

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

FINANCIAL STATEMENTS

YEARS ENDED MAY 31, 2019 AND 2018

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

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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, 2019 and 2018, 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 opinions 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.

Honorable Chairperson and Members of the
Pompton Lakes Borough Municipal Utilities Authority
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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, 2019, 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 Principle

As discussed in Note 1 to the basic financial statements, during the year ended May 31, 2019, the Authority adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 75, Accounting and Financial Reporting for Post Employment Benefits Other Than Pensions (an Amendment of GASB Statement No. 45). Our opinion was not modified with respect to this matter.

Prior Period Adjustment

Because of the implementation of GASB Statement No. 75, beginning net position on the statement of revenues, expenses and changes in net position has been restated for fiscal year May 31, 2019, as discussed in the notes to the financial statements. Our opinion was not modified with respect to this matter.

Honorable Chairperson and Members of the
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Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, schedule of the Authority's proportionate share of the net OPEB contribution and liability and the schedule of the Authority's proportionate share of the net pension contribution and 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 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 is the responsibility of management and was derived from and relate 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 is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Honorable Chairperson and Members of the
Pompton Lakes Borough Municipal Utilities Authority
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Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 15, 2019 on our consideration of the Pompton Lakes Borough Municipal Utilities Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Pompton Lakes Borough Municipal Utilities Authority's internal control over financial reporting and compliance.

Very truly yours,

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

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

August 15, 2019

Required Supplementary Information - Part I

Management Discussion and Analysis

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2019 and 2018. 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 \$2,402,666 (net position) for the fiscal year reported. This compares to the previous year when assets exceeded liabilities by \$2,745,155.
- Total net position is comprised of the following:
 - (1) Capital assets, net of related debt, of \$7,647,959 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 \$-0- are restricted by constraints imposed from outside the Authority such as debt covenants, grantors, laws, or regulations.
 - (3) Unrestricted net position of \$(5,245,293) represent the portion available to maintain the Authority's continuing obligations to citizens and creditors.
- Total liabilities of the Authority decreased by \$1,297,243 to \$9,599,703 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
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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 \$2,402,666. This is a \$342,489 decrease under last year's restated net position of \$2,745,155. A summary of the Authority's statement of net position is presented in the following table:

Condensed Statement of Net Position

	<u>FY 2019</u>	<u>Restated FY 2018</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Current and Other Assets	2,494,543	2,328,361	166,182	7.14%
Capital Assets	<u>11,244,632</u>	<u>11,967,474</u>	<u>(722,842)</u>	(6.04)%
Total Assets	<u>13,739,175</u>	<u>14,295,835</u>	<u>(556,660)</u>	(3.89)%
Deferred Outflows of Resources	<u>996,636</u>	<u>785,433</u>	<u>211,203</u>	26.89%
Long-term Debt Outstanding	3,213,711	3,508,425	(294,714)	(8.40)%
Other Liabilities	<u>6,385,992</u>	<u>7,388,521</u>	<u>(1,002,529)</u>	(13.57)%
Total Liabilities	<u>9,599,703</u>	<u>10,896,946</u>	<u>(1,297,243)</u>	(11.90)%
Deferred Inflows of Resources	<u>2,733,442</u>	<u>1,439,167</u>	<u>1,294,275</u>	89.93%
Invested in Capital Assets, Net of Related Debt	7,647,959	8,089,114	(441,155)	(5.45)%
Unrestricted	<u>(5,245,293)</u>	<u>(5,343,959)</u>	<u>98,666</u>	(1.85)%
Total Net Position	<u>2,402,666</u>	<u>2,745,155</u>	<u>(342,489)</u>	(12.48)%

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 \$342,495.

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

Net Position (Continued)

Net position for the years ending May 31, 2018 and 2017 unrestated were as follows:

Condensed Statement of Net Position

	<u>FY 2018</u>	<u>FY 2017</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Current and Other Assets	2,328,361	2,794,610	(466,249)	(16.68)%
Capital Assets	<u>11,967,474</u>	<u>12,728,851</u>	<u>(761,377)</u>	(5.98)%
Total Assets	<u>14,295,835</u>	<u>15,523,461</u>	<u>(1,227,626)</u>	(7.91)%
Deferred Outflows of Resources	<u>784,766</u>	<u>1,197,243</u>	<u>(412,477)</u>	(34.45)%
Long-term Debt				
Outstanding	3,508,425	4,315,044	(806,619)	(18.69)%
Other Liabilities	<u>3,496,659</u>	<u>4,534,964</u>	<u>(1,038,305)</u>	(22.90)%
Total Liabilities	<u>7,005,084</u>	<u>8,850,008</u>	<u>(1,844,924)</u>	(20.85)%
Deferred Inflows of Resources	<u>826,548</u>	<u>228,828</u>	<u>597,720</u>	261.21%
Invested in Capital Assets, Net of Related Debt	8,089,114	8,010,791	78,323	0.98%
Restricted		1,053,825	(1,053,825)	(100.00)%
Unrestricted	<u>(840,145)</u>	<u>(1,422,748)</u>	<u>582,603</u>	(40.95)%
Total Net Position	<u>7,248,969</u>	<u>7,641,868</u>	<u>(392,899)</u>	(5.14)%

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

Net Position (Continued)

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

	<u>FY 2019</u>	<u>Restated FY 2018</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Operating Revenues	<u>3,184,821</u>	<u>3,257,602</u>	<u>(72,781)</u>	(2.23)%
Total Revenues	<u>3,184,821</u>	<u>3,257,602</u>	<u>(72,781)</u>	(2.23)%
Depreciation	908,922	951,994	(43,072)	(4.52)%
Other Operating Expenses	2,574,360	2,839,444	(265,084)	(9.34)%
Other Non-Operating Expense	<u>44,028</u>	<u>99,461</u>	<u>(55,433)</u>	(55.73)%
Total Expenses	<u>3,527,310</u>	<u>3,890,899</u>	<u>(363,589)</u>	(9.34)%
Change in Net Position	<u>(342,489)</u>	<u>(633,297)</u>	<u>290,808</u>	(45.92)%
Beginning Net Position - June 1, as previously reported	2,745,155	7,641,868	(4,896,713)	(64.08)%
Prior Period Adjustment: Cumulative Effect of Change in Accounting Principles - Implementation of GASB Statement #75	<u> </u>	<u>(4,263,416)</u>	<u>4,263,416</u>	(100.00)%
Net Position - June 1, as restated	<u>2,745,155</u>	<u>3,378,452</u>	<u>(633,297)</u>	(18.75)%
Ending Net Position May 31, 2019	<u>2,402,666</u>	<u>2,745,155</u>	<u>(342,489)</u>	(12.48)%

The Authority's Operating Revenues decreased by \$72,781 to \$3,184,821 in 2019 from \$3,257,602 in 2018. This increase is primarily due to a decrease in water charges.

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

Net Position (Continued)

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

	<u>FY 2018</u>	<u>FY 2017</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Operating Revenues	<u>3,257,602</u>	<u>3,203,002</u>	<u>54,600</u>	1.70%
Total Revenues	<u>3,257,602</u>	<u>3,203,002</u>	<u>54,600</u>	1.70%
Depreciation	951,994	991,625	(39,631)	(4.00)%
Other Operating Expenses	2,599,046	2,809,617	(210,571)	(7.49)%
Other Non-Operating Expense	<u>99,461</u>	<u>93,523</u>	<u>5,938</u>	6.35%
Total Expenses	<u>3,650,501</u>	<u>3,894,765</u>	<u>(244,264)</u>	(6.27)%
Change in Net Position	(392,899)	(691,763)	298,864	(43.20)%
Beginning Net Position	<u>7,641,868</u>	<u>8,333,631</u>	<u>(691,763)</u>	(8.30)%
Ending Net Position	<u>7,248,969</u>	<u>7,641,868</u>	<u>(392,899)</u>	(5.14)%

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 2019 budget comparison:

**Budget vs. Actual
FY 2019**

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues:			
Operating	2,983,130	3,184,821	201,691
Non-Operating	<u>75,000</u>	<u>75,000</u>	<u>0</u>
	<u>3,058,130</u>	<u>3,259,821</u>	<u>201,691</u>
Expenses:			
Operating	2,752,770	2,515,721	237,049
Debt Service	<u>305,360</u>	<u>301,375</u>	<u>3,985</u>
	<u>3,058,130</u>	<u>2,817,096</u>	<u>241,034</u>
Income Before Depreciation	<u>0</u>	<u>442,725</u>	<u>442,725</u>

The following table provides a 2018 budget comparison:

**Budget vs. Actual
FY 2018**

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues:			
Operating	3,200,519	3,345,602	145,083
Non- Operating	<u>365,000</u>	<u>365,000</u>	<u>0</u>
	<u>3,565,519</u>	<u>3,710,602</u>	<u>145,083</u>
Expenses:			
Operating	2,726,000	2,531,784	194,216
Debt Service	<u>839,519</u>	<u>991,862</u>	<u>(152,343)</u>
	<u>3,565,519</u>	<u>3,523,646</u>	<u>41,873</u>
Income Before Depreciation	<u>0</u>	<u>186,956</u>	<u>186,956</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 2019, the Authority had \$30,064,588 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 \$11,244,632. This is a \$722,842 decrease under last year's net property, plant and equipment of \$11,967,474. A summary of the Authority's capital assets is presented in the following table:

