

PRELIMINARY OFFICIAL STATEMENT DATED JULY 1, 2026

NEW ISSUE
Book-Entry-Only

Rating: S&P: "AAA"
(see "CREDIT RATING" herein)

In the opinion of Hawkins Delafield & Wood LLP, Bond Counsel to the Borough, under existing statutes and court decisions, and assuming compliance with certain tax covenants described herein, (i) interest on the Bonds (as defined herein) is excluded from gross income for federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code") and (ii) interest on the Bonds is not treated as a preference item in calculating the alternative minimum tax under the Code, however interest on the Bonds is included in the "adjusted financial statement income" of certain corporations that are subject to the alternative minimum tax under Section 55 of the Code. In addition, in the opinion of Bond Counsel to the Borough, under existing statutes, interest on the Bonds is not included in gross income under the New Jersey Gross Income Tax Act. See "TAX MATTERS" herein for a description of certain other provisions of the Code that may affect the tax treatment of interest on the Bonds for certain bondholders.

THE BOROUGH OF MOUNTAIN LAKES, IN THE COUNTY OF MORRIS, NEW JERSEY \$7,950,000* GENERAL BONDS OF 2026 (BANK QUALIFIED) (CALLABLE)

Dated: Date of Delivery

Due: July 15, as shown on the inside front cover

The \$7,950,000* General Bonds of 2026 (the "Bonds") of the Borough of Mountain Lakes, in the County of Morris, New Jersey (the "Borough"), will be issued in book-entry-only form with no physical distribution of bond certificates. The Bonds will be issued in registered form and bond certificates for each maturity will be issued to The Depository Trust Company, Brooklyn, New York ("DTC"), registered in the name of its nominee, Cede & Co.

Interest on the Bonds will be payable semiannually on January 15 and July 15 in each year until maturity or earlier redemption, commencing January 15, 2027. Principal of and interest on the Bonds will be paid to DTC by the Borough. Interest on the Bonds will be credited to the participants of DTC as listed on the records of DTC as of each next preceding January 1 and July 1 (the "Record Dates" for the payment of interest on the Bonds).

The Bonds shall be subject to redemption prior to their stated maturities as described herein (see "DESCRIPTION OF THE BONDS - Redemption" herein).

The Bonds are valid and legally binding obligations of the Borough and, unless paid from other sources, are payable from *ad valorem* taxes levied upon all the taxable real property within the Borough without limitation as to rate or amount; provided, however, that the rights of the holders of the Bonds and the enforceability thereof may be subject to bankruptcy, reorganization, insolvency, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and that the enforcement thereof may also be subject to the exercise of judicial discretion in appropriate cases. See "BONDHOLDERS' REMEDIES IN THE EVENT OF DEFAULT" and "MUNICIPAL BANKRUPTCY" herein.

The Bonds are offered when, as and if issued and delivered to the Underwriter, subject to prior sale, to withdrawal or modification of the offer without notice and to approval of legality by the law firm of Hawkins Delafield & Wood LLP, Newark, New Jersey. Certain legal matters will be passed upon for the Borough by the Borough Attorney, Robert H. Oostdyk, Jr., Esq., Riverdale, New Jersey. Phoenix Advisors, a division of First Security Municipal Advisors, Inc., Hamilton, New Jersey, has served as Municipal Advisor to the Borough in connection with the issuance of the Bonds. Delivery of the Bonds is anticipated to take place on or about July 30, 2026.

* Preliminary, subject to change.

**THE BOROUGH OF MOUNTAIN LAKES,
IN THE COUNTY OF MORRIS, NEW JERSEY**

\$7,950,000* GENERAL BONDS OF 2026

MATURITIES, PRINCIPAL AMOUNTS*, INTEREST RATES, YIELDS AND CUSIPS**

<u>Year</u>	<u>Principal Amount*</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP**</u>
2027	\$375,000	%	%	
2028	380,000			
2029	405,000			
2030	440,000			
2031	480,000			
2032	500,000			
2033	520,000			
2034	540,000			
2035	565,000			
2036	580,000			
2037	595,000			
2038	615,000			
2039	635,000			
2040	650,000			
2041	670,000			

* Preliminary, subject to change.

** Registered trademark of the American Bankers Association. CUSIP data herein are provided by CUSIP Global Services, which is managed on behalf of the American Bankers Association by FactSet Research Systems Inc. The CUSIP numbers listed above are being provided solely for the convenience of Bondholders only at the time of issuance of the Bonds and the Borough does not make any representation with respect to such numbers or undertake any responsibility for their accuracy now or at any time in the future. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Bonds as a result of procurement of secondary market portfolio insurance or other similar enhancement by investor that is applicable to all or a portion of certain maturities of the Bonds.

**THE BOROUGH OF MOUNTAIN LAKES,
IN THE COUNTY OF MORRIS, NEW JERSEY**

MAYOR

Melissa Mullenburg

DEPUTY MAYOR

Tom Menard

BOROUGH COUNCIL

Lauren Barnett
Chris Cannon
Joshua Howley
Khizar Sheikh
Angela Tsai

BOROUGH MANAGER

Mitchell Stern

CHIEF FINANCIAL OFFICER

Jennifer Semler

BOROUGH CLERK

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Pompton Plains, New Jersey

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Mt. Arlington, New Jersey

BOND COUNSEL

Hawkins Delafield & Wood LLP
Newark, New Jersey

MUNICIPAL ADVISOR

Phoenix Advisors,
a division of First Security Municipal Advisors, Inc.
Hamilton, New Jersey

No dealer, broker, salesperson or other person has been authorized by the Borough to give any information or to make any representations, other than those contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by the Borough. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Borough since the date hereof.

The information which is set forth herein has been provided by the Borough and by other sources, but the information provided by such other sources is not guaranteed as to accuracy or completeness by the Borough. References in this Official Statement to the State of New Jersey statutes, laws, rules, regulations, resolutions, agreements, reports and documents do not purport to be comprehensive or definitive. All references to such documents are qualified in their entirety by reference to the particular document, the full text of which may contain qualifications of or exceptions to statements made herein. Copies of such above-mentioned documents may be inspected at the offices of the Borough during normal business hours. This Official Statement is submitted in connection with the sale of the Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose.

The order and the placement of materials in this Official Statement, including the appendices, are not deemed to be a determination of relevance, materiality or importance, and this Official Statement, including the appendices, must be considered in its entirety.

IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITER MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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**OFFICIAL STATEMENT
RELATING TO

THE BOROUGH OF MOUNTAIN LAKES,
IN THE COUNTY OF MORRIS, NEW JERSEY
\$7,950,000* GENERAL BONDS OF 2026
(BANK QUALIFIED) (CALLABLE)**

INTRODUCTION

This Official Statement, which includes the cover page hereof and the appendices hereto, has been prepared by the Borough of Mountain Lakes (the “Borough”), in the County of Morris (the “County”), in the State of New Jersey (the “State”) and provides certain information regarding the financial and economic condition of the Borough in connection with the sale of the Borough’s \$7,950,000* General Bonds of 2026 (the “Bonds”). This Official Statement has been executed by and on behalf of the Borough by the Chief Financial Officer and its distribution and use in connection with the sale of the Bonds have been authorized by the Borough.

This Official Statement contains specific information relating to the Bonds including their general description, certain legal matters, historical financial information and other information pertinent to this issue. This Official Statement should be read in its entirety.

All financial and other information presented herein has been provided by the Borough from its records, except for information expressly attributed to other sources. The presentation of information is intended to show recent historic information and, but only to the extent specifically provided herein, certain projections into the immediate future and is not necessarily indicative of future or continuing trends in the financial position of the Borough.

DESCRIPTION OF THE BONDS

The following is a summary of certain provisions of the Bonds. Reference is made to the Bonds themselves for the complete text thereof, and the discussion herein is qualified in its entirety by such reference.

Terms and Interest Payment Dates

The Bonds will be dated the date of delivery thereof. The Bonds will bear interest at the interest rates per annum stated on the inside front cover page hereof, payable January 15 and July 15 of each year until maturity or earlier redemption, commencing January 15, 2027 (each, an “Interest Payment Date”). The Bonds will mature on July 15 in the years and in the principal amounts set forth on the inside front cover page hereof.

* Preliminary, subject to change.

Denominations and Place of Payment

The Bonds will be issued by means of a book-entry system with no physical distribution of bond certificates. The Bonds will be issued in registered form and bond certificates for each maturity will be issued to The Depository Trust Company, Brooklyn, New York (“DTC”), and registered in the name of its nominee, Cede & Co. (see the subcaption “Book-Entry System” below). Principal of and interest on the Bonds will be paid by the Borough, or its designee, in its capacity as paying agent (the “Paying Agent”) to the registered owners of the Bonds as of each January 1 and July 1 (whether or not a business day) immediately preceding the respective Interest Payment Dates (the “Record Dates”). So long as DTC or its nominee is the registered owner of the Bonds, payments of the principal of and interest on the Bonds will be made by the Paying Agent directly to DTC or its nominee, which will in turn remit such payments to DTC participants, which will in turn remit such payments to the beneficial owners of the Bonds. See the subcaption “Book-Entry System” below. Purchases of the Bonds will be made in book-entry form, in the denomination of \$5,000 each or integral multiples of \$1,000 in excess thereof. Purchasers will not receive certificates representing their beneficial ownership interests in Bonds purchased, but each book-entry owner will receive a credit balance on the books of its nominee, and this credit balance is expected to be confirmed by an initial transaction statement stating the details of the Bonds purchased. So long as Cede & Co. is the registered owner of the Bonds, as nominee of DTC, references herein (except under the captions “TAX MATTERS” and “SECONDARY MARKET DISCLOSURE”) to the registered owners shall mean Cede & Co. and shall not mean the beneficial owners of the Bonds. See the subcaption “Book-Entry System” below.

Redemption

Optional Redemption

The Bonds maturing prior to July 15, 2034 are not subject to redemption at the option of the Borough prior to their stated maturities. The Bonds maturing on or after July 15, 2034 are redeemable at the option of the Borough, in whole or in part, on any date, in any order of maturity and by lot within a single maturity, on or after July 15, 2033, at a redemption price equal to one hundred percent (100%) of the principal amount being redeemed, plus in each case accrued interest to the date fixed for redemption.

Notice of Redemption

Notice of redemption shall be given by first-class mail, postage prepaid, to the registered owners of the Bonds or portions thereof to be redeemed, not less than thirty (30) days nor more than sixty (60) days prior to the redemption date, but such mailing shall not be a condition precedent to such redemption and failure so to mail any such notice shall not affect the validity of any proceedings for the redemption of the Bonds. If notice of redemption shall have been given as aforesaid, the Bonds or portions thereof specified in said notice shall become due and payable at the redemption price on the redemption date therein designated and if, on the redemption date, moneys for payment of the redemption price of all the Bonds to be redeemed, together with the interest to the redemption date, shall be available for such payment on said date, then from and after the redemption date interest on such Bonds shall cease to accrue and become payable. Less than all of a Bond in a denomination in excess of \$5,000 may be so redeemed, and in such case, upon the surrender of such Bond, there shall be issued to the registered owner thereof, without charge therefor, for the unredeemed balance of the principal amount of such Bond, Bonds of like series, designation, maturity and interest rate in any of the authorized denominations. So long as DTC (or any successor thereto) acts as securities depository for the Bonds, notice of redemption shall be sent to such securities depository, in the manner prescribed by such securities depository and shall not be sent to the beneficial owners of the Bonds. Any failure of such depository to advise any of its participants or any failure of any participant to notify any beneficial owner of any notice of redemption shall not affect the validity of the redemption proceedings. If the Borough determines to redeem a portion of the Bonds prior to maturity, the Bonds to be redeemed shall be selected by the Borough; the Bonds to be redeemed having the same maturity shall be selected by DTC in accordance with its regulations.

Book-Entry System

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully registered securities registered in the name of Cede & Co. (DTC's partnership nominee). One fully registered Bond certificate will be issued for each year of maturity of the Bonds, in the aggregate principal amount of each such maturity, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Moody's rating of AA+. The DTC rules applicable to its Direct Participants and Indirect Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com or www.dtc.org.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond (a "Beneficial Owner") is in turn to be recorded on the Direct Participants' and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct Participant or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct Participants and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co., or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct Participants and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's MMI procedures. Under its usual procedures, DTC mails an omnibus proxy to the Borough as soon as possible after the record date. The omnibus proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the omnibus proxy).

Principal, redemption price and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Borough or the Paying Agent, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Direct Participants and Indirect Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Direct Participant or Indirect Participant and not of DTC, the Paying Agent or the Borough, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, redemption price and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Borough or the Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct Participants and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the Borough or the Paying Agent. Under such circumstances, in the event that a successor securities depository is not obtained, bond certificates are required to be printed and delivered.

The Borough may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, bond certificates will be printed and delivered.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Borough believes to be reliable, but the Borough takes no responsibility for the accuracy thereof.

Discontinuance of Book-Entry System

In the event that the book-entry system is discontinued and the Beneficial Owners become registered owners of the Bonds, the following provisions shall apply: (i) the Bonds may be exchanged for an equal aggregate principal amount of the Bonds in other authorized denominations and of the same maturity, upon surrender thereof at the office of the Borough or the Paying Agent; (ii) the transfer of any Bonds may be registered on the books maintained by the Borough or the Paying Agent for such purposes only upon the surrender thereof to the Borough or the Paying Agent together with the duly executed assignment in form satisfactory to the Borough or the Paying Agent; and (iii) for every exchange or registration of transfer of Bonds, the Borough or the Paying Agent may make a charge sufficient to reimburse it for any tax or other governmental charge required to be paid with respect to such exchange or registration of transfer of the Bonds. Interest on the Bonds will be payable by check or draft mailed on each Interest Payment Date to the registered owners thereof as of the close of business on the Record Date next preceding an Interest Payment Date.

AUTHORIZATION AND PURPOSE

The Bonds have been authorized and are to be issued pursuant to the laws of the State, including the Local Bond Law, constituting Chapter 2 of Title 40A of the New Jersey Statutes, as amended (N.J.S.A. §40A:2-1, *et seq.*) (the “Local Bond Law”). The Bonds are authorized by bond ordinances adopted by the governing body of the Borough and by a resolution adopted by the governing body of the Borough on May 27, 2026. Such bond ordinances were published in full, or in summary, after their adoption along with a statement to the effect that the twenty-day period of limitation within which a suit, action or proceeding questioning the validity of the accompanying bond ordinance can be commenced began to run from the date of the first publication of such estoppel statement. The Local Bond Law provides that after issuance all obligations shall be conclusively presumed to be fully authorized and issued by all laws of the State, and any person shall be barred from questioning the sale, execution or delivery of such obligations.

Proceeds of the Bonds, along with other available funds of the Borough in the amount of \$430,762, will be used to: (i) currently refund the Borough’s \$6,334,483 bond anticipation notes dated October 9, 2025 and maturing on July 31, 2026 (the “Prior Notes”); (ii) permanently finance \$2,046,279 of various capital improvements in and by the Borough; and (iii) pay the costs of issuing the Bonds. The following table sets forth certain information with respect to the bond ordinances authorizing the Bonds:

Bond Ordinance Number	Purpose	Amount of Prior Notes Being Refunded	New Money
2-22	Various improvements	\$383,853	\$0
8-23	Various improvements	1,055,738	0
12-23	Improvement of Sunset Lake Dam	788,256	0
13-23	Improvement of Municipal Building	980,184	0
3-24	Various improvements	866,566	0
6-24	Improvement of Sunset Lake Dam	333,000	0
7-24	Initial costs for construction of treatment plant	208,000	0
8-24	Improvement of the Mountain Lakes Train Station	0	104,200
8-25	Various improvements	1,288,124	0
26-10	Various improvements	0	1,133,079
26-11	Improvement of the Birchwood Lake Dam	<u>0</u>	<u>809,000</u>
	SUB-TOTAL:	<u>\$5,903,721</u>	<u>\$2,046,279</u>
	TOTAL BONDS:	<u>\$7,950,000</u>	

CERTAIN RISK FACTORS

Cyber Security

The Borough relies on a complex technology environment to conduct its various operations. As a result, the Borough faces certain cyber security threats at various times including, but not limited to, hacking, phishing, viruses, malware and other attacks on its computing and digital networks and systems. To mitigate

the risks of business operations impact and/or damage from cybersecurity incidents or cyber-attacks, the Borough has invested in multiple forms of cybersecurity and operational safeguards. In addition, the Borough maintains certain insurance coverage for cyberattacks and related events. No assurances can be given that the Borough's efforts to manage cyber threats and attacks will be successful or that any such attack will not materially impact the operations or finances of the Borough.

