, 2013 is shown on the Statement of Net Position as a deferred inflow of resources.

**5. LONG-TERM DEBT**

The following is a summary of the Authority's long-term debt for the fiscal year ended May 31, 2013:

	<u>Balance</u> <u>May 31, 2012</u>	<u>Issued</u>	<u>Deobligated/ Retired</u>	<u>Balance</u> <u>May 31, 2013</u>
1998 Refunding Bonds	\$1,815,000	\$	\$130,000	\$1,685,000
NJEIT Trust Loan Series 2009A	710,000		25,000	685,000
NJEIT Fund Loan Series 2009A	666,567		37,730	628,837
NJEIT Trust - Direct Loan	68,836		3,097	65,739
NJEIT Fund - Direct Loan	189,864		10,747	179,117
NJEIT Trust Loan Series 2010	415,000		15,000	400,000
NJEIT Fund Loan Series 2010	208,279		11,273	197,006
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>\$5,601,419</u>	<u>\$0</u>	<u>\$232,847</u>	<u>\$5,368,572</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, 2013 AND 2012**  
**(continued)**

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

The Authority has issued and outstanding the following bonds and loans as of May 31, 2013 and 2012:

	<u>Interest Rate</u>	<u>2013</u>	<u>2012</u>
1998 Refunding Bonds	4.00% - 4.50%	\$1,685,000	\$1,815,000
NJEIT Trust Loan Series 2009A	2.00% - 4.00%	685,000	710,000
NJEIT Fund Loan Series 2009A	0.00%	628,837	666,567
NJEIT Trust - Direct Loan	.610% - 4.18%	65,739	68,836
NJEIT Fund - Direct Loan	0.00%	179,116	189,863
NJEIT Trust Loan Series 2010	5.00%	400,000	415,000
NJEIT Fund Loan Series 2010	0.00%	197,006	208,279
NJEIT Trust Loan Series 2012	2.00% - 5.00%	370,000	370,000
NJEIT Fund Loan Series 2012	0.00%	<u>1,157,873</u>	<u>1,157,873</u>
Net Carrying Amount of Debt		<u>\$5,368,571</u>	<u>\$5,601,418</u>
Current Portion		324,902	232,847
Long-Term Portion		<u>5,043,669</u>	<u>5,368,571</u>
		<u>\$5,368,571</u>	<u>\$5,601,418</u>

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

<u>May 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	355,125	103,380	458,505
2019-2023	1,927,102	348,126	2,275,228
2024-2028	1,100,464	122,619	1,223,083
2029-2033	<u>733,032</u>	<u>21,999</u>	<u>755,031</u>
Total	<u>\$5,368,571</u>	<u>\$1,088,930</u>	<u>\$6,457,501</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, 2013 AND 2012**  
**(continued)**

**6. 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. This loss is being amortized on a straight line method.

**7. LOSSES ON DEBT DEFEASANCE**

Accounting losses on advanced refundings of debt will be amortized over the life of the new debt. The unamortized amount as of May 31, 2013 was \$107,748 and is shown on the Statement of Net Position as a deferred outflow of resources.

**8. NEW JERSEY ENVIRONMENTAL INFRASTRUCTURE TRUST**

The Authority issued bonds in FY2013 and FY2012 through the New Jersey Environmental Infrastructure Trust to finance the cost of various capital improvements being made to its facilities as follows:

	<u>Balance</u> <u>May 31, 2012</u>	<u>Loans</u>	<u>Deobligated/</u> <u>Received</u>	<u>Balance</u> <u>May 31, 2013</u>
NJEIT Trust - Series 2009A	\$53,624	\$	\$53,624	\$0
NJEIT Trust - Series 2010B	4,300		4,300	0
NJEIT Trust - Series 2012	312,993		308,406	4,587
NJEIT Fund - Series 2012	<u>868,830</u>	<u>          </u>	<u>855,067</u>	<u>13,763</u>
	<u>\$1,239,747</u>	<u>\$0</u>	<u>\$1,221,397</u>	<u>\$18,350</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, 2013 AND 2012**

(continued)

**9. 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.

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.

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

**NOTES TO FINANCIAL STATEMENTS**  
**YEARS ENDED MAY 31, 2013 AND 2012**

(continued)

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

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

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.

**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. Effective July 1, 2012, the pension fund provides for employee contributions based on 6.64% for PERS. This amount will increase 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



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

**NOTES TO FINANCIAL STATEMENTS**  
**YEARS ENDED MAY 31, 2013 AND 2012**  
**(continued)**

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

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.