CAPITAL ASSETS

	<u>FY 2019</u>	<u>FY 2018</u>	<u>Dollar Change</u>	<u>FY 2017</u>
Land	65,652	65,652	0	65,652
Buildings, Force Mains and Interceptors	24,436,463	24,436,463	0	24,436,463
Vehicles and Equipment	<u>5,496,801</u>	<u>5,324,683</u>	<u>172,118</u>	<u>5,147,627</u>
Total Property, Plant and Equipment	29,998,916	29,826,798	172,118	29,649,742
Less: Accumulated Depreciation	<u>18,821,046</u>	<u>17,912,124</u>	<u>908,922</u>	<u>16,960,130</u>
Total Capital Assets	11,177,870	11,914,674	(736,804)	12,689,612
Construction in Progress	<u>66,762</u>	<u>52,800</u>	<u>13,962</u>	<u>39,239</u>
Net Property, Plant and Equipment	<u>11,244,632</u>	<u>11,967,474</u>	<u>(722,842)</u>	<u>12,728,851</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	\$30,000	\$30,000
Misc. Well Upgrades	40,000	40,000
Misc. Upgrades to Water System	40,000	40,000
Misc. Building Upgrades	10,000	10,000
Twin Lakes Dam Insp. & Rehabilitation	20,000	20,000
Misc. Security Equipment	5,000	5,000
Misc. Paving & Concrete Repairs	25,000	25,000
Fire Hydrant and Aux. Valve Upgrades	20,000	20,000
Misc. Computer and Office Equipment	10,000	10,000
Water Accountability Act Projects	30,000	30,000
2019 Ford F250 Pick-Up Truck w/Crew Cab	25,000	25,000
Miscellaneous Laboratory Upgrades	<u>10,000</u>	<u>10,000</u>
Total	<u>265,000</u>	<u>265,000</u>
Sewer Fund:		
Misc. Upgrades to Pumping Stations	\$30,000	\$30,000
Misc. Infrastructure Upgrades	25,000	25,000
Misc. Treatment Plant Upgrades	30,000	30,000
Misc. Building Upgrades	10,000	10,000
Twin Lakes Dam Insp. & Rehabilitation	20,000	20,000
Misc. Security Equipment	5,000	5,000
Misc. Paving & Concrete Repairs	10,000	10,000
Misc. Computer and Office Equipment	10,000	10,000
Collection System Inspection Equipment	10,000	10,000
2019 Ford F250 Pick-Up Truck w/Crew Cab	25,000	25,000
Upgrade of WTP Sludge Thickener Electric	150,000	
Miscellaneous Laboratory Upgrades	10,000	10,000
WTP Tertiary Clarifier Upgrades	<u>400,000</u>	
Total	<u>735,000</u>	<u>185,000</u>
Total Proposed Capital Budget	<u>\$1,000,000</u>	<u>\$450,000</u>

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

Debt Administration

At May 31, 2019, the Authority had outstanding New Jersey Infrastructure Bank Loans in the amount of \$3,459,086 (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

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

For the Fiscal Year Ended May 31.

	<u>2019</u>	<u>2018</u> (Restated)
<u>ASSETS</u>		
<u>Current Assets:</u>		
<u>Unrestricted:</u>		
Cash and Cash Equivalents	\$ 2,236,636	2,044,892
Accounts Receivable-User Charges	137,064	155,507
Miscellaneous Receivables	500	1,000
Prepaid Expenses	40,739	43,081
Total Unrestricted Assets	<u>2,414,939</u>	<u>2,244,480</u>
<u>Restricted:</u>		
<u>Customer Deposits:</u>		
Cash and Cash Equivalents	47,896	49,122
<u>Escrow Deposits:</u>		
Cash and Cash Equivalents	31,708	34,759
Total Current Assets:	<u>\$ 2,494,543</u>	<u>2,328,361</u>
<u>Non-Current Assets:</u>		
<u>Capital Assets:</u>		
Property, Plant and Equipment	\$ 29,998,916	29,826,798
Construction In Progress	66,762	52,800
Less: Accumulated Depreciation	(18,821,046)	(17,912,124)
Total Capital Assets	<u>11,244,632</u>	<u>11,967,474</u>
TOTAL ASSETS	<u>\$ 13,739,175</u>	<u>14,295,835</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>		
Pension Related Items	753,465	784,766
OPEB Related Items	243,171	667
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>996,636</u>	<u>785,433</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 2 of 2

For the Fiscal Year Ended May 31,

<u>LIABILITIES</u>	<u>2019</u>	<u>2018</u> <u>(Restated)</u>
<u>Current Liabilities:</u>		
<u>Payable From Unrestricted Assets:</u>		
Accounts Payable	\$ 41,217	52,603
Accrued Interest on Bonds Payable	17,645	19,141
Accrued Liabilities:		
Compensated Absences	32,751	31,054
Loans Payable - Current Portion	245,375	247,280
Total Current Liabilities Payable	336,988	350,078
<u>Payable From Restricted Assets:</u>		
Customer Deposits	47,896	49,122
Escrow Deposits Payable	31,708	34,759
Total Current Liabilities Payable	79,604	83,881
<u>Non-Current Liabilities :</u>		
Net Pension Liability	2,792,680	3,062,700
Net OPEB Liability	3,176,720	3,891,862
Long-Term Portion of Loans Payable	3,213,711	3,508,425
Total Non-Current Liabilities	9,183,111	10,462,987
TOTAL LIABILITIES	\$ 9,599,703	10,896,946
<u>DEFERRED INFLOWS OF RESOURCES</u>		
Pension Related Items	990,056	703,893
OPEB Related Items	1,605,799	612,619
Gain on Advanced Refunding of Debt	43,909	21,273
Unamortized Bond Premium	93,678	101,382
TOTAL DEFERRED INFLOWS OF RESOURCES	2,733,442	1,439,167
<u>NET POSITION</u>		
Net Investment in Capital Assets	7,647,959	8,089,114
Unrestricted:		
Designated	867,164	1,001,000
Undesignated	(6,112,457)	(6,344,959)
TOTAL NET POSITION	\$ 2,402,666	2,745,155

See accompanying notes to the financial statements.

Exhibit B

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 Fiscal Year Ended May 31,

	<u>2019</u>	<u>2018</u> <u>(Restated)</u>
Operating Revenues:		
Water Charges	\$ 603,184	745,620
Sewer Charges	2,276,417	2,236,861
Connection Fees	29,428	13,746
Other	232,736	228,112
Interest On Delinquent Accounts	20,006	22,376
Interest Income	23,050	10,887
Total Operating Revenues	<u>3,184,821</u>	<u>3,257,602</u>
Operating Expenses:		
Costs of Providing Services	1,443,076	1,446,220
Administrative, General and Employee Benefits	1,131,284	1,393,224
Depreciation	908,922	951,994
Total Operating Expenses	<u>3,483,282</u>	<u>3,791,438</u>
Operating Income (Loss)	<u>(298,461)</u>	<u>(533,836)</u>
Non-Operating Revenues (Expenses):		
Interest Expense	(54,095)	(49,668)
Amortization	10,067	(49,793)
Non-Operating Income / (Loss)	<u>(44,028)</u>	<u>(99,461)</u>
Change in Net Position	<u>(342,489)</u>	<u>(633,297)</u>
Net Position - June 1, as previously reported	2,745,155	7,641,868
Prior Period Adjustment:		
Cumulative Effect of Change in Accounting Principle - Implementation of GASB Statement No. 75		(4,263,416)
Net Position - June 1, as restated	<u>2,745,155</u>	<u>3,378,452</u>
Net Position - May 31,	<u>\$ 2,402,666</u>	<u>2,745,155</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 1 of 2

For The Fiscal Year Ended May 31,

	<u>2019</u>	<u>2018</u> (Restated)
<u>Cash Flow from Operating Activities:</u>		
Cash received from customers and users	\$ 3,180,714	3,232,645
Interest received	23,050	10,887
Cash Paid to employees	(1,041,602)	(1,069,711)
Cash Paid to suppliers and others	(1,461,404)	(1,429,590)
Interest paid	(55,591)	(67,060)
Net Cash Provided by Operating Activities	<u>645,167</u>	<u>677,171</u>
<u>Cash Flow from Investing Activities:</u>		
Purchase of Property, Plant and Equipment	(186,081)	(190,617)
Net Cash Provided by (used in) Investing Activities	<u>(186,081)</u>	<u>(190,617)</u>
<u>Cash Flow from Financing Activities:</u>		
Payment of 1998 Refunding Bonds		(700,000)
Payment of NJBIT Loans	(247,280)	(242,194)
NJBIT Settlement Repayment	(24,339)	(24,337)
Net Cash Used in Financing Activities	<u>(271,619)</u>	<u>(966,531)</u>
Net Increase/(Decrease) in Cash and Cash Equivalents	187,467	(479,977)
Cash and Cash Equivalents at Beginning of Year	<u>2,128,773</u>	<u>2,608,750</u>
Cash and Cash Equivalents at End of Year	<u>\$ 2,316,240</u>	<u>2,128,773</u>
<u>Reconciliation to Statement of Net Position -</u>		
<u>Cash and Cash Equivalents:</u>		
Unrestricted Assets	\$ 2,236,636	2,044,892
Restricted Assets:		
Customer Deposit Account	47,896	49,122
Escrow Accounts	31,708	34,759
	<u>\$ 2,316,240</u>	<u>2,128,773</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 Fiscal Year Ended May 31,

	<u>2019</u>	<u>2018</u> <u>(Restated)</u>
Reconciliation of operating income to net cash provided (used) by operating activities		
Operating Income	\$ (298,461)	(533,836)
Adjustments to Reconcile Change in Net Position to Net Cash Provided by Operating Activities:		
Depreciation	908,922	951,994
Pension Adjustment	47,444	91,601
OPEB Adjustment	35,534	240,398
Interest Expense	(54,095)	(49,668)
(Increase) Decrease In:		
Accounts Receivable-User Charges	18,443	(15,960)
Miscellaneous Receivables	500	1,000
Prepaid Expenses	2,342	1,232
Increase (Decrease) In:		
Accounts Payable - Unrestricted	(11,386)	5,278
Accrued Interest Payable	(1,496)	(17,392)
Customer Deposits	(1,226)	890
Escrow Deposits Payable	(3,051)	299
Accrued Liabilities	1,697	1,335
Net Cash Provided by Operating Activities	\$ <u>645,167</u>	<u>677,171</u>

See accompanying notes to the financial statements.