Climate

The State is naturally susceptible to the effects of extreme weather events and natural disasters, including floods, earthquakes and hurricanes, which could result in negative economic impacts on communities. Such effects can be exacerbated by a longer term shift in the climate over several decades (commonly referred to as climate change), including increasing global temperatures and rising sea levels. The occurrence of such extreme weather events could damage local infrastructure that provides essential services to the Borough as well as resulting in economic impacts such as loss of ad valorem tax revenue, interruption of municipal services, and escalated recovery costs. No assurance can be given as to whether future extreme weather events will occur that could materially adversely affect the financial condition of the Borough.

OTHER CAPITAL PLANS

The Borough may issue additional bond anticipation notes, as necessary, during calendar year 2026.

SECURITY AND SOURCE OF PAYMENT

The Bonds are valid and legally binding obligations of the Borough and, unless paid from other sources, are payable from *ad valorem* taxes levied upon all the taxable real property within the Borough without limitation as to rate or amount; provided, however, that the rights of the holders of the Bonds and the enforceability thereof may be subject to bankruptcy, reorganization, insolvency, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and that the enforcement thereof may also be subject to the exercise of judicial discretion in appropriate cases. See "BONDHOLDERS' REMEDIES IN THE EVENT OF DEFAULT" and "MUNICIPAL BANKRUPTCY" herein.

SUMMARY OF CERTAIN STATUTORY PROVISIONS RELATING TO MUNICIPAL AND COUNTY DEBT AND FINANCIAL REGULATION

Set forth below is a summary of various statutory provisions and requirements relevant to the Borough's debt and financial regulation and budget process. This summary does not purport to be complete, and reference should be made to the statutes referred to for a complete statement of the provisions thereof.

Legal Framework

The Local Bond Law governs the issuance of bonds and notes to finance certain general municipal and utility capital expenditures. Among its provisions are requirements that bonds must mature within the statutory period of usefulness of the projects financed and that bonds be retired in serial installments. A five percent (5%) cash down payment is generally required toward the financing of such projects. Generally, all bonds and notes issued by a local unit are general full faith and credit obligations.

Debt Limit

The authorized bonded indebtedness of a local unit is limited by statute, subject to the exceptions noted below, to an amount equal to three and one-half percent (3½%), in the case of a municipality, and two

percent (2%), in the case of a county, of its average equalized valuation basis. The average equalized valuation basis of a local unit is set by statute as the average for the last three (3) years of the equalized value of all taxable real property and improvements and certain Class II railroad property within its boundaries as annually determined by the State Board of Taxation.

Exceptions to Debt Limit - Extensions of Credit

Except for the funding of certain notes, the authorization of certain bonds for municipal utility purposes, if the utilities are self-liquidating, and certain formula allowances, the debt limit of a local unit may be exceeded only with the approval of the Local Finance Board, in the Division of Local Government Services, Department of Community Affairs of the State (the "Local Finance Board"), a State regulatory agency. If all or any part of a proposed debt authorization would exceed its debt limit, a local unit must apply to the Local Finance Board for an extension of credit. If the Local Finance Board determines that a proposed debt authorization would not materially impair the credit of a local unit or substantially reduce the ability of a local unit to meet its obligations or to provide essential public improvements or services, or makes other statutory determinations, approval is granted.

Short-Term Financing

Pursuant to the Local Bond Law, a local unit may sell short-term notes to temporarily finance a capital improvement or project in anticipation of the issuance of bonds, if the bond ordinance or subsequent resolution so provides. Any such note is designated a "bond anticipation note". Bond anticipation notes for capital improvements may be issued in an aggregate amount not exceeding the amount specified in the bond ordinance, as the same may be amended and supplemented, creating such capital expenditure. Bond anticipation notes, which are full faith and credit obligations of the local unit, may be issued for a period not exceeding one (1) year and may be renewed from time to time for a period that does not exceed one (1) year. Such notes shall mature and be paid not later than the first day of the fifth month following the close of the tenth fiscal year following the date of the original note, provided, however, that no such notes shall be renewed beyond the third anniversary date of the original notes unless an amount of such notes, at least equal to the first legally payable installment of the bonds in anticipation of which these notes are issued, is paid and retired on or before each subsequent anniversary date beyond which such notes are renewed from funds other than the proceeds of obligations.

Assessment Bonds

Assessment bonds may be issued pursuant to the Local Bond Law in annual serial installments with the first principal payment due within two (2) years and the final principal payment due within twenty (20) years of an issue's date. No principal payment may be larger than a prior year's principal payment.

Refunding Bonds

Refunding bonds may be issued pursuant to the Local Bond Law for the purpose of paying, funding or refunding outstanding bonds, including emergency appropriations, temporary emergency appropriations, advance funding of pension obligations as part of an early retirement program offered by the State, the actuarial liabilities of a non-State administered public employee pension system, amounts owing to others for taxes levied and for paying the cost of issuance of refunding bonds. The Local Finance Board must consent to the authorization for the issuance of refunding bonds and approve the maturity schedule thereof; provided, however, that the issuance of refunding bonds to realize debt service savings on outstanding obligations does not require Local Finance Board approval when authorized by conditions set forth in rules and regulations of the Local Finance Board and upon a resolution adopted by a two-thirds ($\frac{2}{3}$) vote of the full membership of the governing body of the local unit.

Tax Anticipation Notes

Tax anticipation notes may be issued pursuant to the Local Budget Law (as hereinafter defined). The issuance of tax anticipation notes is limited in amount by law to collectively thirty percent (30%) of the tax levy plus thirty percent (30%) of realized miscellaneous revenues of the next preceding fiscal year. Tax anticipation notes must be paid in full within one hundred and twenty (120) days of the close of the fiscal year in which they were issued.

School Debt Subject to Voter Approval

State law permits a school district, upon approval of the voters, to authorize school district debt, including debt in excess of its independent debt limit, by using the available borrowing capacity of the municipality. If such debt is in excess of the school district's debt limit and the remaining borrowing capacity of the municipality, the State Commissioner of Education and the Local Finance Board must approve the proposed debt authorization before it is submitted to the voters.

The Local Budget Law

The foundation of the State local finance system is the annual cash basis budget. Under N.J.S.A. §40A:4-1 et seq. (the "Local Budget Law"), every local unit must adopt an operating budget in the form required by the Division of Local Government Services in the Department of Community Affairs of the State (the "Division"). Certain items of revenue and appropriation are regulated by law and the proposed budget cannot be finally adopted until it is certified by the Director of the Division (the "Director"), or in the case of a local unit's examination of its own budget, such budget cannot be finally adopted until a local examination certificate has been approved by the chief financial officer and governing body of the local unit. The Local Budget Law requires each local unit to appropriate sufficient funds for the payment of current debt service, and the Director or, in the case of local examination, the local unit may review the adequacy of such appropriations. Among other restrictions, the Director must examine the budget with reference to all estimates of revenue and the following appropriations: (a) payment of interest and debt redemption charges, (b) deferred charges and statutory expenditures, (c) cash deficit of preceding year, (d) reserve for uncollected taxes and (e) other reserves and nondisbursement items. Anticipated tax revenues are limited to the same proportion as actual cash collections or to the total levy in the previous year, and the reserve amount must be factored into the budget to make up for the expected shortfall in actual collections. Anticipated non-tax revenues are limited to the amount actually realized the previous year unless the Director permits higher levels of anticipation should there be sufficient statutory or other evidence to substantiate that such anticipation is reasonable.

The Director has no authority over individual operating appropriations, unless a specific amount is required by law, but the budgetary review functions, focusing on anticipated revenues, serve to protect the solvency of all local units.

The cash basis budgets of local units must be in balance (i.e., the total of anticipated revenues must equal the total of appropriations) (N.J.S.A. §40A:4-22). If in any year a local unit's expenditures exceed its realized revenues for that year, then such excess (deficit) must be raised in the succeeding year's budget.

Each municipality is required to forward to the County Board of Taxation (the "County Board") a certified copy of its operating budget, as adopted, not later than April 10 of the then current fiscal year. In the event that the County Board has not received a copy of the budget resolution or other evidence showing the amount to be raised by taxation for the purposes of a taxing district, the Director shall transmit to the County Board a certificate setting forth the amount required for the operation of the local unit for that fiscal year. The operating budget of the preceding year shall constitute and limit the appropriations for the then current year with suitable adjustments for debt service, other mandatory charges and changes in revenues, but excluding the amount to be raised by taxes for school purposes where required to be included in the municipal budget. The certificate shall be prepared by using the revenues and appropriations appearing in

the adopted budget of the preceding year with suitable adjustments to include, without limitation: (a) any amounts required for principal and interest of indebtedness falling due in the fiscal year and (b) any deferred charges, including a deficit, if any, or statutory expenditures required to be raised in the fiscal year. See the subcaption “Tax Assessment and Collection Procedure” below.

Appropriations Not Required for Payments on Debt

It is not necessary to have an appropriation in order to release money for debt service on obligations. N.J.S.A. §40A:4-57 states that “no officer, board, body or commission shall, during any fiscal year, expend money (except to pay notes, bonds or interest thereon), incur any liability, or enter into any contract which by its terms involves the expenditure of money for any purpose for which no appropriation is provided, or in excess of the amount appropriated for such purpose” (emphasis added).

Appropriation Caps

Chapter 89 of the New Jersey Laws of 1990 extended and amended Chapter 203 of the New Jersey Laws of 1986 and Chapter 68 of the New Jersey Laws of 1976 (N.J.S.A. §40A:4-45.3), commonly referred to as the “CAP Law”. The CAP Law places limits on county tax levies and municipal expenditures. This limitation is commonly referred to as a “CAP”. The actual calculation of the CAP is somewhat complex and the actual CAP computations are prepared by the Division and distributed to each municipality. In addition to the CAP increase in expenditures, other increases allowable include increases funded by increased service fees, proceeds from the sale of municipal assets and increased expenditures mandated by State and federal laws. Appropriations for items excluded from the CAP computation, including debt service requirements, may be set at any necessary level and are not subject to the CAP. The CAP may be exceeded if approved by referendum of the voters of the municipality.

In summary, in determining the CAP for each budget year, the prior year’s total general appropriations are reduced by certain statutory-type appropriations with the resulting balance multiplied by two and one-half percent (2½%) or the cost-of-living adjustment (the rate of annual percentage increase, rounded to the nearest half-percent, in the Implicit Price Deflator for State and Local Government Purchases of Goods and Services, computed and published quarterly by the United States Department of Commerce) (the “Cost-of-Living Adjustment”), whichever is less, thereby producing the basic CAP, which then may be increased by certain known increases in revenues and State or federal expenditures mandated after July 18, 1976. A municipality may, by the adoption of an ordinance, elect to increase its final appropriations by a percentage up to, but not to exceed, three and one-half percent (3½%). A municipality may, by referendum, increase its final appropriations by a higher percentage rate.

Property Tax Levy Cap

Chapter 44 of the Pamphlet Laws of 2010 imposed restrictions upon the allowable annual increase in the tax levy. In general, municipalities have their tax levies limited to a two percent (2%) increase. The tax levy is subject to certain adjustments, including the sum of new ratables. In addition, the following exclusions are added to the calculation of the adjusted tax levy: increases in amounts required to be raised by taxation for capital expenditures, including debt service as defined by law; increases in pension contributions and accrued liability for pension contributions in excess of two percent (2%); increases in health care costs equal to that portion of the actual increase in total health care costs for the budget year that is in excess of two percent (2%) of the total health care costs in the prior year, but is not in excess of the product of the total health care costs in the prior year and the average percentage increase of the State Health Benefits Program, as annually determined by the Division of Pensions and Benefits in the Department of the Treasury; and extraordinary costs incurred by a local unit directly related to a declared emergency, as defined by regulation promulgated by the Commissioner of the Department of Community Affairs, in consultation with the Commissioner of Education, as appropriate. The law also authorizes a municipality to submit public questions to the voters for approval (by affirmative vote of at least fifty percent (50%)) to increase the amount to be raised by taxation by more than the allowable adjusted tax levy.

Miscellaneous Revenues

A provision in the Local Budget Law (N.J.S.A. §40A:4-26) provides that: “[n]o miscellaneous revenues from any source shall be included as an anticipated revenue in the budget in an amount in excess of the amount actually realized in cash from the same source during the next preceding fiscal year, unless the [Director] shall determine upon application by the governing body that the facts clearly warrant the expectation that such excess amount will actually be realized in cash during the fiscal year and shall certify such determination, in writing, to the local unit”.

In addition, budget amendments must be approved by the Director, except federal and State categorical grants-in-aid contracts may be realized for their face amount with an offsetting appropriation. The fiscal years for such grants rarely coincide with the municipality’s calendar fiscal year. However, grant revenue is generally not realized until received in cash.

Real Estate Taxes

The same general principle that revenue cannot be anticipated in a budget in excess of that realized in the preceding year applies to property taxes. N.J.S.A. §40A:4-29, which governs the anticipation of delinquent tax collections, provides that: “[t]he maximum which may be anticipated is the sum produced by the multiplication of the amount of delinquent taxes unpaid and owing to the local unit on the first day of the current fiscal year by the percentage of collection of delinquent taxes for the year immediately preceding the current fiscal year”.

N.J.S.A. §40A:4-41 provides, with regard to current taxes, that: “[r]eceipts from the collection of taxes levied or to be levied in the municipality, or in the case of a county for general county purposes and payable in the fiscal year shall be anticipated in an amount which is not in excess of the percentage of taxes levied and payable during the next preceding fiscal year which was received in cash by the last day of the preceding fiscal year”.

This provision and N.J.S.A. §40A:4-40 require that an additional amount, commonly known or referred to as the “reserve for uncollected taxes”, be added to the tax levy required to balance the budget so that when the percentage of the prior year’s tax collection is applied to the combined total, the product will at least be equal to the tax levy required to balance the budget. The reserve requirement is calculated as follows:

The levy required to balance the budget, divided by the prior year’s percentage of current tax collection (or lesser percent) levied, will equal the total taxes to be levied for the current fiscal year.

Chapter 99 of the Pamphlet Laws of 1997 of New Jersey authorizes any municipality to sell its “total property tax levy” to the highest responsible bidder therefor in accordance with the procedures and limitations set forth therein.

Upon the filing of certified adopted budgets by (i) a local governmental unit, (ii) a local and/or a regional school district, (iii) the county in which the local governmental unit is situated and (iv) any special improvement districts within the local governmental unit, the current year’s tax rate is struck by a county’s board of taxation based upon the amount of taxes required in each taxing district to fund the respective budgets.

Emergency Appropriations/Deferral of Current Expenses

Emergency appropriations made under N.J.S.A. §40A:4-46, after the adoption of the budget and the determination of the tax rate, may be authorized by a local unit. However, with minor exceptions set forth

below, such appropriations must be included in full in the following year's budget. When such appropriations exceed three percent (3%) of the adopted operating budget, consent of the Director must be obtained.

