

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

FINANCIAL STATEMENTS

YEARS ENDED MAY 31, 2018 AND 2017

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

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Financial Section

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INDEPENDENT AUDITOR'S REPORT

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

Ladies and Gentlemen:

Report on the Financial Statements

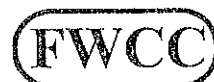
We have audited the accompanying statements of net position of the Pompton Lakes Borough Municipal Utilities Authority as of May 31, 2018 and 2017, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial 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.



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, 2018, 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.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Pompton Lakes Borough Municipal Utilities Authority's basic financial statements. The supplementary information listed in the table of contents and 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 30, 2018 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 & Cusa, P.A.

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

July 30, 2018

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Required Supplementary Information - Part I

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Management Discussion and Analysis

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Pompton Lakes Borough Municipal Utilities Authority, we offer the Authority's financial statements this narrative overview and analysis of the Authority's financial performance during the fiscal years ended May 31, 2018 and 2017. 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 \$7,248,969 (net position) for the fiscal year reported. This compares to the previous year when assets exceeded liabilities by \$7,641,868.
- Total net position is comprised of the following:
 - (1) Capital assets, net of related debt, of \$8,089,114 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 \$(840,145) represent the portion available to maintain the Authority's continuing obligations to citizens and creditors.
- Total liabilities of the Authority decreased by \$1,844,924 to \$7,005,084 during the fiscal year.

Overview of the Financial Statements

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

Required Financial Statements

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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

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

Notes to the Financial Statements

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

Other Information

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

Financial Analysis of the Authority

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Net Position

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

The Authority's net position at fiscal year-end are \$7,248,969. This is a \$392,899 decrease under last year's net position of \$7,641,868. A summary of the Authority's statement of net position is presented in the following table:

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)%

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 \$392,899.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Net Position (Continued)

Condensed Statement of Net Position

	<u>FY 2017</u>	<u>FY 2016</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Current and Other Assets	2,794,610	2,942,270	(147,660)	(5.02)%
Capital Assets	<u>12,728,851</u>	<u>13,601,190</u>	<u>(872,339)</u>	(6.41)%
Total Assets	<u>15,523,461</u>	<u>16,543,460</u>	<u>(1,019,999)</u>	(6.17)%
Deferred Outflows of Resources	<u>1,197,243</u>	<u>541,163</u>	<u>656,080</u>	121.24%
Long-term Debt				
Outstanding	4,315,044	4,941,577	(626,533)	(12.68)%
Other Liabilities	<u>4,534,964</u>	<u>3,495,413</u>	<u>1,039,551</u>	29.74%
Total Liabilities	<u>8,850,008</u>	<u>8,436,990</u>	<u>413,018</u>	4.90%
Deferred Inflows of Resources	<u>228,828</u>	<u>314,002</u>	<u>(85,174)</u>	(27.13)%
Invested in Capital Assets, Net of Related Debt	8,010,791	8,310,134	(299,343)	(3.60)%
Restricted	1,053,825	1,060,575	(6,750)	(0.64)%
Unrestricted	<u>(1,422,748)</u>	<u>(1,037,078)</u>	<u>(385,670)</u>	37.19%
Total Net Position	<u>7,641,868</u>	<u>8,333,631</u>	<u>(691,763)</u>	(8.30)%

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Net Position (Continued)

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

	<u>FY 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)%

The Authority's Operating Revenues increased by \$54,600 to \$3,257,602 in 2018 from \$3,203,002 in 2017. This increase is primarily due to an increase in water and sewer charges and connection fees.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Net Position (Continued)

	<u>FY 2017</u>	<u>FY 2016</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Operating Revenues	3,202,569	3,313,553	(110,984)	(3.35)%
Non-Operating Revenues	<u>433</u>	<u>332</u>	<u>101</u>	30.42%
Total Revenues	<u>3,203,002</u>	<u>3,313,885</u>	<u>(110,883)</u>	(3.35)%
Depreciation	991,625	929,856	61,769	6.64%
Other Operating Expenses	2,809,617	2,573,932	235,685	9.16%
Other Non-Operating Expense	<u>93,523</u>	<u>124,806</u>	<u>(31,283)</u>	(25.07)%
Total Expenses	<u>3,894,765</u>	<u>3,628,594</u>	<u>266,171</u>	7.34%
Change in Net Position	(691,763)	(314,709)	(377,054)	119.81%
Beginning Net Position	<u>8,333,631</u>	<u>8,648,340</u>	<u>(314,709)</u>	(3.64)%
Ending Net Position	<u>7,641,868</u>	<u>8,333,631</u>	<u>(691,763)</u>	(8.30)%

Budgetary Highlights

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Budgetary Highlights (Continued)

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 following table provides a 2017 budget comparison:

**Budget vs. Actual
FY 2017**

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues:			
Operating	<u>3,253,000</u>	<u>3,285,002</u>	<u>32,002</u>
Expenses:			
Operating	2,793,000	2,579,279	213,721
Debt Service	<u>460,000</u>	<u>441,667</u>	<u>18,333</u>
	<u>3,253,000</u>	<u>3,020,946</u>	<u>232,054</u>
Income Before Depreciation	<u>0</u>	<u>264,056</u>	<u>264,056</u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2018, the Authority had invested \$29,879,598 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 \$11,967,474. This is a \$761,377 decrease under last year's net property, plant and equipment of \$12,728,851. A summary of the Authority's capital assets is presented in the following table:

CAPITAL ASSETS

	<u>FY 2018</u>	<u>FY 2017</u>	<u>Dollar Change</u>	<u>FY 2016</u>
Land	65,652	65,652		65,652
Buildings, Force Mains and Interceptors	24,436,463	24,436,463	0	24,279,856
Vehicles and Equipment	<u>5,324,683</u>	<u>5,147,627</u>	<u>177,056</u>	<u>5,132,438</u>
Total Property, Plant and Equipment	29,826,798	29,649,742	177,056	29,477,946
Less: Accumulated Depreciation	<u>17,912,124</u>	<u>16,960,130</u>	<u>951,994</u>	<u>15,968,504</u>
	11,914,674	12,689,612	(774,938)	13,509,442
Construction in Progress	<u>52,800</u>	<u>39,239</u>	<u>13,561</u>	<u>91,748</u>
Net Property, Plant and Equipment	<u>11,967,474</u>	<u>12,728,851</u>	<u>(761,377)</u>	<u>13,601,190</u>

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

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 Vale Insertions	\$20,000	\$20,000
Misc. Well Upgrades	40,000	40,000
Misc. Upgrades to Water System	50,000	50,000
Misc. Building Upgrades	10,000	10,000
Twin Lakes Damn Insp./Design/Permit	20,000	20,000
Misc. Security Equipment	10,000	10,000
Misc. Paving & Concrete Repairs	25,000	25,000
Water Storage Tank Cathodic Protection	10,000	10,000
Fire Hydrant and Aux. Valve Upgrades	20,000	20,000
Misc. Computer and Office Equipment	20,000	20,000
Misc. Tools and Equipment	20,000	20,000
G.I.S. Water System Mapping	5,000	5,000
2018 Ford F250 Pick-Up Truck w/Crew Cab	20,000	20,000
Misc. Laboratory Upgrades	5,000	5,000
Trailer Mntd. Water Main Rep. Valve Exerciser	65,000	65,000
Water Meter Reading Upgrade	20,000	20,000
Water System Leak Detection	<u>10,000</u>	<u>10,000</u>
Total	<u>370,000</u>	<u>370,000</u>
Sewer Fund:		
Misc. Upgrades to Pumping Stations	\$25,000	\$25,000
Misc. Infrastructure Upgrades	40,000	40,000
Misc. Treatment Plant Upgrades	30,000	30,000
Misc. Building Upgrades	10,000	10,000
Twin Lakes Damn Insp./Design/Permit	20,000	20,000
Misc. Security Equipment	10,000	10,000
Misc. Paving & Concrete Repairs	10,000	10,000
Misc. Computer and Office Equipment	20,000	20,000
Collection System Inspection Equipment	10,000	10,000
2018 Ford F250 Pick-Up Truck w/Crew Cab	20,000	20,000
G.I.S. Collection System Mapping	5,000	5,000
Misc. Laboratory Upgrades	<u>5,000</u>	<u>5,000</u>
Total	<u>205,000</u>	<u>205,000</u>
Total Proposed Capital Budget	<u>\$575,000</u>	<u>\$575,000</u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Debt Administration

At May 31, 2018, the Authority had outstanding revenue and revenue refunding bonds in the amount of \$3,755,705 (gross). The debt service schedule goes out to 2035. Interest rates range from 0.00% to 5.00%.

