

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

FINANCIAL STATEMENTS

YEARS ENDED MAY 31, 2016 AND 2015

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

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THE POMPTON LAKES BOROUGH MUNICIPAL UTILITIES AUTHORITY
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Financial Section

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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 as of May 31, 2016 and 2015, 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, 2016, 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 Matter

Adoption of New Accounting Principles

As discussed in Note 2 to the financial statements, during the fiscal year ended May 31, 2016, the Authority adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*. Our opinion is not modified with respect to this matter.

Prior Period Restatement

Because of the implementation of GASB Statements No. 68 and No. 71, beginning net position on the statement of revenues, expenses and changes in net position has been restated for fiscal year May 31, 2016, as discussed in Note 18 to the financial statements. 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 and schedule of funding progress for the schedule of the Authority's proportionate share of the net pension liability as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements; is required by the Governmental Accounting Standards Board who considers it to be an essential part of 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 comprise the Pompton Lakes Borough Municipal Utilities Authority's basic financial statements. The supplementary information listed in the table of contents and schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and the schedule of expenditures of state financial assistance as required by NJ OMB 15-08 and the letter of comments and recommendations section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplemental information listed in the table of contents and the schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), the schedule of expenditures of state financial assistance as required by NJ OMB 15-08 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 Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and the schedule of expenditures of state financial assistance as required by NJ OMB 15-08 are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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Honorable Chairperson and Members of the
Pompton Lakes Borough Municipal Utilities Authority
Page 4.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 19, 2016 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, Wielkotz, Cerullo & Cuva, P.A.

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

September 19, 2016

Required Supplementary Information - Part I

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2016 and 2015. 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 \$8,333,631 (net position) for the fiscal year reported. This compares to the previous year when assets exceeded liabilities by \$8,648,340, as restated.
- Total net position is comprised of the following:
 - (1) Capital assets, net of related debt, of \$8,310,134 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 \$1,060,575 are restricted by constraints imposed from outside the Authority such as debt covenants, grantors, laws, or regulations.
 - (3) Unrestricted net position of \$(1,037,078) represent the portion available to maintain the Authority's continuing obligations to citizens and creditors.
- Total liabilities of the Authority increased by \$1,224,082 to \$8,436,990 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
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MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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)

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 \$8,333,631 . This is a \$314,709 decrease under last year's restated net position of \$8,648,340. A summary of the Authority's statement of net position is presented in the following table:

Condensed Statement of Net Position

	<u>FY 2016</u>	<u>Restated FY 2015</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Current and Other Assets	2,942,270	2,820,774	121,496	4.31%
Capital Assets	<u>13,601,190</u>	<u>13,272,617</u>	<u>328,573</u>	2.48%
Total Assets	<u>16,543,460</u>	<u>16,093,391</u>	<u>450,069</u>	2.80%
Deferred Outflows of Resources	<u>541,163</u>	<u>157,622</u>	<u>383,541</u>	243.33%
Long-term Debt Outstanding	4,941,577	4,300,440	641,137	14.91%
Other Liabilities	<u>3,495,413</u>	<u>2,912,468</u>	<u>582,945</u>	20.02%
Total Liabilities	<u>8,436,990</u>	<u>7,212,908</u>	<u>1,224,082</u>	16.97%
Deferred Inflows of Resources	<u>314,002</u>	<u>389,765</u>	<u>(75,763)</u>	(19.44)%
Invested in Capital Assets, Net of Related Debt	8,310,134	8,641,306	(331,172)	(3.83)%
Restricted	1,060,575	1,071,660	(11,085)	(1.03)%
Unrestricted	<u>(1,037,078)</u>	<u>(1,064,626)</u>	<u>27,548</u>	(2.59)%
Total Net Position	<u>8,333,631</u>	<u>8,648,340</u>	<u>(314,709)</u>	(3.64)%

While the *Statement of Net Position* shows the change in financial position of net position, 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 above table, net position decreased by \$314,709.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Net Position (Continued)

Condensed Statement of Net Position

	<u>Restated FY 2015</u>	<u>FY 2014</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Current and Other Assets	2,820,774	3,078,249	(257,475)	(8.36)%
Capital Assets	<u>13,272,617</u>	<u>13,690,707</u>	<u>(418,090)</u>	(3.05)%
Total Assets	<u>16,093,391</u>	<u>16,768,956</u>	<u>(675,565)</u>	(4.03)%
Deferred Outflows of Resources	<u>157,622</u>	<u>95,776</u>	<u>61,846</u>	64.57%
Long-term Debt				
Outstanding	4,300,440	4,614,099	(313,659)	(6.80)%
Other Liabilities	<u>2,912,468</u>	<u>578,637</u>	<u>2,333,831</u>	403.33%
Total Liabilities	<u>7,212,908</u>	<u>5,192,736</u>	<u>2,020,172</u>	38.90%
Deferred Inflows of Resources	<u>389,765</u>	<u>104,325</u>	<u>285,440</u>	273.61%
Invested in Capital Assets, Net of Related Debt	8,641,306	8,899,333	(258,027)	(2.90)%
Restricted	1,071,660	1,053,261	18,399	1.75%
Unrestricted	<u>(1,064,626)</u>	<u>1,615,077</u>	<u>(2,679,703)</u>	(165.92)%
Total Net Position	<u>8,648,340</u>	<u>11,567,671</u>	<u>(2,919,331)</u>	(25.24)%

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Net Position (Continued)

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

	<u>FY 2016</u>	<u>Restated FY 2015</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Operating Revenues	3,313,553	3,176,900	136,653	4.30%
Non-Operating Revenues	<u>332</u>	<u>51,587</u>	<u>(51,255)</u>	<u>(99.36)%</u>
Total Revenues	<u>3,313,885</u>	<u>3,228,487</u>	<u>85,398</u>	2.65%
Depreciation	929,856	929,680	176	0.02%
Other Operating Expenses	2,573,932	2,624,608	(50,676)	(1.93)%
Other Non-Operating Expense	<u>124,806</u>	<u>120,699</u>	<u>4,107</u>	3.40%
Total Expenses	<u>3,628,594</u>	<u>3,674,987</u>	<u>(46,393)</u>	<u>(1.26)%</u>
Change in Net Position	(314,709)	(446,500)	131,791	(29.52)%
Beginning Net Position	<u>8,648,340</u>	<u>9,094,840</u>	<u>(446,500)</u>	<u>(4.91)%</u>
Ending Net Position	<u>8,333,631</u>	<u>8,648,340</u>	<u>(314,709)</u>	<u>(3.64)%</u>

The Authority's Operating Revenues increased by \$136,653 to \$3,313,553 in 2016 from \$3,176,900 in 2015. This increase is primarily due to an increase in water and sewer charges and other operating revenues. Nonoperating Revenues decreased by \$51,255 to \$332 from \$51,587 due to a decrease in interest income and a budgetary appropriation for retiree health benefits.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Net Position (Continued)

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

	<u>Restated FY 2015</u>	<u>FY 2014</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Operating Revenues	3,176,900	3,124,970	51,930	1.66%
Non-Operating Revenues	<u>51,587</u>	<u>740</u>	<u>50,847</u>	6871.22%
Total Revenues	<u>3,228,487</u>	<u>3,125,710</u>	<u>102,777</u>	3.29%
Depreciation	929,680	915,381	14,299	1.56%
Other Operating Expenses	2,624,608	2,427,598	197,010	8.12%
Other Non-Operating Expense	<u>120,699</u>	<u>324,775</u>	<u>(204,076)</u>	(62.84)%
Total Expenses	<u>3,674,987</u>	<u>3,667,754</u>	<u>7,233</u>	0.20%
Change in Net Position	(446,500)	(542,044)	95,544	(17.63)%
Beginning Net Position	<u>9,094,840</u>	<u>12,109,715</u>	<u>(3,014,875)</u>	(24.90)%
Ending Net Position	<u>8,648,340</u>	<u>11,567,671</u>	<u>(2,919,331)</u>	(25.24)%

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
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MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Budgetary Highlights (Continued)

The following table provides a 2016 budget comparison:

**Budget vs. Actual
FY 2016**

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues:			
Operating	3,304,132	3,503,108	198,976
Expenses:			
Operating	2,857,339	2,528,252	329,087
Debt Service	446,793	437,790	9,003
	<u>3,304,132</u>	<u>2,966,042</u>	<u>338,090</u>
Income Before Depreciation	<u>0</u>	<u>537,066</u>	<u>537,066</u>

The following table provides a 2015 budget comparison:

**Budget vs. Actual
FY 2015**

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues:			
Operating	3,257,318	3,393,805	136,487
Expenses:			
Operating	2,803,744	2,556,248	247,496
Debt Service	453,574	445,102	8,472
	<u>3,257,318</u>	<u>3,001,350</u>	<u>255,968</u>
Income Before Depreciation	<u>0</u>	<u>392,455</u>	<u>392,455</u>

THE POMPTON LAKES BOROUGH MUNICIPAL UTILITIES AUTHORITY
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MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2016, the Authority had invested \$29,569,694 in capital assets. Included in that amount is \$1,237,625 of capital that was contributed to the Authority in the form of federal and state grants and other property. The Authority's net property, plant and equipment at fiscal year end was \$13,601,190. This is a \$328,573 increase over last year's net property, plant and equipment of \$13,272,617. A summary of the Authority's capital assets is presented in the following table:

CAPITAL ASSETS

	<u>FY 2016</u>	<u>FY 2015</u>	<u>Dollar Change</u>	<u>FY 2014</u>
Land	65,652	65,652		65,652
Buildings, Force Mains and Interceptors	24,279,856	22,928,478	1,351,378	22,809,813
Vehicles and Equipment	<u>5,132,438</u>	<u>5,044,825</u>	<u>87,613</u>	<u>4,843,789</u>
Total Property, Plant and Equipment	29,477,946	28,038,955	1,438,991	27,719,254
Less: Accumulated Depreciation	<u>15,968,504</u>	<u>15,038,648</u>	<u>929,856</u>	<u>14,108,968</u>
	13,509,442	13,000,307	509,135	13,610,286
Construction in Progress	<u>91,748</u>	<u>272,310</u>	<u>(180,562)</u>	<u>80,421</u>
Net Property, Plant and Equipment	<u>13,601,190</u>	<u>13,272,617</u>	<u>328,573</u>	<u>13,690,707</u>