<u>Three-Year Trend Information for</u>			
<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>
5/31/13	\$95,650	100%	\$0
5/31/12	87,485	100	0
5/31/11	77,623	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.

If the eligible elected or appointed official will earn less than \$5,000.00 annually, the official may choose to waiver participation in the DCRP for that office or position. The waiver is irrevocable.

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

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

All elected officials taking office on or after July 1, 2007, except that a person who is reelected to an elected office held prior to that date without a break in service may retain in the PERS.

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

**NOTES TO FINANCIAL STATEMENTS**  
**YEARS ENDED MAY 31, 2013 AND 2012**  
**(continued)**

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

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.

**10. 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.

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

**NOTES TO FINANCIAL STATEMENTS**  
**YEARS ENDED MAY 31, 2013 AND 2012**

(continued)

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

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 contributions to SHBP for retirees for the years ended May 31, 2013, 2012 and 2011 were \$42,807, \$27,790 and \$27,483, respectively, which equaled the required contributions for each year. There were approximately 5, 2 and 2 retired participants eligible at May 31, 2013, 2012 and 2011, respectively.

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

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

**NOTES TO FINANCIAL STATEMENTS**  
**YEARS ENDED MAY 31, 2013 AND 2012**  
**(continued)**

**11. AMOUNTS REQUIRED BY BOND RESOLUTIONS**

The following cash and investment account is required by the Junior Lien Revenue Bond Resolutions:

Operating Reserve Fund	
Cash and Cash Equivalents	\$685,531
Operating Reserve Requirement	<u>685,531</u>
Excess or (Deficiency)	<u>\$ -0-</u>
 Bond Debt Service Reserve Fund	
Cash and Cash Equivalents	\$216,325
Bond Reserve Fund Requirement	<u>216,325</u>
Excess or (Deficiency)	<u>\$ -0-</u>
 Bond Debt Service Principal and Interest Fund	
Cash and Cash Equivalents	\$199,557
Debt Service Principal and Interest Requirements	<u>199,557</u>
Excess or (Deficiency)	<u>\$ -0-</u>

**12. 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, 2013 met the requirements of the 1989, 1992, 1997 and 1998 Junior Lien Bond Resolutions.

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

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

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

**NOTES TO FINANCIAL STATEMENTS**  
**YEARS ENDED MAY 31, 2013 AND 2012**  
**(continued)**

**13. COMMITMENTS AND CONTINGENT LIABILITIES, (continued)**

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

Amount Sought: \$170,373.00

Whether Covered by Insurance: No

Objective Sought: Payment of \$170,373.00

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

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

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

**14. 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.

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

**NOTES TO FINANCIAL STATEMENTS**  
**YEARS ENDED MAY 31, 2013 AND 2012**

(continued)

**15. 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.

**16. 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	\$210,509
Designated for Retiree Health Benefits	<u>301,000</u>
	<u>\$511,509</u>

At May 31, 2013, the Authority reported a total amount of \$511,509 of Unrestricted Net Assets — Designated for the purposes describe above.

**17. SUBSEQUENT EVENTS**

The Authority has evaluated subsequent events through September 6, 2013, the date which the financial statements were available to be issued and no other items were noted for disclosure.

**18. PRIOR PERIOD ADJUSTMENTS AND RECLASSIFICATIONS**

On June 1, 2012, the Authority early implemented the provisions of Governmental Accounting Standards Board Statement ("GASB") No. 65, *Items Previously Reported as Assets and Liabilities*. This statement requires, among other things, debt issuance costs, except any portion related to prepaid issuance costs, to be recognized as an expense in the period incurred. In addition, in

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

**NOTES TO FINANCIAL STATEMENTS**  
**YEARS ENDED MAY 31, 2013 AND 2012**  
**(continued)**

**18. PRIOR PERIOD ADJUSTMENTS AND RECLASSIFICATIONS, (continued)**

conformance with GASB No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*", the following restatement adjustments were made to the May 31, 2013 financial statements:

	Balance 5/31/11 as Previously <u>Reported</u>	Retroactive <u>Adjustments</u>	Balance 5/31/11 <u>as Restated</u>
Assets:			
Non-Current Assets:			
Unamortized Bond Issuance Costs	\$112,621	\$(112,621)	\$-0-
Deferred Outflow of Resources:			
Unamortized Deferred Loss on Refunding	-0-	119,721	119,721
Total Assets	18,392,151	(112,621)	18,279,530
Net Position:			
Invested in Capital Assets, Net of Related Debt	9,757,529	(112,621)	9,644,908
Long-Term Portion of Revenue Bonds	5,248,850	119,721	5,368,571
Amortization	14,221	(8,686)	5,535