Economic Factors, Future Years' Budgets and Rates

The Commissioners and Management of the Authority consider many factors when preparing each year's budget and annual charges. The main factors are maintaining the Authority's existing system, plans for improvements, respond to new regulations issued by the State and Federal governments and understanding the current economic conditions impacting the Authority and our customers.

Contacting the Authority

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

Financial Statements

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

May 31,

	<u>2018</u>	<u>2017</u>
<u>ASSETS</u>		
<u>Current Assets:</u>		
<u>Unrestricted:</u>		
Cash and Cash Equivalents	\$ 2,044,892	1,358,662
Accounts Receivable-User Charges	155,507	139,547
Miscellaneous Receivables	1,000	2,000
Prepaid Expenses	<u>43,081</u>	<u>44,313</u>
Total Unrestricted Assets	<u>2,244,480</u>	<u>1,544,522</u>
<u>Restricted:</u>		
<u>Operating Reserve Fund:</u>		
Cash and Cash Equivalents	<u></u>	<u>681,500</u>
<u>Current Debt Service Fund:</u>		
Cash and Cash Equivalents	<u></u>	<u>201,533</u>
<u>Debt Service Reserve Fund:</u>		
Cash and Cash Equivalents	<u></u>	<u>207,325</u>
	<u>-</u>	<u>207,325</u>
<u>Construction Fund:</u>		
Cash and Cash Equivalents	<u></u>	<u>77,038</u>
	<u>-</u>	<u>77,038</u>
<u>Customer Deposits:</u>		
Cash and Cash Equivalents	<u>49,122</u>	<u>48,232</u>
<u>Escrow Deposits:</u>		
Cash and Cash Equivalents	<u>34,759</u>	<u>34,460</u>
Total Current Assets:	\$ <u>2,328,361</u>	<u>2,794,610</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

May 31,

	<u>2018</u>	<u>2017</u>
<u>Non-Current Assets:</u>		
<u>Capital Assets:</u>		
Property, Plant and Equipment	\$ 29,826,798	29,649,742
Construction In Progress	52,800	39,239
Less: Accumulated Depreciation	<u>(17,912,124)</u>	<u>(16,960,130)</u>
Total Capital Assets	<u>11,967,474</u>	<u>12,728,851</u>
TOTAL ASSETS	\$ <u>14,295,835</u>	<u>15,523,461</u>
 <u>DEFERRED OUTFLOWS OF RESOURCES</u>		
Pension Related Items	784,766	1,137,382
Loss on Advanced Refunding of Debt	<u> </u>	<u>59,861</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>784,766</u>	<u>1,197,243</u>

See accompanying notes to the financial statements.

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

Exhibit A
Page 3 of 3

May 31,

	<u>2018</u>	<u>2017</u>
<u>LIABILITIES</u>		
<u>Current Liabilities:</u>		
Payable From Unrestricted Assets:		
Accounts Payable	\$ 52,603	47,325
Accrued Interest on Bonds Payable	19,141	
Accrued Liabilities:		
Compensated Absences	31,054	29,719
Loans Payable - Current Portion	247,280	
Total Current Liabilities Payable		
From Unrestricted Assets	350,078	77,044
Payable From Restricted Assets:		
Customer Deposits	49,122	48,232
Escrow Deposits Payable	34,759	34,460
Accrued Interest on Bonds Payable		36,533
Revenue Bonds and Loans		
Payable - Current Portion		407,194
Total Current Liabilities Payable		
From Restricted Assets	83,881	526,419
<u>Non-Current Liabilities :</u>		
Net Pension Liability	3,062,700	3,931,501
Long-Term Portion of Revenue Bonds		
and Loans Payable	3,508,425	4,315,044
Total Non-Current Liabilities	6,571,125	8,246,545
TOTAL LIABILITIES	\$ 7,005,084	8,850,008
<u>DEFERRED INFLOWS OF RESOURCES</u>		
Pension Related Items	703,893	96,107
Gain on Advanced Refunding of Debt	21,273	23,636
Unamortized Bond Premium	101,382	109,085
TOTAL DEFERRED INFLOWS OF RESOURCES	826,548	228,828
<u>NET POSITION</u>		
Net Investment in Capital Assets	8,089,114	8,010,791
Restricted:		
Operating Reserve		681,500
Current Debt Service		165,000
Debt Service Reserve		207,325
Unrestricted:		
Designated	1,001,000	934,000
Undesignated	(1,841,145)	(2,356,748)
TOTAL NET POSITION	\$ 7,248,969	7,641,868

See accompanying notes to the financial statements.

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

For The Year Ended May 31,

	<u>2018</u>	<u>2017</u>
Operating Revenues:		
Water Charges	\$ 745,620	713,950
Sewer Charges	2,236,861	2,260,841
Connection Fees	13,746	
Other	228,112	204,379
Interest On Delinquent Accounts	22,376	23,399
Interest Income	10,887	433
Total Operating Revenues	<u>3,257,602</u>	<u>3,203,002</u>
Operating Expenses:		
Costs of Providing Services	1,446,220	1,424,187
Administrative, General and Employee Benefits	1,152,826	1,385,430
Depreciation	951,994	991,625
Total Operating Expenses	<u>3,551,040</u>	<u>3,801,242</u>
Operating Income (Loss)	<u>(293,438)</u>	<u>(598,240)</u>
Non-Operating Revenues (Expenses):		
Interest Expense	(49,668)	(91,618)
Amortization	(49,793)	(1,905)
Non-Operating Income / (Loss)	<u>(99,461)</u>	<u>(93,523)</u>
Change in Net Position	<u>(392,899)</u>	<u>(691,763)</u>
Net Position - June 1,	<u>7,641,868</u>	<u>8,333,631</u>
Net Position - May 31,	<u>\$ 7,248,969</u>	<u>7,641,868</u>

See accompanying notes to the financial statements.

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

For The Years Ended May 31,

	<u>2018</u>	<u>2017</u>
<u>Cash Flow from Operating Activities:</u>		
Cash received from customers and users	\$ 3,232,645	3,241,516
Interest received	10,887	433
Cash Paid to employees	(1,069,711)	(1,079,641)
Cash Paid to suppliers and others	(1,429,590)	(1,482,001)
Interest paid	(67,060)	(95,045)
Net Cash Provided by Operating Activities	<u>677,171</u>	<u>585,262</u>
<u>Cash Flow from Investing Activities:</u>		
Purchase of Property, Plant and Equipment	<u>(190,617)</u>	<u>(119,288)</u>
Net Cash Provided by (used in) Investing Activities	<u>(190,617)</u>	<u>(119,288)</u>
<u>Cash Flow from Financing Activities:</u>		
Received from NJEIT		2,433
Payment of 1998 Refunding Bonds	(700,000)	(350,000)
Payment of NJEIT Loans	(242,194)	(199,072)
NJEIT Settlement Repayment	(24,337)	(24,339)
Net Cash Used in Financing Activities	<u>(966,531)</u>	<u>(570,978)</u>
Net Increase/(Decrease) in Cash and Cash Equivalents	<u>(479,977)</u>	<u>(105,004)</u>
Cash and Cash Equivalents at Beginning of Year	<u>2,608,750</u>	<u>2,713,754</u>
Cash and Cash Equivalents at End of Year	<u>\$ 2,128,773</u>	<u>2,608,750</u>
<u>Reconciliation to Statement of Net Position -</u>		
<u>Cash and Cash Equivalents:</u>		
Unrestricted Assets	\$ 2,044,892	1,358,662
Restricted Assets:		
Operating Reserve Fund		681,500
Current Debt Service Fund		201,533
Debt Service Reserve Fund		207,325
Construction Fund		77,038
Customer Deposit Account	49,122	48,232
Escrow Accounts	34,759	34,460
	<u>\$ 2,128,773</u>	<u>2,608,750</u>

See accompanying notes to the financial statements.