THE POMPTON LAKES BOROUGH MUNICIPAL UTILITIES AUTHORITY
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MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Capital Assets (Continued)

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

	<u>Estimated Total Cost</u>	<u>Unrestricted Net Position Utilized</u>
Water Fund:		
Misc. Water Main Valve Insertions	\$20,000	\$20,000
Misc. Well Upgrades	50,000	50,000
Misc. Upgrades to Water System	50,000	50,000
Misc. Building Upgrades	10,000	10,000
Twin Lakes Damns Insp./Design/Permit	20,000	20,000
Misc. Security Equipment	10,000	10,000
Misc. Paving & Concrete Repairs	25,000	25,000
Water Storage Tank Cathodic Protection	10,000	10,000
Fire Hydrant and Aux. Valve Upgrades	50,000	50,000
Misc. Computer and Office Equipment	20,000	20,000
Misc. Tools and Equipment	20,000	20,000
G.I.S. Water System Mapping	10,000	10,000
Emergency Road Repair Safety Trench Box	10,000	10,000
Pollution Control Building Furnace Upgrade	<u>10,000</u>	<u>10,000</u>
Total	<u>315,000</u>	<u>315,000</u>
Sewer Fund:		
Misc. Upgrades to Pumping Stations	\$25,000	\$25,000
Misc. Infrastructure Upgrades	20,000	20,000
Misc. Treatment Plant Upgrades	30,000	30,000
Misc. Building Upgrades	10,000	10,000
Twin Lakes Damns Insp./Design/Permit	20,000	20,000
Misc. Security Equipment	10,000	10,000
Misc. Paving & Concrete Repairs	10,000	10,000
W.T.P. UV Disinfection System Upgrades	20,000	20,000
Misc. Computer and Office Equipment	20,000	20,000
Collection System Inspection Equipment	25,000	25,000
Pollution Control Building Furnace Upgrade	10,000	10,000
Upgrade of WTF Sludge Thickener Electric	25,000	25,000
G.I.S. Collection System Mapping	10,000	10,000
Emergency Road Repair Safety Trench Box	<u>10,000</u>	<u>10,000</u>
Total	<u>245,000</u>	<u>245,000</u>
	<u>\$560,000</u>	<u>\$560,000</u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Debt Administration

At May 31, 2016, the Authority had outstanding revenue and revenue refunding bonds in the amount of \$5,295,649 (gross). The debt service schedule goes out to 2035. 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.

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.

Financial Statements

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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>2016</u>	<u>2015</u> <u>(Restated)</u>
<u>ASSETS</u>		
<u>Current Assets:</u>		
Unrestricted:		
Cash and Cash Equivalents	\$ 1,455,951	1,366,706
Accounts Receivable-User Charges	178,745	177,187
Miscellaneous Receivables	3,250	4,000
Prepaid Expenses	44,088	41,665
	<u>1,682,034</u>	<u>1,589,558</u>
Total Unrestricted Assets		
Restricted:		
Operating Reserve Fund:		
Cash and Cash Equivalents	698,250	714,335
Current Debt Service Fund:		
Cash and Cash Equivalents	194,960	197,187
Debt Service Reserve Fund:		
Cash and Cash Equivalents	207,325	207,325
	<u>207,325</u>	<u>207,325</u>
Construction Fund:		
Cash and Cash Equivalents	73,117	19,628
Due From NJ Environmental Infrastructure Trust	2,433	18,350
	<u>75,550</u>	<u>37,978</u>
Customer Deposits:		
Cash and Cash Equivalents	49,733	47,507
Escrow Deposits:		
Cash and Cash Equivalents	34,418	26,884
	<u>34,418</u>	<u>26,884</u>
Total Current Assets:	\$ <u>2,942,270</u>	<u>2,820,774</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 Position

	<u>May 31,</u>	
	<u>2016</u>	<u>2015</u> <u>(Restated)</u>
<u>Non-Current Assets:</u>		
<u>Capital Assets:</u>		
Property, Plant and Equipment	\$ 29,477,946	28,038,955
Construction In Progress	91,748	272,310
Less: Accumulated Depreciation	<u>(15,968,504)</u>	<u>(15,038,648)</u>
Total Capital Assets	<u>13,601,190</u>	<u>13,272,617</u>
TOTAL ASSETS	\$ <u>16,543,460</u>	<u>16,093,391</u>
 <u>DEFERRED OUTFLOWS OF RESOURCES</u>		
Pension Related Items	469,331	73,817
Loss on Advanced Refunding of Debt	<u>71,832</u>	<u>83,805</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>541,163</u>	<u>157,622</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 Position

Exhibit A
Page 3 of 3

May 31, 2016

	<u>2016</u>	<u>2015</u> <u>(Restated)</u>
<u>LIABILITIES</u>		
<u>Current Liabilities:</u>		
Payable From Unrestricted Assets:		
Accounts Payable	\$ 50,886	59,672
Accrued Liabilities:		
Compensated Absences	32,677	28,982
Total Current Liabilities Payable		
From Unrestricted Assets	83,563	88,654
Payable From Restricted Assets:		
Customer Deposits	49,733	47,507
Accounts Payable		19,780
Escrow Deposits Payable	34,418	26,884
Accrued Interest on Bonds Payable	39,960	47,187
Revenue Bonds and Loans		
Payable - Current Portion	354,072	334,987
Total Current Liabilities Payable		
From Restricted Assets	478,183	476,345
<u>Non-Current Liabilities :</u>		
Net Pension Liability	2,933,667	2,347,469
Long-Term Portion of Revenue Bonds		
and Loans Payable	4,941,577	4,300,440
Total Non-Current Liabilities	7,875,244	6,647,909
TOTAL LIABILITIES	\$ 8,436,990	7,212,908
<u>DEFERRED INFLOWS OF RESOURCES</u>		
Pension Related Items	171,213	291,878
Gain on Advanced Refunding of Debt	26,000	
Unamortized Bond Premium	116,789	97,887
TOTAL DEFERRED INFLOWS OF RESOURCES	314,002	389,765
<u>NET POSITION</u>		
Net Investment in Capital Assets	8,310,134	8,641,306
Restricted:		
Operating Reserve	698,250	714,335
Current Debt Service	155,000	150,000
Debt Service Reserve	207,325	207,325
Unrestricted:		
Designated	993,000	945,223
Undesignated	(2,030,078)	(2,009,849)
TOTAL NET POSITION	\$ 8,333,631	8,648,340

See accompanying notes to the financial statements.

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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,

	<u>2016</u>	<u>2015</u> <u>(Restated)</u>
Operating Revenues:		
Water Charges	\$ 700,329	642,388
Sewer Charges	2,319,405	2,288,045
Connection Fees	49,760	
Other	231,363	225,304
Interest On Delinquent Accounts	12,696	21,163
Total Operating Revenues	<u>3,313,553</u>	<u>3,176,900</u>
Operating Expenses:		
Costs of Providing Services	1,419,906	1,413,655
Administrative, General and Employee Benefits	1,154,026	1,210,953
Depreciation	929,856	929,680
Total Operating Expenses	<u>3,503,788</u>	<u>3,554,288</u>
Operating Income (Loss)	<u>(190,235)</u>	<u>(377,388)</u>
Non-Operating Revenues (Expenses):		
Interest on Investments	332	1,587
Interest Expense	(102,803)	(115,164)
Amortization	(5,535)	(5,535)
Bond Issuance Costs	(16,468)	
Reserve for Retiree Health Benefits		50,000
Non-Operating Income / (Loss)	<u>(124,474)</u>	<u>(69,112)</u>
Change in Net Position	<u>(314,709)</u>	<u>(446,500)</u>
Net Position - June 1, as previously reported	8,648,340	11,567,671
Prior Period Adjustment:		
Cumulative Effect of Change in Accounting Principle- Implementation of GASB Statement No. 68		<u>(2,472,831)</u>
Net Position - June 1, as restated	<u>8,648,340</u>	<u>9,094,840</u>
Net Position - May 31,	<u>\$ 8,333,631</u>	<u>8,648,340</u>

See accompanying notes to the financial statements.

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

Exhibit C
Page 1 of 2

For The Years Ended May 31,

	<u>2016</u>	<u>2015</u> <u>(Restated)</u>
<u>Cash Flow from Operating Activities:</u>		
Cash received from customers and users	\$ 3,314,971	3,213,459
Interest received	332	1,587
Cash Paid to suppliers and employees	(2,503,893)	(2,478,407)
Interest paid	(110,030)	(119,198)
Net Cash Provided by Operating Activities	<u>701,380</u>	<u>617,441</u>
<u>Cash Flow from Investing Activities:</u>		
Purchase of Property, Plant and Equipment	(1,278,209)	(491,812)
Net Cash Provided by (used in) Investing Activities	<u>(1,278,209)</u>	<u>(491,812)</u>
<u>Cash Flow from Financing Activities:</u>		
Received from NJEIT	1,070,337	
Payment of 1998 Refunding Bonds	(150,000)	(145,000)
Payment of NJEIT Loans	(184,987)	(184,938)
NJEIT Settlement Repayment	(24,339)	(24,339)
Net Cash Used in Financing Activities	<u>711,011</u>	<u>(354,277)</u>
Net Increase/(Decrease) in Cash and Cash Equivalents	134,182	(228,648)
Cash and Cash Equivalents at Beginning of Year	<u>2,579,572</u>	<u>2,808,220</u>
Cash and Cash Equivalents at End of Year	<u>\$ 2,713,754</u>	<u>2,579,572</u>
<u>Reconciliation to Statement of Net Position -</u>		
<u>Cash and Cash Equivalents:</u>		
Unrestricted Assets	\$ 1,455,951	1,366,706
Restricted Assets:		
Operating Reserve Fund	698,250	714,335
Current Debt Service Fund	194,960	197,187
Debt Service Reserve Fund	207,325	207,325
Construction Fund	73,117	19,628
Customer Deposit Account	49,733	47,507
Escrow Accounts	34,418	26,884
	<u>\$ 2,713,754</u>	<u>2,579,572</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>2016</u>	<u>2015</u> <u>(Restated)</u>
Reconciliation of operating income to net cash provided (used) by operating activities		
Operating Income	\$ (190,235)	(377,388)
Adjustments to Reconcile Change in Net Position to Net Cash Provided by Operating Activities:		
Depreciation	929,856	929,680
Pension Adjustment	70,019	92,699
Reserve for Retiree Health Benefits		50,000
Interest Income	332	1,587
Interest Expense	(102,803)	(115,164)
(Increase) Decrease In:		
Accounts Receivable-User Charges	(1,558)	33,846
Miscellaneous Receivables	750	1,000
Prepaid Expenses	(2,423)	(6,019)
Increase (Decrease) In:		
Accounts Payable - Unrestricted	(8,786)	10,397
Accrued Interest Payable	(7,227)	(4,034)
Customer Deposits	2,226	1,713
Escrow Deposits Payable	7,534	24
Accrued Liabilities	3,695	(900)
Net Cash Provided by Operating Activities	\$ <u>701,380</u>	<u>617,441</u>

See accompanying notes to the financial statements.