THIS PAGE INTENTIONALLY LEFT BLANK



## **Required Supplementary Information**

THIS PAGE INTENTIONALLY LEFT BLANK

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

Schedule Of Revenues, Expenses And

Changes In Net Position -

Restricted And Unrestricted

For The Years Ended May 31, 2013 and 2012

	Invested in Capital Assets	Restricted			Unrestricted		Total (Memo)	
		Operating Reserve Fund	Debt Service Reserve Fund	Debt Service Reserve Fund	Designated	Undesignated	2013	2012 (Restated)
<b>Operating Revenues:</b>								
Water Charges						604,392	604,392	590,732
Sewer Charges						2,200,368	2,200,368	2,200,667
Other						202,502	202,502	204,387
Interest on Delinquent Accounts						25,719	25,719	23,784
<b>Total Operating Revenues</b>						3,032,981	3,032,981	3,019,570
<b>Operating Expenses:</b>								
Costs of Providing Services						1,460,745	1,460,745	1,494,999
Administrative, General and						1,005,564	1,005,564	1,023,107
Employee Benefits						863,298	863,298	818,770
Depreciation						3,329,607	3,329,607	3,336,876
<b>Total Operating Expenses</b>						(296,626)	(296,626)	(317,306)
<b>Operating Income (Loss)</b>								

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

Schedule Of Revenues, Expenses And  
Changes In Net Position -  
Restricted And Unrestricted

For The Years Ended May 31, 2013 and 2012

	Invested in Capital Assets	Operating Reserve Fund	Restricted		Unrestricted		Total (Memo)	
			Operating Reserve Fund	Debt Service Reserve Fund	Debt Service Reserve Fund	Designated	Undesignated	
								2013
								2012 (Restated)
<b>Non-Operating Revenue and (Expenses):</b>								
Interest Income					10		896	906
FEMA Reimbursement							89,711	89,711
Interest Expense							(131,317)	(119,291)
Amortization							(5,535)	(5,535)
Budget Appropriation								50,000
Loan Deobligation								(2,151)
Loss on Disposal of Equipment								(21,389)
							(46,245)	(46,235)
					10			
							(342,871)	(342,861)
<b>Net Income (Loss) Before Transfers and Capital Contributions</b>					10			(340,966)
<b>Transfers:</b>								
Interest Income	(309,497)	(6,119)	10,000	(10)		29,909	10	
Other							275,707	
<b>Increase (Decrease) in Net Position</b>	(309,497)	(6,119)	10,000			29,909	(67,154)	(340,966)
<b>Net Position - June 1, as Previously Reported</b>	9,644,908	691,650	130,000	216,325		481,600	1,288,093	12,914,849
<b>Prior Period Adjustment:</b>								
Cumulative effect of change in accounting principle - implementation of GASB Statement No. 65								(121,307)
<b>Net Position - June 1, as restated</b>	9,644,908	691,650	130,000	216,325		481,600	1,288,093	12,793,542
<b>Net Position - May 31,</b>	9,335,411	685,531	140,000	216,325		511,509	1,220,939	12,452,576

**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, 2013**

	Operating Account	General Fund	Payroll Fund	Construction Fund
<b>Cash, Cash Equivalents and Investments - June 1, 2012</b>	64,250	417,314	5,602	19,812
<b>Cash Receipts:</b>				
Interest on Investments	147	59		218
Water and Sewer Charges	2,846,526			
Customer Deposits				
Other	133,159		50	215,566
Employee/Employer Payroll Tax Contributions			485,571	
Net Payroll Transfers			653,167	
Transfers	2,761,557	955,157		772,920
<b>Total Cash Receipts</b>	<b>5,741,389</b>	<b>955,216</b>	<b>1,138,788</b>	<b>988,704</b>
<b>Cash and Investments Available</b>	<b>5,805,639</b>	<b>1,372,530</b>	<b>1,144,390</b>	<b>1,008,516</b>
<b>Cash Disbursements:</b>				
Operations	2,620,851		653,167	
Capital Expenditures				457,067
Employee/Employer Payroll Tax Contributions			470,891	
Bond Principal Payments				
Bond Interest Payments				
Customer Deposits				
Other	1,293			
Transfers	2,904,353	179,000	323	
<b>Total Cash Disbursements</b>	<b>5,526,497</b>	<b>179,000</b>	<b>1,124,381</b>	<b>457,067</b>
<b>Cash, Cash Equivalents and Investments - May 31, 2013</b>	<b>279,142</b>	<b>1,193,530</b>	<b>20,009</b>	<b>551,449</b>
<b>Analysis of Balance:</b>				
Cash and Cash Equivalents	279,142	1,193,530	20,009	551,449
Investments	-	-	-	-
	<b>279,142</b>	<b>1,193,530</b>	<b>20,009</b>	<b>551,449</b>
Unrestricted	239,452	1,193,530	20,009	-
Restricted	39,690	-	-	551,449
	<b>279,142</b>	<b>1,193,530</b>	<b>20,009</b>	<b>551,449</b>