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

Exhibit C
Page 2 of 2

For The Years Ended May 31,

	<u>2018</u>	<u>2017</u>
Reconciliation of operating income to net cash provided (used) by operating activities		
Operating Income	\$ (293,438)	(598,240)
Adjustments to Reconcile Change in Net Position to Net Cash Provided by Operating Activities:		
Depreciation	951,994	991,625
Pension Adjustment	91,601	254,677
Interest Expense	(49,668)	(91,618)
(Increase) Decrease In:		
Accounts Receivable-User Charges	(15,960)	39,198
Miscellaneous Receivables	1,000	1,250
Prepaid Expenses	1,232	(225)
Increase (Decrease) In:		
Accounts Payable - Unrestricted	5,278	(3,561)
Accrued Interest Payable	(17,392)	(3,427)
Customer Deposits	890	(1,501)
Escrow Deposits Payable	299	42
Accrued Liabilities	1,335	(2,958)
Net Cash Provided by Operating Activities	\$ <u>677,171</u>	<u>585,262</u>

See accompanying notes to the financial statements.

Notes to Financial Statements

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

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED MAY 31, 2018 AND 2017

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, 2018 AND 2017
(continued)

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

A. Basis of Presentation and Accounting, (continued)

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

Basis of Accounting

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

Reporting Entity

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

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

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED MAY 31, 2018 AND 2017
(continued)

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

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

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

B. **Grants**

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

C. **Accounts Receivable**

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

D. **Inventories**

Inventories of materials and supplies are considered expenditures when purchased.

E. **Property, Plant and Equipment**

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

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

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

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED MAY 31, 2018 AND 2017
(continued)

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

E. Property, Plant and Equipment, (continued)

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

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

<u>Account</u>	<u>Amount</u>	<u>Use for Which Restricted</u>
Revenue Fund	All revenues received by the Authority in excess of the amounts required under the Resolution.	Transfer to the various accounts described below.
Bond Service Fund	The amount of money equal to any unpaid interest then due, plus any interest to become due at or before the first (1st) day of June next ensuing, plus any unpaid principal then due, plus any principal maturing at or before the first (1st) day of June next ensuing.	Principal and interest on Bonds.

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

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED MAY 31, 2018 AND 2017
(continued)

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

F. Restricted Accounts, (continued)

<u>Account</u>	<u>Amount</u>	<u>Use for Which Restricted</u>
Sinking Fund	The amount needed (if any) to increase the amount then or theretofore paid during the fiscal year into the Sinking Fund so that it equals the aggregate amount of all Sinking Fund Installments (if any) required to be paid on the next succeeding June 1.	The amount of money required by or pursuant to a Supplemental Resolution of the Authority to be paid by the Authority on a particular date toward the requirement of any particular Outstanding Junior Lien Bonds which mature on a single date in a fiscal year beginning after said particular date. The Authority has not adopted any such Supplemental Resolution.
Bond Reserve Fund	An amount of money equal to the Maximum Annual Bond Service.	To make up the deficiency, if any, in the Bond Service Fund.
Renewal and Replacement Fund	An amount of money equal to the System Reserve Requirement, which is \$0.00 or the sum (if larger) approved by the Authority and stated as required as a reserve in the Consulting Engineer's Certificate most recently filed with the Trustee. No such Certificate has been filed with the Trustee.	(1) If the amount in the Bond Reserve Fund shall be less than the bond reserve requirement as of such date, to increase the amount in the Bond Reserve Fund so that it equals such bond reserve requirement; (2) for reasonable and necessary expenses of the Authority with respect to the System, for improvements, construction, reconstruction, major repairs, renewals, replacements or maintenance items of a type not recurring annually or at shorter intervals and for cost of equipment.

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

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED MAY 31, 2018 AND 2017
(continued)

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

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

<u>Account</u>	<u>Amount</u>	<u>Use for Which Restricted</u>
General Fund	Any balance remaining in the revenue account after making all transfers required to be made to the foregoing accounts.	(1) If the amount in the Bond Reserve Fund shall be less than the bond reserve requirement as of any date, to increase the amount in the Bond Service Fund so that it equals such bond reserve requirement; (2) provided the amounts in the Bond Service Fund, Sinking Fund, Bond Reserve Fund, and Renewal and Replacement Fund equal or exceed the minimum requirements in each such fund and the Authority is not in default in the payment of the principal of or interest on or the Redemption Price of any of the Junior Lien Bonds, any balance in the General Fund may be withdrawn by the Authority and may be spent by the Authority for any lawful purpose.

As of May 31, 2018, the Authority's Series 1998 Bonds have been retired and the above accounts have been closed.

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED MAY 31, 2018 AND 2017
(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 \$31,054, as of May 31, 2018, 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, 2018 AND 2017
(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. Recent Accounting Pronouncements

Recently Issued Accounting Pronouncements

The Government Accounting Standards Board issued GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This Statement applies to government employers who provided OPEB plans to their employees and basically parallels GASB Statement 68 and replaces GASB Statement 45. The Statement is effective for fiscal years beginning after June 15, 2017. The Authority believes this Statement will have no impact on future financial statements.

The Government Accounting Standards Board issued GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which reduces the GAAP hierarchy to two categories of authoritative GAAP from the four categories under GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The first category of authoritative GAAP consists of GASB Statements of Governmental Accounting Standards. The second category comprises GASB Technical Bulletins and Implementation Guides, as well as guidance from the American Institute of Certified Public Accountants that is cleared by the GASB. The Authority believes this Statement will have no impact on future financial statements.

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

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED MAY 31, 2018 AND 2017
(continued)

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

M. Recent Accounting Pronouncements, (continued)

The Government Accounting Standards Board issued GASB Statement No. 77, *Tax Abatement Disclosures*, which improve financial reporting by giving users of financial statements essential information that is not consistently or comprehensively reported to the public at present. Disclosure of information about the nature and magnitude of tax abatements will make these transactions more transparent to financial statement users. As a result, users will be better equipped to understand (1) how tax abatements affect a government's future ability to raise resources and meet its financial obligations and (2) the impact those abatements have on a government's financial position and economic condition. The Authority believes this Statement will have no impact on future financial statements.

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

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

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

In March 2016, the Government Accounting Standards Board issued GASB Statement No. 81, *Irrevocable Split-Interest Agreements*. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The Authority believes this Statement will have no impact on future financial statements.

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

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED MAY 31, 2018 AND 2017

(continued)

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

M. Recent Accounting Pronouncements, (continued)

In March 2016, the Government Accounting Standards Board issued GASB Statement No. 82, Pension Issues - an Amendment of GASB Statements No. 67, No. 68 and No. 73. The objective of this Statement is to address certain issues that have been raised with respect to Statement No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The Authority believes this Statement will have no impact on future financial statements.

In November 2016, the Government Accounting Standards Board issued GASB Statement No. 83, Certain Asset Retirement Obligations. This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflows of resources for asset retirement obligations (AROs). The Authority believes this Statement will have no impact on future financial statements.

In January 2017, the Government Accounting Standards Board issued GASB Statement No. 84, Fiduciary Activities. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus on the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify component units and postemployment benefit arrangements that are fiduciary activities. The Authority is currently evaluating the effects, if any, this Statement may have on future financial statements.

In March 2017, the Government Accounting Standards Board issued GASB Statement No. 85, Omnibus 2017, which addresses practice issues that have been identified during the implementation and application of certain GASB statements. This Statement addresses a variety of topics including issues relating to blending component units, goodwill, fair value measurement and application, and postemployment benefits. The Authority is currently reviewing what effect, if any, this Statement might have on future financial statements.

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

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED MAY 31, 2018 AND 2017
(continued)

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

M. Recent Accounting Pronouncements, (continued)

In May 2017, the Government Accounting Standards Board issued GASB Statement No. 86, *Certain Debt Extinguishment Issues*, which improves consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources – resources other than the proceeds of refunding debt – are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. The Authority is currently reviewing what effect, if any, this Statement might have on future financial statements.

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 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

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

M. Recent Accounting Pronouncements, (continued)

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.

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, 2018 and 2017, the book value of the Authority's deposits were \$2,128,773 and \$2,608,750, respectively, and bank balances of the Authority's cash and deposits amounted to \$2,189,727 and \$2,651,351, respectively.

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

	<u>2018</u>	<u>2017</u>
Insured:		
Restricted	\$83,881	\$1,358,662
Unrestricted	<u>2,044,892</u>	<u>1,250,088</u>
	<u>\$2,128,773</u>	<u>\$2,608,750</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 \$2,189,727 and \$2,651,351, respectively, was exposed to custodial credit risk.