Notes to Financial Statements

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

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED MAY 31, 2016 AND 2015

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 Authority's significant 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 position. 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, 2016 AND 2015
(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 position 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 position 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, 2016 AND 2015
(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, 2016 AND 2015
(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, 2016 AND 2015
(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, 2016 AND 2015
(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 \$32,677, as of May 31, 2016, 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, 2016 AND 2015
(continued)

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

J. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions that effect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet date, and reported amounts of revenues and expenses during the reporting period. Estimates are used to determine depreciation expense and certain claims and judgment liabilities, among other accounts. Actual results may 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, 2016 AND 2015
(continued)

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

M. Recent Accounting Pronouncements

Recently Issued and Adopted Accounting Policies

For the fiscal year ended June 30, 2015, the Authority adopted GASB 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*, and GASB 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*. As a result of adopting such Statements, the Authority was required to measure and recognize liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures related to their defined benefit pensions. The cumulative effect of adopting GASB Statements No. 68 and No. 71 totaled \$(2,472,831), and was recognized as a restatement of the Authority's May 31, 2015 net position on the statements of net position (see Note 18).

Recently Issued Accounting Pronouncements

Statement No. 72, *Fair Value Measurement and Application*. This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement also provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The Statement is effective for periods beginning after June 15, 2015. Management has not yet determined the impact of this Statement on the financial statements.

The Government Accounting Standards Board issued GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68 and Amendments to Certain Provisions of GASB Statements 67 and 68*. This Statement is effective for fiscal years beginning after June 15, 2015 – except those provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68, which are effective for financial statements for fiscal years beginning after June 15, 2016. 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, 2016 AND 2015
(continued)

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

M. Recent Accounting Pronouncements, (continued)

The Government Accounting Standards Board issued GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This Statement applies to OPEB plans and basically parallels GASB Statement 67 and replaces GASB Statement 43 and is effective for fiscal years beginning after June 15, 2016. 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. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This Statement applies to government employers who provided OPEB plans to their employees and basically parallels GASB Statement 68 and replaces GASB Statement 45. The Statement is effective for fiscal years beginning after June 15, 2017. 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. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which reduces the GAAP hierarchy to two categories of authoritative GAAP from the four categories under GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The first category of authoritative GAAP consists of GASB Statements of Governmental Accounting Standards. The second category comprises GASB Technical Bulletins and Implementation Guides, as well as guidance from the American Institute of Certified Public Accountants that is cleared by the GASB. 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. 77, *Tax Abatement Disclosures*, which improve financial reporting by giving users of financial statements essential information that is not consistently or comprehensively reported to the public at present. Disclosure of information about the nature and magnitude of tax abatements will make these transactions more transparent to financial statement users. As a result, users will be better equipped to understand (1) how tax abatements affect a government's future ability to raise resources and meet its financial obligations and (2) the impact those abatements have on a government's financial position and economic condition. The Authority believes this Statement will have no impact 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, 2016 AND 2015
(continued)

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

M. Recent Accounting Pronouncements, (continued)

The Government Accounting Standards Board issued GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, which establishes the criteria for identifying the applicable pension plans and addresses measurement and recognition for pension liabilities, expense and expenditures; note disclosures of descriptive information about the plan, benefit terms, and contributions items; and required supplementary information presenting required contribution amounts for the past 10 fiscal years. The Authority is currently reviewing what effect this Statement might have on future financial statements.

The Government Accounting Standards Board issued GASB Statement No. 79, *Certain External Investment Pools and Pool Participation*, which permits qualifying external investment pools to measure pool investments at amortized cost for financial reporting purposes. The Authority is currently reviewing what effect this Statement might have on future financial statements.

The Government Accounting Standards Board issued GASB Statement No. 80, *Blending Requirements for Certain Component Units*, which provides clarity about how certain component units incorporated as not-for-profit corporations should be presented in the financial statements of the primary state or local government. The Authority does not believe this Statement will have any effect on future financial statements.

In March 2016, the Government Accounting Standards Board issued GASB Statement No. 81, *Irrevocable Split-Interest Agreements*. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The Authority does not believe this Statement will have any effect on future financial statements.

In March 2016, the Government Accounting Standards Board issued GASB Statement No. 82, *Pension Issues - an Amendment of GASB Statements No. 67, No. 68 and No. 73*. The objective of this Statement is to address certain issues that have been raised with respect to Statement No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of*

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(continued)

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

M. Recent Accounting Pronouncements, (continued)

GASB Statements 67 and 68. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice

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, 2016 and 2015, \$-0- of the Authority's bank balance of \$2,709,072 and \$2,638,971, respectively, was exposed to custodial credit risk.

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3. PROPERTY, PLANT AND EQUIPMENT

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

	<u>Balance</u> <u>May 31, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>May 31, 2016</u>
Capital Assets Being Depreciated:				
Buildings, Pumps, Mains	\$22,928,478	\$1,351,378	\$	\$24,279,856
Equipment and Vehicles	<u>5,044,825</u>	<u>87,613</u>	<u> </u>	<u>5,132,438</u>
Total Capital Assets Being Depreciated	<u>27,973,303</u>	<u>1,438,991</u>	<u> </u>	<u>29,412,294</u>
Capital Assets Not Being Depreciated:				
Land	65,652			65,652
Construction in Progress	<u>272,310</u>	<u>1,258,429</u>	<u>1,438,991</u>	<u>91,748</u>
Total Capital Assets Not Being Depreciated	<u>337,962</u>	<u>1,258,429</u>	<u>1,438,991</u>	<u>157,400</u>
Total Capital Assets	28,311,265	2,697,420	1,438,991	29,569,694
Accumulated Depreciation	<u>(15,038,648)</u>	<u>(929,856)</u>	<u> </u>	<u>(15,968,504)</u>
Net Property, Plant and Equipment	<u>\$13,272,617</u>	<u>\$1,767,564</u>	<u>\$1,438,991</u>	<u>\$13,601,190</u>

	<u>Balance</u> <u>May 31, 2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>May 31, 2015</u>
Capital Assets Being Depreciated:				
Buildings, Pumps, Mains	\$22,809,813	\$118,665	\$	\$22,928,478
Equipment and Vehicles	<u>4,843,789</u>	<u>201,036</u>	<u> </u>	<u>5,044,825</u>
Total Capital Assets Being Depreciated	<u>27,653,602</u>	<u>319,701</u>	<u> </u>	<u>27,973,303</u>
Capital Assets Not Being Depreciated:				
Land	65,652			65,652
Construction in Progress	<u>80,421</u>	<u>562,487</u>	<u>370,598</u>	<u>272,310</u>
Total Capital Assets Not Being Depreciated	<u>146,073</u>	<u>562,487</u>	<u>370,598</u>	<u>337,962</u>
Total Capital Assets	27,799,675	882,188	370,598	28,311,265
Accumulated Depreciation	<u>(14,108,968)</u>	<u>(929,680)</u>	<u> </u>	<u>(15,038,648)</u>
Net Property, Plant and Equipment	<u>\$13,690,707</u>	<u>(\$47,492)</u>	<u>\$370,598</u>	<u>\$13,272,617</u>

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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; \$46,956 in connection with the Series 2012 NJEIT financing; and \$25,338 in connection with the Series 2016 NJEIT financing. These premiums are being amortized on a straight-line basis over the remaining lives of the bonds. Accumulated amortization at May 31, 2016 is \$37,283 and at May 31, 2015 is \$30,847. The unamortized balance as of May 31, 2016 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 years ended May 31, 2016 and 2015:

	Balance <u>May 31, 2015</u>	<u>Issued</u>	Deobligated/ <u>Retired</u>	Balance <u>May 31, 2016</u>
1998 Refunding Bonds	\$1,200,000	\$	\$150,000	\$1,050,000
NJEIT Trust Loan Series 2009A	625,000		30,000	595,000
NJEIT Fund Loan Series 2009A	553,377		37,730	515,647
NJEIT Trust - Direct Loan	59,457		3,208	56,249
NJEIT Fund - Direct Loan	157,623		10,747	146,876
NJEIT Trust Loan Series 2010	370,000		41,000	329,000
NJEIT Fund Loan Series 2010	174,460		11,273	163,187
NJEIT Trust Loan Series 2012	340,000		15,000	325,000
NJEIT Fund Loan Series 2012	1,033,815		75,792	958,023
NJEIT Trust Loan Series 2016A-1		260,000		260,000
NJEIT Fund Loan Series 2016A-1		799,313		799,313
	<u>\$4,513,732</u>	<u>\$1,059,313</u>	<u>\$374,750</u>	<u>\$5,198,295</u>