The exceptions are certain enumerated *quasi*-capital projects ("special emergencies") such as (i) the repair and reconstruction of streets, roads or bridges damaged by snow, ice, frost or floods, which may be amortized over three (3) years, and (ii) the repair and reconstruction of streets, roads, bridges or other public property damaged by flood or hurricane, where such expense was unforeseen at the time of budget adoption, the repair and reconstruction of private property damaged by flood or hurricane, tax map preparation, re-evaluation programs, revision and codification of ordinances, master plan preparations, drainage map preparation for flood control purposes, studies and planning associated with the construction and installation of sanitary sewers, authorized expenses of a consolidated commission, contractually required severance liabilities resulting from the layoff or retirement of employees and the preparation of sanitary and storm system maps, all of which projects set forth in this clause (ii) may be amortized over five (5) years. N.J.S.A. §40A:4-53, -54, -55 and -55.1. Emergency appropriations for capital projects may be financed through the adoption of a bond ordinance and amortized over the useful life of the project.

Under the CAP Law, emergency appropriations aggregating less than three percent (3%) of the previous year's final current operating appropriations may be raised in the portion of the local unit's budget outside the CAP if approved by at least two-thirds ($\frac{2}{3}$) of the members of the governing body and the Director. Emergency appropriations that aggregate more than three percent (3%) of the previous year's final current operating appropriations must be raised within the CAP. Emergency appropriations for debt service, capital improvements, the local unit's share of federal or State grants and other statutorily permitted items are outside the CAP.

Budget Transfers

Budget transfers provide a local unit with a degree of flexibility and afford a control mechanism over expenditure needs. Transfers between major appropriation accounts are prohibited by N.J.S.A. §40A:4-58 until the last two (2) months of the fiscal year. Appropriation reserves may also be transferred during the first three (3) months of the year to the previous year's budget (N.J.S.A. §40A:4-59). Both types of transfers require a two-thirds ($\frac{2}{3}$) vote of the full membership of the governing body. However, no transfers may be made (a) to appropriations for contingent expenses, deferred charges or emergency appropriations or (b) from appropriations for contingent expenses, deferred charges, cash deficits of the preceding year, reserve for uncollected taxes, down payments, the capital improvement fund or interest and redemption charges. Although budget transfers among subaccounts (line items) within an appropriation are not subject to the same year-end transfer restriction, they are subject to internal review and approval.

Municipal Public Utilities

Municipal public utilities are supported by the revenues generated by the respective operations of the utilities in addition to the general taxing power upon real property. For each utility, there is established a separate budget. The anticipated revenues and appropriations for each utility are set forth in the separate budget. The budget is required to be balanced and to provide fully for debt service. The regulations regarding anticipation of revenues and deferral of charges apply equally to the budgets of the utilities. Deficits or anticipated deficits in utility operations which cannot be provided for from utility surplus, if any, are required to be raised in the "Current" or operating budget.

Capital Budget

In accordance with the Local Budget Law, each local unit must adopt and may from time to time amend rules and regulations for capital budgets, which rules and regulations must require a statement of capital undertakings underway or projected for a period not greater than the next ensuing six (6) years as a general improvement program. The capital budget, when adopted, does not constitute the approval or

appropriation of funds, but sets forth a plan of the possible capital expenditures which the local unit may contemplate over the next three (3) or six (6) years. Expenditures for capital purposes may be made either by ordinances adopted by the governing body setting forth the items and the method of financing or by the annual operating budget if the items were detailed.

Fiscal Year Adjustment Law

Chapter 75 of the Pamphlet Laws of 1991, signed into law on March 28, 1992, requires certain municipalities and permits all other municipalities to adopt the State fiscal year in place of the existing calendar fiscal year (N.J.S.A. §40A: 4-3.1). Municipalities that change fiscal years must adopt a six (6) month transition budget for January to June. Since expenditures would be expected to exceed revenues primarily because State aid for the calendar year would not be received by the municipality until after the end of the transition year budget, the law authorizes the issuance of fiscal year adjustment bonds to fund the one time deficit for the six (6) month transition budget (N.J.S.A. §40A:2-51.2). The law provides that the deficit in the six (6) month transition budget may be funded initially with bond anticipation notes based on the estimated deficit in the six (6) month transition budget. Notes issued in anticipation of fiscal year adjustment bonds, including renewals, can only be issued for up to one (1) year unless the Local Finance Board permits the municipality to renew them for a longer period of time. The Local Finance Board must confirm the actual deficit experienced by the municipality. The municipality then may issue fiscal year adjustment bonds to finance the deficit on a permanent basis. The purpose of the law is to assist municipalities that are heavily dependent on State aid and that have had to issue tax anticipation notes to fund operating cash flow deficits each year. While the law does not authorize counties to change their fiscal years, it does provide that counties with cash flow deficits may issue fiscal year adjustment bonds as well.

State Supervision

State law authorizes State officials to supervise fiscal administration in any municipality which is in default on its obligations; which experiences severe tax collection problems for two (2) successive years; which has a deficit greater than four percent (4%) of its tax levy for two (2) successive years; which has failed to make payments due and owing to the State, county, school district or special district for two (2) consecutive years; which has an appropriation in its annual budget for the liquidation of debt which exceeds twenty-five percent (25%) of its total operating appropriations (except dedicated revenue appropriations) for the previous budget year; or which has been subject to a judicial determination of gross failure to comply with the Local Bond Law, the Local Budget Law or the Local Fiscal Affairs Law (as hereinafter defined) which substantially jeopardizes its fiscal integrity. State officials are authorized to continue such supervision for as long as any of the conditions exist and until the municipality operates for a fiscal year without incurring a cash deficit.

Tax Assessment and Collection Procedure

A local governmental unit is the entity responsible for the levying and collection of taxes on all taxable property within its borders, including the tax levies for the county and the school district. The levying of taxes is for a fiscal year, which starts July 1 and ends June 30. The collection of taxes to support a local governmental unit's current budget requirement is based upon a calendar year, January 1 to December 31.

Property taxes are based on a municipality's assessor's valuation of real property, as confirmed by the tax board of the county in which a municipality is situated. The taxes for municipal, local and regional school districts and a county cover the current calendar year. Turnover of the tax moneys by a municipality to a school district are based on school needs and are generally made on a periodic basis throughout the year with any balance transferred by June 30 (the end of the school district's fiscal year). A municipality remits one hundred percent (100%) of the county taxes, payable quarterly on the fifteenth days of February, May, August and November.

Property valuations (assessments) are determined on true values as arrived at by a cost approach, market data approach and capitalization of net income where appropriate. Current assessments are the result of new assessments on a like basis with established comparable properties for newly assessed or purchased properties. This method assures equitable treatment to like property owners. But it often results in a divergence of the assessment ratio to true value. Because of the changes in property resale values, annual adjustments could not keep pace with the changing values.

Upon the filing of certified adopted budgets by the municipality's local school district and the county, the tax rate is struck by the County Board based on the certified amounts in each of the taxing districts for collection to fund the budgets. The statutory provisions for the assessment of property, the levying of taxes and the collection of taxes are set forth in N.J.S.A. §54:4-1 et seq. Special taxing districts are permitted for various special services rendered to the properties located within the special districts.

Tax bills are sent in June of the current fiscal year. Taxes are payable in four (4) quarterly installments on the first days of February, May, August and November. The August and November tax bills are determined as the full tax levied for municipal, county and school purposes for the current municipal fiscal year, less the amount charged as the February and May installments for municipal, county and school purposes in the current fiscal year. The amounts due for the February and May installments are determined by the municipal governing body as either one-quarter ($\frac{1}{4}$) or one-half ($\frac{1}{2}$) of the full tax levied for municipal, county and school purposes for the preceding fiscal year.

Tax installments not paid on or before the due date are subject to interest penalties of eight percent (8%) per annum on the first \$1,500 of the delinquency and eighteen percent (18%) per annum on any amount in excess of \$1,500. The governing body may also fix a penalty to be charged to a taxpayer with a delinquency in excess of \$10,000 who fails to pay that delinquency prior to the end of the calendar year. The penalty so fixed shall not exceed six percent (6%) of the amount of the delinquency. These penalties and interest rates are the highest permitted under State statutes. Delinquent taxes open for one (1) year or more are annually included in a tax sale in accordance with State statutes.

Tax Appeals

State statutes provide a taxpayer with remedial procedures for appealing an assessed valuation that the taxpayer deems excessive. Prior to the first day of February in each year, a municipality must mail to each property owner a notice of the current assessment and taxes on the property. The taxpayer has a right to petition the County Board on or before the first day of April of the current tax year for its review. The County Board has the authority after a hearing to increase, decrease or reject the appeal petition. These adjustments are usually concluded within the current tax year and reductions are shown as canceled or remitted taxes for that year. If the taxpayer believes the petition was unsatisfactorily reviewed by the County Board, appeal of the decision may be made to the Tax Court of New Jersey for further hearing. Tax Court of New Jersey appeals tend to take several years to conclude by settlement or trial and any losses in tax collections from prior years, after an unsuccessful trial or by settlement, are charged directly to operations or with the permission of the Local Finance Board, may be refinanced, generally over a three (3) to five (5) year period.

The Local Fiscal Affairs Law

N.J.S.A. §40A:5-1 et seq. (the "Local Fiscal Affairs Law") regulates the nonbudgetary financial activities of local governments. The chief financial officer of every local unit must file annually with the Director a verified statement of the financial condition of the local unit and all constituent boards, agencies and commissions.

An independent examination of the local unit's accounts must be performed annually by a State licensed registered municipal accountant. The audit, conforming to the Division's "Requirements of Audit", includes recommendations for improvements of the local unit's financial procedures and must be filed with

the Director. A synopsis of the audit report, together with all recommendations made, must be published in a local newspaper within thirty (30) days of its completion.

A local unit's funds are invested strictly in accordance with the provisions of the Local Fiscal Affairs Law, in particular N.J.S.A. §40A:5-12.1. A local unit is not authorized to invest funds in derivative products or reverse repurchase agreements.

Basis of Accounting

The accounting policies applicable to local governmental units have been prescribed by the Division. The following is a summary of the significant policies:

Basis of Accounting - A modified accrual basis of accounting is followed, with minor exceptions. Revenues are recorded as received in cash except for certain amounts which may be due from the State. Expenditures are recorded on the accrual basis. Appropriation reserves covering unexpended appropriation balances are automatically created on December 31 of each year and recorded as liabilities, except for amounts which may be cancelled by the governing body. Appropriation reserves are available, until lapsed at the close of the succeeding year, to meet specific claims, commitments or contracts incurred or entered into during the preceding fiscal year. Lapsed appropriation reserves are recorded as income.

Interfunds - Interfund receivables in the Current Fund are recorded with offsetting reserves. Income is recognized in the year the receivables are liquidated. Interfund receivables in the other funds are not offset by reserves.

Fixed Assets - Property and equipment purchased through the Current Fund and the General Capital Fund are recorded as expenditures at the time of purchase and are not capitalized.

A local unit finances its operations primarily through the Current Fund. All tax receipts and most revenues are paid into the Current Fund and substantially all expenditures made by appropriations are paid from the Current Fund.

Expenditures are comprised of those made for general purposes, certain expenditures made from restricted federal, State and private grants, certain federal or State mandated expenditures, deferred charges, debt service and capital improvements. Budgeted expenditures for general purposes include payments made primarily in support of a local unit's various departments.

BONDHOLDERS' REMEDIES IN THE EVENT OF DEFAULT

Neither the Bonds nor the proceedings with respect thereto specifically provide any remedies to the bondholders if the Borough defaults in the payment of principal of or interest on the Bonds, nor do they contain any provisions for the appointment of a trustee to enforce the interests of the bondholders upon the occurrence of such default. Upon any default in the payment of the principal of or interest on a Bond, a bondholder could, among other things, seek to obtain a writ of mandamus from a court of competent jurisdiction requiring the Borough to levy and collect a tax upon all taxable property within the Borough, without limitation as to rate or amount, sufficient to pay when due the principal of and interest on the Bonds as the same shall come due. The mandamus remedy, however, may be impractical and difficult to enforce. Further, the right to enforce payment of the principal of or interest on the Bonds may be limited by bankruptcy, insolvency, reorganization, moratorium and similar laws and equitable principles, which may limit the specific enforcement of certain remedies. See the caption "MUNICIPAL BANKRUPTCY" herein.

MUNICIPAL BANKRUPTCY

Any county, municipality, school district or other political subdivision of the State has the power to file a petition with any United States court or courts in bankruptcy under the federal bankruptcy act for the purpose of effecting a plan of readjustment of its debts or for the composition of its debts, provided that the approval of the Municipal Finance Commission of New Jersey has been obtained. The powers of the Municipal Finance Commission of New Jersey have been vested in the Local Finance Board.

Bankruptcy proceedings by the Borough could have adverse effects on the bondholders including (1) delay in the enforcement of their remedies, (2) subordination of their claims to those supplying goods and services to the Borough after the initiation of bankruptcy proceedings and to the administrative expenses of bankruptcy proceedings and (3) imposition without their consent of a reorganization plan reducing or delaying payment of the Bonds. The federal bankruptcy act contains provisions intended to ensure that, in any reorganization plan not accepted by at least a majority of a class of creditors, such as the holders of general obligation indebtedness or the Bonds, such creditors will have the benefit of their original claim or the "indubitable equivalent". The effect of these and other provisions of the federal bankruptcy act cannot be predicted and may be significantly affected by judicial interpretation.

The above references to the federal bankruptcy act are not to be construed as an indication that the Borough expects to resort to the provisions of the federal bankruptcy act or that, if it did, such action would be approved by the Municipal Finance Commission.

NO DEFAULT

There is no record of default in the payment of principal of or interest on bonds or notes of the Borough.

ABSENCE OF MATERIAL LITIGATION

In the opinion of the Borough Attorney, Robert H. Oostdyk, Jr., Esq., Pompton Plains, New Jersey (the "Borough Attorney"), no litigation of any nature is now pending or, to his knowledge, threatened restraining or enjoining the issuance or delivery of the Bonds or the levy or collection of any taxes to pay the interest on or principal of the Bonds, or in any manner questioning the authority or proceedings for the issuance of the Bonds or for the levy or collection of said taxes, or relating to the Bonds or affecting the validity thereof or the levy or collection of said taxes, and neither the corporate existence or boundaries of the Borough nor the title of any of the present officers thereof to their respective offices is being contested, and no authority or proceedings for the issuance of the Bonds has or have been repealed, revoked or rescinded. A signed statement to that effect will be supplied upon delivery of the Bonds. In the opinion of the Borough Attorney, there is no litigation pending or, to his knowledge, threatened against the Borough which if adversely decided would have a material adverse effect on the financial condition of the Borough or which is not otherwise adequately covered by Borough insurance.

TAX MATTERS

Opinion of Bond Counsel

In the opinion of Hawkins Delafield & Wood LLP, Bond Counsel to the Borough, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, (i) interest on the Bonds is excluded from gross income for federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code") and (ii) interest on the Bonds is not treated as a preference item in calculating the alternative minimum tax under the Code, however interest

on the Bonds is included in the “adjusted financial statement income” of certain corporations that are subject to the alternative minimum tax under Section 55 of the Code. In rendering its opinion, Bond Counsel has relied on certain representations, certifications of fact and statements of reasonable expectations made by the Borough in connection with the Bonds, and Bond Counsel has assumed compliance by the Borough with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the Bonds from gross income under Section 103 of the Code.

In addition, in the opinion of Bond Counsel to the Borough, under existing statutes, interest on the Bonds is not included in gross income under the New Jersey Gross Income Tax Act.

Bond Counsel expresses no opinion regarding any other federal or state tax consequences with respect to the Bonds. Bond Counsel renders its opinion under existing statutes and court decisions as of the issue date, and assumes no obligation to update, revise or supplement its opinion to reflect any action hereafter taken or not taken, or any facts or circumstances, that may hereafter come to its attention, or changes in law or in interpretations thereof that may hereafter occur, or for any other reason. Bond Counsel expresses no opinion on the affect of any action hereafter taken or not taken in reliance upon an opinion of other counsel on the exclusion from gross income for federal income tax purposes of interest on the Bonds, or under state and local tax law.