Notes to Financial Statements

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

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED MAY 31, 2019 AND 2018

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.

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

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

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED MAY 31, 2019 AND 2018
(continued)

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

A. Basis of Presentation and Accounting, (continued)

- *Net Investment in Capital Assets* - 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 position 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

In evaluating how to define the Authority for financial reporting purposes, management has considered all potential component units. The decision to include any potential units in the financial reporting entity was made by applying the criteria set forth in GASB Statements No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, and GASB Statement No. 61, *The Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14 and No. 34*. Blended component units, although legally separate entities, are in substance part of the government's operations. Each discretely presented component unit would be or is reported in separate column in financial statements to emphasize that is legally separate from the government.

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

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED MAY 31, 2019 AND 2018
(continued)

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

A. Basis of Presentation and Accounting, (continued)

The basic-but not the only-criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability to fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the government and/or its citizens.

A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the government is able to exercise oversight responsibilities. Finally, the nature and significance of a potential component unit to the primary government could warrant its inclusion within the reporting entity.

Based upon the application of these criteria, the Authority has no component units.

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 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.

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

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED MAY 31, 2019 AND 2018
(continued)

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

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 is provided over the following estimated useful lives:

Water and Sewer Systems	75 Years
Treatment Plants	40 Years
Buildings	40 Years
Equipment	5-40 Years

F. Restricted Accounts

The Authority has 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.

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

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

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED MAY 31, 2019 AND 2018
(continued)

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

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 \$32,751, as of May 31, 2019, 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.

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.

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

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED MAY 31, 2019 AND 2018
(continued)

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

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."

M. Recently Adopted Accounting Pronouncements

For the fiscal year ended May 31, 2019, the Authority adopted Government Accounting Standards Board GASB Statement No. 75, Accounting and Financial Reporting for Post-Employment Benefits Other Than Pensions. As a result of adopting this Statement, the Authority was required to calculate their Other Post-retirement Benefit Obligation using a methodology similar to the calculation used for pension obligations under GASB Statement No. 68. The cumulative effect of adopting GASB Statement No. 75 totaled \$4,503,814, and was recognized as a restatement of the Authority's May 31, 2018 net position on the statements of net position (see Note 15).

N. Recent Accounting Pronouncements

In June 2017, the Government Accounting Standards Board issued GASB Statement No. 87, Leases, which improves accounting and financial reporting for leases by governments. This Statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease

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

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED MAY 31, 2019 AND 2018
(continued)

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

N. Recent Accounting Pronouncements, (continued)

accounting based on the fundamental principle that leases are financings of the right to use an underlying asset. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. The Authority is currently reviewing what effect, if any, this Statement may have on future financial statements.

The Government Accounting Standards Board issued GASB Statement No. 88, Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placement. The objective of this Statement is to improve consistency in the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements, and to provide financial statement users with additional essential information about debt. This Statement is effective for reporting periods beginning after June 15, 2018. The Authority believes this may impact the disclosures relating to debt in the notes to the financial statements.

The Government Accounting Standards Board issued GASB Statement No. 89, Accounting for Interest Cost Incurred Before the end of a Construction. The objectives of this Statement is to (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The Authority believes this may impact the disclosures relating to interest costs incurred before the end of a construction period in the notes to the financial statements.

In August 2018, the Government Accounting Standards Board issued GASB Statement No. 90, Majority Equity Interests – An Amendment of GASB Statements No. 14 and No. 61. This Statement improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and improves the relevance of financial statement information for certain component units. The Authority does not believe this Statement will have any effect 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, 2019 AND 2018
(continued)

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

N. Recent Accounting Pronouncements, (continued)

In May 2019, the Government Accounting Standards Board issued GASB Statement No. 91, Conduit Debt Obligations. This Statement provides a single method of reporting conduit debt obligations by issuers and eliminates diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. This Statement is effective for reporting periods beginning after December 15, 2020. The Authority does not believe this Statement will have any effect on future financial statements.

O. Deferred Outflows and Deferred Inflows of Resources

The Statement of Net Position reports separate sections for deferred outflows of resources and deferred inflows of resources. Deferred outflows of resources, reported after total assets, represents a reduction of net position that applies to a future period(s) and will be recognized as an outflow of resources (expense) at that time. Deferred inflows of resources, reported after total liabilities, represents an acquisition of net position that applies to a future period(s) and will be recognized as an inflow of resources (revenue) at that time.

Transactions are classified as deferred outflows of resources and deferred inflow of resources only when specifically prescribed by the Governmental Accounting Standards Board (GASB) standards. The Authority is required to report the following as deferred outflows of resources and deferred inflows of resources:

Defined Benefit Pension Plans - The difference between expected (actuarial) and actual experience, changes in actuarial assumptions, net difference between projected (actuarial) and actual earnings on pension plan investments, changes in the Authority's proportion of expenses and liabilities to the pension as a whole, differences between the Authority's pension contribution and its proportionate share of contributions, and the Authority's pension contributions subsequent to the pension valuation measurement date.

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

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED MAY 31, 2019 AND 2018

(continued)

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

O. Deferred Outflows and Deferred Inflows of Resources, (continued)

Deferred Loss on Refunding of Bonds - Deferred loss on refunding arising from the issuance of revenue refunding bonds, is recorded as a deferred outflow of resources. The deferred loss is amortized in a systematic and rational method as a component of interest expense.

2. CASH AND CASH EQUIVALENTS

Deposits - The Authority's deposits are insured through either the Federal Deposit Insurance Corporation (FDIC), Securities Investor Protection Corporation (SIPC) or New Jersey's Governmental Unit Deposit Protection Act (GUDPA). The Authority is required to deposit their funds in a depository which is protecting such funds pursuant to GUDPA. The New Jersey Governmental Unit Deposit Protection Act requires all banks doing business in the State of New Jersey to pledge collateral equal to at least 5% of the average amount of its public deposits and 100% of the average amount of its public funds in excess of the lesser of 75% of its capital funds or \$200 million for all deposits not covered by the FDIC.

Bank balances are insured up to \$250,000 in the aggregate by the FDIC for each bank. SIPC replaces cash claims up to a maximum of \$250,000 for each failed brokerage firm. At May 31, 2019 and 2018, the book value of the Authority's deposits were \$2,316,240 and \$2,128,773, respectively, and bank balances of the Authority's cash and deposits amounted to \$2,342,500 and \$2,189,727, respectively.

The Authority's deposits which are displayed on the balance sheet as "cash and cash equivalents" are categorized as:

	<u>2019</u>	<u>2018</u>
Insured:		
Restricted	\$79,604	\$83,881
Unrestricted	<u>2,236,636</u>	<u>2,044,892</u>
	<u>\$2,316,240</u>	<u>\$2,128,773</u>

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, 2018 and 2017, \$0- of the Authority's bank balance of \$2,342,500 and \$2,189,727, respectively, was exposed to custodial credit risk.

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

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED MAY 31, 2019 AND 2018
(continued)

3. PROPERTY, PLANT AND EQUIPMENT

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

	<u>Balance</u> <u>May 31, 2018</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>May 31, 2019</u>
Capital Assets Being Depreciated:				
Buildings, Pumps, Mains	\$24,436,463	\$	\$	\$24,436,463
Equipment and Vehicles	<u>5,324,683</u>	<u>172,118</u>		<u>5,496,801</u>
Total Capital Assets Being Depreciated	<u>29,761,146</u>	<u>172,118</u>		<u>29,933,264</u>
Capital Assets Not Being Depreciated:				
Land	65,652			65,652
Construction in Progress	<u>52,800</u>	<u>13,962</u>		<u>66,762</u>
Total Capital Assets Not Being Depreciated	<u>118,452</u>	<u>13,962</u>		<u>132,414</u>
Total Capital Assets	29,879,598	186,080		30,065,678
Accumulated Depreciation	<u>(17,912,124)</u>	<u>(908,922)</u>		<u>(18,821,046)</u>
Net Property, Plant and Equipment	<u>\$11,967,474</u>	<u>(\$722,842)</u>	\$	<u>\$11,244,632</u>

	<u>Balance</u> <u>May 31, 2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>May 31, 2018</u>
Capital Assets Being Depreciated:				
Buildings, Pumps, Mains	\$24,436,463	\$	\$	\$24,436,463
Equipment and Vehicles	<u>5,147,627</u>	<u>177,056</u>		<u>5,324,683</u>
Total Capital Assets Being Depreciated	<u>29,584,090</u>	<u>177,056</u>		<u>29,761,146</u>
Capital Assets Not Being Depreciated:				
Land	65,652			65,652
Construction in Progress	<u>39,239</u>	<u>13,561</u>		<u>52,800</u>
Total Capital Assets Not Being Depreciated	<u>104,891</u>	<u>13,561</u>		<u>118,452</u>
Total Capital Assets	29,688,981	190,617		29,879,598
Accumulated Depreciation	<u>(16,960,130)</u>	<u>(951,994)</u>		<u>(17,912,124)</u>
Net Property, Plant and Equipment	<u>\$12,728,851</u>	<u>(\$761,377)</u>	\$	<u>\$11,967,474</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, 2019 is \$60,394 and at May 31, 2018 is \$52,690. The unamortized balance as of May 31, 2019 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, 2019 and 2018:

	<u>Balance</u> <u>May 31, 2018</u>	<u>Issued</u>	<u>Deobligated/ Retired</u>	<u>Balance</u> <u>May 31, 2019</u>
NJEIT Trust Loan Series 2009A	\$530,000	\$	\$60,000	\$470,000
NJEIT Fund Loan Series 2009A	440,187		37,730	402,457
NJEIT Trust - Direct Loan	49,633		3,432	46,201
NJEIT Fund - Direct Loan	125,382		10,747	114,635
NJEIT Trust Loan Series 2010	299,000		20,000	279,000
NJEIT Fund Loan Series 2010	140,641		11,273	129,368
NJEIT Trust Loan Series 2012	295,000		15,000	280,000
NJEIT Fund Loan Series 2012	833,965		62,029	771,936
NJEIT Trust Loan Series 2016A-1	250,000		10,000	240,000
NJEIT Fund Loan Series 2016A-1	743,221		42,069	701,152
	<u>\$3,707,029</u>	<u>\$</u>	<u>\$272,280</u>	<u>\$3,434,749</u>

	<u>Balance</u> <u>May 31, 2017</u>	<u>Issued</u>	<u>Deobligated/ Retired</u>	<u>Balance</u> <u>May 31, 2018</u>
1998 Refunding Bonds	\$700,000	\$	\$700,000	\$0
NJEIT Trust Loan Series 2009A	565,000		35,000	530,000
NJEIT Fund Loan Series 2009A	477,917		37,730	440,187
NJEIT Trust - Direct Loan	52,979		3,346	49,633
NJEIT Fund - Direct Loan	136,129		10,747	125,382
NJEIT Trust Loan Series 2010	314,000		15,000	299,000
NJEIT Fund Loan Series 2010	151,914		11,273	140,641
NJEIT Trust Loan Series 2012	310,000		15,000	295,000
NJEIT Fund Loan Series 2012	895,994		62,029	833,965
NJEIT Trust Loan Series 2016A-1	260,000		10,000	250,000
NJEIT Fund Loan Series 2016A-1	785,290		42,069	743,221
	<u>\$4,649,223</u>	<u>\$</u>	<u>\$942,194</u>	<u>\$3,707,029</u>

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YEARS ENDED MAY 31, 2019 AND 2018
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5. LONG-TERM DEBT, (continued)

The Authority has issued and outstanding the following bonds and loans as of May 31, 2019 and 2018:

	<u>Interest Rate</u>	<u>2019</u>	<u>2018</u>
NJEIT Trust Loan Series 2009A	3.50% - 4.00%	\$470,000	\$530,000
NJEIT Fund Loan Series 2009A	0.00%	402,457	440,187
NJEIT Trust - Direct Loan	2.970% - 4.18%	46,201	49,633
NJEIT Fund - Direct Loan	0.00%	114,635	125,382
NJEIT Trust Loan Series 2010	5.00%	279,000	299,000
NJEIT Fund Loan Series 2010	0.00%	129,368	140,641
NJEIT Trust Loan Series 2012	3.00% - 5.00%	280,000	295,000
NJEIT Fund Loan Series 2012	0.00%	771,936	833,965
NJEIT Trust Loan Series 2016A-1	2.12% - 5.00%	240,000	250,000
NJEIT Fund Loan Series 2016A-1	0.00%	<u>701,152</u>	<u>743,221</u>
Net Carrying Amount of Debt		<u>\$3,434,749</u>	<u>\$3,749,098</u>
Current Portion		245,375	247,280
Long-Term Portion		<u>3,189,374</u>	<u>3,459,749</u>
		<u>\$3,434,749</u>	<u>\$3,707,029</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>
2020	\$245,376	\$51,921	\$299,297
2021	248,480	48,191	296,671
2022	253,595	44,277	297,872
2023	253,718	40,228	293,946
2024	263,853	35,943	299,796
2025-2029	1,382,635	109,543	1,492,178
2030-2034	676,977	18,531	695,508
2035-2036	<u>110,115</u>	<u>1,200</u>	<u>111,315</u>
Total	<u>\$3,434,749</u>	<u>\$349,834</u>	<u>\$3,784,583</u>

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YEARS ENDED MAY 31, 2019 AND 2018
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6. 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 five installments of \$24,339 and had a remaining outstanding balance as of May 31, 2019 as follows:

6/1/2020	<u>\$24,339</u>
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7. 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, 2019 are as follows:

Gain on NJEIT Refunding (Series 2009)	\$(25,000)
Gain on NJEIT Refunding (Series 2010)	<u>(18,909)</u>
	<u>\$(43,909)</u>

These unamortized gains are shown on the statement of net position as deferred inflows of resources.

8. PENSION PLANS

Description of Plans:

Authority employees participate in the State of New Jersey Public Employees' Retirement System (PERS) contributory, defined benefit public employee retirement systems or the Defined Contribution Retirement Program (DCRP), a tax-qualified defined contribution money purchase pension plan under Internal Revenue Code (IRC) 401(a).

Public Employees' Retirement System (PERS)

Plan Description

The State of New Jersey Public Employees' Retirement System (PERS) is a cost-sharing multiple-employer defined benefit pension plan administered by the State of New Jersey, Division of Pensions and Benefits (the "Division"). For additional information about the PERS, please refer to the Division's Comprehensive Annual Financial Report (CAFR) which can be found at www.state.nj.us/treasury/pensions/annrpts.shtml.

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(continued)

8. PENSION PLANS, (continued)

Benefits Provided

The vesting and benefit provisions are set by N.J.S.A. 43:15A. PERS provides retirement, death and disability benefits. All benefits vest after ten years of service, except for medical benefits, which vest after 25 years of service or under the disability provisions of PERS. The following represents the membership tiers for PERS:

<u>Tier</u>	<u>Definition</u>
1	Members who were enrolled prior to July 1, 2007
2	Members who were eligible to enroll on or after July 1, 2007 and prior to November 2, 2008
3	Members who were eligible to enroll on or after November 2, 2008 and prior to May 22, 2010
4	Members who were eligible to enroll on or after May 22, 2010 and prior to June 28, 2011
5	Members who were eligible to enroll on or after June 28, 2011

Service retirement benefits of 1/55th of final average salary for each year of service credit is available to Tiers 1 and 2 members upon reaching age 60 and to Tier 3 members upon reaching age 62. Service retirement benefits of 1/60th of final average salary for each year of service credit is available to Tier 4 members upon reaching age 62 and to Tier 5 members upon reaching age 65. Early retirement benefits are available to Tiers 1 and 2 members before reaching age 60, to Tiers 3 and 4 before age 62 with 25 or more years of service credit and Tier 5 with 30 or more years of service credit before age 65. Benefits are reduced by a fraction of a percent for each month that a member retires prior to the age at which a member can receive full early retirement benefits in accordance with their respective tier. Tier 1 members can receive an unreduced benefit from age 55 to age 60 if they have at least 25 years of service. Deferred retirement is available to members who have at least 10 years of service credit and have not reached the service retirement age for the respective tier.

Defined Contribution Retirement Program

Prudential Financial jointly administers the DCRP investments with the NJ Division of Pensions and Benefits. If an employee is ineligible to enroll in the PERS, the employee may be eligible to enroll in the DCRP. DCRP provides eligible members with a tax-sheltered, defined contribution retirement benefit, along with life insurance and disability coverage. Vesting is immediate upon enrollment for members of the DCRP.

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

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(continued)

8. PENSION PLANS, (continued)

Defined Contribution Retirement Program, (continued)

Employers are required to contribute at an actuarially determined rate. Employee contributions are based on percentages of 5.50% for DCRP of employees' annual compensation, as defined. The DCRP was established July 1, 2007, under the provisions of Chapter 92, P.L. 2007 and expanded under the provisions of Chapter 89, P.L. 2008. Employee contributions for DCRP are matched by a 3% employer contribution.

Contribution Requirements

The contribution policy is set by laws of the State of New Jersey and, in most retirement systems, contributions are required by active members and contributing employers. Plan member and employer contributions may be amended by State of New Jersey legislation. The pension funds provide for employee contributions based on 5.5% for PERS. This amount will increase to 6.5% plus an additional 1% phased in over 7 years beginning 2012, of the employee's annual compensation, as defined by law. Employers are required to contribute at an actuarially determined rate in all Funds. The actuarially determined employer contribution includes funding for cost-of-living adjustments and noncontributory death benefits in the PERS.

The Authority's contribution to the various plans, equal to the required contributions for each year, were as follows:

<u>Year</u>	<u>PERS</u>	<u>DCRP</u>
2019	\$141,081	\$251
2018	121,884	261
2017	117,928	-0-
2016	112,356	-0-

At May 31, 2019 and 2018, the Authority had a liability of \$2,792,680 and \$3,062,700 for its proportionate share of the PERS net pension liability. The net pension liability was measured as of June 30, 2018, 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 governmental entities, actuarially determined. At June 30, 2018, the Authority's proportion was .0141836000 percent, which was an increase of .001026768 percent from its proportion measured as of June 30, 2017.

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8. **PENSION PLANS, (continued)**

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

Public Employees Retirement System (PERS)

For the year ended May 31, 2019, the Authority recognized pension expense of \$188,525. At May 31, 2019, 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>
Difference between expected and actual experience	\$53,257	\$14,400
Changes of assumptions	460,187	892,951
Net difference between projected and actual earnings on pension plan investments		26,195
Changes in proportion and differences between the Authority's contributions and proportionate share of contributions	<u>240,021</u>	<u>56,510</u>
Total	<u>\$753,465</u>	<u>\$990,056</u>

Amounts reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date (June 30, 2018) will be recognized as a reduction of the net pension liability in the subsequent year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions (excluding changes in proportion) will be recognized in pension expense as follows:

Year ended May 31:	
2019	\$19,383
2020	(26,835)
2021	(192,433)
2022	(166,804)
2023	(53,413)

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8. PENSION PLANS, (continued)

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

Public Employees Retirement System (PERS), (continued)

Changes in Proportion

The previous amounts do not include employer specific deferred outflows of resources and deferred inflows of resources related to changes in proportion. These amounts should be recognized (amortized) by each employer over the average of the expected remaining service lives of all plan members, which is 5.63, 5.48, 5.57, 5.72 and 6.44 years for 2018, 2017, 2016, 2015 and 2014 amounts, respectively.