	Balance <u>May 31, 2014</u>	<u>Issued</u>	Deobligated/ <u>Retired</u>	Balance <u>May 31, 2015</u>
1998 Refunding Bonds	\$1,345,000	\$	\$145,000	\$1,200,000
NJEIT Trust Loan Series 2009A	655,000		30,000	625,000
NJEIT Fund Loan Series 2009A	591,107		37,730	553,377
NJEIT Trust - Direct Loan	62,616		3,159	59,457
NJEIT Fund - Direct Loan	168,370		10,747	157,623
NJEIT Trust Loan Series 2010	385,000		15,000	370,000
NJEIT Fund Loan Series 2010	185,733		11,273	174,460
NJEIT Trust Loan Series 2012	355,000		15,000	340,000
NJEIT Fund Loan Series 2012	1,095,844		62,029	1,033,815
	<u>\$4,843,670</u>	<u>\$0</u>	<u>\$329,938</u>	<u>\$4,513,732</u>

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(continued)

5. LONG-TERM DEBT, (continued)

The Authority has issued and outstanding the following bonds and loans as of May 31, 2016 and 2015:

	Interest Rate	2016	2015
1998 Refunding Bonds	4.00% - 4.50%	\$1,050,000	\$1,200,000
NJEIT Trust Loan Series 2009A	2.00% - 4.00%	595,000	625,000
NJEIT Fund Loan Series 2009A	0.00%	515,647	553,377
NJEIT Trust - Direct Loan	.610% - 4.18%	56,249	59,457
NJEIT Fund - Direct Loan	0.00%	146,876	157,623
NJEIT Trust Loan Series 2010	5.00%	329,000	370,000
NJEIT Fund Loan Series 2010	0.00%	163,187	174,460
NJEIT Trust Loan Series 2012	2.00% - 5.00%	325,000	340,000
NJEIT Fund Loan Series 2012	0.00%	958,023	1,033,815
NJEIT Trust Loan Series 2016A-1	2.12% - 5.00%	260,000	
NJEIT Fund Loan Series 2016A-1	0.00%	<u>799,313</u>	
Net Carrying Amount of Debt		<u>\$5,198,295</u>	<u>\$4,513,732</u>
Current Portion		354,072	334,987
Long-Term Portion		<u>4,844,223</u>	<u>4,178,745</u>
		<u>\$5,198,295</u>	<u>\$4,513,732</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>
2017	\$354,072	\$107,366	461,438
2018	407,194	98,886	506,080
2019	417,281	87,383	504,664
2020	422,376	75,696	498,072
2021	440,480	63,624	504,104
2022-2026	1,514,315	192,922	1,707,237
2027-2031	1,308,665	68,513	1,377,178
2032-2036	<u>333,912</u>	<u>7,166</u>	<u>341,078</u>
Total	<u>\$5,198,295</u>	<u>\$701,556</u>	<u>\$5,899,851</u>

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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. NJEIT LOAN PROGRAM REPAYMENT

The Authority has agreed to repay an advance from NJEIT in the amount of \$170,373 over a period of seven years at zero percent interest. The Authority has made the first two installments of \$24,339 and had a remaining outstanding balance as of May 31, 2016 as follows:

6/1/17	\$24,339
6/1/18	24,339
6/1/19	24,339
6/1/20	<u>24,339</u>
	<u>\$97,356</u>

8. LOSSES/GAINS ON DEBT DEFEASANCE

Accounting losses and gains on advanced refundings of debt are being amortized over the life of the new debt. The unamortized balances as of May 31, 2016 are as follow:

Loss on refunding (Series 1998)	\$71,832
Gain on NJEIT Refunding (Series 2010)	\$(26,000)

These unamortized losses and gains are shown on the statement of net position as deferred outflows of resources and deferred inflows of resources, respectively.

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9. NEW JERSEY ENVIRONMENTAL INFRASTRUCTURE TRUST

The Authority issued Bonds through the New Jersey Environmental Infrastructure Trust (the "Trust") to finance the cost of various capital improvements being made to its facilities. The proceeds of the Bond are held by the Trust until the Authority expends the funds on the project. The Authority then submits for reimbursement of these expenditures from the Trust. The following is the remaining amounts to be received from the Trust for the fiscal years ended May 31, 2016 and 2015:

	<u>Balance</u> <u>May 31, 2015</u>	<u>Loans</u>	<u>Deobligated/</u> <u>Received</u>	<u>Balance</u> <u>May 31, 2016</u>
NJEIT Trust - Series 2012	\$4,587	\$	\$(4,587)	\$
NJEIT Fund - Series 2012	13,763		(13,763)	
NJEIT Trust - Series 2016A-1		268,871	(266,438)	2,433
NJEIT Fund - Series 2016A-1	_____	<u>799,312</u>	<u>(799,312)</u>	_____
	<u>\$18,350</u>	<u>\$1,068,183</u>	<u>(\$1,084,100)</u>	<u>\$2,433</u>
	<u>Balance</u> <u>May 31, 2014</u>	<u>Loans</u>	<u>Deobligated/</u> <u>Received</u>	<u>Balance</u> <u>May 31, 2015</u>
NJEIT Trust - Series 2012	\$4,587	\$	\$	\$4,587
NJEIT Fund - Series 2012	<u>13,763</u>	_____	_____	<u>13,763</u>
	<u>\$18,350</u>	<u>\$0</u>	<u>\$0</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.

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NOTES TO FINANCIAL STATEMENTS
YEARS ENDED MAY 31, 2016 AND 2015
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10. EMPLOYEE RETIREMENT SYSTEMS

Description of Plan - All required employees of the Authority are covered by the Public Employees' Retirement System which has been established by state statute and is administered by the New Jersey Division of Pension and Benefits (Division). According to the State of New Jersey Administrative Code, all obligations of the System will be assumed by the State of New Jersey should the System terminate.

Public Employees' Retirement System (PERS) - The Public Employees' Retirement System (PERS) was established as of January 1, 1955 under the provisions of N.J.S.A. 43:15A to provide retirement, death, disability and medicals benefits to certain qualified members. The Public Employees' Retirement System is a cost-sharing multiple-employer plan. Membership is mandatory for substantially all full-time employees of the State of New Jersey 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 or other state or local jurisdiction.

Defined Contribution Retirement Program (DCRP) - The Defined Contribution Retirement Program (DCRP) was established as of July 1, 2008 under the provisions of Chapter 92, P.L. 2008 and Chapter 103, P.L. 2008 (NJSA 43:15C-1 et seq). The DCRP is a cost-sharing multiple-employer defined contribution pension fund. The DCRP provides eligible members, and their beneficiaries with a tax-sheltered, defined contribution retirement benefit, along with life insurance and disability coverage. Vesting and benefit provisions are established by NJSA 43:15C-1 et seq.

Other Pension Funds

The State established and administers a Supplemental Annuity Collective Trust Fund (SACT) which is available to active members of the State-administered retirement systems to purchase annuities to supplement the guaranteed benefits provided by their retirement system. The state or local government employers do not appropriate funds to SACT.

The cost of living increase for PERS is funded directly by the respective system and are considered in the annual actuarial calculation of the required State contribution for the system.

According to state law, all obligations of each retirement system will be assumed by the State of New Jersey should any retirement system be terminated.

The State of New Jersey, Department of the Treasury, Division of Pensions and Benefits, issued publicly available financial reports that include the financial statements and required supplementary information of each of the above systems. The financial reports may be accessed via the New Jersey, Division of Pensions and Benefits, website at www.state.nj.us/treasury/pensions. Prudential

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10. EMPLOYEE RETIREMENT SYSTEMS, (continued)

Financial jointly administers the DCRP investments with the New Jersey Division of Pensions and Benefits. As a general rule, all full-time employees are eligible to join the PERS. However, if an employee is ineligible to enroll in the PERS, the employee may be eligible to enroll in DCRP.

Basis of Accounting

The financial statements of the retirement systems are prepared on the accrual basis of accounting. Employer contributions are recognized when payable to the retirement systems. Benefits or refunds are recognized when due and payable in accordance with the terms of the retirement systems.

Investment Valuation

Investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. The fair value of real estate investments is based on independent appraisals. Investments that do not have an established market are reported at estimated fair values.

The State of New Jersey, Department of the Treasury, Division of Investment, issues publicly available financial reports that include the financial statements of the State of New Jersey Cash Management Fund, Common Pension Fund A, Common Pension Fund B, Common Pension Fund D and Common Pension Fund E. The financial reports may be obtained in writing to the State of New Jersey, Department of the Treasury, Division of Investment, P.O. Box 290, Trenton, New Jersey 08625-0290.

Funding Status and Funding Progress

The funded status and funding progress of the retirement system is based on actuarial valuations which involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. These amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the probability of future events.

Actuarial calculations reflect a long-term perspective and are based on the benefits provided under the terms of the retirement systems in effect at the time of each valuation and also consider the pattern of the sharing of costs between the employer and members at that point in time. The projection of benefits for financing reporting purposes does not explicitly incorporate the potential effects of legal or contractual limitations on the pattern of cost sharing between the employer and members in the future.

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10. EMPLOYEE RETIREMENT SYSTEMS, (continued)

Employer and Employee Pension Contributions

The contribution policy is set by laws of the State of New Jersey and, in most retirement systems, contributions are required by active members and contributing employers. Plan member and employer contributions may be amended by State of New Jersey legislation. The pension funds provide for employee contributions based on 5.5% for PERS of the employee's annual compensation. Pursuant to the provisions of Chapter 78, P.L. 2011, this amount will increase to 6.5% plus an additional 1% phased in over 7 years beginning in the first year. For fiscal year 2012, the member rate will increase in October 2011. Employers are required to contribute at an actuarially determined rate in all Funds except the SACT. The actuarially determined employer contribution includes funding for cost-of-living adjustments and noncontributory death benefits in the PERS. In the PERS, the employer contribution includes funding for post-retirement medical premiums. Employee contributions for DCRP are based on 5.50% of employee's annual compensation and are matched by a 3% employer contribution.

PERS employer contributions are made annually by the Authority to the pension system in accordance with Chapter 114, P.L. 1997.