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

**Schedule Of Cash Receipts, Cash Disbursements**

**And Changes In Cash and Investments**

**Unrestricted And Restricted Accounts**

**For The Year Ended May 31, 2013**

	Trustee Revenue Fund	Debt Service Interest Fund	Bond Reserve Fund	Customer Deposit Account
<b>Cash, Cash Equivalents and Investments - June 1, 2012</b>	830,786	170,225	1,043,330	43,725
<b>Cash Receipts:</b>				
Interest on Investments	12	7	37,048	95
Water and Sewer Charges				
Customer Deposits				5,397
Other				322
Employee/Employer Payroll Tax Contributions				
Net Payroll Transfers				
Transfers	3,772,671	214,885		
<b>Total Cash Receipts</b>	3,772,683	214,892	37,048	5,814
<b>Cash and Investments Available</b>	4,603,469	385,117	1,080,378	49,539
<b>Cash Disbursements:</b>				
Operations				
Capital Expenditures				
Employee/Employer Payroll Tax Contributions				
Bond Principal Payments		130,000		
Bond Interest Payments		77,647		
Customer Deposits				4,293
Other				
Transfers	3,931,276		868,318	
<b>Total Cash Disbursements</b>	3,931,276	207,647	868,318	4,293
<b>Cash, Cash Equivalents and Investments - May 31, 2013</b>	672,193	177,470	212,060	45,246
<b>Analysis of Balance:</b>				
Cash and Cash Equivalents	672,193	177,470	212,060	45,246
Investments	-	-	-	-
	672,193	177,470	212,060	45,246
Unrestricted	-	-	-	-
Restricted	672,193	177,470	212,060	45,246
	672,193	177,470	212,060	45,246

**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, 2013**

	NJEIT Capital Account	Escrow Deposit Fund	Retiree Health Benefit Reserve Account	Total
<b>Cash, Cash Equivalents and Investments - June 1, 2012</b>	147,629	26,907	149,593	2,919,173
<b>Cash Receipts:</b>				
Interest on Investments	337	27	150	38,100
Water and Sewer Charges				2,846,526
Customer Deposits				5,397
Other	1,150,990			1,500,087
Employee/Employer Payroll Tax Contributions				485,571
Net Payroll Transfers				653,167
Transfers				8,477,190
<b>Total Cash Receipts</b>	<u>1,151,327</u>	<u>27</u>	<u>150</u>	<u>14,006,038</u>
<b>Cash and Investments Available</b>	<u>1,298,956</u>	<u>26,934</u>	<u>149,743</u>	<u>16,925,211</u>
<b>Cash Disbursements:</b>				
Operations				3,274,018
Capital Expenditures	704,999			1,162,066
Employee/Employer Payroll Tax Contributions				470,891
Bond Principal Payments				130,000
Bond Interest Payments				77,647
Customer Deposits				4,293
Other	37	103		1,433
Transfers	593,920			8,477,190
<b>Total Cash Disbursements</b>	<u>1,298,956</u>	<u>103</u>	<u>-</u>	<u>13,597,538</u>
<b>Cash, Cash Equivalents and Investments - May 31, 2013</b>	<u>-</u>	<u>26,831</u>	<u>149,743</u>	<u>3,327,673</u>
<b>Analysis of Balance:</b>				
Cash and Cash Equivalents	-	26,831	149,743	3,327,673
Investments	-	-	-	-
	<u>-</u>	<u>26,831</u>	<u>149,743</u>	<u>3,327,673</u>
Unrestricted	-	-	149,743	1,602,734
Restricted	-	26,831	-	1,724,939
	<u>-</u>	<u>26,831</u>	<u>149,743</u>	<u>3,327,673</u>