Additional Information

Local Group Collective balances at May 31, 2019 and 2018 are as follows:

	<u>May 31, 2019</u>	<u>May 31, 2018</u>
Collective deferred outflows of resources	\$4,684,852,302	\$6,424,455,842
Collective deferred inflows of resources	7,646,736,226	5,700,625,981
Collective net pension liability	19,689,501,539	23,278,401,588
Authority's Proportion	.01418360%	.0131568323%

Actuarial Assumptions

The collective total pension liability for the June 30, 2018 measurement date was determined by an actuarial valuation as of July 1, 2017, which rolled forward to June 30, 2018. This actuarial valuation used the following assumptions, applied to all periods in the measurement.

Inflation	2.25 Percent
Salary Increases:	
Through 2026	1.65-4.15 Percent (based on age)
Thereafter	2.65-5.15 Percent (based on age)
Investment Rate of Return	7.00 Percent

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8. PENSION PLANS, (continued)

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

Public Employees Retirement System (PERS), (continued)

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period July 1, 2011 to June 30, 2014. It is likely that future experience will not exactly conform to these assumptions. To the extent that actual experience deviates from these assumptions, the emerging liabilities may be higher or lower than anticipated. The more the experience deviates, the larger the impact on future financial statements.

Mortality Rates

Pre-retirement mortality rates were based on the RP-2000 Employee Pre-retirement Mortality Table for male and female active participants. For State employees, mortality tables are set back 4 years for males and females. For local employees, mortality tables are set back 2 years for males and 7 years for females. In addition, the tables provide for future improvements in mortality from the base year of 2013 using a generational approach based on the Conduent modified 2014 projection scale. Post-retirement mortality rates were based on the RP-2000 Combined Healthy Male and Female Mortality Tables (setback 1 year for males and females) for service retirements and beneficiaries of former members. In addition, the tables for service retirements and beneficiaries of former members provide for future improvements in mortality from 2012 to 2013 using Projection Scale AA and using a generational approach based on the Conduent 2014 projection scale thereafter. Disability retirement rates used to value disabled retirees were based on the RP-2000 Disabled Mortality Table (set back 3 years for males and set forward 1 year for females).

Long-Term Rate of Return

In accordance with State statute, the long-term expected rate of return on plan investments (7.00% at June 30, 2018) 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. The long-term expected rate of return was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to

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8. PENSION PLANS, (continued)

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

Public Employees Retirement System (PERS), (continued)

produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in PERS's target asset allocation as of June 30, 2018 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Risk Mitigation Strategies	5.00%	5.51%
Cash equivalents	5.50%	1.00%
U.S. Treasuries	3.00%	1.87%
Investment grade credit	10.00%	3.78%
High yield	2.50%	6.82%
Global diversified credit	5.00%	7.10%
Credit oriented hedge funds	1.00%	6.60%
Debt related private equity	2.00%	10.63%
Debt related real estate	1.00%	6.61%
Private real asset	2.50%	11.83%
Equity related real estate	6.25%	9.23%
U.S. equity	30.00%	8.19%
Non-U.S. developed markets equity	11.50%	9.00%
Emerging markets equity	6.50%	11.64%
Buyouts/venture capital	8.25%	13.08%

Discount Rate

The discount rate used to measure the total pension liability was 5.66% as of June 30, 2018. This single blended discount rate was based on the long-term expected rate of return on pension plan investments of 7.00% and a municipal bond rate of 3.87% as of June 30, 2018 based on the Bond Buyer GO 20-Bond Municipal Bond Index, which includes tax-exempt general obligation municipal

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8. PENSION PLANS, (continued)

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

Public Employees Retirement System (PERS), (continued)

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 contribution rate in the most recent fiscal year. The State employer contributed 50% of the actuarially determined contributions and the local employers contributed 100% of their actuarially determined 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 June 30, 2046. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through June 30, 2046 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, 2018, 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:

	<u>June 30, 2018</u>		
	<u>1%</u>	<u>At Current</u>	<u>1%</u>
	<u>Decrease</u>	<u>Discount Rate</u>	<u>Increase</u>
	<u>4.66%</u>	<u>5.66%</u>	<u>6.66%</u>
Authority's proportionate share of the pension liability	\$3,511,474	\$2,792,680	\$2,189,658

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 financial report may be accessed at www.state.nj.us/treasury/pensions.

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9. OTHER POST EMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 8, the Authority provides post employment health care benefits in accordance with the provisions of Ch. 88, P.L. 1974 as amended by Chapter 436, P.L. 1981, at its cost. On December 11, 2007, the Authority adopted the provisions of N.J.S.A. 52:14-17.38 and adhered to the rules and regulations promulgated by the State Health Benefits Commission to implement the provisions of that law. This resolution affects employees as shown in Chapter 48, P.L. 1999.

Chapter 48, P.L. 1999, provides eligible participating local employers considerable flexibility in managing their postretirement medical costs. It also brings State Health Benefits Program (SHBP) and School Employees' Health Benefits Program (SEHBP) eligibility standards for employer-paid coverage into alignment with local government laws.

Adoption of this Resolution does not free the Pompton Lakes Municipal Utilities Authority of the obligation to pay for postretirement medical benefits of retirees or employees who qualified for those payments under any Chapter 88 or Chapter 48 Resolution previously adopted by the governing body.

The Resolution will remain in effect until properly amended or revoked with the State Health Benefits Program. The Pompton Lakes Municipal Utilities Authority recognizes that, while it remains in the State Health Benefits Program, it is responsible for providing the payment for postretirement medical coverage as listed in the Chapter 48 Resolution Addendum for all employees who qualify for this coverage while this Resolution is in force.

General Information about the OPEB Plan

The State Health Benefit Local Government Retired Employees Plan (the Plan) is a cost-sharing multiple-employer defined benefit other postemployment benefit (OPEB) plan with a special funding situation. It covers employees of local government employers that have adopted a resolution to participate in the Plan. The plan meets the definition of an equivalent arrangement as defined in paragraph 4 of GASB Statement No. 75, *Accounting and Financial Reporting for the Postemployment Benefits Other Than Pensions* (GASB Statement No. 75); therefore, assets are accumulated to pay associated benefits. For additional information about the Plan, please refer to the State of New Jersey (the State), Division of Pensions and Benefits' (the Division) Comprehensive Annual Financial Report (CAFR), which can be found at <https://www.state.nj.us/treasury/pensions/financial-reports.shtml>.

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(continued)

9. **OTHER POST EMPLOYMENT BENEFITS, (continued)**

The Plan provides medical and prescription drug to retirees and their covered dependents of the employers. Under the provisions of Chapter 88, P.L. 1974 and Chapter 48, P.L. 1999, local government employers electing to provide postretirement medical coverage to their employees must file a resolution with the Division. Under Chapter 88, local employers elect to provide benefit coverage based on the eligibility rules and regulations promulgated by the State Health Benefits Commission. Chapter 48 allows local employers to establish their own age and service eligibility for employer paid health benefits coverage for retired employees. Under Chapter 48, the employer may assume the cost of postretirement medical coverage for employees and their dependents who: 1) retired on a disability pension; or 2) retired with 25 or more years of service credit in a State or locally administered retirement system and a period of service of up to 25 years with the employer at the time of retirement as established by the employer; or 3) retired and reached the age of 65 with 25 or more years of service credit in a State or locally administered retirement system and a period of service of up to 25 years with the employer at the time of retirement as established by the employer; or 4) retired and reached age 62 with at least 15 years of service with the employer. Further, the law provides that the employer paid obligations for retiree coverage may be determined by means of a collective negotiations agreement.

Pursuant to Chapter 78, P.L. 2011, future retirees eligible for postretirement medical coverage who have less than 20 years of creditable service on June 28, 2011 will be required to pay a percentage of the cost of their health care coverage in retirement provides they retire with 25 or more years of pension service credit. The percentage of the premium for which the retiree will be responsible will be determined based on the retiree's annual retirement benefit and level of coverage.

Total OPEB Liability

At May 31, 2019 and 2018, the Authority had a liability of \$3,176,720 and \$3,891,862, respectively, for its proportionate share of the non-special funding net OPEB liability. The net OPEB liability was measured as of June 30, 2018 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The Authority's proportion of the net OPEB liability was based on a projection of the Authority's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating employers in the plan. At June 30, 2018, the Authority's proportion was 0.020277 percent, which is an increase of .001214 percent from its proportion measured at June 30, 2017.

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9. **OTHER POST EMPLOYMENT BENEFITS, (continued)**

For the years ended May 31, 2019 and 2018, the Authority recognized OPEB expense of \$131,798 and \$240,398, respectively. At May 31, 2019 and 2018, deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>2019</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$	\$644,988
Changes of assumptions		805,817
Net difference between projected and actual earnings on OPEB plan investments	1,679	
Changes in proportion and differences between the Authority's contributions and proportionate share of contributions	<u>241,492</u>	<u>154,994</u>
Total	<u>\$243,171</u>	<u>\$1,605,799</u>

	<u>2018</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes of assumptions	\$	\$431,964
Net difference between projected and actual earnings on pension plan investments	667	
Changes in proportion and differences between the Authority's contributions and proportionate share of contributions	<u>—</u>	<u>180,655</u>
Total	<u>\$667</u>	<u>\$612,619</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, 2019 AND 2018
(continued)

9. **OTHER POST EMPLOYMENT BENEFITS, (continued)**

Amounts reported as deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date will be recognized as a reduction of the OPEB liability in the subsequent year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB (excluding changes in proportion) will be recognized in OPEB expense as follows:

Year ended June 30:	<u>2018</u>
2019	\$(212,785)
2020	(212,785)
2021	(212,785)
2022	(212,962)
2023	(213,249)
Thereafter	(384,560)

Changes in Proportion

The previous amounts do not include employer specific deferred outflows of resources and deferred inflows of resources related to changes in proportion. These amounts should be recognized (amortized) by each employer over the average of the expected remaining service lives of all plan members, which is 8.14 and 8.04 years for the 2018 and 2017 amounts, respectively.