Annual Pension Costs (APC)

<u>Three Year Trend Information for PERS</u>		
<u>Year</u>	<u>Annual</u>	<u>Percentage</u>
<u>Funding</u>	<u>Pension</u>	<u>of APC</u>
	<u>Cost (APC)</u>	<u>Contributed</u>
5/31/16	\$112,356	100%
5/31/15	103,362	100%
5/31/14	101,565	100%

ACCOUNTING AND FINANCIAL REPORTING FOR PENSION IN THE FINANCIAL STATEMENTS PER - GASB NO. 68

Public Employees Retirement System (PERS)

At May 31, 2016, the Authority reported a liability of \$2,933,667 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Authority's proportion of the net pension liability was based on a projection of the Authority's long-term share of contributions to the pension plan relative to the projected contributions of all participating governments, actuarially determined. At June 30, 2015, the Authority's proportion was .0130687267 percent, which was an increase of .0005306616 percent from its proportion measured as of June 30, 2014.

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10. EMPLOYEE RETIREMENT SYSTEMS, (continued)

ACCOUNTING AND FINANCIAL REPORTING FOR PENSION IN THE FINANCIAL STATEMENTS PER - GASB NO. 68, (continued)

Public Employees Retirement System (PERS), (continued)

For the year ended May 31, 2016, the Authority recognized pension expense of \$182,375. At May 31, 2016, the Authority reported deferred outflows of resources and deferred inflows of resources related to PERS from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes of assumptions	\$315,052	\$
Net difference between projected and actual earnings on pension plan investments	69,987	47,168
Changes in proportion and differences between Authority contributions and proportionate share of contributions	<u>84,292</u>	<u>124,045</u>
Total	<u>\$469,331</u>	<u>\$171,213</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended May 31:	
2016	\$61,510
2017	61,510
2018	61,510
2019	97,964
2020	55,379

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10. EMPLOYEE RETIREMENT SYSTEMS, (continued)

ACCOUNTING AND FINANCIAL REPORTING FOR PENSION IN THE FINANCIAL STATEMENTS PER - GASB NO. 68, (continued)

Public Employees Retirement System (PERS), (continued)

Additional Information

Local Group Collective balances at May 31, 2016 and 2015 are as follows:

	<u>May 31, 2016</u>	<u>May 31, 2015</u>
Collective deferred outflows of resources	\$3,578,755,666	\$952,194,675
Collective deferred inflows of resources	993,410,455	1,479,224,662
Collective net pension liability	22,447,996,119	18,722,735,003
Authority's Proportion	.0130687267%	.0125380651%

Actuarial Assumptions

The total pension liability for the June 30, 2015 measurement date was determined by an actuarial valuation as of July 1, 2014, which rolled forward to June 30, 2015. This actuarial valuation used the following assumptions, applied to all periods in the measurement.

Inflation	3.04 Percent
Salary Increases:	
2012-2021	2.15-4.40 Percent (based on age)
Thereafter	3.15-5.40 Percent (based on age)
Investment Rate of Return	7.90 Percent

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period July 1, 2008 to June 30, 2011.

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10. EMPLOYEE RETIREMENT SYSTEMS, (continued)

ACCOUNTING AND FINANCIAL REPORTING FOR PENSION IN THE FINANCIAL STATEMENTS PER - GASB NO. 68, (continued)

Public Employees Retirement System (PERS), (continued)

Mortality Rates

Mortality rates were based on the RP-2000 Combined Healthy Male and Female Mortality Tables (setback one year for females) with adjustments for mortality improvements from the base year of 2012 based on Projection Scale AA.

Long-Term Rate of Return

In accordance with State statute, the long-term expected rate of return on plan investments is determined by the State Treasurer, after consultation with the Directors of the Division of Investments and Division of Pensions and Benefits, the board of trustees and the actuaries. Best estimates of arithmetic real rates of return for each major asset class included in PERS's target asset allocation as of June 30, 2015 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash	5.00%	1.04%
U.S. Treasuries	1.75%	1.64%
Investment Grade Credit	10.00%	1.79%
Mortgages	2.10%	1.62%
High Yield Bonds	2.00%	4.03%
Inflation-Indexed Bonds	1.50%	3.25%
Broad U.S. Equities	27.25%	8.52%
Developed Foreign Markets	12.00%	6.88%
Emerging Market Equities	6.40%	10.00%
Private Equity	9.25%	12.41%
Hedge Funds/Absolute Returns	12.00%	4.72%
Real Estate (Property)	2.00%	6.83%
Commodities	1.00%	5.32%
Global Debt ex US	3.50%	-0.40%
REIT	4.25%	5.12%

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YEARS ENDED MAY 31, 2016 AND 2015
(continued)

10. EMPLOYEE RETIREMENT SYSTEMS, (continued)

ACCOUNTING AND FINANCIAL REPORTING FOR PENSION IN THE FINANCIAL STATEMENTS PER - GASB NO. 68, (continued)

Public Employees Retirement System (PERS), (continued)

Discount Rate

The discount rate used to measure the total pension liability was 4.90% and 5.39% as of June 30, 2015 and 2014, respectively. This single blended discount rate was based on the long-term expected rate of return on pension plan investments of 7.9%, and a municipal bond rate of 3.80% and 4.29% as of June 30, 2015 and 2014, respectively, based on the Bond Buyer GO 20-Bond Municipal Bond Index which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made based on the average of the last five years of contributions made in relation to the last five years of recommended contributions. Based on those assumptions, the plan's fiduciary net position was projected to be available to make projected future benefit payments of current plan members through 2033. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2033, and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liability.

Sensitivity of the Collective Net Pension Liability to Changes in the Discount Rate

The following presents the collective net pension liability of the participating employers as of June 30, 2014 respectively, calculated using the discount rate as disclosed above as well as what the collective net pension liability would be if it was calculated using a discount rate that is 1 -percentage point lower or 1- percentage-point higher than the current rate:

	June 30, 2015		
	1%	At Current	1%
	Decrease	Discount Rate	Increase
	<u>3.90%</u>	<u>4.90%</u>	<u>5.90%</u>
Authority's proportionate share of the pension liability	\$3,646,189	\$2,933,667	\$2,336,294

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued Financial Report for the State of New Jersey Public Employees Retirement System (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, 2016 AND 2015
(continued)

11. 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 current Employee Contract 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 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/annrpts.shtml>.

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

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED MAY 31, 2016 AND 2015
(continued)

11. POSTEMPLOYMENT BENEFITS OTHER THAN PENSION, (continued)

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, 2016, 2015 and 2014 were \$63,373, \$57,547 and \$68,202, respectively, which equaled the required contributions for each year. There were approximately 5, 5 and 4 retired participants eligible at May 31, 2016, 2015 and 2014, respectively.

The Authority maintains a reserve account in the amount of \$351,000 to help defray the cost of retiree health benefits.

12. 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	\$757,979
Operating Reserve Requirement	<u>698,250</u>
Excess or (Deficiency)	<u>59,729</u>
 Bond Debt Service Reserve Fund	
Cash and Cash Equivalents	\$212,103
Bond Reserve Fund Requirement	<u>207,325</u>
Excess or (Deficiency)	<u>4,778</u>
 Bond Debt Service Principal and Interest Fund	
Cash and Cash Equivalents	\$373,638
Debt Service Principal and Interest Requirements	<u>194,960</u>
Excess or (Deficiency)	<u>\$178,678</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, 2016 AND 2015
(continued)

13. 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, 2016 met the requirements of the 1989, 1992, 1997 and 1998 Junior Lien Bond Resolutions.

14. COMMITMENTS AND CONTINGENT LIABILITIES

The Authority's attorney has advised them that there are no known material commitments or contingencies that would have a material effect on the financial statements.

15. 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 (latest October, 2013). An updated and revised plan for rehabilitation of the dam was submitted in June, 2014 to the NJDEP, including a permit application. While no decisions have been made by the Authority regarding whether the rehabilitation is necessary, especially in lieu of good dam performance under recent hurricane and superstorm conditions, estimates on the cost of rehabilitation have been revised to be between \$400,000 and \$700,000. The review of the design application and permit application could be completed by April 2015 and work could commence within 24 months of that date (April 2017).

16. RISK MANAGEMENT

The Pompton Lakes Borough Municipal Utilities Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Pompton Lakes Borough Municipal Utilities Authority is currently a member of the New Jersey Utility Authorities Joint Insurance Fund, a public entity risk pool currently composed of 46 member authorities. The Fund provides members with Property, Liability, and Workers Compensation Insurance, and Public Officials Liability Insurance.

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

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED MAY 31, 2016 AND 2015
(continued)

17. 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:

	<u>2016</u>	<u>2015</u>
Appropriated in Subsequent Year's Budget	\$642,000	\$594,223
Designated for Retiree Health Benefits	<u>351,000</u>	<u>351,000</u>
	<u>\$993,000</u>	<u>\$945,223</u>

At May 31, 2016, the Authority reported a total amount of \$993,000 of Unrestricted Net Position — Designated for the purposes describe above.

The remaining undesignated portion of the Authority's net position was comprised of the following at May 31, 2016 and 2015:

	<u>May 31, 2016</u>	<u>May 31, 2015</u>
Accrued Unfunded Pension Liability	\$(2,635,549)	\$(2,565,530)
Available for Use in Future Budgets	<u>605,471</u>	<u>555,681</u>
Total	<u>(\$2,030,078)</u>	<u>(\$2,009,849)</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, 2016 AND 2015
(continued)

18. PRIOR PERIOD ADJUSTMENTS

On June 1, 2015, the Authority adopted the provisions of Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*. This statement requires, among other things, the recognition of unfunded net pension obligations and related deferred outflows and inflows in the financial statements of an entity. As a result, the following prior period adjustments have been made on the 2015 financial statements:

	Balance 5/31/15 as Previously <u>Reported</u>	Retroactive <u>Adjustments</u>	Balance 5/31/15 as Restated
Deferred Outflows of Resources:			
Deferred Pension-Related Costs	\$ -	\$73,817	\$73,817
Liabilities:			
Net Pension Liability	-	2,347,469	2,347,469
Deferred Inflows of Resources:			
Deferred Pension-Related Inflows	-	291,878	291,878
Net Position:			
Unrestricted: Undesignated	555,681	(2,565,530)	(2,009,849)

19. SUBSEQUENT EVENTS

The Authority has evaluated subsequent events through September 19, 2016, the date which the financial statements were available to be issued and no items were noted for disclosure.