THIS PAGE INTENTIONALLY LEFT BLANK



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

**For The Year Ended May 31, 2013**

	<b>2013 Budget</b>	<b>2013 Budget After Modifications</b>	<b>2013 Actual</b>	<b>2012 Actual</b>
<b>Revenues:</b>				
Net Assets Appropriated	180,600	180,600	180,600	161,250
Water Charges	670,000	670,000	604,392	590,732
Sewer Charges	2,061,000	2,061,000	2,200,368	2,200,667
Other	188,648	188,648	202,502	204,387
Interest on Delinquent Accounts	20,000	20,000	25,719	23,784
Interest on Investments and Deposits	10,000	10,000	906	74,706
<b>Total Operating Revenues</b>	<b>3,130,248</b>	<b>3,130,248</b>	<b>3,214,487</b>	<b>3,255,526</b>
<b>Expenses:</b>				
<b>Cost of Providing Services:</b>				
Operating Salaries	659,000	659,000	609,157	638,103
Overtime Salaries	35,000	35,000	24,661	33,843
Professional Fees - Other	18,000	18,000	19,000	19,200
Engineering - Retainer	10,800	10,800	10,800	10,500
Engineering - Miscellaneous	25,000	25,000	10,555	21,531
Chemicals	60,000	60,000	60,705	76,198
Systems and Equipment - Repairs and Maintenance	150,000	150,000	120,749	113,538
Truck Expenses - Gas, Oil, License	20,000	20,000	29,078	15,428
Truck Expenses - Repairs	8,000	8,000	7,372	5,215
Vehicle & Equipment Leases	5,000	5,000	1,698	
Electricity	400,000	400,000	303,128	344,557
Water Consumed in Operations	2,000	2,000	2,512	1,684
Sludge Removal	120,000	120,000	159,423	109,142
Uniforms	8,000	8,000	5,254	6,037
Fees and Permits	50,000	50,000	38,369	33,856
Lab Supplies and Expenses	35,000	35,000	34,671	31,857
Customer Refunds	2,500	2,500	3,125	2,751
Miscellaneous Supplies and Expenses	30,000	30,000	20,488	31,559
<b>Sub-total Cost of Providing Services</b>	<b>1,638,300</b>	<b>1,638,300</b>	<b>1,460,745</b>	<b>1,494,999</b>
<b>Administrative, General Expenses and Employee Benefits:</b>				
Administrative Salaries	310,000	310,000	303,173	285,418
Commissioners' Salaries	24,000	24,000	27,014	26,038
Administrative Trustees Fees	18,000	18,000	22,748	17,779
Customer Billing - Postage	5,000	5,000	5,955	5,791
Computer Programming	25,000	25,000	5,439	13,494
Computer Retainer	10,800	10,800	9,720	10,500
Auditing	24,000	24,000	24,980	24,905
Legal - Retainer	18,000	18,000	16,800	10,500
Legal - Miscellaneous	10,000	10,000	7,249	4,484
Office Supplies and Postage	10,000	10,000	7,970	8,125
Conferences and Seminars	10,000	10,000	8,535	5,920

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

**Schedule 3**  
**Page 2 of 3**

**For The Year Ended May 31, 2013**

	<b><u>2013</u></b>	<b><u>2013</u></b>	<b><u>2013</u></b>	<b><u>2012</u></b>
	<b><u>Budget</u></b>	<b><u>Budget After</u></b>	<b><u>Actual</u></b>	<b><u>Actual</u></b>
Administrative, General Expenses and				
Employee Benefits (continued):				
Special Accounting Services	6,000	6,000	5,150	3,500
Printing and Publications	6,000	6,000	2,419	8,271
Telephone and Alarm System	21,000	21,000	17,226	20,175
Insurance	35,000	35,000	36,717	35,405
Building Repairs and Maintenance	20,000	20,000	12,619	16,541
Heating	8,000	8,000	1,199	5,968
Bank Sweep Fees	3,000	3,000	3,070	3,691
Employee Benefits:				
Public Employee Retirement System	100,000	100,000	95,650	87,485
Social Security Tax	80,000	80,000	71,505	72,609
Unemployment Compensation Insurance	3,500	3,500	4,445	4,403
Worker's Compensation Insurance	28,000	28,000	20,936	28,226
Medical Insurance Premium	270,000	270,000	252,238	246,089
Retiree Health Benefits	83,000	83,000	42,807	27,790
Retiree Health Benefits Reserve				50,000
	<u>1,128,300</u>	<u>1,128,300</u>	<u>1,005,564</u>	<u>1,023,107</u>
Debt Service:				
Bond Principal	242,847	242,847	242,847	206,555
Interest on Bonds	120,801	120,801	131,317	119,291
	<u>363,648</u>	<u>363,648</u>	<u>374,164</u>	<u>325,846</u>
<b>Total Costs Funded by Operating Revenues</b>	<u><u>3,130,248</u></u>	<u><u>3,130,248</u></u>	<u><u>2,840,473</u></u>	<u><u>2,843,952</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, 2013**