Actual Assumptions and Other Inputs

The total OPEB liability as of June 30, 2018 was determined by an actuarial valuation as of June 30, 2017, which was rolled forward to June 30, 2018. The actuarial assumptions vary for each plan member depending on the pension plan the member is enrolled in. This actuarial valuation used the following actuarial assumptions, applied to all periods in the measurement.

Inflation rate	2.50%
Salary increases*:	
Through 2026	1.65 - 8.98%
Thereafter	2.65 - 9.98%

* Salary increases are based on the defined benefit plan that the member is enrolled in and his or her age.

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

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED MAY 31, 2019 AND 2018

(continued)

9. OTHER POST EMPLOYMENT BENEFITS, (continued)

Preretirement mortality rates were based on the RP-2006 Headcount-Weighted Healthy Employee Male/Female mortality table with fully generational mortality improvement projections from the central year using the MP-2017 scale. Postretirement mortality rates were based on the RP-2006 Headcount-Weighted Health Annuitant Male/Female mortality table with fully generational improvement projections from the central year using the MP-2017 scale. Disability mortality was based on the RP-2006 Headcount-Weighted Disabled Male/Female mortality table with fully generational improvement projections from the central year using the MP-2017 scale.

100% of active members are considered to participate in the Plan upon retirement.

Health Care Trend Assumptions

For pre-Medicare preferred provider organization (PPO) medical benefits and health maintenance organization (HMO), this amount initially is 5.8% and decreases to a 5.0% long-term trend rate after eight years. For self-insured post-65 PPO medical benefits, the trend rate is 4.5%. For prescription drug benefits, the initial trend rate is 8% decreasing to a 5.0% long-term trend rate after seven years. For the Medicare Part B reimbursement, the trend rate is 5.0%. The Medicare Advantage trend rate is 4.5% and will continue in all future years.

Discount Rate

The discount rate for June 30, 2018 and 2017 was 3.87 and 3.58%, respectively. This represents the municipal bond return rate as chosen by the Division. The source is 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. As the long-term rate of return is less than the municipal bond rate, it is not considered in the calculation of the discount rate, rather the discount rate is set at the municipal bond rate.

Sensitivity of Net OPEB Liability to Changes in the Discount Rate

The following presents the Authority's proportionate share of the net OPEB liability as of June 30, as well as what the Authority's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1 percentage point higher than the current rate:

	<u>June 30, 2018</u>		
	1% Decrease	At Current Discount Rate	1% Increase
	<u>2.87%</u>	<u>3.87%</u>	<u>4.87%</u>
Authority's proportionate share of Net OPEB liability	\$3,727,133	\$3,176,720	\$2,737,065

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

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED MAY 31, 2019 AND 2018
 (continued)

9. **OTHER POST EMPLOYMENT BENEFITS, (continued)**

	<u>June 30, 2017</u>		
	1% Decrease	At Current Discount Rate	1% Increase
	<u>2.58%</u>	<u>3.58%</u>	<u>4.58%</u>
Authority's proportionate share of Net OPEB liability	\$4,590,567	\$3,891,862	\$3,337,451

Sensitivity of Net OPEB Liability to Changes in the Healthcare Trend Rates:

The following presents the Authority's proportionate share of the net OPEB liability as of June 30, as well as what the Authority's proportionate share of the net OPEB liability would be if it were calculated using a healthcare trend rate that is 1-percentage point lower or 1 percentage point higher than the current rate:

	<u>June 30, 2018</u>		
	1% Decrease	Healthcare Cost Trend Rate	1% Increase
Authority's proportionate share of Net OPEB liability	\$2,649,894	\$3,176,720	\$3,858,512

	<u>June 30, 2017</u>		
	1% Decrease	Healthcare Cost Trend Rate	1% Increase
Authority's proportionate share of Net OPEB liability	\$3,234,251	\$3,891,861	\$4,748,147

10. **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.

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

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED MAY 31, 2019 AND 2018
(continued)

11. 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, 2015 and required inspection will be done in October, 2017). The Authority has determined that the dam is in need of rehabilitation and a revised application for planning and design was submitted to the NJDEP in January 2016. In addition, on May 26, 2017, the Authority submitted an application for a Project Loan from the State of New Jersey pursuant to the "Green Acres, Clean Water, Farmland & Historic Preservation Bond Act of 1992" or Dam Restoration. The amount of the loan is for \$950,000.00 which would cover Construction Cost, prior Engineering Costs and Current Engineering Cost. The Authority is waiting for a response from the State of New Jersey.

12. 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.

13. DESIGNATION OF UNRESTRICTED NET POSITION

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>2019</u>	<u>2018</u>
Appropriated in Subsequent Year's Budget	\$516,164	\$650,000
Designated for Retiree Health Benefits	<u>351,000</u>	<u>351,000</u>
	<u>\$867,164</u>	<u>\$1,001,000</u>

At May 31, 2019, the Authority reported a total amount of \$867,164 of Unrestricted Net Position
— Designated for the purposes describe above.

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

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED MAY 31, 2019 AND 2018
(continued)

13. DESIGNATION OF UNRESTRICTED NET ASSETS, (continued)

The remaining undesignated portion of the Authority's net position was comprised of the following at May 31, 2018 and 2017:

	<u>2019</u>	<u>2018</u>
Post-Retirement Employer Health Benefits Related	\$(4,539,348)	\$(4,503,814)
Accrued Unfunded Pension Liability	(3,029,271)	(2,981,827)
Available for Use in Future Budgets	<u>1,456,162</u>	<u>1,140,682</u>
Total	<u>(\$6,112,457)</u>	<u>(\$6,344,959)</u>

14. SUBSEQUENT EVENTS

The Authority has evaluated subsequent events through August 15, 2019, the date which the financial statements were available to be issued and no items were noted for disclosure.

15. PRIOR PERIOD ADJUSTMENTS

Postemployment Benefits Other Than Pensions

On June 1, 2018, the Authority adopted the provisions of Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This statement requires, among other things, the recognition of unfunded net OPEB 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 2018 financial statements:

	Balance 05/31/2018 as Previously Reported	Retroactive Adjustments	Balance 05/31/2018 as Restated
Change in Net Position	\$(392,899)	\$(240,398)	\$(633,297)
Deferred Outflows of Resources:		667	667
Deferred OPEB-Related Costs	-		
Liabilities:			
Net OPEB Liability	-	3,891,862	3,891,862
Deferred Inflows of Resources:			
Deferred OPEB-Related Inflows	-	612,619	612,619
Net Position:			
Unrestricted: Undesignated	(1,841,145)	(4,503,814)	(6,344,959)

Required Supplementary Information - Part II

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,			
	2019	2018	2017	2016
Authority's proportion of the net pension liability (asset)	0.0141836000%	0.0131568323%	0.0132744142%	0.0130687267%
Authority's proportionate share of the net pension liability (asset)	\$ 2,792,680	\$ 3,062,700	\$ 3,931,501	\$ 2,933,667
Authority's covered payroll - PERS	\$ 962,719	\$ 974,299	\$ 969,755	\$ 939,426
Authority's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	290.08%	314.35%	405.41%	312.28%
Plan fiduciary net position as a percentage of the total pension liability	53.60%	48.10%	40.14%	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,				
	2019	2018	2017	2016	2015
Contractually required contribution	\$ 141,081.00	\$ 121,884.00	\$ 117,928.00	\$ 112,356.00	\$ 103,362.00
Contributions in relation to the contractually required contribution	\$ (141,081.00)	\$ (121,884.00)	\$ (117,928.00)	\$ (112,356.00)	\$ (103,362.00)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Authority's covered payroll - PERS	\$ 962,719	\$ 974,299	\$ 969,755	\$ 939,426	\$ 908,206
Contributions as a percentage of covered payroll	14.65%	12.51%	12.16%	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, 2019

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 5.00% to 5.66%. This change in the discount rate is considered to be a change in actuarial assumptions under GASBS No. 68.