Required Supplementary Information - Part II

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THE POMPTON LAKES BOROUGH MUNICIPAL UTILITIES AUTHORITY
Schedules of Required Supplementary Information
Schedule of Authority's Share of Net Pension Liability - PERS
Last 10 Fiscal Years*

	Fiscal Year Ending May 31,	
	2016	2015
Authority's proportion of the net pension liability (asset)	0.0130687267%	0.0125380651%
Authority's proportionate share of the net pension liability (asset)	\$ 2,933,667	\$ 2,347,469
Authority's covered payroll - PERS	\$ 939,426	\$ 908,206
Authority's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	312.28%	258.47%
Plan fiduciary net position as a percentage of the total pension liability	47.93%	52.08%

* GASB requires that ten years of information be presented. However, since fiscal year 2016 was the first year of GASB 68 implementation ten years is not presented. Each year thereafter, an additional year will be included until ten years of data is presented.

THE POMPTON LAKES BOROUGH MUNICIPAL UTILITIES AUTHORITY
Schedules of Required Supplementary Information
Schedule of Authority's Contributions - PERS
*Last 10 Fiscal Years**

	Fiscal Year Ended May 31,	
	2016	2015
Contractually required contribution	\$ 112,356.00	\$ 103,362.00
Contributions in relation to the contractually required contribution	<u>\$ (112,356.00)</u>	<u>\$ (103,362.00)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Authority's covered payroll - PERS	\$ 939,426	\$ 908,206
Contributions as a percentage of covered payroll	11.96%	11.38%

* GASB requires that ten years of information be presented. However, since fiscal year 2016 was the first year of GASB 68 implementation ten years is not presented. Each year thereafter, an additional year will be included until ten years of data is presented.

THE POMPTON LAKES BOROUGH MUNICIPAL UTILITIES AUTHORITY
Note to Required Schedules of Supplementary Information
For the Year Ended May 31, 2016

PUBLIC EMPLOYEES RETIREMENT SYSTEM (PERS)

Change in benefit terms

None

Change in assumptions

The calculation of the discount rate used to measure the total pension liability is dependent upon the long-term expected rate of return, and the municipal bond index rate. There was a change in the municipal bond index rate from the prior measurement date to the current measurement date, resulting in a change in the discount rate from 5.39% to 4.90%. This change in the discount rate is considered to be a change in actuarial assumptions under GASBS No. 68.

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Supplementary Schedules

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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, 2016 and 2015

	Invested in Capital Assets	Restricted			Unrestricted		Total (Memo)	
		Operating Reserve Fund	Current Debt Service Reserve Fund	Debt Service Reserve Fund	Designated	Undesignated	2016	2015 (Restated)
Operating Revenues:								
Water Charges						700,329	700,329	642,388
Sewer Charges						2,319,405	2,319,405	2,288,045
Connection Fees						49,760	49,760	
Other						231,363	231,363	225,304
Interest on Delinquent Accounts						12,696	12,696	21,163
Total Operating Revenues						3,313,553	3,313,553	3,176,900
Operating Expenses:								
Costs of Providing Services						1,419,906	1,419,906	1,413,655
Administrative, General and Employee Benefits						1,154,026	1,154,026	1,210,953
Depreciation						929,856	929,856	929,680
Total Operating Expenses						3,503,788	3,503,788	3,554,288
Operating Income (Loss)						(190,235)	(190,235)	(377,388)

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, 2016 and 2015

	Invested in Capital Assets	Operating Reserve Fund	Restricted Current		Unrestricted		Total (Memo)	
			Operating Reserve Fund	Debt Service Reserve Fund	Designated	Undesignated	2016	2015 (Restated)
Non-Operating Revenue and (Expenses):								
Interest Income						332	332	1,587
Interest Expense						(102,803)	(102,803)	(115,164)
Amortization						(5,535)	(5,535)	(5,535)
Bond Issuance Costs						(16,468)	(16,468)	
Reserve for Retiree Health Benefits								50,000
						(124,474)	(124,474)	(69,112)
Net Income (Loss) Before Transfers and Capital Contributions						(314,709)	(314,709)	(446,500)
Transfers:								
Interest Income								
Other	(331,172)	(16,085)		5,000		294,480		
	(331,172)	(16,085)		5,000		(20,229)	(314,709)	(446,500)
Increase (Decrease) in Net Position								
Net Position - June 1, as previously reported	8,641,306	714,335		150,000		(2,009,849)	8,648,340	11,567,671
Prior Period Adjustment:								
Cumulative effect of change in accounting principle - Implementation of GASB No. 68								(2,472,831)
Net Position - June 1, as restated	8,641,306	714,335		150,000		(2,009,849)	8,648,340	9,094,840
Net Position - May 31,	8,310,134	698,250		155,000		(2,030,078)	8,333,631	8,648,340

Appropriated in Subsequent Years Budget
Designated for Retiree Health Benefits

642,000
351,000
993,000

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, 2016

	Operating Account	General Fund	Payroll Fund	Construction Fund
Cash, Cash Equivalents and Investments - June 1, 2015	22,427	1,096,990	5,391	19,628
Cash Receipts:				
Interest on Investments		63		45
Water and Sewer Charges				
Customer Deposits				
Other	85,452			1,225,404
Employee/Employer Payroll Taxes			564,175	
Net Payroll Transfers			727,779	
Transfers	2,896,202	117,299		253,370
Total Cash Receipts	2,981,654	117,362	1,291,954	1,478,819
Cash and Investments Available	3,004,081	1,214,352	1,297,345	1,498,447
Cash Disbursements:				
Operations	2,823,331		727,779	
Capital Expenditures				1,311,460
Employee/Employer Payroll Taxes			564,646	
Bond Principal Payments				
Bond Interest Payments				
Customer Deposits				
Other				
Transfers	500	387,000		113,870
Total Cash Disbursements	2,823,831	387,000	1,292,425	1,425,330
Cash, Cash Equivalents and Investments - May 31, 2016	180,250	827,352	4,920	73,117
Analysis of Balance:				
Cash and Cash Equivalents	180,250	827,352	4,920	73,117
Investments	-	-	-	-
	180,250	827,352	4,920	73,117
Unrestricted	180,250	827,352	4,920	-
Restricted	-	-	-	73,117
	180,250	827,352	4,920	73,117

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, 2016

	Trustee Revenue Fund	Debt Service Interest Fund	Bond Reserve Fund	Customer Deposit Account
Cash, Cash Equivalents and Investments - June 1, 2015	771,751	176,863	212,089	47,507
Cash Receipts:				
Interest on Investments	8		14	32
Water and Sewer Charges	3,153,097			
Customer Deposits				6,737
Other				
Employee/Employer Payroll Taxes				
Net Payroll Transfers				
Transfers	3,162,548	397,250		
Total Cash Receipts	6,315,653	397,250	14	6,769
Cash and Investments Available	7,087,404	574,113	212,103	54,276
Cash Disbursements:				
Operations				
Capital Expenditures				
Employee/Employer Payroll Taxes				
Bond Principal Payments		150,000		
Bond Interest Payments		50,475		
Customer Deposits				4,543
Other	4,126			
Transfers	6,325,299			
Total Cash Disbursements	6,329,425	200,475	-	4,543
Cash, Cash Equivalents and Investments - May 31, 2016	757,979	373,638	212,103	49,733
Analysis of Balance:				
Cash and Cash Equivalents	757,979	373,638	212,103	49,733
Investments	-	-	-	-
	757,979	373,638	212,103	49,733
Unrestricted	59,729	178,678	4,778	-
Restricted	698,250	194,960	207,325	49,733
	757,979	373,638	212,103	49,733

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, 2016

	Escrow Deposit Fund	Retiree Health Benefit Reserve Account	Total
Cash, Cash Equivalents and Investments - June 1, 2015	26,884	200,042	2,579,572
Cash Receipts:			
Interest on Investments	34	202	398
Water and Sewer Charges			3,153,097
Customer Deposits			6,737
Other	7,500		1,318,356
Employee/Employer Payroll Taxes			564,175
Net Payroll Transfers			727,779
Transfers			6,826,669
Total Cash Receipts	7,534	202	12,597,211
Cash and Investments Available	34,418	200,244	15,176,783
Cash Disbursements:			
Operations			3,551,110
Capital Expenditures			1,311,460
Employee/Employer Payroll Taxes			564,646
Bond Principal Payments			150,000
Bond Interest Payments			50,475
Customer Deposits			4,543
Other			4,126
Transfers			6,826,669
Total Cash Disbursements	-	-	12,463,029
Cash, Cash Equivalents and Investments - May 31, 2016	34,418	200,244	2,713,754
Analysis of Balance:			
Cash and Cash Equivalents	34,418	200,244	2,713,754
Investments	-	-	-
	34,418	200,244	2,713,754
Unrestricted	-	200,244	1,455,951
Restricted	34,418	-	1,257,803
	34,418	200,244	2,713,754

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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, 2016