Certain Ongoing Federal Tax Requirements and Covenants

The Code establishes certain ongoing requirements that must be met subsequent to the issuance and delivery of the Bonds in order that interest on the Bonds be and remain excluded from gross income under Section 103 of the Code. These requirements include, but are not limited to, requirements relating to use and expenditure of gross proceeds of the Bonds, yield and other restrictions on investments of gross proceeds, and the arbitrage rebate requirement that certain excess earnings on gross proceeds be rebated to the federal government. Noncompliance with such requirements may cause interest on the Bonds to become included in gross income for federal income tax purposes retroactive to their issue date, irrespective of the date on which such noncompliance occurs or is discovered. The Borough has covenanted to comply with certain applicable requirements of the Code to assure the exclusion of interest on the Bonds from gross income under Section 103 of the Code.

Certain Collateral Federal Tax Consequences

The following is a brief discussion of certain collateral federal income tax matters with respect to the Bonds. It does not purport to address all aspects of federal taxation that may be relevant to a particular owner of a Bond. Prospective investors, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the federal tax consequences of owning and disposing of the Bonds.

Prospective owners of the Bonds should be aware that the ownership of such obligations may result in collateral federal income tax consequences to various categories of persons, such as corporations (including S corporations and foreign corporations), financial institutions, property and casualty and life insurance companies, individual recipients of Social Security and railroad retirement benefits, individuals otherwise eligible for the earned income tax credit, and taxpayers deemed to have incurred or continued indebtedness to purchase or carry obligations the interest on which is not included in gross income for federal income tax purposes. Interest on the Bonds may be taken into account in determining the tax liability of foreign corporations subject to the branch profits tax imposed by Section 884 of the Code.

Bond Premium

In general, if an owner acquires a Bond for a purchase price (excluding accrued interest) or otherwise at a tax basis that reflects a premium over the sum of all amounts payable on the Bond after the acquisition date (excluding certain “qualified stated interest” that is unconditionally payable at least annually at

prescribed rates), that premium constitutes “bond premium” on that Bond (a “Premium Bond”). In general, under Section 171 of the Code, an owner of a Premium Bond must amortize the bond premium over the remaining term of the Premium Bond, based on the owner’s yield over the remaining term of the Premium Bond determined based on constant yield principles (in certain cases involving a Premium Bond callable prior to its stated maturity date, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on such bond). An owner of a Premium Bond must amortize the bond premium by offsetting the qualified stated interest allocable to each interest accrual period under the owner’s regular method of accounting against the bond premium allocable to that period. In the case of a tax-exempt Premium Bond, if the bond premium allocable to an accrual period exceeds the qualified stated interest allocable to that accrual period, the excess is a nondeductible loss. Under certain circumstances, the owner of a Premium Bond may realize a taxable gain upon disposition of the Premium Bond even though it is sold or redeemed for an amount less than or equal to the owner’s original acquisition cost. Owners of any Premium Bonds should consult their own tax advisors regarding the treatment of bond premium for federal income tax purposes, including various special rules relating thereto, and state and local tax consequences, in connection with the acquisition, ownership, amortization of bond premium on, sale, exchange, or other disposition of Premium Bonds.

Information Reporting and Backup Withholding

Information reporting requirements apply to interest paid on tax-exempt obligations, including the Bonds. In general, such requirements are satisfied if the interest recipient completes, and provides the payor with, a Form W-9, “Request for Taxpayer Identification Number and Certification”, or if the recipient is one of a limited class of exempt recipients. A recipient not otherwise exempt from information reporting who fails to satisfy the information reporting requirements will be subject to “backup withholding”, which means that the payor is required to deduct and withhold a tax from the interest payment, calculated in the manner set forth in the Code. For the foregoing purpose, a “payor” generally refers to the person or entity from whom a recipient receives its payments of interest or who collects such payments on behalf of the recipient.

If an owner purchasing a Bond through a brokerage account has executed a Form W-9 in connection with the establishment of such account, as generally can be expected, no backup withholding should occur. In any event, backup withholding does not affect the excludability of the interest on the Bonds from gross income for federal income tax purposes. Any amounts withheld pursuant to backup withholding would be allowed as a refund or a credit against the owner’s federal income tax once the required information is furnished to the Internal Revenue Service.

Miscellaneous

Tax legislation, administrative actions taken by tax authorities or court decisions, whether at the federal or state level, may adversely affect the tax-exempt status of interest on the Bonds under federal or state law or otherwise prevent beneficial owners of the Bonds from realizing the full current benefit of the tax status of such interest. In addition, such legislation or actions (whether currently proposed, proposed in the future or enacted) and such decisions could affect the market price or marketability of the Bonds.

Prospective purchasers of the Bonds should consult their own tax advisors regarding the foregoing matters.

QUALIFIED TAX-EXEMPT OBLIGATIONS

The Borough has designated the Bonds as “qualified tax-exempt obligations” within the meaning of Section 265(b)(3) of the Internal Revenue Code of 1986, as amended (the “Code”) and has represented that it reasonably expects that collectively, neither it nor its subordinate entities, if any, will issue more than \$10,000,000 of obligations (other than current refunding obligations during the 2026 calendar year).

SECONDARY MARKET DISCLOSURE

In order to assist the Underwriter in complying with Rule 15c2-12 promulgated by the Securities and Exchange Commission (“Rule 15c2-12”), the Borough has undertaken to provide, on or before the first day of the tenth calendar month following the close of each fiscal year while the Bonds are outstanding, commencing with the fiscal year ending December 31, 2026, for filing with the Municipal Securities Rulemaking Board (the “MSRB”), on an annual basis, financial and operating information of the type hereinafter described and included in this Official Statement, which is referred to herein as “Annual Information”, together with the annual financial statements of the Borough prepared in accordance with generally accepted accounting principles as modified by governmental accounting standards and mandated state statutory principles as in effect from time to time for municipalities. In addition, the Borough has undertaken, for the benefit of the holders of the Bonds, to provide to the MSRB, in a timely manner not in excess of ten (10) business days after the occurrence of the specified event, the notices required to be provided by Rule 15c2-12 and described below (the “Notices”).

The Annual Information with respect to the Borough means annual information concerning the Borough which consists of financial and operating data of the Borough of the type included in this Official Statement relating to the following: (i) property tax levies and collections; (ii) assessed value of taxable property; (iii) property tax rates; and (iv) outstanding debt.

The Notices include notices of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices of determinations with respect to the tax status of the Bonds, or other material events affecting the tax-exempt status of the Bonds; (7) modifications to rights of holders of the Bonds, if material; (8) Bond calls (other than mandatory sinking fund redemptions), if material, and tender offers; (9) defeasances; (10) release, substitution or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the Borough; (13) the consummation of a merger, consolidation or acquisition involving the Borough or the sale of all or substantially all of the assets of the Borough, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional trustee or the change of name of a trustee, if material; (15) incurrence of a financial obligation (as defined in Rule 15c2-12) of the Borough, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar items of a financial obligation of the Borough, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the Borough, any of which reflect financial difficulties.

The sole and exclusive remedy for breach or default under the undertaking to provide continuing disclosure described above is an action to compel specific performance of the undertaking of the Borough, and no person, including any holder of the Bonds, may recover monetary damages thereunder under any circumstances. In addition, if all or any part of Rule 15c2-12 ceases to be in effect for any reason, then the information required to be provided under the undertaking, insofar as the provision of Rule 15c2-12 no longer in effect required the providing of such information, shall no longer be required to be provided.

The foregoing undertaking is intended to set forth a general description of the type of financial information and operating data that will be provided; the descriptions are not intended to state more than general categories of financial information and operating data; and where an undertaking calls for information that no longer can be generated because the operations to which it related have been materially changed or discontinued, a statement to that effect will be provided. The undertaking, however, may be

amended or modified without consent of the holders of the Bonds under certain circumstances set forth in the undertaking. Copies of the undertaking when executed by the Borough upon the delivery of the Bonds will be on file at the office of the Borough Clerk.

The Borough has previously entered into secondary market disclosure undertakings in accordance with Rule 15c2-12. The Borough has engaged Phoenix Advisors, a division of First Security Municipal Advisors, Inc., Hamilton, New Jersey to serve as continuing disclosure agent to assist in the filing of certain information on MSRB's Electronic Municipal Market Access ("EMMA") website as required under its prior secondary market disclosure undertakings.

CREDIT RATING

S&P Global Ratings, acting through Standard & Poor's Ratings Services LLC (the "Rating Agency") has assigned a rating of "AAA" to the Bonds.

The rating reflects only the view of the Rating Agency and an explanation of the significance of such rating may only be obtained from the Rating Agency. The Borough provided the Rating Agency with certain information and materials concerning the Bonds and the Borough. There can be no assurance that the rating will be maintained for any given period of time or that the rating will not be raise, lowered or withdrawn entirely, if in the Rating Agency's judgment, circumstances so warrant. Any downward change in, or withdrawal of, such rating, may have an adverse effect on the marketability or market price of the Bonds.

UNDERWRITING

The Bonds have been purchased from the Borough at a public sale by _____ (the "Underwriter") at a price of \$ _____. The Underwriter intends to offer the Bonds to the public initially at the offering yields set forth on the inside front cover page of this Official Statement, which may subsequently change without any requirement of prior notice. The Underwriter reserves the right to join with dealers and other underwriters in offering the Bonds to the public. The Underwriter may offer and sell Bonds to certain dealers (including dealers depositing Bonds into investment trusts) at yields higher than the public offering yields set forth on the inside front cover page, and such public offering yields may be changed, from time to time, by the Underwriter without prior notice.

MUNICIPAL ADVISOR

Phoenix Advisors, a division of First Security Municipal Advisors, Inc., Hamilton, New Jersey, has served as Municipal Advisor to the Borough in connection with the issuance of the Bonds (the "Municipal Advisor") and has assisted in matters related to the planning, structuring and terms of the Bonds. The Municipal Advisor is not obligated to undertake, and has not undertaken, either to make an independent verification of, or to assume responsibility for the accuracy, completeness, or fairness of the information contained in the Official Statement and the Appendices hereto. The Municipal Advisor is an Independent Registered Municipal Advisor pursuant to the Dodd-Frank Act and is not engaged in the business of underwriting, trading or distributing municipal securities or other public securities.

APPROVAL OF LEGAL PROCEEDINGS

All legal matters relating to the authorization, the issuance, the sale and the delivery of the Bonds are subject to the approval of Hawkins Delafield & Wood LLP, Newark, New Jersey, Bond Counsel to the

Borough, whose approving opinion will be delivered with the Bonds substantially in the form set forth in Appendix C hereto. Certain legal matters will be passed upon for the Borough by the Borough Attorney.

FINANCIAL STATEMENTS

Appendix B to this Official Statement includes the audited financial statements of the Borough for the Borough's year ending December 31, 2025 (the "Financial Statements"). The Financial Statements were provided by Nisivoccia LLP, independent certified public accountants (the "Borough Auditor"), and is included herein in reliance upon the authority of such firm. The Borough Auditor has consented to the inclusion of their report in this Official Statement. Copies of the complete Reports of Audit may be obtained upon request to the office of the Chief Financial Officer of the Borough.

The Borough Auditor has not participated in the preparation of this Official Statement except to the extent as previously stated.

PREPARATION OF OFFICIAL STATEMENT

The Municipal Advisor has participated in the preparation and review of the information contained in this Official Statement, including the collection of financial, statistical and demographic information; however, it has not verified the accuracy, completeness or fairness thereof, and, accordingly, expresses no opinion or other assurance with respect thereto. Certain information set forth herein has been obtained from the Borough and other sources, which are deemed reliable, but no warranty, guaranty or other representation as to the accuracy or completeness is made as to such information contained herein. There is no assurance that any of the assumptions or estimates contained herein will be realized.

The Borough Auditor takes responsibility for the financial statements to the extent specified in the Independent Auditor's Report as presented in Appendix B.

Hawkins Delafield & Wood LLP and the Borough Attorney have not participated in the preparation of the financial or statistical information contained in this Official Statement, nor have they verified the accuracy, completeness or fairness thereof and, accordingly, express no opinion with respect thereto.

All other information has been obtained from sources which the Borough considers to be reliable, but the Borough makes no warranty, guaranty or other representation with respect to the accuracy and completeness of such information.

The Chief Financial Officer of the Borough will confirm to the Underwriter, by certificate signed by the Chief Financial Officer, that to the knowledge of the Chief Financial Officer the descriptions and statements relating to the Borough herein, as of the date of this Official Statement and as of the date of delivery of the Bonds, are true and correct in all material respects and do not contain any untrue statement of a material fact or omit to state a material fact necessary to make such descriptions and statements, in light of the circumstances under which they were made, not misleading.

ADDITIONAL INFORMATION

Inquiries regarding this Official Statement, including information additional to that contained herein, may be directed to Jennifer Semler, Chief Financial Officer, Borough of Mountain Lakes, 400 Boulevard, Mountain Lakes, New Jersey 07046-1520, (937) 334-3131 or to its Municipal Advisor, Phoenix Advisors, a division of First Security Municipal Advisors, Inc., 2000 Waterview Drive, Suite 101, Hamilton, New Jersey, telephone (609) 291-0130.

MISCELLANEOUS

All quotations from and summaries and explanations of provisions of laws of the State herein do not purport to be complete and are qualified in their entirety by reference to the official compilation thereof.

So far as any statements made in this Official Statement involve matters of opinion or estimates, whether or not expressly stated, they are set forth as such and not as representations of fact, and no representation is made that any such statements will be realized. Neither this Official Statement nor any statement which may have been made verbally or in writing is to be construed as part of any contract with the holders of the Bonds.

This Official Statement has been duly executed on behalf of the Borough by its Chief Financial Officer.

**THE BOROUGH OF MOUNTAIN LAKES, IN
THE COUNTY OF MORRIS, NEW JERSEY**

By: _____
Jennifer Semler
Chief Financial Officer

Date: July __, 2026

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APPENDIX A

GENERAL INFORMATION REGARDING THE BOROUGH

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GENERAL INFORMATION OF THE BOROUGH OF MOUNTAIN LAKES, IN THE COUNTY OF MORRIS, STATE OF NEW JERSEY

Size and Geographical Location

The Borough comprises an area of 2.9 square miles, located about 25 miles west of the George Washington Bridge, 15 miles northwest of Newark and just under 7 miles north of Morristown. The Borough is an established community with an abundance of large trees, older homes, a highly-rated school system, recreational facilities and excellent road and public transportation to all parts of the New York-New Jersey metropolitan area.

The Borough is a single-family residential community of 1,465 homes. For 2025, the median market value of a home was \$1,200,000. Home market values range as high as \$2,800,000 with the majority of the homes in the \$1,000,000 - \$1,200,000 bracket.

Form of Government

The Borough is governed by a seven-member, non-paid Council under the Council-Manager Plan E form of government in accordance with the Optional Municipal Charter Law (Faulkner Act) of 1950. This form of government has been in effect since January 1, 1975. The Council members are elected at large every two years for four year overlapping terms. The mayor and deputy mayor are chosen by their Council colleagues. The Council is a legislative body to formulate policy, appropriate funds, and adopt ordinances and resolutions. The Council appoints a full-time salaried manager who is the chief administrative and executive officer.

Transportation

The Borough is well situated with respect to transportation access throughout the New York-New Jersey metropolitan area with the following service:

- New Jersey Transit Midtown Direct through Montclair, New Jersey;

- New Jersey Transit diesel-electric trains to points east terminating at Hoboken, New Jersey and connecting with the PATH system and several bus lines into New York City;

- New Jersey Transit electric trains via the Denville train station to points in eastern New Jersey and also connecting with New York City trains at Hoboken as well as direct service to Penn Station, New York;

- Lakeland Bus Company for bus service to New York City; and

- New Jersey Transit for bus service to Newark.