	<b><u>2013</u></b>	<b><u>2013</u></b>	<b><u>2013</u></b>	<b><u>2012</u></b>
	<b><u>Budget</u></b>	<b><u>Budget After</u></b>	<b><u>Actual</u></b>	<b><u>Actual</u></b>
		<b><u>Modifications</u></b>		
<b>Excess of Actual Revenues Over Expenses</b>			374,014	411,574
<b>Reconciliation of Budgetary Basis to GAAP:</b>				
Undesignated Retained Earnings			(180,600)	(161,250)
Other Income - FEMA Reimbursements			89,711	
Retiree Health Benefits Reserve				50,000
Depreciation			(863,298)	(818,770)
Amortization			(5,535)	(5,535)
Loss on Disposal of Equipment				(21,389)
Loan Deobligation				(2,151)
Bond Principal			242,847	206,555
Total Adjustments			(716,875)	(752,540)
<b>Change in Net Assets</b>			<b>(342,861)</b>	<b>(340,966)</b>

THIS PAGE INTENTIONALLY LEFT BLANK

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

**For The Year Ended May 31, 2013**

	<b><u>2013</u></b>	<b><u>2013</u></b>	<b><u>2013</u></b>	<b><u>2012</u></b>
	<b><u>Budget</u></b>	<b><u>Budget After</u></b>	<b><u>Actual</u></b>	<b><u>Actual</u></b>
		<b><u>Modifications</u></b>		
<b>Financing Sources:</b>				
Debt Authorization - NJEIT			714,288	1,175,571
Unrestricted Fund Balances	830,000	830,000	429,780	400,453
<b>Total Financing Sources</b>	<b>830,000</b>	<b>830,000</b>	<b>1,144,068</b>	<b>1,576,024</b>
<b>Capital Outlays:</b>				
Miscellaneous Water Main Valve Insertions	20,000	20,000		
Well #2 Pump Upgrade/Camera Inspection	75,000	75,000		
Well #2 Electrical Upgrade	50,000	50,000		
Well #1 Concrete Supports/Membrane Roofing	15,000	15,000	7,000	
Installation of Solar Unit-Water Storage Tank	10,000	10,000	2,850	
Miscellaneous Paving & Concrete Repairs	20,000	20,000		
Refurbish Treatment Plant #3 Primary Clarifier	75,000	75,000		
Well #1 Pump Upgrade/Camera Inspection				40,874
Well #2 Emergency Electrical Power				46,334
Replacement F450 Dump Truck				41,001
Dam Bi-Annual Inspection/Permitting	130,000	130,000	33,000	6,000
Water Storage Tank Exterior Painting				11,600
Wastewater Treatment Plant SCADA	25,000	25,000	21,037	15,000
Milling and Paving Treatment Plant			61,230	12,531
Treatment Plant Thickener Upgrade	200,000	200,000	150,834	29,765
Lime Silo Upgrade				5,800
Wastewater Effluent PCB Analysis				5,532
Cannonball Rd. 6" Main Abandonment				7,381
Miscellaneous Upgrades to Water System	30,000	30,000		9,335
Miscellaneous Building Maintenance	20,000	20,000	2,280	17,700
Dam Geotechnical Analysis				10,660
Miscellaneous Infrastructure Upgrades	30,000	30,000	7,200	6,336
Security/Office/Computer Equipment	40,000	40,000	71,605	9,371
Misc. Upgrades to Pump Stations	40,000	40,000	11,979	36,938
S. Pump Station Generator & ATS Repl.			8,160	7,930
Miscellaneous Treatment Plant Upgrades	50,000	50,000	52,605	80,365
South Pumping Station Grinder Replacement				1,900 (1)
South Pumping Station Wet Well Stair Repl.				4,104 (1)
Final Treatment Building Sand Filters				93,585 (1)
New Sludge Thickener System				348,286 (1)
Aeration Tank Equipment Replacement				6,353 (1)
Water Main Replacements			714,288 (1)	719,903 (1)
Various Capital Projects Funded by NJEIT				1,440 (1)
<b>Total Capital Outlay</b>	<b>830,000</b>	<b>830,000</b>	<b>1,144,068</b>	<b>1,576,024</b>
<b>Excess of Actual Revenues Over Expenses</b>				
<b>Total</b>	<b>830,000</b>	<b>830,000</b>	<b>1,144,068</b>	<b>1,576,024</b>

(1) Funded by New Jersey Environmental Infrastructure Trust.