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3. PROPERTY, PLANT AND EQUIPMENT

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

	<u>Balance</u> <u>May 31, 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> </u>	<u>5,324,683</u>
Total Capital Assets Being Depreciated	<u>29,584,090</u>	<u>177,056</u>	<u> </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> </u>	<u>52,800</u>
Total Capital Assets Not Being Depreciated	<u>104,891</u>	<u>13,561</u>	<u> </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> </u>	<u>(17,912,124)</u>
Net Property, Plant and Equipment	<u>\$12,728,851</u>	<u>(\$761,377)</u>	<u>\$ </u>	<u>\$11,967,474</u>

	<u>Balance</u> <u>May 31, 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>May 31, 2017</u>
Capital Assets Being Depreciated:				
Buildings, Pumps, Mains	\$24,279,856	\$156,607	\$	\$24,436,463
Equipment and Vehicles	<u>5,132,438</u>	<u>15,189</u>	<u> </u>	<u>5,147,627</u>
Total Capital Assets Being Depreciated	<u>29,412,294</u>	<u>171,796</u>	<u> </u>	<u>29,584,090</u>
Capital Assets Not Being Depreciated:				
Land	65,652			65,652
Construction in Progress	<u>91,748</u>	<u>119,287</u>	<u>171,796</u>	<u>39,239</u>
Total Capital Assets Not Being Depreciated	<u>157,400</u>	<u>119,287</u>	<u>171,796</u>	<u>104,891</u>
Total Capital Assets	29,569,694	291,083	171,796	29,688,981
Accumulated Depreciation	<u>(15,968,504)</u>	<u>(991,626)</u>	<u> </u>	<u>(16,960,130)</u>
Net Property, Plant and Equipment	<u>\$13,601,190</u>	<u>(\$700,543)</u>	<u>\$171,796</u>	<u>\$12,728,851</u>

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YEARS ENDED MAY 31, 2018 AND 2017
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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, 2018 is \$52,690 May 31, 2017 is \$44,987. The unamortized balance as of May 31, 2018 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, 2018 and 2017:

	Balance May 31, 2017	Issued	Deobligated/ Retired	Balance May 31, 2018
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>

	Balance May 31, 2016	Issued	Deobligated/ Retired	Balance May 31, 2017
1998 Refunding Bonds	\$1,050,000	\$	\$350,000	\$700,000
NJEIT Trust Loan Series 2009A	595,000		30,000	565,000
NJEIT Fund Loan Series 2009A	515,647		37,730	477,917
NJEIT Trust - Direct Loan	56,249		3,270	52,979
NJEIT Fund - Direct Loan	146,876		10,747	136,129
NJEIT Trust Loan Series 2010	329,000		15,000	314,000
NJEIT Fund Loan Series 2010	163,187		11,273	151,914
NJEIT Trust Loan Series 2012	325,000		15,000	310,000
NJEIT Fund Loan Series 2012	958,023		62,029	895,994
NJEIT Trust Loan Series 2016A-1	260,000			260,000
NJEIT Fund Loan Series 2016A-1	799,313		14,023	785,290
	<u>\$5,198,295</u>	<u>\$</u>	<u>\$549,072</u>	<u>\$4,649,223</u>

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YEARS ENDED MAY 31, 2018 AND 2017
(continued)

5. LONG-TERM DEBT, (continued)

The Authority has issued and outstanding the following bonds and loans as of May 31, 2018 and 2017:

	<u>Interest Rate</u>	<u>2018</u>	<u>2017</u>
1998 Refunding Bonds	4.50%	\$	\$700,000
NJEIT Trust Loan Series 2009A	2.00% - 4.00%	530,000	565,000
NJEIT Fund Loan Series 2009A	0.00%	440,187	477,917
NJEIT Trust - Direct Loan	.610% - 4.18%	49,633	52,979
NJEIT Fund - Direct Loan	0.00%	125,382	136,129
NJEIT Trust Loan Series 2010	5.00%	299,000	314,000
NJEIT Fund Loan Series 2010	0.00%	140,641	151,914
NJEIT Trust Loan Series 2012	2.00% - 5.00%	295,000	310,000
NJEIT Fund Loan Series 2012	0.00%	833,965	895,994
NJEIT Trust Loan Series 2016A-1	2.12% - 5.00%	250,000	260,000
NJEIT Fund Loan Series 2016A-1	0.00%	<u>743,221</u>	<u>785,290</u>
Net Carrying Amount of Debt		<u>\$3,707,029</u>	<u>\$4,649,223</u>
Current Portion		247,280	407,194
Long-Term Portion		<u>3,459,749</u>	<u>4,242,029</u>
		<u>\$3,707,029</u>	<u>\$4,649,223</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>
2019	\$247,281	\$56,493	\$303,774
2020	247,376	52,568	299,944
2021	250,480	48,759	299,239
2022	255,595	44,765	300,360
2023	255,718	40,736	296,454
2024-2028	1,374,810	135,056	1,509,866
2029-2033	908,584	29,876	938,460
2034-2036	<u>167,185</u>	<u>2,625</u>	<u>169,810</u>
Total	<u>\$3,707,029</u>	<u>\$410,878</u>	<u>\$4,117,907</u>

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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, 2018 as follows:

6/1/19	\$24,339
6/1/20	<u>24,339</u>
	<u>\$48,678</u>

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, 2018 are as follows:

Gain on NJEIT Refunding (Series 2010)	\$(21,273)
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These unamortized losses and gains are shown on the statement of net position as deferred outflows of resources and deferred inflows of resources, respectively.

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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YEARS ENDED MAY 31, 2018 AND 2017
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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 50 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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YEARS ENDED MAY 31, 2018 AND 2017
(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>
2018	\$121,884	\$261
2017	117,928	-0-
2016	112,356	-0-

At May 31, 2018, the Authority had a liability of \$3,062,700 for its proportionate share of the PERS net pension liability. The net pension liability was measured as of June 30, 2017, 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, 2017, the Authority's proportion was .0131568323 percent, which was a decrease of .0001175819 percent from its proportion measured as of June 30, 2016.

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(continued)

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, 2018, the Authority recognized pension expense of \$213,485. At May 31, 2018, 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	\$72,116	\$
Changes of assumptions	617,029	614,766
Net difference between projected and actual earnings on pension plan investments	20,855	
Changes in proportion and differences between the Authority's contributions and proportionate share of contributions	<u>74,766</u>	<u>89,127</u>
Total	<u>\$784,766</u>	<u>\$703,893</u>

Amounts reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date (June 30, 2017) 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:	
2018	\$72,099
2019	108,799
2020	65,927
2021	(87,682)
2022	(63,909)

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NOTES TO FINANCIAL STATEMENTS
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(continued)

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 5.48, 5.57, 5.72 and 6.44 years for 2017, 2016, 2015 and 2014 amounts, respectively.

Additional Information

Local Group Collective balances at May 31, 2018 and 2017 are as follows:

	<u>May 31, 2018</u>	<u>May 31, 2017</u>
Collective deferred outflows of resources	\$6,424,455,842	\$8,685,338,380
Collective deferred inflows of resources	5,700,625,981	870,133,595
Collective net pension liability	23,278,401,588	29,617,131,759
Authority's Proportion	.0131568323%	.0132744142%

Actuarial Assumptions

The total pension liability for the June 30, 2017 measurement date was determined by an actuarial valuation as of July 1, 2016, which rolled forward to June 30, 2017. 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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NOTES TO FINANCIAL STATEMENTS
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(continued)

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, 2016 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 plans actuary's modified MP-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 and a one year static projection based on mortality improvement Scale AA. In addition, the tables for service retirements and beneficiaries of former members provide for future improvements in mortality from the base year of 2013 using a generational approach based on the plan actuary's modified MP-2014 projection scale. 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, 2017) 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

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NOTES TO FINANCIAL STATEMENTS
YEARS ENDED MAY 31, 2018 AND 2017
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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)

combined to 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, 2017 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Absolute return/risk mitigation	5.00%	5.51%
Cash equivalents	5.50%	1.00%
U.S. Treasuries	3.00%	1.87%
Investment grade credit	10.00%	3.78%
Public 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%

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NOTES TO FINANCIAL STATEMENTS
YEARS ENDED MAY 31, 2018 AND 2017
(continued)

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)

Discount Rate

The discount rate used to measure the total pension liability was 5.00% as of June 30, 2017. 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 3.58% as of June 30, 2017 based on the Bond Buyer GO 20-Bond Municipal Bond Index, which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made based on the contribution rate in the most recent fiscal year. The State employer contributed 40% 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 2040. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2040 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, 2017, respectively, calculated using the discount rate as disclosed above as well as what the collective net pension liability would be if it was calculated using a discount rate that is 1 - percentage point lower or 1- percentage-point higher than the current rate:

	June 30, 2017		
	1%	At Current	1%
	Decrease	Discount Rate	Increase
	<u>4.00%</u>	<u>5.00%</u>	<u>6.00%</u>
Authority's proportionate share of the pension liability	\$3,799,488	\$3,062,700	\$2,448,865

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.