The Borough has easy access to five major highways. U.S. Route 46 runs through it's southern boundary. Interstate 80, running east-west across the State from the George Washington Bridge to Eastern Pennsylvania and connection with the rest of Interstate 80, is within a half mile of the Borough. Interstate 280 connects with Interstate 80 in Parsippany less than five miles east of the Borough, and provides easy access to the Oranges, Newark and Newark Liberty International Airport. Interstate 287, a New York City by-pass, touches the eastern tip of the Borough, runs south through New Brunswick to Perth Amboy, provides connection with the Garden State Parkway and the New Jersey Turnpike to points south, and with the New York State Thruway to points north. Route 24 connects with Interstate 287 approximately three miles south of the Borough and provides direct access to the Garden State Parkway, Newark Liberty International Airport and the New Jersey Turnpike.

Department and Services

The Borough Manager oversees the daily operations of the Borough organization, including public safety, zoning, utility services and collection, building construction review and inspection services, health services, recreation activities and programs and tax collection.

The Chief Financial Officer is responsible for overseeing and maintaining the financial activities and records of the Borough.

The Department of Public Works is staffed by a Director, a full-time Administrative Assistant and a 9-person crew (plus summer help) who maintain the 26 miles of paved roads, along with a water system, sewer system, storm drains, lakes, parks and recreation facilities.

The Department of Police is comprised of a Chief of Police and a 12-member uniformed force. In addition, there are additional employees including a part-time Administrative Assistant and part-time school-crossing guards. The Mountain Lakes Dispatch service is provided by Morris County Dispatch as a contracted service.

The Volunteer Fire Department is staffed by 20 adult and 29 junior volunteers and has two major pieces of fire apparatus, in addition to a rescue truck, and a command vehicle.

The Board of Health's statutory functions are assigned to the Borough Council. An advisory Health Commission makes policy recommendations to the Borough Council and administrative recommendations to the Borough Manager.

Other services include those provided by the Borough Attorney, Borough Engineer, Borough Auditor, Municipal Judge and Municipal Prosecutor (through a shared court with the Township of Denville), all appointed by the Borough Council.

Community Planning

A strength of the Borough is the extensive involvement of residents in the activities of the community. There are currently some 14 boards, commissions and committees composed of 127 citizens who assist and advise the Borough Council. These residents contribute their professional skills, particularly in the fields of engineering, finance, medicine, management and social services, at no cost to the taxpayer.

In addition to the above, the Borough has had a Zoning Board of Adjustment since 1927 and a Planning Board (the first in the State) since 1931.

The master plan was adopted by the Planning Board in 1979 and reexamined in 1982, 1988 and 1994. The Master Plan was reexamined in 2024.

Multiple family and apartment complexes are not permitted. Commercial and Industrial enterprises are generally limited to areas adjacent to the one major highway (U.S. Route 46). The minimum residential lot sizes vary from one-fifth to one-half acre (75-to-150-foot frontages), with over 80% of the homes in the one-third and one-half acre zones. Approximately 10% of the land is zoned for office, commercial and industrial purposes and 90% for single family homes which includes the 39% of land which is Borough-owned, of which three-fourths are dedicated for park, recreational and environmental protection purposes.

Development

While there are no current projects under construction, there are several commercial projects in various phases of approval. One of the known projects is a self-storage facility and another involves the expansion of an established restaurant.

There are currently 1,465 single family homes with a maximum potential under existing zoning, of about 1,483 homes if all privately owned vacant space was developed.

Recreational Facilities

There are five major lakes in the Borough that have access for boating and fishing and two of the lakes have municipal beaches for swimming and picnicking. One of the lakes also has an outdoor volleyball court and a walking path that connects to numerous hiking trails and a county park. The Borough owns 39% of all acreage in the Borough (including lakes which account for 8%). Three-quarters of the Borough-owned lands are dedicated by ordinance for park, recreational and environmental protection purposes. While sailing, rowing and canoeing are permitted on all the lakes, no motorized crafts are allowed. The lakes and public facilities are solely for the use of residents and their guests. The Lakeland Hills Family YMCA is also located within the Borough.

The Borough has two private tennis facilities, and six public courts. There is a private club with most country club activities except golf.

There is a Borough-Sponsored Recreation Commission which oversees such activities as adult classes, basketball, bowling, tennis, a supervised summer program (arts and crafts, physical education, drama, hiking, archery, fencing and movies) and a senior citizen's program. The Recreation Commission also supports Mountain Lakes Sailing Association, Mountain Lakes Swim & Dive, and a Teen Adventure camp for their summer activities.

Affiliated with the Recreation Commission are organizations (some in cooperation with surrounding municipalities) which sponsor competitive sports such as baseball, softball, swimming, diving, track and field, golf, midget football, lacrosse, soccer, sailing and tennis. The area including the Borough also has a large number of cultural and nonathletic opportunities including amateur participation in and/or enjoyment of glee clubs, the Masterwork Choir, a concert association, the MacDowell Club, drama at the "Barn" (located in nearby Montville) and other theaters, garden club, American Field Service, international student exchange programs and United Nations weekend activities. There are twenty clubs and organizations in the Borough providing outlets for a wide scope of interests. There are local chapters of national organizations such as the American Association of University Women and the League of Women Voters.

The Borough has its own free public library, supported largely by local property taxes. The library is also a member of the Morris County library system, which provides extensive reference and special materials as well as a major book-lending service. This system is supported by the general county tax levied on all municipalities.

Churches

There are four churches in Mountain Lakes:

St. Catherine of Siena, Roman Catholic
Community Church, United Church of Christ
King of Kings Lutheran Church
St. Peter's Episcopal

Health Services

Hospital services are available within a mile of the Borough at St. Clare's Hospital in Denville and Boonton Township. This hospital complex offers medical care in modern facilities. In addition, five other major hospitals are located within 10 miles, including Morristown Medical Center, a unit of the N.J. College of Medicine and a major diagnostic and treatment center at St. Barnabas Medical Center. There is a large number of practicing physicians and medical groups in the Borough.

Utilities

Utilities are provided by:

- New Jersey Natural Gas Co.
- Jersey Central Power & Light
- Verizon
- Atlice/Optimum
- Borough-owned and operated water and sewer-systems

Water Utility

The Mountain Lakes water system is owned and operated by the Borough of Mountain Lakes and is designated by the NJDEP as Public Water System ID No. 1425001. Water for the system is derived from 4 production wells located in Mountain Lakes and Denville. Supplemental and emergency water is available via emergency interconnections with Parsippany-Troy Hills Township, Denville Township, and Town of Boonton. The distribution system serves two (2) pressure gradients, i.e., low service and high service.

The primary well, (No.5), is located on U.S. Route 46 in Mountain Lakes, and supplies approximately 80% of the total water used by the homes and businesses in Mountain Lakes. The utility serves the entire Borough except for about 112 homes serviced by Denville Township, the Town of Boonton, and Parsippany-Troy Hills Township. Outside the Borough, the utility serves about 84 consumers in Denville Township, the Town of Boonton, and Parsippany-Troy Hills Township.

Sewer Utility

The sewer system is primarily an 8-inch gravity collection system with two major 15-inch interceptor lines which connect the system to the Parsippany-Troy Hills Sewer Utility. The sewage is treated by Parsippany at their wastewater treatment plant which provides both secondary and tertiary levels of treatment under an agreement since 1975.

Solid Waste

Every five years the Borough awards a municipal contract for the collection and disposal of household garbage, and for the collection of recyclable material. Collection is once each week for both garbage and recyclables and is offered as backdoor collection.

Four times a year the Borough provides an opportunity for residents to bring their bulky discards, to the curb, which are carted away and dumped.

The School District

The School District is a type II school district without a board of school estimate established under Title 18A of the New Jersey Statutes (N.J.S.A. 18A: 1-1 et seq.) and was incorporated in 1925. The School District is governed by a nine-member board of education and one member representing the sending district of Boonton Township. The School Board operates independently of the governing body. The nine members of the Board are elected for staggered three-year terms by the voters in the School District. The Boonton Township Board of Education appoints a member to serve a one year term. The Boonton Township representative votes on high school and district-wide issues only. The President is chosen by the Board members; the Secretary and Superintendent are appointed by the Board.

Average Daily Enrollment for the school years

<u>School Year</u>	<u>Enrollment</u>
2024-2025	1339
2023-2024	1354
2022-2023	1395
2021-2022	1413
2020-2021	1477

Enrollment figures include non-resident students, Boonton Township students and students at Lake Drive School for Deaf and Hearing Impaired.

Higher Learning Facilities

Twelve colleges and universities are within a 20-mile radius of the School District. These public and private institutions include County College of Morris, Drew University, Farleigh Dickinson University and Seton Hall University.

Population Trends¹

Population trends for the Borough, County of Morris and the State of New Jersey since 1980 are shown below:

	<u>1980</u>	<u>1990</u>	<u>2000</u>	<u>2010</u>	<u>2020</u>
Borough of Mountain Lakes	4,153	3,847	4,256	4,160	4,472
County of Morris	407,630	421,353	470,212	492,276	509,285
State of New Jersey	7,365,111	7,730,188	8,414,347	8,791,894	9,288,994

¹ Source: State of New Jersey Data Center, Census Data

Income as of 2025²

	Median Household Income	Per Capita Income
Borough of Mountain Lakes	\$ 250,000	\$104,161
County of Morris	137,326	71,044
State of New Jersey	103,556	54,253

Employment and Unemployment Data³

For the years 2021 to 2025, the New Jersey Department of Labor reported the following annual average employment information for the Borough, the County of Morris and the State of New Jersey:

	<u>Total Labor Force</u>	<u>Employed Labor Force</u>	<u>Total Unemployed</u>	<u>Unemployment Rate</u>
<u>Borough</u>				
2025	2,122	2,045	77	3.6%
2024	2,123	2,059	64	3.0%
2023	2,157	2,087	70	3.2%
2022	2,115	2,060	55	2.6%
2021	2,029	1,952	77	3.8%
<u>County of Morris</u>				
2025	275,993	263,944	12,049	4.4%
2024	276,232	265,742	10,490	3.8%
2023	276,826	267,049	9,777	3.5%
2022	271,002	262,459	8,543	3.2%
2021	263,828	249,819	14,009	5.3%
<u>State of New Jersey</u>				
2025	4,905,633	4,648,499	257,134	5.2%
2024	4,899,384	4,672,089	227,295	4.6%
2023	4,879,285	4,668,296	210,989	4.3%
2022	4,771,781	4,586,675	185,108	3.9%
2021	4,674,518	4,361,147	313,371	6.7%

² Source: U.S. Census Bureau, 2021 – 2025 American Community Survey 5-Year Estimates

³ Source: State of New Jersey Data Center

**Statement of Statutory Net Debt
For the Borough⁴
As of December 31, 2025**

GENERAL PURPOSES

Bonds, Notes and Loans Outstanding	\$ 17,534,483.00	
Bonds and Notes Authorized but Not Issued	104,200.00	
TOTAL GROSS DEBT		\$ 17,638,683.00

STATUTORY DEDUCTIONS

Reserve to Pay Debt Service	68,128.63	
		68,128.63
TOTAL NET DEBT		\$ 17,570,554.37

GROSS DEBT

Per Capita (2020 Census - 4,472)	\$	3,944
Percent of Net Valuation Taxable (2025 - \$1,650,062,400)		1.07%
Percent of Estimated True Value of Real Property (2025- \$1,650,062,400)		1.07%

NET MUNICIPAL DEBT

Per Capita (2020 Census - 4,472)	\$	3,929
Percent of Net Valuation Taxable (2025 - \$1,650,062,400)		1.06%
Percent of Estimated True Value of Real Property (2025- \$1,650,062,400)		1.06%

Largest Taxpayers⁵

The largest taxpayers in the Borough and their 2025 assessed valuations are listed below:

<u>Taxpayer</u>	<u>Assessment</u>
Sunrise of Mountain Lakes Propco LLC	\$ 21,265,100
Blue 701 LLC	12,935,700
Euroimmun US Real Estate LLC	7,052,100
ETLSLN-US LLC	7,009,400
Deluxe Manufacturing Operations Inc	5,343,000
Mountain Lakes Realty LLC	5,124,400
ML Mansion on 46 LLC	4,931,900
DDX4 LLC	4,644,200
Individual Taxpayer #1	3,536,500
Mountain Lakes Storage LLC	3,523,600
	\$ 75,365,900
Total as a Percentage of Assessed Value (AV - \$1,650,062,400)	4.57%

⁴ Source: Borough of Mountain Lakes' 2025 Annual Debt Statement

⁵ Source: Borough of Mountain Lakes Assessor

Assessed Valuations/Land Improvements by Class⁶

<u>Year</u>	<u>Vacant Land</u>	<u>Residential</u>	<u>Farm</u>	<u>Commercial</u>	<u>Industrial</u>	<u>Total</u>
2025	\$ 5,051,500	\$ 1,514,531,100	\$ 1,700	\$ 124,777,600	\$ 4,897,300	\$ 1,649,259,200
2024	4,681,700	1,393,062,900	1,400	123,036,500	4,594,900	1,525,377,400
2023	4,279,100	1,283,703,500	1,400	121,181,900	3,748,000	1,412,913,900
2022	4,474,000	1,166,208,000	1,400	104,817,000	3,393,000	1,278,893,400
2021	9,197,100	1,110,953,200	1,500	94,351,900	3,158,800	1,217,662,500

Assessed Valuations/Net Valuation Taxable⁷

<u>Year</u>	<u>Real Property</u>	<u>Net Valuation Tax</u>	<u>Assessed Value to True Value of Real Property</u>	<u>Total True Value of Assessed Property</u>
2025	\$ 1,650,062,400	\$ 1,650,062,400	100.00%	\$ 1,650,062,400
2024	1,526,180,600	1,526,180,600	95.47%	1,598,674,903
2023	1,413,717,100	1,413,717,100	97.77%	1,445,988,204
2022	1,279,696,600	1,279,696,600	96.48%	1,326,326,175
2021	1,218,465,600	1,218,465,600	95.36%	1,277,773,392

Components of Real Estate Tax Rate (per \$100 of Assessment)⁸

<u>Year</u>	<u>Total</u>	<u>Municipal</u>	<u>Local School</u>	<u>County(1)</u>
2025	\$ 2.299	\$ 0.451	\$ 1.586	\$ 0.262
2024	2.388	0.452	1.680	0.256
2023	2.528	0.494	1.774	0.260
2022	2.711	0.527	1.917	0.267
2021	2.806	0.563	1.972	0.271

(1) - Includes Open Space

Current Tax Collections⁹

<u>Year Ending December 31</u>	<u>Total Levy</u>	<u>Collection During Year of Levy</u>	
		<u>Amount</u>	<u>Percentage</u>
2025	\$ 37,955,776	\$37,671,462	99.25%
2024	36,472,739	36,245,570	99.37%
2023	35,768,598	35,443,351	99.09%
2022	35,027,685	34,518,514	98.54%
2021	34,271,090	34,021,903	99.27%

⁶ Source: Borough of Mountain Lakes Tax Duplicates

⁷ Source: State of New Jersey, Department of Community Affairs, Property Tax Tables

⁸ Source: Borough of Mountain Lakes Tax Collector

⁹ Source: 2021-2025 Borough of Mountain Lakes Annual Audit Reports

Historical Budget Data¹⁰

BOROUGH OF MOUNTAIN LAKES
HISTORICAL BUDGET DATA
2026, 2025 AND 2024

	<u>2026</u>	<u>2025</u>	<u>2024</u>
Anticipated Revenues			
Surplus Anticipated	\$ 2,100,000.00	\$ 2,000,000.00	\$ 2,000,000.00
Miscellaneous Revenue	1,877,611.50	2,685,217.72	1,495,778.39
Receipts from Delinquent Taxes	158,000.00	158,000.00	335,000.00
Amount to be Raised by Taxes for Support of Municipal Budget	7,696,274.05	7,453,523.61	6,911,526.01
Total Anticipated Revenues	<u>\$ 11,831,885.55</u>	<u>\$ 12,296,741.33</u>	<u>\$ 10,742,304.40</u>
Appropriations			
Total General Appropriations for Municipal Purposes within "CAPS"	\$ 7,688,749.00	\$ 7,452,996.46	\$ 7,266,009.02
Total Operations - Excluded from "CAPS"	1,008,259.37	1,703,913.65	751,389.43
Capital Improvements	200,000.00	77,795.99	50,676.34
Municipal Debt Service	1,566,917.93	1,722,235.85	1,380,644.60
Total Deferred Charges		25,000.00	25,000.00
Reserve for Uncollected Taxes	1,367,959.25	1,314,799.38	1,268,585.01
Total Appropriations	<u>\$ 11,831,885.55</u>	<u>\$ 12,296,741.33</u>	<u>\$ 10,742,304.40</u>

¹⁰ Source: 2024-2026 Borough of Mountain Lakes Annual Municipal Adopted Budgets

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APPENDIX B

FINANCIAL STATEMENTS OF THE BOROUGH

BOROUGH OF MOUNTAIN LAKES
FINANCIAL STATEMENTS
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Independent Auditors' Report

The Honorable Mayor and Members
of the Borough Council
Borough of Mountain Lakes
Mountain Lakes, New Jersey

Report on the Audit of the Financial Statements

We have audited the financial statements – *regulatory basis* – of the various funds and account group of the Borough of Mountain Lakes, in the County of Morris (the "Borough") as of and for the years ended December 31, 2025 and 2024 and the related notes to the financial statements, as listed in the table of contents.