THIS PAGE INTENTIONALLY LEFT BLANK

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

May 31, 2013 and 2012

	Original Issuance		Interest Rate	Maturities		Balance June 1, 2012	Issued	Redeemed/ Retired	Balance May 31, 2013
	Date	Amount		Date	Amount				
Series 1998 Refunding Bonds	11/10/1998	2,720,000	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	1,815,000		130,000	1,685,000
NJBIT Trust Loan Series 2009A	12/2/2009	735,000	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	710,000		25,000	685,000

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, 2013 and 2012

	Original Issuance		Interest Rate	Maturities		Balance June 1, 2012	Issued	Redeemed/ Retired	Balance May 31, 2013
	Date	Amount		Date	Amount				
NJET Fund Loan Series 2009A	12/2/2009	704,297	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				
						666,567		37,730	628,837



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, 2013 and 2012

	Original Issuance		Interest Rate	Maturities		Balance June 1, 2012	Issued	Redeemed/ Retired	Balance May 31, 2013
	Date	Amount		Date	Amount				
NJ/EIT Trust Loan Direct Loan	2/23/2010	71,914	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				
						68,836	3,097	65,739	

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, 2013 and 2012

	Original Issuance		Interest Rate	Maturities		Balance June 1, 2012	Issued	Redeemed/ Retired	Balance May 31, 2013
	Date	Amount		Date	Amount				
NJET Fund Loan Direct Loan	2/23/2010	204,192	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				
						189,864		10,747	179,117

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, 2013 and 2012

	Original Issuance		Interest Rate	Maturities		Balance June 1, 2012	Issued	Redeemed/Retired	Balance May 31, 2013
	Date	Amount		Date	Amount				
NJET Trust Loan Series 2010B	12/2/2010	415,000	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		15,000	400,000	

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, 2013 and 2012

NJFIT Fund Loan Series 2010	Original Issuance		Interest Rate	Maturities		Balance June 1, 2012	Issued	Redeemed/ Retired	Balance May 31, 2013
	Date	Amount		Date	Amount				
	12/2/2010	210,430	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				
						208,279		11,273	197,006

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, 2013 and 2012

	Original Issuance		Interest Rate	Maturities		Balance June 1, 2012	Issued	Redeemed/ Retired	Balance May 31, 2013
	Date	Amount		Date	Amount				
NJET 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, 2013 and 2012

	Original Issuance		Interest Rate	Maturities		Balance June 1, 2012	Issued	Redeemed/Retired	Balance May 31, 2013
	Date	Amount		Date	Amount				
NJBIT 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						5,601,419	232,847		5,368,572
Current Portion						232,847			324,902
Non-Current Portion						5,368,572			5,043,670
						5,601,419			5,368,572

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	Prior Years	Current Year
									Total
New Jersey Department of Environmental Protection:	n/a	526 042 4800 006 998200	\$ 385,957	06/01/12	05/31/13	96,348	285,022	96,348	285,022
New Jersey Environmental Infrastructure Trust (2012)									381,370
Total State Financial Assistance						96,348	285,022	96,348	381,370

THIS PAGE INTENTIONALLY LEFT BLANK



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

**MEMBERS OF THE AUTHORITY**

**FISCAL YEAR 2012 - 2013**

**JUNE 1, 2012 TO MAY 31, 2013**

<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	2018
Neal Galletta	Assistant Secretary	2017
Michael Longo	Assistant Treasurer	2014

THIS PAGE INTENTIONALLY LEFT BLANK

## **Single Audit Section**

THIS PAGE INTENTIONALLY LEFT BLANK

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

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

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

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

## **INDEPENDENT AUDITOR'S REPORT 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, 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, 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 year ended May 31, 2013, and the related notes to the financial statements, and have issued our report thereon dated September 6, 2013.

### ***Internal Control Over Financial Reporting***

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

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



Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs as Finding 2013-1 that we consider to be a significant deficiency in internal control over financial reporting.

### ***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 Findings***

Pompton Lakes Borough Municipal Utilities Authority's response to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. Pompton Lakes Borough Municipal Utilities Authority's response was not subjected to the auditing procedures applied in the audit of the financials statements and, accordingly, we express no opinion on it.