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

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED MAY 31, 2018 AND 2017
(continued)

9. POSTEMPLOYMENT BENEFITS OTHER THAN PENSION

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

New Jersey State Health Benefits Program

Plan Description

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

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

The State Health Benefits Commission is the executive body established by statute to be responsible for the operation of the SHBP. The State of New Jersey Division of Pensions and Benefits issues a publicly available financial report that includes financial statements and required supplementary information for the SHBP. That report may be obtained by writing to: State of New Jersey Division of Pensions and Benefits, P.O. Box 295, Trenton, NJ 08625-0295 or by visiting their website at <http://www.state.nj.us/treasury/pensions/annrpts.shtml>.

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

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED MAY 31, 2018 AND 2017
(continued)

9. POSTEMPLOYMENT BENEFITS OTHER THAN PENSION, (continued)

Funding Policy

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

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

The Pompton Lakes Borough Municipal Utilities Authority contributions to SHBP for retirees for the years ended May 31, 2018, 2017 and 2016 were \$62,350, \$64,601 and \$63,373, respectively, which equaled the required contributions for each year. There were approximately 5, 5 and 5 retired participants eligible at May 31, 2018, 2017 and 2016, respectively.

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

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.

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.

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

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED MAY 31, 2018 AND 2017
(continued)

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 ASSETS

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

	<u>2018</u>	<u>2017</u>
Appropriated in Subsequent Year's Budget	\$650,000	\$583,000
Designated for Retiree Health Benefits	<u>351,000</u>	<u>351,000</u>
	<u>\$1,001,000</u>	<u>\$934,000</u>

At May 31, 2018, the Authority reported a total amount of \$1,001,000 of Unrestricted Net Position — Designated for the purposes describe above.

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

	<u>2018</u>	<u>2017</u>
Accrued Unfunded Pension Liability	\$(2,981,827)	\$(2,890,226)
Available for Use in Future Budgets	<u>1,140,682</u>	<u>533,478</u>
Total	<u>(\$1,841,145)</u>	<u>(\$2,356,748)</u>

14. SUBSEQUENT EVENTS

The Authority has evaluated subsequent events through July 30, 2018, the date which the financial statements were available to be issued and no items were noted for disclosure.

Required Supplementary Information - Part II

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

	Fiscal Year Ending May 31,			
	2018	2017	2016	2015
Authority's proportion of the net pension liability (asset)	0.0131568323%	0.0132744142%	0.0130687267%	0.0125380651%
Authority's proportionate share of the net pension liability (asset)	\$ 3,062,700	\$ 3,931,501	\$ 2,933,667	\$ 2,347,469
Authority's covered payroll - PERS	\$ 974,299	\$ 969,755	\$ 939,426	\$ 908,206
Authority's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	314.35%	405.41%	312.28%	258.47%
Plan fiduciary net position as a percentage of the total pension liability	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,			
	2018	2017	2016	2015
Contractually required contribution	\$ 121,884.00	\$ 117,928.00	\$ 112,356.00	\$ 103,362.00
Contributions in relation to the contractually required contribution	\$ (121,884.00)	\$ (117,928.00)	\$ (112,356.00)	\$ (103,362.00)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
Authority's covered payroll - PERS	\$ 974,299	\$ 969,755	\$ 939,426	\$ 908,206
Contributions as a percentage of covered payroll	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, 2017

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 3.98% to 5.00%. This change in the discount rate is considered to be a change in actuarial assumptions under GASBS No. 68.

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Supplementary Schedules

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

For The Years Ended May 31, 2018 and 2017

	Invested in Capital Assets	Operating Reserve Fund	Restricted Current Debt Service Reserve Fund	Debt Service Reserve Fund	Designated	Unrestricted Undesignated	Total (Memo)	
							2018	2017
Operating Revenues:								
Water Charges						745,620	745,620	713,950
Sewer Charges						2,236,861	2,236,861	2,260,841
Connection Fees						13,746	13,746	
Other						228,112	228,112	204,379
Interest on Delinquent Accounts						22,376	22,376	23,399
Interest Income						10,887	10,887	433
Total Operating Revenues						3,257,602	3,257,602	3,203,002
Operating Expenses:								
Costs of Providing Services						1,446,220	1,446,220	1,424,187
Administrative, General and Employee Benefits						1,152,826	1,152,826	1,385,430
Depreciation						951,994	951,994	991,625
Total Operating Expenses						3,551,040	3,551,040	3,801,242
Operating Income (Loss)						(293,438)	(293,438)	(598,240)

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

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

For The Years Ended May 31, 2018 and 2017

	Invested in Capital Assets	Restricted			Unrestricted		Total (Memo)	
		Operating Reserve Fund	Debt Service Reserve Fund	Debt Service Reserve Fund	Designated	Undesignated	2018	2017
Non-Operating Revenue and (Expenses):								
Interest Expense						(49,668)	(49,668)	(91,618)
Amortization						(49,793)	(49,793)	(1,905)
						(99,461)	(99,461)	(93,523)
Net Income (Loss) Before Transfers and Capital Contributions						(392,899)	(392,899)	(691,763)
Transfers:								
Other	78,323	(681,500)		(207,325)	67,000	908,502		
Increase (Decrease) in Net Position	78,323	(681,500)		(207,325)	67,000	515,603	(392,899)	(691,763)
Net Position - June 1,	8,010,791	681,500	165,000	207,325	934,000	(2,356,748)	7,641,868	8,333,631
Net Position - May 31,	8,089,114				1,001,000	(1,841,145)	7,248,969	7,641,868

Appropriated in Subsequent Years Budget
Designated for Retiree Health Benefits

650,000
351,000
1,001,000

The Pompton Lakes Borough Municipal Utilities Authority
(A Component Unit of the Borough of Pompton Lakes)
Schedule Of Cash Receipts, Cash Disbursements
And Changes In Cash and Investments
Unrestricted And Restricted Accounts
For The Year Ended May 31, 2018

	Operating Account	General Fund	Payroll Fund	Cert. of Deposit	Construction Fund
Cash, Cash Equivalents and Investments - June 1, 2017	151,574	907,416	4,926	-	77,038
Cash Receipts:					
Interest on Investments	61	100		3,212	6
Water and Sewer Charges					
Customer Deposits					
Other	123,655				11,521
Employee/Employer Payroll Taxes			627,300		
Net Payroll Transfers			663,194		
Transfers	3,498,898			280,208	
Total Cash Receipts	3,622,614	100	1,290,494	283,420	11,527
Cash and Investments Available	3,774,188	907,516	1,295,420	283,420	88,565
Cash Disbursements:					
Operations	2,912,930		663,194		
Capital Expenditures					
Employee/Employer Payroll Taxes			627,262		
Bond Principal Payments					
Bond Interest Payments					
Customer Deposits					
Other					8,814
Transfers	750,000	907,516			79,751
Total Cash Disbursements	3,662,930	907,516	1,290,456	-	88,565
Cash, Cash Equivalents and Investments - May 31, 2018	111,258	-	4,964	283,420	-
Analysis of Balance:					
Cash and Cash Equivalents	111,258	-	4,964	283,420	-
Investments	-	-	-	-	-
	111,258	-	4,964	283,420	-
Unrestricted	111,258	-	4,964	283,420	-
Restricted	-	-	-	-	-
	111,258	-	4,964	283,420	-

The Pompton Lakes Borough Municipal Utilities Authority
(A Component Unit of the Borough of Pompton Lakes)
Schedule Of Cash Receipts, Cash Disbursements
And Changes In Cash and Investments
Unrestricted And Restricted Accounts
For The Year Ended May 31, 2018