Unmodified Opinions on Regulatory Basis of Accounting

In our opinion, the accompanying financial statements referred to above, present fairly, in all material respects, the financial position of each fund and account group of the Borough as of December 31, 2025 and 2024, and the results of operations and changes in fund balance, where applicable, of such funds and account group, thereof for the years then ended on the basis of the accounting practices prescribed or permitted, as described in Note 1, by the Division of Local Government Services, Department of Community Affairs, State of New Jersey (the "Division").

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the *Basis for the Adverse Opinion on U.S. Generally Accepted Accounting Principles* section of our report, the accompanying financial statements referred to above do not present fairly in accordance with accounting principles generally accepted in the United States of America the financial position of each fund and account group of the Borough as of December 31, 2025 and 2024, or the changes in financial position or where applicable, cash flows thereof for the years then ended.

Basis for Opinions

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS), audit requirements prescribed by the Division and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Borough, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1, the financial statements are prepared by the Borough on the basis of accounting practices prescribed or permitted by the Division, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to meet the requirements of the Division's regulatory basis of accounting and the budget laws of New Jersey.

The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material and pervasive.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of the Division to demonstrate compliance with the Division's regulatory basis of accounting, and the budget laws of New Jersey. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards* and audit requirements prescribed by the Division will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, *Government Auditing Standards* and audit requirements prescribed by the Division, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Borough's internal control. Accordingly, no such opinion is expressed.

The Honorable Mayor and Members
of the Borough Council
Borough of Mountain Lakes
Page 3

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Borough's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

May 8, 2026
Mount Arlington, New Jersey

Nisiroccia LLP
NISIVOCCIA LLP

BOROUGH OF MOUNTAIN LAKES
CURRENT FUND
COMPARATIVE BALANCE SHEET

	December 31,		
	2025	2024	2023
<u>ASSETS</u>			
Regular Fund:			
Cash and Cash Equivalents:			
Treasurer	\$ 5,362,762.33	\$ 5,455,809.05	\$ 5,681,485.25
Change Funds	200.00	200.00	200.00
	<u>5,362,962.33</u>	<u>5,456,009.05</u>	<u>5,681,685.25</u>
Due from State of New Jersey:			
Veterans' and Senior Citizens' Deductions	3,270.26	3,270.26	3,270.26
	<u>5,366,232.59</u>	<u>5,459,279.31</u>	<u>5,684,955.51</u>
Receivables and Other Assets with Full Reserves:			
Delinquent Property Taxes Receivable	261,455.41	158,299.59	313,809.62
Tax Title Liens Receivable	98,795.88	85,284.00	72,781.90
Property Acquired for Taxes - Assessed Valuation	169,885.09	169,885.09	169,885.09
Revenue Accounts Receivable	1,874.50	1,501.38	1,408.08
Other Accounts Receivable	79,238.18	21,384.68	1,267.08
Total Receivables and Other Assets with Full Reserves	<u>611,249.06</u>	<u>436,354.74</u>	<u>559,151.77</u>
Deferred Charges:			
Special Emergency Authorization		25,000.00	50,000.00
Total Regular Fund	<u>5,977,481.65</u>	<u>5,920,634.05</u>	<u>6,294,107.28</u>
Federal and State Grant Fund:			
Grants Receivable	924,597.95	30,172.00	43,101.00
Due from Current Fund	42,788.87	425,054.55	444,170.01
Total Federal and State Grant Fund	<u>967,386.82</u>	<u>455,226.55</u>	<u>487,271.01</u>
<u>TOTAL ASSETS</u>	<u>\$ 6,944,868.47</u>	<u>\$ 6,375,860.60</u>	<u>\$ 6,781,378.29</u>

BOROUGH OF MOUNTAIN LAKES
CURRENT FUND
COMPARATIVE BALANCE SHEET
(Continued)

<u>LIABILITIES, RESERVES AND FUND BALANCE</u>	December 31,		
	2025	2024	2023
Regular Fund:			
Appropriation Reserves:			
Unencumbered	\$ 664,746.76	\$ 483,185.25	\$ 761,571.30
Encumbered	146,544.48	201,872.75	239,911.57
Total Appropriation Reserves	<u>811,291.24</u>	<u>685,058.00</u>	<u>1,001,482.87</u>
Accounts Payable - Vendors			1,498.18
Tax Overpayments		36,497.68	18,482.63
School Taxes Payable		0.04	
County Taxes Payable			3,056.12
Due to State of New Jersey:			
Marriage License Fees	50.00	125.00	75.00
Construction Code Surcharge Fees	2,966.00	1,505.00	2,301.00
Prepaid Taxes	219,296.88	174,305.08	179,170.69
Due to Federal and State Grant Fund	42,788.87	425,054.55	444,170.01
Reserve for:			
Pending Tax Appeals	423,377.75	426,123.95	379,438.15
Exterminating Pests Donation	75.00	75.00	300.00
Municipal Relief Fund Aid	13,210.00		43,525.77
	<u>1,513,055.74</u>	<u>1,748,744.30</u>	<u>2,073,500.42</u>
Reserve for Receivables and Other Assets	611,249.06	436,354.74	559,151.77
Fund Balance	3,853,176.85	3,735,535.01	3,661,455.09
Total Regular Fund	<u>5,977,481.65</u>	<u>5,920,634.05</u>	<u>6,294,107.28</u>
Federal and State Grant Fund:			
Encumbrances	803,396.64	359,732.02	303,272.97
Appropriated Reserves	143,862.67	70,664.52	148,595.30
Unappropriated Reserves	20,127.51	24,830.01	35,402.74
Total Federal and State Grant Fund	<u>967,386.82</u>	<u>455,226.55</u>	<u>487,271.01</u>
<u>TOTAL LIABILITIES, RESERVES AND FUND BALANCE</u>	<u>\$ 6,944,868.47</u>	<u>\$ 6,375,860.60</u>	<u>\$ 6,781,378.29</u>

THE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS
ARE AN INTEGRAL PART OF THIS STATEMENT

BOROUGH OF MOUNTAIN LAKES
CURRENT FUND
COMPARATIVE STATEMENT OF OPERATIONS AND CHANGE IN FUND BALANCE

	Year Ended December 31,		
	2025	2024	2023
<u>Revenue and Other Income Realized</u>			
Fund Balance Utilized	\$ 2,000,000.00	\$ 2,000,000.00	\$ 1,750,000.00
Miscellaneous Revenue Anticipated	2,781,401.30	1,807,161.08	1,842,694.88
Receipts from Delinquent Taxes	163,336.72	327,824.36	505,978.21
Receipts from Current Taxes	37,671,462.38	36,245,569.82	35,443,350.59
Nonbudget Revenue	603,683.00	68,669.80	79,796.71
Other Credits to Income:			
Interfunds and Other Receivables Returned	21,384.68	1,267.08	22,389.27
Cancellation of Accounts Payable		1,498.18	3,720.00
Cancellation of Appropriated Grant Reserves	3,427.86	0.01	26,911.25
Unexpended Balance of Appropriation Reserves	349,067.39	647,466.51	403,703.79
 Total Income	 <u>43,593,763.33</u>	 <u>41,099,456.84</u>	 <u>40,078,544.70</u>
<u>Expenditures</u>			
Budget Appropriations:			
Municipal Purposes	10,921,418.85	9,482,253.68	9,537,158.08
County Taxes	4,311,758.46	3,891,725.56	3,677,424.28
Local School District Taxes	26,160,904.00	25,630,013.00	25,081,164.00
Interfunds and Other Receivables Advanced	79,238.18	21,384.68	1,267.08
Cancellation of Grants Receivable	2,802.00		20,291.50
Refund of Prior Year Revenue - Other			50.00
Refund of Prior Year Revenue - Appeals			476,905.35
 Total Expenditures	 <u>41,476,121.49</u>	 <u>39,025,376.92</u>	 <u>38,794,260.29</u>
 Excess in Revenue/Statutory Excess to Fund Balance	 2,117,641.84	 2,074,079.92	 1,284,284.41
<u>Fund Balance</u>			
Balance January 1	3,735,535.01	3,661,455.09	4,127,170.68
	<u>5,853,176.85</u>	<u>5,735,535.01</u>	<u>5,411,455.09</u>
Decreased by:			
Utilized as Anticipated Revenue	2,000,000.00	2,000,000.00	1,750,000.00
 Balance December 31	 <u>\$ 3,853,176.85</u>	 <u>\$ 3,735,535.01</u>	 <u>\$ 3,661,455.09</u>

THE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS
ARE AN INTEGRAL PART OF THIS STATEMENT

BOROUGH OF MOUNTAIN LAKES
CURRENT FUND
COMPARATIVE STATEMENT OF REVENUE

	2025		2024		2023	
	Budget After Modification	Realized	Budget After Modification	Realized	Budget After Modification	Realized
Fund Balance Anticipated	\$ 2,000,000.00	\$ 2,000,000.00	\$ 2,000,000.00	\$ 2,000,000.00	\$ 1,750,000.00	\$ 1,750,000.00
Total Miscellaneous Revenue	2,685,217.72	2,781,401.30	1,504,313.32	1,807,161.08	1,602,352.13	1,842,694.88
Receipts from Delinquent Taxes	158,000.00	163,336.72	335,000.00	327,824.36	446,500.00	505,978.21
Amount to be Raised by Taxes for Support of Municipal Budget:						
Local Tax for Municipal Purposes	7,453,523.61	8,513,599.30	6,911,526.01	7,992,416.27	6,981,087.33	7,927,543.69
Nonbudget Revenue		603,683.00		68,669.80		79,796.71
	<u>\$ 12,296,741.33</u>	<u>\$ 14,062,020.32</u>	<u>\$ 10,750,839.33</u>	<u>\$ 12,196,071.51</u>	<u>\$ 10,779,939.46</u>	<u>\$ 12,106,013.49</u>

THE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS
ARE AN INTEGRAL PART OF THIS STATEMENT

BOROUGH OF MOUNTAIN LAKES
CURRENT FUND
COMPARATIVE STATEMENT OF EXPENDITURES

	For the Years Ended December 31,					
	2025			2024		
	Budget After Modification	Paid or Charged	Reserved	Budget After Modification	Paid or Charged	Reserved
Operations for Municipal Purposes:						
Salaries and Wages	\$ 3,165,526.53	\$ 3,082,579.72	\$ 82,946.81	\$ 3,095,781.41	\$ 2,968,795.29	\$ 126,986.12
Other Expenses	5,991,383.58	5,409,583.63	581,799.95	4,930,151.97	4,573,952.84	356,199.13
Capital Improvements	77,795.99	77,795.99		50,676.34	50,676.34	
Debt Service	1,722,235.85	1,661,712.75		1,380,644.60	1,380,643.96	
Deferred Charges and Statutory Expenditures	25,000.00	25,000.00		25,000.00	25,000.00	
Total Operations for for Municipal Purposes	<u>10,981,941.95</u>	<u>10,256,672.09</u>	<u>664,746.76</u>	<u>9,482,254.32</u>	<u>8,999,068.43</u>	<u>483,185.25</u>
Reserve for Uncollected Taxes	1,314,799.38	1,314,799.38		1,268,585.01	1,268,585.01	
	<u>\$ 12,296,741.33</u>	<u>\$ 11,571,471.47</u>	<u>\$ 664,746.76</u>	<u>\$ 10,750,839.33</u>	<u>\$ 10,267,653.44</u>	<u>\$ 483,185.25</u>
Adopted Budget	\$ 12,076,613.38			\$ 10,742,304.40		
Added by N.J.S.A. 40A:4-87	<u>220,127.95</u>			<u>8,534.93</u>		
	<u>\$ 12,296,741.33</u>			<u>\$ 10,750,839.33</u>		
				<u>Budget After Modification</u>	<u>Paid or Charged</u>	<u>Reserved</u>
				<u>25,000.00</u>	<u>25,000.00</u>	<u>25,000.00</u>
				<u>9,537,158.08</u>	<u>8,775,586.78</u>	<u>483,185.25</u>
				<u>1,242,781.38</u>	<u>1,242,781.38</u>	<u>1,242,781.38</u>
				<u>\$ 10,779,939.46</u>	<u>\$ 10,018,368.16</u>	<u>\$ 761,571.30</u>
				<u>\$ 10,773,739.46</u>		
				<u>6,200.00</u>		
				<u>\$ 10,779,939.46</u>		

THE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS
ARE AN INTEGRAL PART OF THIS STATEMENT

BOROUGH OF MOUNTAIN LAKES
TRUST FUNDS
COMPARATIVE BALANCE SHEET

	December 31,		
	2025	2024	2023
<u>ASSETS</u>			
Animal Control Fund:			
Cash and Cash Equivalents:			
Treasurer	\$ 4,885.93	\$ 1,424.72	\$ 950.13
Other Trust Funds:			
Cash and Cash Equivalents	1,018,686.48	1,077,647.07	1,173,563.48
<u>TOTAL ASSETS</u>	<u>\$ 1,023,572.41</u>	<u>\$ 1,079,071.79</u>	<u>\$ 1,174,513.61</u>
 <u>LIABILITIES, RESERVES AND FUND BALANCE</u>			
Animal Control Fund:			
Due to State Board of Health		\$ 2.40	
Reserve for Animal Control Expenditures	\$ 4,885.93	1,422.32	\$ 950.13
	<u>4,885.93</u>	<u>1,424.72</u>	<u>950.13</u>
Other Trust Funds:			
Premium on Tax Sale Certificates			78,000.00
Developers' Escrow Deposits	110,939.91	88,357.11	128,499.84
Reserve for:			
Other Trust	14,496.39	10,512.95	9,337.95
Developers Deposits' - Affordable Housing	64,270.06	100,681.20	95,870.99
Unemployment Compensation Insurance	2,372.93	57,650.93	49,068.00
Police Outside Employment	17,023.53	4,703.53	4,880.00
Police Forfeited Assets	3,473.22	3,345.40	3,214.43
Flexible Spending	4,274.72	6,530.36	6,012.97
Shade Tree Trust	34,077.22	23,223.51	21,903.77
Recreation Trust	305,588.64	290,736.64	293,370.09
Municipal Alliance	3,674.76	4,674.76	6,174.76
Accumulated Absences	62,231.97	52,231.97	42,231.97
Storm Recovery	346,263.13	384,998.71	384,998.71
Liability Insurance	50,000.00	50,000.00	50,000.00
	<u>1,018,686.48</u>	<u>1,077,647.07</u>	<u>1,173,563.48</u>
<u>TOTAL LIABILITIES, RESERVES AND FUND BALANCE</u>	<u>\$ 1,023,572.41</u>	<u>\$ 1,079,071.79</u>	<u>\$ 1,174,513.61</u>