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

Exhibit RSI-1

	2019	2018
Authority's proportion of the net OPEB liability (asset)	0.020277%	0.019063%
Authority's proportionate share of the net OPEB liability (asset)	\$ 3,176,720	\$ 3,891,862
Authority's covered payroll	\$ 962,719	\$ 974,299
Authority's proportionate share of the net OPEB liability (asset) as a percentage of its covered payroll	329.97%	399.45%
Plan fiduciary net position as a percentage of the total OPEB liability	1.97%	1.03%

* GASB requires that ten years of information be presented. However, since fiscal year 2017 was the first year of GASB 75 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 OPEB Contributions
*Last 10 Fiscal Years**

Exhibit RSL-2

	<u>2019</u>	<u>2018</u>
Contractually required contribution	\$ 42,963.00	\$ 62,350.00
Contributions in relation to the contractually required contribution	<u>\$ (42,963.00)</u>	<u>\$ (62,350.00)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Authority's covered payroll	\$ 962,719	\$ 974,299
Contributions as a percentage of covered payroll	4.46%	6.40%

* GASB requires that ten years of information be presented. However, since fiscal year 2017 was the first year of GASB 75 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 Changes in the Authority's Proportionate
Share of the State OPEB Contributions
Last 10 Fiscal Years*

	2019	2018
Total OPEB Liability:		
Service Cost	\$ 181,730	\$ 202,931
Interest	154,933	123,609
Difference Between Expected and Actual Experience	(735,322)	(493,322)
Changes in Assumptions	(469,259)	(79,586)
Benefit Payments	(85,492)	(79,586)
Contributions - Members	10,947	10,215
Change in Allocation	250,436	(207,745)
Net Change in Total OPEB Liability	(592,027)	(443,898)
Total OPEB Liability - Beginning	3,932,515	4,376,413
Total OPEB Liability - Ending	<u>\$ 3,240,488</u>	<u>\$ 3,932,515</u>
Plan Fiduciary Net Position:		
Contributions - Employer	\$ 85,406	\$ 72,785
Contributions - Non-Employer		
Contributing Entities	10,858	10,116
Contributions - Members	10,947	10,215
Net Investment Income	471	151
Benefit Payments	(85,492)	(79,586)
Administrative Expense	(1,663)	(1,696)
Change in Allocation	2,588	(1,429)
Net Change in Plan Fiduciary Net Position	23,115	10,556
Plan Fiduciary Net Position - Beginning	40,653	30,097
Plan Fiduciary Net Position - Ending	<u>63,768</u>	<u>40,653</u>
Authority's Net OPEB Liability	<u>\$ 3,176,720</u>	<u>\$ 3,891,862</u>

* GASB requires that ten years of information be presented. However, since fiscal year 2017 was the first year of GASB 75 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 Fiscal Year Ended May 31, 2019

Change in benefit terms

None

Change in assumptions

Assumptions used in calculating the OPEB liability are presented
in Note 9.

Supplementary Schedules

Schedule 1

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 Fiscal Years Ended May 31, 2019 and 2018

	Invested In Capital Assets	Unrestricted		Total (Memo)	
		Designated	Undesignated	2019	2018 (Restated)
Operating Revenues:					
Water Charges			603,184	603,184	745,620
Sewer Charges			2,276,417	2,276,417	2,236,861
Connection Fees			29,428	29,428	13,746
Other			232,736	232,736	228,112
Interest on Delinquent Accounts			20,006	20,006	22,376
Interest Income			23,050	23,050	10,887
Total Operating Revenues			3,184,821	3,184,821	3,257,602
Operating Expenses:					
Costs of Providing Services			1,443,076	1,443,076	1,446,220
Administrative, General and Employee Benefits			1,131,284	1,131,284	1,393,224
Depreciation	908,922			908,922	951,994
Total Operating Expenses	908,922		2,574,360	3,483,282	3,791,438
Operating Income (Loss)	(908,922)		610,461	(298,461)	(533,836)
Non-Operating Revenue and (Expenses):					
Interest Expense			(54,095)	(54,095)	(49,668)
Amortization	10,067			10,067	(49,793)
	10,067		(54,095)	(44,028)	(99,461)
Net Income (Loss) Before Transfers and Capital Contributions	(898,855)		556,366	(342,489)	(633,297)
Transfers:					
Bond Principal Paid	247,280		(247,280)		
Capital Expenditures	186,081		(186,081)		
NJEIT Paid	24,339		(24,339)		
Other		(133,836)	133,836		
Increase (Decrease) in Net Position	(441,155)	(133,836)	232,502	(342,489)	(633,297)
Net Position, June 1 - as previously reported	8,089,114	1,001,000	(6,344,959)	2,745,155	7,641,868
Prior Period Adjustment:					
Cumulative Effect of Change in Accounting Principle - GASB Statement No. 75 Implementation					(4,263,416)
Net Position, June 1 - as restated				2,745,155	3,378,452
Net Position - May 31,	7,647,959	867,164	(6,112,457)	2,402,666	2,745,155
Appropriated in Subsequent Year's Budget Designated for Retiree Health Benefits		516,164	351,000		
		867,164			

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 Fiscal Year Ended May 31, 2019

	Operating Account	Payroll Fund	Revenue Fund	Customer Deposit Account
Cash, Cash Equivalents and Investments - June 1, 2018	111,258	4,964	402,837	49,122
Cash Receipts:				
Interest on Investments	1,642	383	2,764	544
Water and Sewer Charges			2,901,339	
Customer Deposits				4,253
Other	239,449		93,429	
Employee/Employer Payroll Taxes		619,669		
Transfers	2,925,837	639,120		
Total Cash Receipts	3,166,928	1,259,172	2,997,532	4,797
Cash and Investments Available	3,278,186	1,264,136	3,400,369	53,919
Cash Disbursements:				
Operations	2,067,570	638,701		
Capital Expenditures				
Employee/Employer Payroll Taxes		619,398		
Bond Principal Payments	247,280			
Bond Interest Payments	55,591			
Customer Deposits				
Escrow Payments				6,023
Other				
Transfers	639,120	837	1,685	
Total Cash Disbursements	3,009,561	1,258,936	2,826,685	6,023
Cash, Cash Equivalents and Investments - May 31, 2019	268,625	5,200	573,684	47,896
Analysis of Balance:				
Cash and Cash Equivalents	268,625	5,200	573,684	47,896
Investments	-	-	-	-
	268,625	5,200	573,684	47,896
Unrestricted	268,625	5,200	573,684	-
Restricted	-	-	-	47,896
	268,625	5,200	573,684	47,896

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 Fiscal Year Ended May 31, 2019

	Escrow Deposit Fund	General/ Capital Reserve Account	Cert. of Deposit	Total
Cash, Cash Equivalents and Investments - June 1, 2018	34,759	1,242,413	283,420	2,128,773
Cash Receipts:				
Interest on Investments	245	11,647	6,614	23,839
Water and Sewer Charges				2,901,339
Customer Deposits				4,253
Other		152,013		484,891
Employee/Employer Payroll Taxes				619,669
Transfers				3,564,957
Total Cash Receipts	245	163,660	6,614	7,598,948
Cash and Investments Available	35,004	1,406,073	290,034	9,727,721
Cash Disbursements:				
Operations		20,899		2,727,170
Capital Expenditures		186,081		186,081
Employee/Employer Payroll Taxes				619,398
Bond Principal Payments				247,280
Bond Interest Payments				55,591
Customer Deposits				6,023
Escrow Payments	3,296			3,296
Other				1,685
Transfers		100,000		3,564,957
Total Cash Disbursements	3,296	306,980	-	7,411,481
Cash, Cash Equivalents and Investments - May 31, 2019	31,708	1,099,093	290,034	2,316,240
Analysis of Balance:				
Cash and Cash Equivalents	31,708	1,099,093	290,034	2,316,240
Investments	-	-	-	-
	31,708	1,099,093	290,034	2,316,240
Unrestricted	-	1,099,093	290,034	2,236,636
Restricted	31,708	-	-	79,604
	31,708	1,099,093	290,034	2,316,240

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

Schedule 3
Page 1 of 2

For The Fiscal Year Ended May 31, 2019

	2019 Adopted Budget	2019 Modified Budget	2019 Actual	Variance Favorable / (Unfavorable)	2018 Actual
Revenues:					
Unrestricted Net Position Appropriated	75,000	75,000	75,000	-	88,000
Water Charges	713,000	713,000	603,184	(109,816)	745,620
Sewer Charges	2,045,130	2,045,130	2,276,417	231,287	2,236,861
Other	204,000	204,000	262,164	58,164	241,858
Interest on Delinquent Accounts	20,000	20,000	20,006	6	22,376
Interest on Investments and Deposits	1,000	1,000	23,050	22,050	10,887
O&M Reserve					365,000
Total Operating Revenues	3,058,130	3,058,130	3,259,821	201,691	3,710,602
Expenses:					
Cost of Providing Services:					
Operating Salaries	715,000	715,000	660,601	54,399	689,637
Overtime Salaries	35,000	35,000	33,425	1,575	33,281
Professional Fees - Other	15,000	15,000	7,353	7,647	13,757
Engineering - Miscellaneous	15,000	15,000	2,595	12,405	172
Chemicals	75,000	75,000	72,504	2,496	76,034
Systems and Equipment - Repairs and Maintenance	150,000	150,000	120,965	29,035	124,521
Truck Expenses - Gas, Oil, License	15,000	15,000	15,955	(955)	9,725
Truck Expenses - Repairs	10,000	10,000	10,965	(965)	7,497
Electricity	300,000	300,000	252,160	47,840	273,808
Water Consumed in Operations	3,000	3,000	1,949	1,051	1,909
Sludge Removal	100,000	100,000	143,657	(43,657)	113,334
Uniforms	8,000	8,000	3,849	4,151	6,181
Fees and Permits	50,000	50,000	41,544	8,456	32,356
Lab Supplies and Expenses	35,000	35,000	39,726	(4,726)	31,363
Customer Refunds	4,000	4,000	954	3,046	3,294
Miscellaneous Supplies and Expenses	30,000	30,000	34,874	(4,874)	29,351
Contingency (NJETT)	25,000	25,000	24,339	661	24,339
Sub-total Cost of Providing Services	1,585,000	1,585,000	1,467,415	117,585	1,470,559
Administrative, General Expenses and Employee Benefits:					
Administrative Salaries	325,000	325,000	317,337	7,663	317,604
Commissioners' Salaries	30,000	30,000	30,239	(239)	29,189
Administrative Trustees Fees	15,000	15,000	5,556	9,444	5,556
Customer Billing - Postage	7,000	7,000	5,908	1,092	4,288
IT Programming	5,000	5,000	5,198	(198)	5,021
IT System Maintenance	15,000	15,000	14,733	267	18,730
Auditing	25,000	25,000	23,139	1,861	22,250
Legal - Retainer	16,500	16,500	16,625	(125)	16,000
Legal - Miscellaneous	5,000	5,000	3,112	1,888	2,834
Office Supplies and Postage	10,000	10,000	5,266	4,734	8,953
Conferences and Seminars	10,000	10,000	7,322	2,678	7,928