### ***Purpose of this Report***

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

***Ferraioli, Wielkatz, Cerullo & Cura, P.A.***

FERRAIOLI, WIELKOTZ, CERULLO & CUVA, P.A.  
Certified Public Accountants  
Pompton Lakes, New Jersey

September 6, 2013

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

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

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

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

## **INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND 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

### **Report on Compliance for Each Major Federal Program**

We have audited the Pompton Lakes Borough Municipal Utilities Authority's (A Component Unit of the Borough of Pompton Lakes) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplements* that could have a direct and material effect on each of the Pompton Lakes Borough Municipal Utilities Authority's major federal programs for the year ended May 31, 2013 identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

### **Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the Pompton Lakes Borough Municipal Utilities Authority's major federal programs based on our audit of the types of compliance requirements referred to above. 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 provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Pompton Lakes Borough Municipal Utilities Authority's compliance.

### ***Opinion on Each Major Federal Program***

In our opinion, the Pompton Lakes Borough Municipal Utilities Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended May 31, 2013.

### **Report on Internal Control Over Compliance**

Management of the Pompton Lakes Borough Municipal Utilities Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Pompton Lakes Borough Municipal Utilities Authority's internal control over compliance with the type of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 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 and state program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



Honorable Chairman and Members of the  
Pompton Lakes Borough Municipal Utilities Authority  
Page 3.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

#### **Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133**

We have audited the financial statements of the Pompton Lakes Borough Municipal Utilities Authority as of and for the year ended May 31, 2013, and have issued our report there dated September 6, 2013 which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

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, Wielkatz, Cerullo & Cusa, P.A.*

FERRAIOLI, WIELKOTZ, CERULLO & CUVA, P.A.  
Certified Public Accountants  
Pompton Lakes, New Jersey

September 6, 2013

THIS PAGE INTENTIONALLY LEFT BLANK

**THE POMPTON LAKES BOROUGH MUNICIPAL UTILITIES AUTHORITY**  
(A Component Unit of the Borough of Pompton Lakes)  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**MAY 31, 2013**

Federal Grantor/Pass-Through Grantor/Program	Federal CFDA Number	Pass-Through Entity ID Number	Program Amount	Grant Period		Prior Years	Cash Received		Prior Years	Program Expenditures	
				From	To		Current Year	Total		Current Year	Total
U.S. Department of Environmental Protection:											
Pass Through New Jersey Department of Environmental Protection:											
New Jersey Environmental Infrastructure Fund (2012)	66.468	042-4840-707	\$ 1,157,873	06/01/12	05/31/13	289,043	855,067	1,144,110	289,043	855,067	1,144,110
Subtotal						289,043	855,067	1,144,110	289,043	855,067	1,144,110
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	\$ 143,019	06/01/12	05/31/13	53,308	89,711	143,019	53,308	89,711	143,019
Total Federal Financial Assistance						342,351	944,778	1,287,129	342,351	944,778	1,287,129

See accompanying Notes to the Schedules of Awards and Financial Assistance.

THIS PAGE INTENTIONALLY LEFT BLANK

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

**NOTES TO THE SCHEDULES OF EXPENDITURES  
OF FEDERAL AND STATE AWARDS  
MAY 31, 2013**

**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 1(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:

	<u>Federal</u>	<u>State</u>	<u>Total</u>
Enterprise Fund	<u>\$944,778</u>	<u>\$285,022</u>	<u>\$1,229,800</u>

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

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

THIS PAGE INTENTIONALLY LEFT BLANK

**THE POMPTON LAKES BOROUGH MUNICIPAL UTILITIES AUTHORITY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED MAY 31, 2013**

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

**Financial Statements**

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

**Federal Awards**

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

<u>CFDA Number(s)</u>	<u>Name of Federal Program</u>
66.468	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, 2013**  
*Section II--Financial Statement Findings*

**FINDING 2013-1:**

**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, 2013**

***Section III--Federal Award Findings and Questioned Costs***

No matters were reported.

THIS PAGE INTENTIONALLY LEFT BLANK

**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.

**COMMENTS**

1. Escrow account deposits are not being maintained separately subsequent to the Authority's change of banks.

**RECOMMENDATIONS**

1. That escrow accounts be maintained individually in order to appropriately account for interest.

**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 year's recommendations and corrective action. We reviewed the Authority's Corrective Action Plan for the following item and concur that the Authority continues to take steps to remedy this condition.

**Finding 2012-1**

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, Wielkatz, Cerullo & Cova, P.A.*

FERRAIOLI, WIELKOTZ, CERULLO & CUVA, P.A.  
Certified Public Accountants  
Pompton Lakes, New Jersey