THE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS
ARE AN INTEGRAL PART OF THIS STATEMENT

BOROUGH OF MOUNTAIN LAKES
GENERAL CAPITAL FUND
COMPARATIVE BALANCE SHEET

	December 31,		
	2025	2024	2023
<u>ASSETS</u>			
Cash and Cash Equivalents	\$ 2,816,521.59	\$ 1,957,361.46	\$ 2,883,894.02
Federal and State Aid Receivable	233,121.75	128,641.75	95,513.00
County of Morris Grant Receivable		433,520.00	
Loan Receivable"			
NJ Department of Environmental Protection		298,694.46	
Deferred Charges to Future Taxation:			
Funded	11,200,000.00	12,015,000.00	10,705,000.00
Unfunded	6,438,683.00	5,450,960.00	5,997,676.00
<u>TOTAL ASSETS</u>	<u>\$ 20,688,326.34</u>	<u>\$ 20,284,177.67</u>	<u>\$ 19,682,083.02</u>
 <u>LIABILITIES, RESERVES AND FUND BALANCE</u>			
Serial Bonds Payable	\$ 9,100,000.00	\$ 9,915,000.00	\$ 10,705,000.00
Bond Anticipation Notes Payable	2,100,000.00	5,346,760.00	3,347,676.00
NJ Department of Environmental Protection Loan Payable	6,334,483.00	2,100,000.00	
Improvement Authorizations:			
Funded	135,311.32	652,232.10	243,149.38
Unfunded	1,544,825.83	1,111,794.84	1,516,280.89
Capital Improvement Fund	17,591.12	7,591.13	40,370.79
Reserve for Payment of Debt Service	68,128.63	60,504.47	8,738.18
Reserve for Encumbrances	1,317,191.21	950,976.08	3,781,548.73
Fund Balance	70,795.23	139,319.05	39,319.05
<u>TOTAL LIABILITIES, RESERVES AND FUND BALANCE</u>	<u>\$ 20,688,326.34</u>	<u>\$ 20,284,177.67</u>	<u>\$ 19,682,083.02</u>

THE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS
ARE AN INTEGRAL PART OF THIS STATEMENT

BOROUGH OF MOUNTAIN LAKES
GENERAL CAPITAL FUND
STATEMENT OF FUND BALANCE

	December 31,		
	2025	2024	2023
Balance December 31,	\$ 139,319.05	\$ 39,319.05	\$ 44,319.05
Increased by:			
NJ Department of Environmental Protection Loan on Fully Funded Ordinance Improvement Authorization Cancelled	154,021.09	100,000.00	110,000.00
	293,340.14	139,319.05	154,319.05
Decreased by:			
Appropriated to Finance Improvement Authorizations	222,067.00		110,000.00
Anticipated in Current Fund Budget	477.91		5,000.00
	222,544.91		115,000.00
Balance December 31,	\$ 70,795.23	\$ 139,319.05	\$ 39,319.05

THE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS
ARE AN INTEGRAL PART OF THIS STATEMENT

BOROUGH OF MOUNTAIN LAKES
WATER UTILITY FUND
COMPARATIVE BALANCE SHEET

	December 31,		
	2025	2024	2023
<u>ASSETS</u>			
Operating Fund:			
Cash and Cash Equivalents	\$ 631,553.97	\$ 592,157.35	\$ 696,725.00
Receivables with Full Reserves:			
Consumer Accounts Receivable	71,049.97	37,153.51	31,198.71
Total Operating Fund	<u>702,603.94</u>	<u>629,310.86</u>	<u>727,923.71</u>
Capital Fund:			
Cash and Cash Equivalents	13,877.93	13,877.93	13,877.93
Fixed Capital	<u>1,786,058.88</u>	<u>1,786,058.88</u>	<u>1,786,058.88</u>
Total Capital Fund	<u>1,799,936.81</u>	<u>1,799,936.81</u>	<u>1,799,936.81</u>
<u>TOTAL ASSETS</u>	<u>\$ 2,502,540.75</u>	<u>\$ 2,429,247.67</u>	<u>\$ 2,527,860.52</u>
<u>LIABILITIES, RESERVES AND FUND BALANCE</u>			
Operating Fund:			
Liabilities:			
Appropriation Reserves:			
Unencumbered	\$ 38,225.56	\$ 68,288.27	\$ 81,912.69
Encumbered	80,432.62	5,691.47	69,221.92
Total Appropriation Reserves	<u>118,658.18</u>	<u>73,979.74</u>	<u>151,134.61</u>
Water Rent Overpayments	20,439.86	9,573.26	8,884.69
Reserve for Meter Deposits	<u>4,950.00</u>	<u>4,950.00</u>	<u>4,950.00</u>
	144,048.04	88,503.00	164,969.30
Reserve for Receivables	71,049.97	37,153.51	31,198.71
Fund Balance	<u>487,505.93</u>	<u>503,654.35</u>	<u>531,755.70</u>
Total Operating Fund	<u>702,603.94</u>	<u>629,310.86</u>	<u>727,923.71</u>
Capital Fund:			
Capital Improvement Fund	13,228.21	13,228.21	13,228.21
Reserve for Amortization	1,786,058.88	1,786,058.88	1,786,058.88
Fund Balance	<u>649.72</u>	<u>649.72</u>	<u>649.72</u>
Total Capital Fund	<u>1,799,936.81</u>	<u>1,799,936.81</u>	<u>1,799,936.81</u>
<u>TOTAL LIABILITIES, RESERVES AND FUND BALANCE</u>	<u>\$ 2,502,540.75</u>	<u>\$ 2,429,247.67</u>	<u>\$ 2,527,860.52</u>

THE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS
ARE AN INTEGRAL PART OF THIS STATEMENT

BOROUGH OF MOUNTAIN LAKES
WATER UTILITY OPERATING FUND
COMPARATIVE STATEMENT OF OPERATIONS AND CHANGE IN FUND BALANCE

	Year Ended December 31,		
	2025	2024	2023
<u>Revenue and Other Income Realized</u>			
Fund Balance Utilized	\$ 208,658.38	\$ 109,799.38	\$ 106,262.17
Water Rents	980,136.92	785,611.59	825,714.57
Miscellaneous Revenue	44,456.31	49,256.01	47,194.76
Other Credits to Income:			
Unexpended Balance of Appropriation Reserves	32,916.73	81,830.43	133,603.68
Total Income	1,266,168.34	1,026,497.41	1,112,775.18
<u>Expenditures</u>			
Budget Expenditures:			
Operating	970,209.44	872,462.17	917,050.26
Capital Improvement Fund	50,000.00	20,000.00	15,000.00
Deferred Charges and Statutory Expenditures	53,448.94	52,337.21	54,211.91
Total Expenditures	1,073,658.38	944,799.38	986,262.17
Excess in Revenue	192,509.96	81,698.03	126,513.01
<u>Fund Balance</u>			
Balance January 1	503,654.35	531,755.70	511,504.86
	696,164.31	613,453.73	638,017.87
Decreased by:			
Utilized by Water Operating Budget	208,658.38	109,799.38	106,262.17
Balance December 31	\$ 487,505.93	\$ 503,654.35	\$ 531,755.70

THE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS
ARE AN INTEGRAL PART OF THIS STATEMENT

BOROUGH OF MOUNTAIN LAKES
WATER UTILITY CAPITAL FUND
STATEMENT OF FUND BALANCE

	December 31,		
	2025	2024	2023
Balance December 31,	\$ 649.72	\$ 649.72	\$ 649.72
Balance December 31,	\$ 649.72	\$ 649.72	\$ 649.72

THE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS
ARE AN INTEGRAL PART OF THIS STATEMENT

BOROUGH OF MOUNTAIN LAKES
WATER UTILITY OPERATING FUND
COMPARATIVE STATEMENT OF REVENUE

	For the Years Ended December 31,					
	2025		2024		2023	
	Anticipated	Realized	Anticipated	Realized	Anticipated	Realized
Operating Fund Balance Anticipated	\$ 208,658.38	\$ 208,658.38	\$ 109,799.38	\$ 109,799.38	\$ 106,262.17	\$ 106,262.17
Water Rents	785,611.00	940,747.92	825,000.00	785,611.59	860,000.00	825,714.57
Rents - Rate Increase	39,389.00	39,389.00				
Miscellaneous Revenue	40,000.00	44,456.31	40,000.00	49,256.01	20,000.00	47,194.76
	<u>\$ 1,073,658.38</u>	<u>\$ 1,233,251.61</u>	<u>\$ 974,799.38</u>	<u>\$ 944,666.98</u>	<u>\$ 986,262.17</u>	<u>\$ 979,171.50</u>

THE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS
ARE AN INTEGRAL PART OF THIS STATEMENT

BOROUGH OF MOUNTAIN LAKES
WATER UTILITY OPERATING FUND
COMPARATIVE STATEMENT OF EXPENDITURES

For The Years Ended December 31,

	2025			2024			2023		
	Budget After Modification	Paid or Charged	Reserved	Budget After Modification	Paid or Charged	Reserved	Budget After Modification	Paid or Charged	Reserved
Operating:									
Salaries and Wages	\$ 436,610.10	\$ 421,519.22	\$ 15,090.88	\$ 442,846.25	\$ 429,271.46	\$ 19,495.73	\$ 395,319.11	\$ 375,823.38	\$ 19,495.73
Other Expenses	533,599.34	513,684.96	19,914.38	429,615.92	389,982.81	54,624.59	521,731.15	467,106.56	54,624.59
Capital Improvements:									
Capital Outlay	50,000.00	49,620.00	380.00	50,000.00	6,230.72	13,769.28	15,000.00	15,000.00	
Deferred Charges and Statutory Expenditures:									
Statutory Expenditures:									
Contribution to:									
Public Employees' Retirement System	20,048.27	19,168.27	880.00	19,489.47	19,489.47	550.00	18,615.00	18,065.00	550.00
Social Security System (O.A.S.I.)	33,400.67	31,440.37	1,960.30	32,847.74	31,536.65	7,242.37	35,596.91	28,354.54	7,242.37
	\$ 1,073,658.38	\$ 1,035,432.82	\$ 38,225.56	\$ 974,799.38	\$ 876,511.11	\$ 95,681.97	\$ 986,262.17	\$ 904,349.48	\$ 81,912.69

THE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS
ARE AN INTEGRAL PART OF THIS STATEMENT

BOROUGH OF MOUNTAIN LAKES
SEWER UTILITY FUND
COMPARATIVE BALANCE SHEET

	December 31,		
	2025	2024	2023
<u>ASSETS</u>			
Operating Fund:			
Cash and Cash Equivalents	\$ 558,887.18	\$ 569,810.15	\$ 616,475.26
Receivables with Full Reserves:			
Consumer Accounts Receivable	46,788.21	32,226.06	25,740.44
Total Operating Fund	<u>605,675.39</u>	<u>602,036.21</u>	<u>642,215.70</u>
Capital Fund:			
Cash and Cash Equivalents	39,604.00	39,604.00	39,604.00
Fixed Capital	187,884.36	187,884.36	187,884.36
Total Capital Fund	<u>227,488.36</u>	<u>227,488.36</u>	<u>227,488.36</u>
<u>TOTAL ASSETS</u>	<u>\$ 833,163.75</u>	<u>\$ 829,524.57</u>	<u>\$ 869,704.06</u>
<u>LIABILITIES, RESERVES AND FUND BALANCE</u>			
Operating Fund:			
Liabilities:			
Appropriation Reserves:			
Unencumbered	\$ 129,921.17	\$ 68,325.74	\$ 90,765.02
Encumbered	742.50	43,812.00	1,338.50
Total Appropriation Reserves	<u>130,663.67</u>	<u>112,137.74</u>	<u>92,103.52</u>
Accounts Payable	37,520.68	37,520.68	37,520.68
Sewer Utility Overpayments	7,019.05	1,178.31	1,121.45
	<u>175,203.40</u>	<u>150,836.73</u>	<u>130,745.65</u>
Reserve for Receivables	46,788.21	32,226.06	25,740.44
Fund Balance	383,683.78	418,973.42	485,729.61
Total Operating Fund	<u>605,675.39</u>	<u>602,036.21</u>	<u>642,215.70</u>
Capital Fund:			
Capital Improvement Fund	29,604.00	29,604.00	29,604.00
Reserves for Capital Outlay	10,000.00	10,000.00	10,000.00
Reserves for Amortization	187,884.36	187,884.36	187,884.36
Total Capital Fund	<u>227,488.36</u>	<u>227,488.36</u>	<u>227,488.36</u>
<u>TOTAL LIABILITIES, RESERVES AND FUND BALANCE</u>	<u>\$ 833,163.75</u>	<u>\$ 829,524.57</u>	<u>\$ 869,704.06</u>

THE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS
ARE AN INTEGRAL PART OF THIS STATEMENT

BOROUGH OF MOUNTAIN LAKES
SEWER UTILITY OPERATING FUND
COMPARATIVE STATEMENT OF OPERATIONS AND CHANGE IN FUND BALANCE

	Year Ended December 31,		
	2025	2024	2023
<u>Revenue and Other Income Realized</u>			
Fund Balance Utilized	\$ 176,117.50	\$ 117,342.66	\$ 56,964.95
Sewer Service Charges	944,898.07	817,972.12	837,172.53
Miscellaneous Revenue Anticipated	37,970.59	43,065.03	35,869.31
Other Credits to Income:			
Cancellation of Accounts Payable			121,263.27
Unexpended Balance of Appropriation Reserves	10,959.20	46,549.32	186,274.61
Total Income	<u>1,169,945.36</u>	<u>1,024,929.13</u>	<u>1,237,544.67</u>
<u>Expenditures</u>			
Budget Expenditures:			
Operating	980,146.79	924,379.99	864,083.75
Capital Improvements	15,000.00	15,000.00	10,000.00
Deferred Charges and Statutory Expenditures	33,970.71	34,962.67	32,881.20
Total Expenditures	<u>1,029,117.50</u>	<u>974,342.66</u>	<u>906,964.95</u>
Excess in Revenue	140,827.86	50,586.47	330,579.72
<u>Fund Balance</u>			
Balance January 1	418,973.42	485,729.61	212,114.84
	<u>559,801.28</u>	<u>536,316.08</u>	<u>542,694.56</u>
Decreased by:			
Utilization by Sewer Operating Budget	176,117.50	117,342.66	56,964.95
Balance December 31	<u>\$ 383,683.78</u>	<u>\$ 418,973.42</u>	<u>\$ 485,729.61</u>

THE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS
ARE AN INTEGRAL PART OF THIS STATEMENT

BOROUGH OF MOUNTAIN LAKES
SEWER UTILITY OPERATING FUND
COMPARATIVE STATEMENT OF REVENUE

	For the Years Ended December 31,								
	2025			2024			2023		
	Anticipated	Realized	Anticipated	Realized	Anticipated	Realized	Anticipated	Realized	
Fund Balance Anticipated	\$ 176,117.50	\$ 176,117.50	\$ 117,342.66	\$ 117,342.66	\$ 56,964.95	\$ 56,964.95	\$ 56,964.95	\$ 56,964.95	
Sewer Service Charges	817,970.00	944,898.07	837,000.00	817,972.12	840,000.00	840,000.00	837,172.53	837,172.53	
Miscellaneous Revenue Anticipated	35,030.00	37,970.59	20,000.00	43,065.03	10,000.00	10,000.00	35,869.31	35,869.31	
	<u>\$ 1,029,117.50</u>	<u>\$ 1,158,986.16</u>	<u>\$ 974,342.66</u>	<u>\$ 978,379.81</u>	<u>\$ 906,964.95</u>	<u>\$ 906,964.95</u>	<u>\$ 930,006.79</u>	<u>\$ 930,006.79</u>	

THE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS
ARE AN INTEGRAL PART OF THIS STATEMENT

BOROUGH OF MOUNTAIN LAKES
GENERAL FIXED ASSETS ACCOUNT GROUP
COMPARATIVE BALANCE SHEET

	December 31,		
	2025	2024	2023
<u>ASSETS</u>			
Land	\$ 119,771,285.00	\$ 119,765,800.00	\$ 119,765,800.00
Buildings	7,681,180.00	7,681,180.00	2,257,500.00
Machinery and Equipment	5,141,036.00	5,097,623.00	4,750,917.00
<u>TOTAL ASSETS</u>	<u>\$ 132,593,501.00</u>	<u>\$ 132,544,603.00</u>	<u>\$ 126,774,217.00</u>
<u>RESERVE</u>			
Reserve for General Fixed Assets	<u>\$ 132,593,501.00</u>	<u>\$ 132,544,603.00</u>	<u>\$ 126,774,217.00</u>
<u>TOTAL RESERVE</u>	<u>\$ 132,593,501.00</u>	<u>\$ 132,544,603.00</u>	<u>\$ 126,774,217.00</u>

THE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS
ARE AN INTEGRAL PART OF THIS STATEMENT

BOROUGH OF MOUNTAIN LAKES
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2025

Note 1: Summary of Significant Accounting Policies

A. Reporting Entity

Except as noted below, the financial statements of the Borough of Mountain Lakes include every board, body, officer or commission supported and maintained wholly or in part by funds appropriated by the Borough of Mountain Lakes, as required by N.J.S. 40A:5-5. Accordingly, the financial statements of the Borough of Mountain Lakes do not include the operations of the municipal library, volunteer fire department, or first aid squad.