	<u>2016</u>	<u>2016</u>	<u>2016</u>	<u>2015</u>
	<u>Budget</u>	<u>Budget After</u>	<u>Actual</u>	<u>Actual</u>
		<u>Modifications</u>		
Revenues:				
Unrestricted Net Position Appropriated	189,223	189,223	189,223	215,318
Water Charges	775,000	775,000	700,329	642,388
Sewer Charges	2,058,909	2,058,909	2,319,405	2,288,045
Connection Fees			49,760	
Other	260,000	260,000	231,363	225,304
Interest on Delinquent Accounts	20,000	20,000	12,696	21,163
Interest on Investments and Deposits	1,000	1,000	332	1,587
Total Operating Revenues	<u>3,304,132</u>	<u>3,304,132</u>	<u>3,503,108</u>	<u>3,393,805</u>
Expenses:				
Cost of Providing Services:				
Operating Salaries	670,000	670,000	641,003	599,798
Overtime Salaries	35,000	35,000	32,144	31,207
Professional Fees - Other	20,000	20,000	21,900	20,400
Engineering - Retainer	12,000	12,000	8,850	11,460
Engineering - Miscellaneous	25,000	25,000	8,415	14,945
Chemicals	60,000	60,000	62,468	62,255
Systems and Equipment - Repairs and Maintenance	150,000	150,000	86,653	148,126
Truck Expenses - Gas, Oil, License	20,000	20,000	12,607	15,691
Truck Expenses - Repairs	8,000	8,000	5,586	4,596
Vehicle & Equipment Leases	5,000	5,000		
Electricity	300,000	300,000	293,718	294,392
Water Consumed in Operations	2,000	2,000	2,353	1,917
Sludge Removal	100,000	100,000	129,991	94,266
Uniforms	8,000	8,000	6,426	5,611
Fees and Permits	50,000	50,000	39,348	47,864
Lab Supplies and Expenses	35,000	35,000	37,879	34,707
Customer Refunds	3,000	3,000	3,748	574
Miscellaneous Supplies and Expenses	30,000	30,000	26,817	25,846
Contingency (NJFIT)	24,339	24,339	24,339	24,339
Sub-total Cost of Providing Services	<u>1,557,339</u>	<u>1,557,339</u>	<u>1,444,245</u>	<u>1,437,994</u>
Administrative, General Expenses and Employee Benefits:				
Administrative Salaries	387,000	387,000	339,848	325,140
Commissioners' Salaries	30,000	30,000	28,122	27,500
Administrative Trustees Fees	23,000	23,000	12,490	15,424
Customer Billing - Postage	6,000	6,000	7,118	6,894
Computer Programming	30,000	30,000	3,942	11,249
Computer Retainer	15,000	15,000	15,475	15,522
Auditing	26,000	26,000	22,232	25,770
Legal - Retainer	18,500	18,500	18,390	18,000
Legal - Miscellaneous	10,000	10,000	6,107	6,589
Office Supplies and Postage	10,000	10,000	7,437	8,504
Conferences and Seminars	10,000	10,000	8,695	6,779

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, 2016

	2016 Budget	2016 Budget After Modifications	2016 Actual	2015 Actual
Administrative, General Expenses and Employee Benefits (continued):				
Special Accounting Services	6,000	6,000	4,500	4,871
Printing and Publications	8,000	8,000	3,647	2,844
Telephone and Alarm System	12,000	12,000	9,661	12,835
Insurance	40,000	40,000	37,963	33,157
Building Repairs and Maintenance	20,000	20,000	14,262	13,496
Heating	5,000	5,000	2,611	3,083
Bank Sweep Fees	4,000	4,000	4,186	3,539
Employee Benefits:				
Public Employee Retirement System	125,000	125,000	112,356	103,362
Social Security Tax	80,000	80,000	73,264	71,774
Unemployment Compensation Insurance	4,500	4,500	4,609	4,338
Worker's Compensation Insurance	30,000	30,000	26,110	27,502
Medical Insurance Premium	275,000	275,000	257,609	262,535
Retiree Health Benefits	75,000	75,000	63,373	57,547
Retiree Health Reserve	50,000	50,000		50,000
	<u>1,300,000</u>	<u>1,300,000</u>	<u>1,084,007</u>	<u>1,118,254</u>
Debt Service:				
Bond Principal	339,987	339,987	334,987	329,938
Interest on Bonds	<u>106,806</u>	<u>106,806</u>	<u>102,803</u>	<u>115,164</u>
	<u>446,793</u>	<u>446,793</u>	<u>437,790</u>	<u>445,102</u>
Total Costs Funded by Operating Revenues	<u><u>3,304,132</u></u>	<u><u>3,304,132</u></u>	<u><u>2,966,042</u></u>	<u><u>3,001,350</u></u>
Excess of Actual Revenues Over Expenses			537,066	392,455
Reconciliation of Budgetary Basis to GAAP:				
Undesignated Retained Earnings			(189,223)	(215,318)
Pension Adjustment			(70,019)	(92,699)
Budget Approp. - Retiree Health Benefits				50,000
Depreciation			(929,856)	(929,680)
Amortization			(5,535)	(5,535)
Bond Issuance Costs			(16,468)	
NJEIT Settlement Repayment			24,339	24,339
Bond Principal			<u>334,987</u>	<u>329,938</u>
Total Adjustments			<u>(851,775)</u>	<u>(838,955)</u>
Change in Net Position			<u><u>(314,709)</u></u>	<u><u>(446,500)</u></u>

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, 2016

	<u>2016</u>	<u>2016</u>	<u>2016</u>	<u>2015</u>
	<u>Budget</u>	<u>Budget After</u>	<u>Actual</u>	<u>Actual</u>
Financing Sources:				
Debt Authorization	1,905,000	1,905,000	898,555	
Unrestricted Net Position	405,000	405,000	359,875	562,487
Total Financing Sources	<u>2,310,000</u>	<u>2,310,000</u>	<u>1,258,430</u>	<u>562,487</u>
Capital Outlays:				
Miscellaneous Water Main Valve Insertions	20,000	20,000		
Miscellaneous Well Upgrades	50,000	50,000		
Miscellaneous Upgrades to Water System	100,000	100,000	5,532	10,386
Miscellaneous Building Upgrades	40,000	40,000	4,838	4,422
Miscellaneous Security Equipment	30,000	30,000		4,616
Dam Bi-Annual Inspection/Permitting	40,000	40,000	24,517	44,645
Wastewater Treatment Plant SCADA	20,000	20,000	15,138	14,707
Rehabilitation of WTP Clarifiers	1,200,000	1,200,000	898,555 ⁽¹⁾	70,181
Sludge Mixer	250,000	250,000	262,730	22,226
Miscellaneous Paving & Concrete Repairs	35,000	35,000		13,086
Fire Hydrant and Aux. Valve Upgrades				18,655
2014 Ford F150 Pickup Truck				34,306
Misc. Computer and Office Equipment	40,000	40,000		
Misc. Upgrades to Pump Stations	50,000	50,000	6,441	24,591
Miscellaneous Treatment Plant Upgrades	75,000	75,000	21,348	51,946
Water Storage Tank Cathodic Protection	10,000	10,000		
South Pumping Station Emergency Generator				124,501
Rehabilitation of WTP Equalization Tank	50,000	50,000		
Fire Hydrant and Aux. Valve Upgrades	50,000	50,000		
Miscellaneous Tools and Equipment	40,000	40,000		
20' Dual Wheel Equipment Trailer	10,000	10,000	9,560	
Upgrade WTP Sludge Thickener Electric	125,000	125,000	2,570	
Miscellaneous Infrastructure Upgrades	50,000	50,000	7,201	2,175
Upgrade of Well #3 Electrical Service/Controls				64,661
Collection System Inspection Equipment	25,000	25,000		
Fuel Tank Upgrades				57,383
Total Capital Outlay	<u>2,310,000</u>	<u>2,310,000</u>	<u>1,258,430</u>	<u>562,487</u>
Excess of Actual Revenues Over Expenses				
Total	<u>2,310,000</u>	<u>2,310,000</u>	<u>1,258,430</u>	<u>562,487</u>

(1) Funded by New Jersey Environmental Infrastructure Trust.

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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, 2016 and 2015

	Original Issuance		Interest Rate	Maturities		Balance June 1, 2015	Issued	Redeemed/ Retired	Balance May 31, 2016
	Date	Amount		Date	Amount				
Series 1998 Refunding Bonds	11/10/1998	2,720,000	4.500%	06/01/2016	155,000	1,200,000		150,000	1,050,000
			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				
NJFIT Trust Loan Series 2009A	12/2/2009	735,000	5.000%	08/01/2016	30,000			30,000	595,000
			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				

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, 2016 and 2015

	Original Issuance		Interest Rate	Maturities		Balance June 1, 2015	Issued	Redeemed/Retired	Balance May 31, 2016
	Date	Amount		Date	Amount				
NJET Fund Loan Series 2009A	12/2/2009	704,297	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				
						553,377		37,730	515,647

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, 2016 and 2015

	Original Issuance		Interest Rate	Maturities		Balance June 1, 2015	Issued	Redeemed/ Retired	Balance May 31, 2016
	Date	Amount		Date	Amount				
NJET Trust Loan Direct Loan	2/23/2010	71,914	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				
						59,457		3,208	56,249

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, 2016 and 2015

	Original Issuance		Interest Rate	Maturities		Balance June 1, 2015	Issued	Redeemed/Retired	Balance May 31, 2016
	Date	Amount		Date	Amount				
NJ/EIT Fund Loan Direct Loan	2/23/2010	204,192	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				
						157,623		10,747	146,876

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, 2016 and 2015

	Original Issuance		Interest Rate	Maturities		Balance June 1, 2015	Issued	Redeemed/Retired	Balance May 31, 2016
	Date	Amount		Date	Amount				
NJET Trust Loan Series 2010B	12/2/2010	415,000	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	18,000				
			5.000%	08/01/2021	18,000				
			5.000%	08/01/2022	18,000				
			5.000%	08/01/2023	23,000				
			5.000%	08/01/2024	23,000				
			5.000%	08/01/2025	23,000				
			5.000%	08/01/2026	23,000				
			5.000%	08/01/2027	27,000				
			5.000%	08/01/2028	27,000				
			5.000%	08/01/2029	27,000				
			5.000%	08/01/2030	32,000				
						370,000		41,000	329,000

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, 2016 and 2015

	Original Issuance		Interest Rate	Maturities		Balance June 1, 2015	Issued	Redeemed/Retired	Balance May 31, 2016
	Date	Amount		Date	Amount				
NJBIT Fund Loan Series 2010	12/2/2010	210,430	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				
									174,460

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, 2016 and 2015

	Original Issuance		Interest Rate	Maturities		Balance June 1, 2015	Issued	Redeemed/ Retired	Balance May 31, 2016
	Date	Amount		Date	Amount				
NJET Trust Loan Series 2012A	05/3/2012	370,000	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							
						340,000		15,000	325,000

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, 2016 and 2015

	Original Issuance		Interest Rate	Maturities		Balance June 1, 2015	Issued	Redeemed/ Retired	Balance May 31, 2016
	Date	Amount		Date	Amount				
NJFIT Fund Loan Series 2012	05/3/2012	1,144,110	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	27,589				
						1,033,815		75,792	938,023