	Revenue Fund	Debt Service Interest Fund	Bond Reserve Fund	Customer Deposit Account
Cash, Cash Equivalents and Investments - June 1, 2017	785,179	187,344	212,137	48,232
Cash Receipts:				
Interest on Investments	82		23	222
Water and Sewer Charges	3,081,160			
Customer Deposits				4,455
Other				
Employee/Employer Payroll Taxes				
Net Payroll Transfers				
Transfers	768,000	535,000		
Total Cash Receipts	3,849,242	535,000	23	4,677
Cash and Investments Available	4,634,421	722,344	212,160	52,909
Cash Disbursements:				
Operations				
Capital Expenditures				
Employee/Employer Payroll Taxes				
Bond Principal Payments		700,000		
Bond Interest Payments		15,750		
Customer Deposits				3,787
Other	5,956			
Transfers	4,225,628	6,594	212,160	
Total Cash Disbursements	4,231,584	722,344	212,160	3,787
Cash, Cash Equivalents and Investments - May 31, 2018	402,837	-	-	49,122
Analysis of Balance:				
Cash and Cash Equivalents	402,837	-	-	49,122
Investments	-	-	-	-
	402,837	-	-	49,122
Unrestricted	402,837	-	-	-
Restricted	-	-	-	49,122
	402,837	-	-	49,122

The Pompton Lakes Borough Municipal Utilities Authority
(A Component Unit of the Borough of Pompton Lakes)
Schedule Of Cash Receipts, Cash Disbursements
And Changes In Cash and Investments
Unrestricted And Restricted Accounts
For The Year Ended May 31, 2018

	Escrow Deposit Fund	Retiree Health Benefit Reserve Account	General/ Capital Reserve Account	Total
Cash, Cash Equivalents and Investments - June 1, 2017	34,460	200,444	-	2,608,750
Cash Receipts:				
Interest on Investments	69	16	7,387	11,178
Water and Sewer Charges				3,081,160
Customer Deposits				4,455
Other	1,500		138,873	275,549
Employee/Employer Payroll Taxes				627,300
Net Payroll Transfers				663,194
Transfers			1,300,003	6,382,109
Total Cash Receipts	1,569	16	1,446,263	11,044,945
Cash and Investments Available	36,029	200,460	1,446,263	13,653,695
Cash Disbursements:				
Operations				3,576,124
Capital Expenditures			203,850	203,850
Employee/Employer Payroll Taxes				627,262
Bond Principal Payments				700,000
Bond Interest Payments				15,750
Customer Deposits				3,787
Other	1,270			16,040
Transfers		200,460		6,382,109
Total Cash Disbursements	1,270	200,460	203,850	11,524,922
Cash, Cash Equivalents and Investments - May 31, 2018	34,759	-	1,242,413	2,128,773
Analysis of Balance:				
Cash and Cash Equivalents	34,759	-	1,242,413	2,128,773
Investments	-	-	-	-
	34,759	-	1,242,413	2,128,773
Unrestricted	-	-	1,242,413	2,044,892
Restricted	34,759	-	-	83,881
	34,759	-	1,242,413	2,128,773

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

For The Year Ended May 31, 2018

	2018 Budget	2018 Budget After Modifications	2018 Actual	2017 Actual
Revenues:				
Unrestricted Net Position Appropriated	88,000	88,000	88,000	82,000
Water Charges	700,000	700,000	745,620	713,950
Sewer Charges	2,141,519	2,141,519	2,236,861	2,260,841
Other	250,000	250,000	241,858	204,379
Interest on Delinquent Accounts	20,000	20,000	22,376	23,399
Interest on Investments and Deposits	1,000	1,000	10,887	433
O&M Reserve	365,000	365,000	365,000	
Total Operating Revenues	3,565,519	3,565,519	3,710,602	3,285,002
Expenses:				
Cost of Providing Services:				
Operating Salaries	700,000	700,000	689,637	646,080
Overtime Salaries	35,000	35,000	33,281	31,859
Professional Fees - Other	25,000	25,000	13,757	24,000
Engineering - Miscellaneous	15,000	15,000	172	1,200
Chemicals	75,000	75,000	76,034	77,165
Systems and Equipment - Repairs and Maintenance	150,000	150,000	124,521	120,674
Truck Expenses - Gas, Oil, License	15,000	15,000	9,725	12,885
Truck Expenses - Repairs	10,000	10,000	7,497	7,213
Electricity	300,000	300,000	273,808	276,076
Water Consumed in Operations	3,000	3,000	1,909	2,487
Sludge Removal	100,000	100,000	113,334	108,451
Uniforms	8,000	8,000	6,181	4,508
Fees and Permits	50,000	50,000	32,356	39,292
Lab Supplies and Expenses	35,000	35,000	31,363	33,741
Customer Refunds	4,000	4,000	3,294	14,792
Miscellaneous Supplies and Expenses	30,000	30,000	29,351	23,764
Contingency (NJETT)	25,000	25,000	24,339	24,339
Sub-total Cost of Providing Services	1,580,000	1,580,000	1,470,559	1,448,526
Administrative, General Expenses and				
Employee Benefits:				
Administrative Salaries	310,000	310,000	317,604	372,353
Commissioners' Salaries	30,000	30,000	29,189	29,349
Administrative Trustees Fees	20,000	20,000	5,556	20,690
Customer Billing - Postage	7,000	7,000	4,288	5,254
IT Programming	5,000	5,000	5,021	4,796
IT System Maintenance	15,000	15,000	18,730	16,340
Auditing	25,000	25,000	22,250	24,720
Legal - Retainer	16,000	16,000	16,000	15,070
Legal - Miscellaneous	10,000	10,000	2,834	1,646
Office Supplies and Postage	10,000	10,000	8,953	7,151
Conferences and Seminars	10,000	10,000	7,928	8,803

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

For The Year Ended May 31, 2018

	<u>2018</u>	<u>2018</u>	<u>2018</u>	<u>2017</u>
	<u>Budget</u>	<u>Budget After</u>	<u>Actual</u>	<u>Actual</u>
		<u>Modifications</u>		
Administrative, General Expenses and				
Employee Benefits (continued):				
Special Accounting Services	10,000	10,000	10,000	5,358
Printing and Publications	8,000	8,000	7,338	6,676
Telephone and Alarm System	12,000	12,000	10,861	13,365
Insurance	45,000	45,000	38,539	40,281
Building Repairs and Maintenance	20,000	20,000	7,959	14,514
Heating	5,000	5,000	2,696	2,934
Bank Sweep Fees	4,000	4,000	6,831	4,422
Employee Benefits:				
Public Employee Retirement System	125,000	125,000	123,798	117,928
Social Security Tax	75,000	75,000	75,077	75,330
Unemployment Compensation Insurance	4,000	4,000	4,695	4,984
Worker's Compensation Insurance	30,000	30,000	25,876	25,942
Medical Insurance Premium	280,000	280,000	246,852	248,246
Retiree Health Benefits	70,000	70,000	62,350	64,601
	<u>1,146,000</u>	<u>1,146,000</u>	<u>1,061,225</u>	<u>1,130,753</u>
Debt Service:				
Bond Principal	777,194	777,194	942,194	350,049
Interest on Bonds	62,325	62,325	49,668	91,618
	<u>839,519</u>	<u>839,519</u>	<u>991,862</u>	<u>441,667</u>
Total Costs Funded by Operating Revenues	<u><u>3,565,519</u></u>	<u><u>3,565,519</u></u>	<u><u>3,523,646</u></u>	<u><u>3,020,946</u></u>
 Excess of Actual Revenues Over Expenses			186,956	264,056
 Reconciliation of Budgetary Basis to GAAP:				
Undesignated Retained Earnings			(88,000)	(82,000)
O & M Reserve			(365,000)	
Pension Adjustment			(91,601)	(254,677)
Depreciation			(951,994)	(991,625)
Amortization			(49,793)	(1,905)
NJETT Settlement Repayment			24,339	24,339
Bond Principal			942,194	350,049
Total Adjustments			<u>(579,855)</u>	<u>(955,819)</u>
Change in Net Position			<u><u>(392,899)</u></u>	<u><u>(691,763)</u></u>