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

Schedule 3
Page 2 of 2

For The Fiscal Year Ended May 31, 2019

	2019 Adopted Budget	2019 Budget After Modifications	2019 Actual	Variance Favorable / (Unfavorable)	2018 Actual
Administrative, General Expenses and Employee Benefits (continued):					
Special Accounting Services	10,000	10,000	5,000	5,000	10,000
Printing and Publications	8,000	8,000	10,056	(2,056)	7,338
Telephone and Alarm System	12,000	12,000	12,294	(294)	10,861
Insurance	40,000	40,000	37,044	2,956	38,539
Building Repairs and Maintenance	20,000	20,000	16,442	3,558	7,959
Heating	5,000	5,000	2,473	2,527	2,696
Bank Sweep Fees	10,000	10,000	1,851	8,149	6,831
Employee Benefits:					
Public Employee Retirement System	130,000	130,000	141,962	(11,962)	123,798
Social Security Tax	75,000	75,000	72,182	2,818	75,077
Unemployment Compensation Insurance	4,000	4,000	4,488	(488)	4,695
Worker's Compensation Insurance	30,000	30,000	24,902	5,098	25,876
Medical Insurance Premium	300,000	300,000	241,455	58,545	246,852
Retiree Health Benefits	60,000	60,000	43,722	16,278	62,350
	<u>1,167,500</u>	<u>1,167,500</u>	<u>1,048,306</u>	<u>119,194</u>	<u>1,061,225</u>
Debt Service:					
Bond Principal	247,271	247,271	247,280	(9)	942,194
Interest on Bonds	58,359	58,359	54,095	4,264	49,668
	<u>305,630</u>	<u>305,630</u>	<u>301,375</u>	<u>4,255</u>	<u>991,862</u>
Total Costs Funded by Operating Revenues	<u>3,058,130</u>	<u>3,058,130</u>	<u>2,817,096</u>	<u>241,034</u>	<u>3,523,646</u>
Excess of Actual Revenues Over Expenses			442,725		186,956
Reconciliation of Budgetary Basis to GAAP:					
Undesignated Retained Earnings					
O & M Reserve			(75,000)		(88,000)
Pension Adjustment					(365,000)
OPRB Adjustment			(47,444)		(91,601)
Depreciation			(35,534)		(240,398)
Amortization			(908,922)		(951,994)
NET Settlement Repayment			10,067		(49,793)
Bond Principal			24,339		24,339
			<u>247,280</u>		<u>942,194</u>
Total Adjustments			<u>(785,214)</u>		<u>(820,253)</u>
Change in Net Position			<u>(342,489)</u>		<u>(633,297)</u>

Schedule 4

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 Fiscal Year Ended May 31, 2019

	<u>2019</u> <u>Adopted</u> <u>Budget</u>	<u>2019</u> <u>Budget After</u> <u>Modifications</u>	<u>2019</u> <u>Actual</u>	<u>2018</u> <u>Actual</u>
Financing Sources:				
Unrestricted Net Position	575,000	575,000	186,081	190,617
Total Financing Sources	575,000	575,000	186,081	190,617
Capital Outlays:				
Miscellaneous Water Main Valve Insertions	20,000	20,000	16,559	
Miscellaneous Well Upgrades	40,000	40,000		43,274
Miscellaneous Upgrades to Water System	50,000	50,000		
Miscellaneous Building Upgrades	20,000	20,000		
Miscellaneous Security Equipment	20,000	20,000	889	
Dam Bi-Annual Inspection/Permitting	40,000	40,000	13,962	13,560
Water Meter Reading Upgrade	20,000	20,000	16,200	
Miscellaneous Laboratory Upgrades	10,000	10,000		7,331
Miscellaneous Paving & Concrete Repairs	35,000	35,000	4,000	
Fire Hydrant and Aux. Valve Upgrades	20,000	20,000		
G.I.S. Water System Mapping	5,000	5,000	3,692	
Misc. Computer and Office Equipment	40,000	40,000	2,649	21,013
Water System Leak Detection	10,000	10,000	9,600	
Misc. Upgrades to Pump Stations	25,000	25,000		
Miscellaneous Treatment Plant Upgrades	30,000	30,000	19,692	39,444
Water Storage Tank Cathodic Protection	10,000	10,000		
W.T.P. UV Disinfection System Upgrades				9,632
G.I.S. Collection System Mapping	5,000	5,000	3,160	
Miscellaneous Tools and Equipment	20,000	20,000	999	
2017 Ford Utility Body Truck				56,363
2018 Ford F-250 Pickup Truck w/ Crew Cab	40,000	40,000	31,304	
Trailer Mounted Water Main Valve Exerciser	65,000	65,000	63,375	
Miscellaneous Infrastructure Upgrades	40,000	40,000		
Collection System Inspection Equipment	10,000	10,000		
Total Capital Outlay	575,000	575,000	186,081	190,617
Excess of Actual Revenues Over Expenses				
Total	575,000	575,000	186,081	190,617

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

Mar 31, 2019 and 2018

	Original Issuance		Interest Rate	Maturities		Balance June 1, 2018	Issued	Refunded/Retired	Balance May 31, 2019
	Date	Amount		Date	Amount				
NJET Trust Loan Series 2009A	12/2/2009	735,000	4.000%	08/01/2019	33,000				
			4.000%	08/01/2020	38,000				
			4.000%	08/01/2021	38,000				
			3.500%	08/01/2022	38,000				
			4.000%	08/01/2023	43,000				
			4.000%	08/01/2024	43,000				
			3.750%	08/01/2025	43,000				
			4.000%	08/01/2026	48,000				
			4.000%	08/01/2027	47,000				
			4.000%	08/01/2028	47,000				
			4.000%	08/01/2029	52,000				
						530,000		60,000	470,000
NJET Fund Loan Series 2009A	12/2/2009	704,297	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				
						440,187		37,730	402,457

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, 2019 and 2018

	Original Issuance		Interest Rate	Maturities		Balance June 1, 2018	Issued	Refunded/Retired	Balance May 31, 2019
	Date	Amount		Date	Amount				
NJET Trust Loan Direct Loan	2/23/2010	71,914	2.970%	08/01/2019	3,527				
			3.150%	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				
						49,633		3,432	46,201
NJET Fund Loan Direct Loan	2/23/2010	204,192	0.000%	08/01/2019	7,165				
			0.060%	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				
						125,382		10,747	114,635

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, 2019 and 2018

	Original Issuance		Interest Rate	Maturities		Balance June 1, 2018	Issued	Refunded/Retired	Balance May 31, 2019
	Date	Amount		Date	Amount				
NJELT Trust Loan Series 2012A	05/3/2012	370,000	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				
						295,000		15,000	280,000
NJELT Fund Loan Series 2012A	05/3/2012	1,144,119	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				
						833,965		62,029	771,936

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, 2019 and 2018

Original Issuance Date	Amount	Interest Rate	Maturities		Balance June 1, 2018	Issued	Redeemed/ Retired	Balance May 31, 2019
			Date	Amount				
NIET Trust Loan Series 2016A-1	260,000	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				
		2.600%	08/01/2028	15,000				
		2.600%	08/01/2029	15,000				
		2.600%	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				
					250,000		10,000	240,000

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

May 31, 2019 and 2018

	Original Issuance		Interest Rate	Maturities		Balance June 1, 2018	Issued	Refunded/Retired	Balance May 31, 2019
	Date	Amount		Date	Amount				
NJNET									
Fund Loan									
Series 2016A-1	05/26/2016	799,313	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						743,221		42,069	701,152
						3,707,029		272,280	3,434,749
Current Portion									245,375
Non-Current Portion									3,189,374
									3,434,749

Schedule 6

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

MEMBERS OF THE AUTHORITY

JUNE 1, 2018 TO MAY 31, 2019

<u>Official</u>	<u>Position</u>	<u>Term Expires February 1</u>
Kevin P. Carroll	Chairman	2021
Neal Galletta	Vice-Chairman/Treasurer	2022
George Decker	Secretary	2020
Michael Longo	Assistant Secretary	2024
Lloyd Kent	Assistant Treasurer	2023

POMPTON LAKES BOROUGH MUNICIPAL UTILITIES AUTHORITY

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

COMMENTS AND RECOMMENDATIONS

YEAR ENDED MAY 31, 2019

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

Charles J. Ferraioli, Jr., MBA, CPA, RMA
Steven D. Wielkott, CPA, RMA
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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, 2019, and the related notes to the financial statements, and have issued our report thereon dated August 15, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of 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.

FWCC

Honorable Chairman and Members of the
Pompton Lakes Borough Municipal Utilities Authority
Page 2.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a deficiency in internal control over financial reporting, described in the accompanying schedule of findings and responses as Finding 2019-01 that we consider to be a significant deficiency in internal control over financial reporting.

Compliance and Other Matters

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

Pompton Lakes Borough Municipal Utilities Authority's Response to Findings

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

Purpose of this Report

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

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

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

August 15, 2019

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

**SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED MAY 31, 2019**

FINDING:

2019-01* CONDITION:

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

CRITERIA:

Governmental entities are required by N.J.A.C. 5:30-5.6 to maintain a fixed assets accounting system including a subsidiary ledger of detailed records of fixed assets and the related depreciation.

EFFECT:

Absent or inadequate controls over the safeguarding of assets.

CAUSE:

An inventory of the Authority's fixed assets and has not been performed and updated on a regular basis.

RECOMMENDATION:

That the Authority implement a capital asset management accounting and reporting system to reflect all fixed assets and the related depreciation, and that updates be performed on an annual basis.

VIEWS OF RESPONSIBLE OFFICIALS/CORRECTIVE ACTION:

Management is investigating possible solutions to correct this finding.

* Indicates repeat finding.

General Comments

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, Wielkatz, Cerullo & Cuva, P.A.

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