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, 2016 and 2015

	Original Issuance		Interest Rate	Maturities		Balance June 1, 2015	Issued	Redeemed/ Retired	Balance May 31, 2016
	Date	Amount		Date	Amount				
NJ/EIT Trust Loan Series 2016A-1	05/26/2016	260,000	5.000%	08/01/2017	10,000				
			5.000%	08/01/2018	10,000				
			5.000%	08/01/2019	10,000				
			5.000%	08/01/2020	10,000				
			5.000%	08/01/2021	10,000				
			5.000%	08/01/2022	10,000				
			5.000%	08/01/2023	10,000				
			4.000%	08/01/2024	15,000				
			4.000%	08/01/2025	15,000				
			4.000%	08/01/2026	15,000				
			4.000%	08/01/2027	15,000				
			2.000%	08/01/2028	15,000				
			2.000%	08/01/2029	15,000				
			2.000%	08/01/2030	15,000				
			2.125%	08/01/2031	15,000				
			3.000%	08/01/2032	15,000				
			3.000%	08/01/2033	15,000				
			3.000%	08/01/2034	20,000				
			3.000%	08/01/2035	20,000				
							260,000		260,000

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, 2016 and 2015

	Original Issuance		Interest Rate	Maturities		Balance June 1, 2015	Issued	Redeemed/Retired	Balance May 31, 2016
	Date	Amount		Date	Amount				
NJEIT									
Fund Loan									
Series 2016A-1	05/26/2016	799,313	0.000%	02/01/2017	14,023				
			0.000%	08/01/2017	28,046				
			0.000%	02/01/2018	14,023				
			0.000%	08/01/2018	28,046				
			0.000%	02/01/2019	14,023				
			0.000%	08/01/2019	28,046				
			0.000%	02/01/2020	14,023				
			0.000%	08/01/2020	28,046				
			0.000%	02/01/2021	14,023				
			0.000%	08/01/2021	28,046				
			0.000%	02/01/2022	14,023				
			0.000%	08/01/2022	28,046				
			0.000%	02/01/2023	14,023				
			0.000%	08/01/2023	28,046				
			0.000%	02/01/2024	14,023				
			0.000%	08/01/2024	28,046				
			0.000%	02/01/2025	14,023				
			0.000%	08/01/2025	28,046				
			0.000%	02/01/2026	14,023				
			0.000%	08/01/2026	28,046				
			0.000%	02/01/2027	14,023				
			0.000%	08/01/2027	28,046				
			0.000%	02/01/2028	14,023				
			0.000%	08/01/2028	28,046				
			0.000%	02/01/2029	14,023				
			0.000%	08/01/2029	28,046				
			0.000%	02/01/2030	14,023				
			0.000%	08/01/2030	28,046				
			0.000%	02/01/2031	14,023				
			0.000%	08/01/2031	28,046				
			0.000%	02/01/2032	14,023				
			0.000%	08/01/2032	28,046				
			0.000%	02/01/2033	14,023				
			0.000%	08/01/2033	28,046				
			0.000%	02/01/2034	14,023				
			0.000%	08/01/2034	28,047				
			0.000%	02/01/2035	14,023				
			0.000%	08/01/2035	28,047				
Grand Total						4,513,732	799,313	374,750	799,313
						1,059,313			5,198,295
Current Portion						334,987			354,072
Non-Current Portion						4,178,745			4,844,223
						4,513,732			5,198,295

Schedule 6

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

MEMBERS OF THE AUTHORITY

FISCAL YEAR 2015 - 2016

JUNE 1, 2015 TO MAY 31, 2016

<u>Official</u>	<u>Position</u>	<u>Term Expires February 1</u>
George Decker	Chairman	2020
Kevin P. Carroll	Vice-Chairman/Treasurer	2021
Lawrence DeMaio	Secretary	2018
Neal Galletta	Assistant Secretary	2017
Michael Longo	Assistant Treasurer	2019

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POMPTON LAKES BOROUGH MUNICIPAL UTILITIES AUTHORITY

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PART II

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

COMMENTS AND RECOMMENDATIONS

YEAR ENDED MAY 31, 2016

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

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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, 2016, and the related notes to the financial statements, and have issued our report thereon dated September 19, 2016.

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 certain deficiencies in internal control over financial reporting, described in the accompanying comments and recommendations as Findings 2016-001 and 2016-002 that we consider to be significant deficiencies 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, Wielkotz, Cerullo & Cuva, P.A.

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

September 19, 2016



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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE AS REQUIRED BY THE UNIFORM GUIDANCE AND N.J. OMB CIRCULAR 15-08

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 and State Program

We have audited the Pompton Lakes Borough Municipal Utilities Authority's compliance with the types of compliance requirements described in the OMB Compliance Supplement and N.J. Office of Management and Budget (OMB) Circular 15-08 Compliance Supplement that could have a direct and material effect on each of its major federal and state programs for the year ended May 31, 2016. The Pompton Lakes Borough Municipal Utilities Authority's major federal and state programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal and state 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 and state 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 the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and N.J. OMB Circular 15-08. Those standards, the Uniform Guidance and N.J. OMB Circular 15-08 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 or state program occurred. An audit includes examining, on a test basis, evidence about the Pompton Lakes Borough Municipal Utilities Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.



We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal and state program. However, our audit does not provide a legal determination on the Pompton Lakes Borough Municipal Utilities Authority's compliance.

Opinion on Each Major Federal and State 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 and state programs for the year ended December 31, 2015.

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 types of requirements that could have a direct and material effect on a major federal and state program to determine our auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal and state program and to test and report on internal control over compliance with the Uniform Guidance and N.J. OMB Circular 15-08, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Pompton Lakes Borough Municipal Utilities Authority's internal control over compliance.

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

Report on Schedule of Expenditures of Federal and State Awards Required by the Uniform Guidance and N.J. OMB Circular 15-08

We have audited the financial statements of the Pompton Lakes Borough Municipal Utilities Authority as of and for the year ended May 31, 2016, and have issued our report thereon dated September 19, 2016 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 and state awards is presented for purposes of additional analysis as required by the Uniform Guidance and N.J. OMB Circular 15-08 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 and state awards is fairly stated in all material respects in relation to the financial statements as a whole.

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 the Uniform Guidance and N.J. OMB Circular 15-08. Accordingly, this report is not suitable for any other purpose.

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

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

September 19, 2016



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THE POMPTON LAKES BOROUGH MUNICIPAL UTILITIES AUTHORITY
(A Component Unit of the Borough of Pompton Lakes)
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
MAY 31, 2016

Federal Grantor/Pass-Through Grantor/Program	Federal CFDA Number	Grant ID Number	Program Amount	Grant Period		Cash Received		Program Expenditures	
				From	To	Prior Years	Current Year	Prior Years	Current Year
<u>U.S. Department of Environmental Protection:</u>									
Pass Through New Jersey Department of Environmental Protection:									
Capitalization Grants for Clean Water State Revolving Funds:									
NJDEP Loan	66.458	S340636-08	\$ 799,312	06/01/15	05/31/16		799,312		799,312
Subtotal						-	799,312	-	799,312
Total Federal Financial Assistance									
						-	799,312	-	799,312

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

THE POMPTON LAKES BOROUGH MUNICIPAL UTILITIES AUTHORITY
(A Component Unit of the Borough of Pompton Lakes)
SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE
MAY 31, 2016

State Grantor/Pass-Through Grantor/Program	Pass Through Entity ID No.	State Grant ID Number	Program Amount	Grant Period		Cash Received		Program Expenditures	
				From	To	Prior Years	Current Year	Total	Prior Years
New Jersey Department of Environmental Protection: New Jersey Environmental Infrastructure Trust - Interim Financing Program	n/a	S340636-08	\$ 266,438	06/01/15	05/31/16		266,438	266,438	266,438
Total State Financial Assistance						0	266,438	0	266,438

Note: This schedule was not subject to an audit in accordance with NJ OMB Circular 15-08.

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, 2016**

NOTE 1. GENERAL

The accompanying Schedules of Expenditures of Federal Awards and State Financial Assistance 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 Federal Awards and State Financial Assistance are presented on the accrual basis of accounting. This basis of accounting is described in Note 2(A) to the Authority's basic financial statements. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and the N.J. OMB Circular 15-08.

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>\$799,312</u>	<u>\$266,438</u>	<u>\$1,065,750</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.

NOTE 5. INDIRECT COST RATE

The Pompton Lakes Borough Municipal Utilities Authority has not elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

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POMPTON LAKES BOROUGH MUNICIPAL UTILITIES AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED MAY 31, 2016

Section II--Financial Statement Findings

2016-1**

Condition: The Authority is not maintaining and updating its fixed asset inventory.

Criteria: N.J.A.C. 5:30-5.6 requires that a fixed asset accounting system be created and maintained.

Effect: The Authority is not in compliance with N.J.A.C. 5:30-5.6.

Cause: Authority personnel have not updated the fixed asset and depreciation schedule.

Recommendation: That procedures be implemented to update the authority's fixed asset and depreciation schedule.

Management Response: The Authority will review its fixed asset procedures and take steps to update its fixed asset inventory.

2016-2

Condition: Accounts receivable subsidiary ledgers are not being reconciled to the general ledger.

Criteria: For proper internal control, accounts receivable subsidiary ledgers should be reconciled to the general ledger on a timely basis.

Effect: The Authority may not detect and correct errors in its accounts receivable balances.

Cause: Authority personnel did not perform the reconciliations on a regular basis.

Recommendation: That Authority personnel reconcile the accounts receivable subsidiary ledger to the general ledger on a monthly basis.

Management Response: The Authority will designate personnel to perform these reconciliations.

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

No matters were reported.

**POMPTON LAKES BOROUGH MUNICIPAL UTILITIES AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED MAY 31, 2016**

Status of Prior Year Findings

A review was performed on prior audit findings and corrective action was not taken on the following item:

2015-3:

The Authority is not maintaining a fixed asset inventory.

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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 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.

Effective July 1, 2015, the bid threshold, in accordance with N.J.S.A. 40A:11-3 and 40A:11-4 (as amended) is \$17,500 and with a qualified purchasing agent the threshold may be up to \$40,000.

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.

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

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

Very truly yours,

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

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