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

For The Year Ended May 31, 2018

	<u>2018</u>	<u>2018</u>	<u>2018</u>	<u>2017</u>
	<u>Budget</u>	<u>Budget After</u>	<u>Actual</u>	<u>Actual</u>
		<u>Modifications</u>		
Financing Sources:				
Debt Authorization				27,857
Unrestricted Net Position	495,000	495,000	190,617	91,431
Total Financing Sources	<u>495,000</u>	<u>495,000</u>	<u>190,617</u>	<u>119,288</u>
Capital Outlays:				
Miscellaneous Water Main Valve Insertions	20,000	20,000		
Miscellaneous Well Upgrades	40,000	40,000	43,274	13,771
Miscellaneous Upgrades to Water System	40,000	40,000		
Miscellaneous Building Upgrades	20,000	20,000		
Miscellaneous Security Equipment	20,000	20,000		
Dam Bi-Annual Inspection/Permitting	40,000	40,000	13,560	14,723
Rehabilitation of WTP Clarifiers				27,857 ⁽¹⁾
Miscellaneous Laboratory Upgrades	10,000	10,000	7,331	
Miscellaneous Paving & Concrete Repairs	25,000	25,000		19,300
Fire Hydrant and Aux. Valve Upgrades	20,000	20,000		
G.I.S. Water System Mapping	10,000	10,000		
Misc. Computer and Office Equipment	30,000	30,000	21,013	
Misc. Upgrades to Pump Stations	25,000	25,000		22,997
Miscellaneous Treatment Plant Upgrades	30,000	30,000	39,444	
Water Storage Tank Cathodic Protection	10,000	10,000		
W.T.P. UV Disinfection System Upgrades	20,000	20,000	9,632	
G.I.S. Collection System Mapping	10,000	10,000		
Miscellaneous Tools and Equipment	10,000	10,000		
2017 Ford Utility Body Truck	60,000	60,000	56,363	
Upgrade WTP Sludge Thickener Electric	25,000	25,000		
Miscellaneous Infrastructure Upgrades	20,000	20,000		5,451
Collection System Inspection Equipment	10,000	10,000		
Emergency Road Repair Trench Box				7,420
Pollution Control Building Furnace Upgrade				7,769
Total Capital Outlay	<u>495,000</u>	<u>495,000</u>	<u>190,617</u>	<u>119,288</u>
Excess of Actual Revenues Over Expenses				
Total	<u>495,000</u>	<u>495,000</u>	<u>190,617</u>	<u>119,288</u>

(1) Funded by New Jersey Environmental Infrastructure Trust.

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

May 31, 2018 and 2017

	Original Issuance		Interest Rate	Maturities		Balance June 1, 2017	Issued	Redeemed/Retired	Balance May 31, 2018
	Date	Amount		Date	Amount				
Series 1998 Refunding Bonds	11/10/1998	2,720,000				700,000		700,000	
NJHET Trust Loan Series 2009A	12/2/2009	735,000	5.000%	08/01/2018	35,000				
			4.000%	08/01/2019	35,000				
			4.000%	08/01/2020	40,000				
			4.000%	08/01/2021	40,000				
			3.500%	08/01/2022	40,000				
			4.000%	08/01/2023	45,000				
			4.000%	08/01/2024	45,000				
			3.750%	08/01/2025	45,000				
			4.000%	08/01/2026	50,000				
			4.000%	08/01/2027	50,000				
			4.000%	08/01/2028	50,000				
			4.000%	08/01/2029	55,000				
						565,000		35,000	530,000

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

May 31, 2018 and 2017

	Original Issuance		Interest Rate	Maturities		Balance June 1, 2017	Issued	Redeemed/ Retired	Balance May 31, 2018
	Date	Amount		Date	Amount				
NJELI Fund Loan Series 2009A	12/2/2009	704,297	0.000%	08/01/2018	25,153				
			0.000%	02/01/2019	12,577				
			0.000%	08/01/2019	25,153				
			0.000%	02/01/2020	12,577				
			0.000%	08/01/2020	25,153				
			0.000%	02/01/2021	12,577				
			0.000%	08/01/2021	25,153				
			0.000%	02/01/2022	12,577				
			0.000%	08/01/2022	25,153				
			0.000%	02/01/2023	12,577				
			0.000%	08/01/2023	25,154				
			0.000%	02/01/2024	12,577				
			0.000%	08/01/2024	25,153				
			0.000%	02/01/2025	12,577				
			0.000%	08/01/2025	25,154				
			0.000%	02/01/2026	12,577				
			0.000%	08/01/2026	25,153				
			0.000%	02/01/2027	12,577				
			0.000%	08/01/2027	25,154				
			0.000%	02/01/2028	12,577				
			0.000%	08/01/2028	25,153				
			0.000%	02/01/2029	12,577				
			0.000%	08/01/2029	25,154				
						477,917		37,730	440,187

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, 2018 and 2017

	Original Issuance Date	Amount	Interest Rate	Maturities		Balance June 1, 2017	Issued	Redeemed/ Retired	Balance May 31, 2018
				Date	Amount				
NJBIT Trust Loan Direct Loan	2/23/2010	71,914	2.760%	08/01/2018	3,432				
			2.970%	08/01/2019	3,527				
			3.160%	08/01/2020	3,632				
			3.290%	08/01/2021	3,747				
			3.480%	08/01/2022	3,870				
			3.620%	08/01/2023	4,004				
			3.720%	08/01/2024	4,149				
			3.820%	08/01/2025	4,304				
			3.920%	08/01/2026	4,468				
			4.010%	08/01/2027	4,643				
			4.100%	08/01/2028	4,830				
			4.180%	08/01/2029	5,027				
						52,979		3,346	49,633

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, 2018 and 2017

	Original Issuance		Interest Rate	Maturities		Balance June 1, 2017	Issued	Redeemed/Retired	Balance May 31, 2018		
	Date	Amount		Date	Amount						
NJET Fund Loan Direct Loan	2/23/2010	204,192	0.000%	08/01/2018	7,165						
			0.000%	02/01/2019	3,582						
			0.000%	08/01/2019	7,165						
			0.000%	02/01/2020	3,582						
			0.000%	08/01/2020	7,165						
			0.000%	02/01/2021	3,582						
			0.000%	08/01/2021	7,165						
			0.000%	02/01/2022	3,582						
			0.000%	08/01/2022	7,165						
			0.000%	02/01/2023	3,582						
			0.000%	08/01/2023	7,165						
			0.000%	02/01/2024	3,582						
			0.000%	08/01/2024	7,165						
			0.000%	02/01/2025	3,582						
			0.000%	08/01/2025	7,165						
			0.000%	02/01/2026	3,582						
			0.000%	08/01/2026	7,165						
			0.000%	02/01/2027	3,582						
			0.000%	08/01/2027	7,165						
			0.000%	02/01/2028	3,582						
			0.000%	08/01/2028	7,165						
			0.000%	02/01/2029	3,582						
			0.000%	08/01/2029	7,165						
						136,129		10,747	125,382		

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, 2018 and 2017

	Original Issuance		Interest Rate	Maturities		Balance June 1, 2017	Issued	Redeemed/ Retired	Balance May 31, 2018
	Date	Amount		Date	Amount				
NJBT Trust Loan Series 2010B	12/2/2010	415,000	5.000%	08/01/2018	20,000				
			5.000%	08/01/2019	20,000				
			5.000%	08/01/2020	18,000				
			5.000%	08/01/2021	18,000				
			5.000%	08/01/2022	18,000				
			5.000%	08/01/2023	23,000				
			5.000%	08/01/2024	23,000				
			5.000%	08/01/2025	23,000				
			5.000%	08/01/2026	23,000				
			5.000%	08/01/2027	27,000				
			5.000%	08/01/2028	27,000				
			5.000%	08/01/2029	27,000				
			5.000%	08/01/2030	32,000				
						314,000		15,000	299,000

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

May 31, 2018 and 2017

	Original Issuance		Interest Rate	Maturities		Balance June 1, 2017	Issued	Redeemed/Retired	Balance May 31, 2018
	Date	Amount		Date	Amount				
NETT Fund Loan Series 2010	12/2/2010	210,430	0.000%	08/01/2018	7,515				
			0.000%	02/01/2019	3,758				
			0.000%	08/01/2019	7,515				
			0.000%	02/01/2020	3,758				
			0.000%	08/01/2020	7,515				
			0.000%	02/01/2021	3,758				
			0.000%	08/01/2021	7,515				
			0.000%	02/01/2022	3,758				
			0.000%	08/01/2022	7,515				
			0.000%	02/01/2023	3,758				
			0.000%	08/01/2023	7,515				
			0.000%	02/01/2024	3,758				
			0.000%	08/01/2024	7,515				
			0.000%	02/01/2025	3,758				
			0.000%	08/01/2025	7,515				
			0.000%	02/01/2026	3,758				
			0.000%	08/01/2026	7,515				
			0.000%	02/01/2027	3,758				
			0.000%	08/01/2027	7,515				
			0.000%	02/01/2028	3,758				
			0.000%	08/01/2028	7,515				
			0.000%	02/01/2029	3,758				
			0.000%	08/01/2029	7,515				
			0.000%	02/01/2030	3,758				
			0.000%	08/01/2030	5,365				
						151,914		11,273	140,641

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, 2018 and 2017

	Original Issuance		Interest Rate	Maturities		Balance June 1, 2017	Issued	Redeemed/ Retired	Balance May 31, 2018
	Date	Amount		Date	Amount				
NJET Trust Loan Series 2012A	05/3/2012	370,000	5.000%	08/01/2018	15,000				
			5.000%	08/01/2019	15,000				
			5.000%	08/01/2020	15,000				
			5.000%	08/01/2021	20,000				
			5.000%	08/01/2022	20,000				
			5.000%	08/01/2023	20,000				
			5.000%	08/01/2024	20,000				
			5.000%	08/01/2025	20,000				
			5.000%	08/01/2026	25,000				
			3.000%	08/01/2027	25,000				
			3.000%	08/01/2028	25,000				
			3.125%	08/01/2029	25,000				
			3.200%	08/01/2030	25,000				
			3.250%	08/01/2031	25,000				
						310,000		15,000	295,000

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

May 31, 2018 and 2017

	Original Issuance		Interest Rate	Maturities		Balance June 1, 2017	Issued	Redeemed/ Retired	Balance May 31, 2018	
	Date	Amount		Date	Amount					
NJET Fund Loan Series 2012	05/3/2012	1,144,110	0.000%	08/01/2018	41,353					
			0.000%	02/01/2019	20,676					
			0.000%	08/01/2019	41,353					
			0.000%	02/01/2020	20,676					
			0.000%	08/01/2020	41,353					
			0.000%	02/01/2021	20,676					
			0.000%	08/01/2021	41,353					
			0.000%	02/01/2022	20,676					
			0.000%	08/01/2022	41,353					
			0.000%	02/01/2023	20,676					
			0.000%	08/01/2023	41,353					
			0.000%	02/01/2024	20,676					
			0.000%	08/01/2024	41,353					
			0.000%	02/01/2025	20,676					
			0.000%	08/01/2025	41,353					
			0.000%	02/01/2026	20,676					
			0.000%	08/01/2026	41,353					
			0.000%	02/01/2027	20,676					
			0.000%	08/01/2027	41,353					
			0.000%	02/01/2028	20,676					
			0.000%	08/01/2028	41,353					
			0.000%	02/01/2029	20,676					
			0.000%	08/01/2029	41,353					
			0.000%	02/01/2030	20,676					
			0.000%	08/01/2030	41,352					
			0.000%	02/01/2031	20,676					
			0.000%	08/01/2031	27,589					
						895,994		62,029	833,965	

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, 2018 and 2017

	Original Issuance		Interest Rate	Maturities		Balance June 1, 2017	Issued	Redeemed/Retired	Balance May 31, 2018
	Date	Amount		Date	Amount				
NJEM Trust Loan Series 2016A-1	05/26/2016	260,000	5.000%	08/01/2018	10,000				
			5.000%	08/01/2019	10,000				
			5.000%	08/01/2020	10,000				
			5.000%	08/01/2021	10,000				
			5.000%	08/01/2022	10,000				
			5.000%	08/01/2023	10,000				
			4.000%	08/01/2024	15,000				
			4.000%	08/01/2025	15,000				
			4.000%	08/01/2026	15,000				
			4.000%	08/01/2027	15,000				
			2.000%	08/01/2028	15,000				
			2.000%	08/01/2029	15,000				
			2.000%	08/01/2030	15,000				
			2.125%	08/01/2031	15,000				
			3.000%	08/01/2032	15,000				
			3.000%	08/01/2033	15,000				
			3.000%	08/01/2034	20,000				
			3.000%	08/01/2035	20,000				
						260,000		10,000	250,000

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

May 31, 2018 and 2017

	Original Issuance		Interest Rate	Maturities		Balance June 1, 2017	Issued	Redeemed/ Retired	Balance May 31, 2018
	Date	Amount		Date	Amount				
NJET Fund Loan Series 2016A-1	05/26/2016	799,313	0.000%	08/01/2018	28,046				
			0.000%	02/01/2019	14,023				
			0.000%	08/01/2019	28,046				
			0.000%	02/01/2020	14,023				
			0.000%	08/01/2020	28,046				
			0.000%	02/01/2021	14,023				
			0.000%	08/01/2021	28,046				
			0.000%	02/01/2022	14,023				
			0.000%	08/01/2022	28,046				
			0.000%	02/01/2023	14,023				
			0.000%	08/01/2023	28,046				
			0.000%	02/01/2024	14,023				
			0.000%	08/01/2024	28,046				
			0.000%	02/01/2025	14,023				
			0.000%	08/01/2025	28,046				
			0.000%	02/01/2026	14,023				
			0.000%	08/01/2026	28,046				
			0.000%	02/01/2027	14,023				
			0.000%	08/01/2027	28,046				
			0.000%	02/01/2028	14,023				
			0.000%	08/01/2028	28,046				
			0.000%	02/01/2029	14,023				
			0.000%	08/01/2029	28,046				
			0.000%	02/01/2030	14,023				
			0.000%	08/01/2030	28,046				
			0.000%	02/01/2031	14,023				
			0.000%	08/01/2031	28,046				
			0.000%	02/01/2032	14,023				
			0.000%	08/01/2032	28,046				
			0.000%	02/01/2033	14,023				
			0.000%	08/01/2033	28,046				
			0.000%	02/01/2034	14,023				
			0.000%	08/01/2034	28,047				
			0.000%	02/01/2035	14,023				
			0.000%	08/01/2035	28,047				
							785,290		42,069
Grand Total				4,649,223		942,194	3,707,029		
				407,194			247,280		
Current Portion				4,242,029			3,459,749		
Non-Current Portion				4,649,223			3,707,029		

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

MEMBERS OF THE AUTHORITY

FISCAL YEAR 2017 - 2018

JUNE 1, 2017 TO MAY 31, 2018

<u>Official</u>	<u>Position</u>	<u>Term Expires February 1</u>
George Decker	Chairman	2020
Kevin P. Carroll	Vice-Chairman/Treasurer	2021
Neal Galletta	Secretary	2022
Michael Longo	Assistant Secretary	2019
Lloyd Kent	Assistant Treasurer	2023

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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, 2018

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

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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, 2018, and the related notes to the financial statements, and have issued our report thereon dated July 30, 2018.

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.



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 2018-01 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 & Cava, P.C.

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

July 30, 2018



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, 2018

FINDING:

2017-01* 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.

2018-02 CONDITION:

An employee included on the Authority's payroll is also being paid a stipend reported on form 1099 for Licensed Operator services.

CRITERIA:

Form 1099 MISC should be used to report payments to independent contractors.
Payments for services performed by employees should be reported on form W-2.

EFFECT:

Improper reporting of wages paid.

CAUSE:

Improper classification of employee vs. independent contractor status.

RECOMMENDATION:

That the Licensed Operator stipend be paid in the employee's payroll rather than by 1099.

VIEWS OF RESPONSIBLE OFFICIALS/CORRECTIVE ACTION:

The Licensed Operator stipend will be included on the employee's W-2.

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General Comments

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

GENERAL COMMENTS

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

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

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

N.J.S.A. 40A:11-4 states that every contract awarded by the contracting agent for the provision or performance of any goods or services, the cost of which in the aggregate exceeds the bid threshold, shall be awarded only by resolution of the governing body of the contracting unit to the lowest responsible bidder after public advertising for bids and bidding therefor, except as is provided otherwise in this act or 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.

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