Governmental Accounting Standards Board ("GASB") Codification Section 2100, "Defining the Financial Reporting Entity" establishes standards to determine whether a governmental component unit should be included in the financial reporting entity. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. In addition, component units can be other organizations for which the nature and significance of their relationship with a primary government are such that exclusion would cause the reporting entity's financial statements to be misleading. The primary government is financially accountable if it appoints a voting majority of the organization's governing body and (1) it is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government. A legally separate, tax-exempt organization should be reported as a component unit of a reporting entity if all of the following criteria are met: (1) The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents. (2) The primary government, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization. (3). The economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to that primary government. As the financial reporting entity was established in accordance with New Jersey statutes, the requirements of GASB Codification Section 2100 were not followed and, accordingly, the reporting entity could be different from accounting principles generally accepted in the United States of America.

B. Description of Funds

The accounting policies of the Borough conform to the accounting practices applicable to municipalities which have been prescribed or permitted by the Division of Local Government Services, Department of Community Affairs, State of New Jersey (the "Division"). Such practices are designed primarily for determining compliance with legal provisions and budgetary restrictions and as a means of reporting on the stewardship of public officials with respect to public funds. Under this method of accounting, the Borough of Mountain Lakes accounts for its financial transactions through the following separate funds:

Current Fund - Resources and expenditures for governmental operations of a general nature, including federal and state grant funds.

Trust Funds - Receipts, custodianship and disbursement of funds in accordance with the purpose for which each reserve was created.

General Capital Fund - Receipt and disbursement of funds for the acquisition of general capital facilities, other than those acquired in the Current Fund.

BOROUGH OF MOUNTAIN LAKES
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2025
(Continued)

Note 1: Summary of Significant Accounting Policies (Cont'd)

B. Description of Funds (Cont'd)

Water Utility Operating and Capital Funds - Account for the operations and acquisition of capital facilities of the municipally owned Water Utility.

Sewer Utility Operating and Capital Funds - Account for the operations and acquisition of capital facilities of the municipally owned sewer utility.

General Fixed Assets Account Group - Estimated values of land, buildings and certain fixed assets of the Borough as discussed in Note 1E "General Fixed Assets".

C. Basis of Accounting

Basis of accounting refers to when revenue and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The more significant accounting policies in New Jersey follow.

Revenue is recorded when received in cash except for certain amounts which may be due from the State of New Jersey and for the prepayment of future years' revenue. Grant revenue is realized in the Operating Funds when it is budgeted and in the Capital Funds when improvements are authorized. The amounts recorded as property taxes and consumer accounts receivable have not been included in revenue. Amounts that are due to the municipality, which are susceptible of accrual, are recorded as receivables with offsetting reserves in the Current Fund.

Expenditures are charged to operations based on budgeted amounts. Exceptions to this general rule include:

1. Accumulated unpaid vacation, sick pay and other employee amounts are not accrued.
2. Prepaid expenses, such as insurance premiums applicable to subsequent periods, are charged to current budget appropriations in total.
3. Principal and interest on long-term debt are recognized when due.

Expenditures, if any, in excess of appropriations, appropriation reserves or ordinances become deferred charges which must be raised by future taxes. Outstanding encumbrances at December 31 are reported as a cash liability in the financial statements and constitute part of the statutory appropriation reserve balance. Appropriation reserves covering unexpended appropriation balances are automatically created at December 31 of each year and recorded as liabilities, except for amounts which may be canceled by the governing body. Appropriation reserves are available, until lapsed at the close of the succeeding year, to meet specific claims, commitments or contracts incurred during the preceding fiscal year. Lapsed appropriation reserves are recorded as income.

BOROUGH OF MOUNTAIN LAKES
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2025

(Continued)

Note 1: Summary of Significant Accounting Policies (Cont'd)

C. Basis of Accounting (Cont'd)

Had the Borough's financial statements been prepared under accounting principles generally accepted in the United States of America, encumbrances would not be considered as expenditures; appropriation reserves would not be recorded; revenue susceptible to accrual would have been reflected without offsetting reserves; Federal and State grants and assistance would be recognized when earned, not when awarded; inventories would not be reflected as expenditures at the time of purchase; and fixed assets purchased by the Water, and Sewer Utility Capital Funds would be depreciated; investments would generally be stated at fair value; and the Borough's net pension liability and net OPEB liability and related deferred inflows and outflows, where applicable, would be recorded.

The cash basis of accounting is followed in the Trust and Utility Capital Funds.

- D. Deferred Charges to Future Taxation - The General Capital Fund balance sheet includes both funded and unfunded deferred charges. Funded means that bonds have been issued and are being paid off on a serial basis. Unfunded means that debt has been authorized but not permanently financed. A municipality can eliminate an unfunded deferred charge by raising it in the budget, by collecting a grant, or by issuing bonds, loans or financed purchase agreements.

E. Other Significant Accounting Policies

Management Estimates – The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents – Amounts include petty cash, change funds, amounts on deposit, and short-term investments with original maturities of three months or less.

Investments – Investments are stated at cost.

Allowance for Uncollectible Accounts – No allowance for uncollectible accounts has been recorded as all amounts are considered collectible.

Compensated Absences – Expenditures relating to unused vested accumulated vacation and sick pay are not recorded until paid.

Foreclosed Property - Foreclosed Property is recorded in the Current Fund at the assessed valuation when such property was acquired and is fully reserved.

Interfunds - Interfund receivables in the Current Fund are recorded with offsetting reserves which are created by charges to operations. Income is recognized in the year the receivables are liquidated. Interfund receivables in the other funds are not offset by reserves.

Inventories of Supplies - The cost of inventories of supplies for all funds is recorded as expenditures at the time individual items are purchased. The cost of inventories is not included on the various balance sheets.

BOROUGH OF MOUNTAIN LAKES
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2025

(Continued)

Note 1: Summary of Significant Accounting Policies (Cont'd)

E. Other Significant Accounting Policies (Cont'd)

Grants Receivable - Grants receivable represent the total grant awards less amounts collected to date. Because the amount of grant funds to be collected are dependent on the total costs eligible for reimbursement, the actual amount collected may be less than the total amount awarded.

General Fixed Assets - In accordance with New Jersey Administrative Code Accounting Requirements, as promulgated by Division of Local Government Services, General fixed assets are recorded at cost except for land and buildings, which are recorded at current assessed value by the independent appraisal company which conducted the inventory of the Borough's assets. Infrastructure assets are not included in general fixed assets; maintenance and minor repairs and replacements, which do not improve or extend the lives of the respective assets, are expensed currently. Donated fixed assets are valued at their fair market value on the date donated. No depreciation has been provided on general fixed assets. The total value recorded for general fixed assets is offset by a "Reserve for General Fixed Assets". When properties are retired or otherwise disposed of, the asset and the reserve are adjusted accordingly.

Assets recorded in the General Fixed Assets Account Group may also be recorded in the Current Fund, General Capital Fund and Utility Funds. The values recorded in the General Fixed Asset Account Group and the Current and Capital Funds may not always agree due to differences in valuation methods, timing or recognition of assets and the recognition of infrastructures. Fixed assets are reviewed for impairment.

Property and equipment purchased by the Utility Funds are recorded in the Utility Capital accounts at cost and are not adjusted for dispositions and abandonments. The amounts shown do not purport to represent replacement costs or current value. Contributions in aid of construction are not capitalized. The balances in the Reserve for Amortization and Deferred Reserve for Amortization accounts in the Utility Capital Funds represent charges to operations for the costs of the acquisition of property, equipment and improvements. The Utility Funds do not record depreciation on fixed assets.

- F. Budget/Budgetary Control – Annual appropriated budgets are usually prepared in the first quarter for Current Operating and Utility Operating Funds. The budgets are submitted to the governing body and the Division of Local Government Services. Budgets are prepared using the cash basis of accounting. The legal level of budgetary control is established at the line item accounts within each fund. Line item accounts are defined as the lowest (most specific) level of detail as established pursuant to the flexible chart of accounts referenced in N.J.S.A. 40A. All budget amendments/transfers must be approved by the Borough during the year.

BOROUGH OF MOUNTAIN LAKES
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2025

(Continued)

Note 2: Long-Term Debt

The Local Bond Law governs the issuance of bond to finance general Borough capital expenditures. All bonds are retired in serial installments within the statutory period of usefulness. All bonds issued by the Borough are general obligation bonds. The Borough's full faith and credit and taxing power has been pledged to the payment of the general obligation debt principal and interest.

Summary of Municipal Debt

	December 31,		
	2025	2024	2023
<u>Issued:</u>			
General:			
Bonds, Loans and Notes	\$ 17,534,483	\$ 17,361,760	\$ 14,052,676
<u>Authorized but not Issued:</u>			
General:			
Bonds and Notes	104,200	104,200	2,650,000
	17,638,683	17,465,960	16,702,676
<u>Less:</u>			
General:			
Reserve to Pay Debt Service	68,129	60,504	8,738
Net Bonds and Notes Issued and Authorized but not Issued	\$ 17,570,554	\$ 17,405,456	\$ 16,702,676

Summary of Statutory Debt Condition - Annual Debt Statement

The summarized statement of debt condition, which follows, is prepared in accordance with the required method of setting up the Annual Debt Statement and indicates a statutory net debt of 0.998%.

	Gross Debt	Deductions	Net Debt
Local School District Debt	\$ 15,635,000	\$ 15,635,000	
General Debt	17,638,683	68,129	\$ 17,570,554
	\$ 33,273,683	\$ 15,703,129	\$ 17,570,554

Net Debt \$17,570,554 divided by Equalized Valuation Basis per N.J.S. 40A:2-2 as amended, \$1,760,750,277 = 0.998%.

BOROUGH OF MOUNTAIN LAKES
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2025

(Continued)

Note 2: Long-Term Debt (Cont'd)

Summary of Statutory Debt Condition - Annual Debt Statement (Cont'd)

Borrowing Power Under N.J.S. 40A:2-6 As Amended

3.5% Average Equalized Valuation of Real Property	\$ 61,626,260
Net Debt	17,570,554
Remaining Borrowing Power	\$ 44,055,706

Calculation of "Self-Liquidating Purpose", Water Utility Per N.J.S. 40A:2-45

Cash Receipts from Fees, Rents or Other Charges for Year	\$ 1,233,252
Deductions:	
Operating and Maintenance Costs	1,023,658
Excess in Revenue	\$ 209,594

Calculation of "Self-Liquidating Purpose", Sewer Utility Per N.J.S. 40A:2-45

Cash Receipts from Fees, Rents or Other Charges for Year	\$ 1,158,986
Deductions:	
Operating and Maintenance Costs	1,014,118
Excess in Revenue	\$ 144,868

Footnote: If there is an "excess in revenue", all such utility debt is deductible. If there is a "deficit", then utility debt is not deductible to the extent of 20 times such deficit amount.

The foregoing debt information is in agreement with the Annual Debt Statement filed by the Chief Financial Officer.

Summary of Municipal Debt Issued and Outstanding – Current Year and Prior Year

	Balance 12/31/2024	Additions	Retirements	Balance 12/31/2025
Serial Bonds:				
General Capital Fund	\$ 9,915,000		\$ 815,000	\$ 9,100,000
Loans Payable:				
General Capital Fund:				
Department of Environmental Protection Loan	2,100,000			2,100,000
Bond Anticipation Notes:				
General Capital Fund	5,346,760	\$ 1,288,124	300,401	6,334,483
Total	\$ 17,361,760	\$ 1,288,124	\$ 1,115,401	\$ 17,534,483

BOROUGH OF MOUNTAIN LAKES
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2025

(Continued)

Note 2: Long-Term Debt (Cont'd)

Summary of Municipal Debt Issued and Outstanding – Current Year and Prior Year

	Balance 12/31/2023	Additions	Retirements	Balance 12/31/2024
Serial Bonds:				
General Capital Fund	\$ 10,705,000		\$ 790,000	\$ 9,915,000
Loans Payable:				
General Capital Fund:				
Department of Environmental Protection Loan		\$ 2,100,000		2,100,000
Bond Anticipation Notes:				
General Capital Fund	3,347,676	2,153,851	154,767	5,346,760
Total	\$ 14,052,676	\$ 4,253,851	\$ 944,767	\$ 17,361,760

Analysis of Debt Issued and Outstanding at December 31, 2025

General Capital Serial Bonds

Purpose	Issue Date	Final Maturity	Interest Rate	Balance Dec. 31, 2025
General Improvements	07/27/2017	08/01/2037	3.00%	\$ 2,810,000
General Improvements	07/15/2021	07/15/2043	2.00%-4.00%	6,290,000
				<u>\$ 9,100,000</u>

General Capital NJDEP Loan

Purpose	Issue Date	Tentative Maturity Date	Interest Rate	Balance Dec. 31, 2025
Various Capital Improvements	05/02/2024	06/30/2044	2.00%	<u>\$ 2,100,000</u>

General Capital Bond Anticipation Notes

Purpose	Issue Date	Maturity Date	Interest Rate	Balance Dec. 31, 2025
Various Capital Improvements	10/09/2025	07/31/2026	4.00%	<u>\$ 6,334,483</u>

TOTAL DEBT ISSUED AND OUTSTANDING

\$17,534,483

New Jersey Environmental Protection Loan

In 2024, the Borough of Mountain Lakes entered into a \$2,100,000.00 New Jersey Environmental Protection (NJDEP) loan. As of December 31, 2024, the Borough has borrowed or “drawn down” and received \$2,100,000.00. Interest payments commenced in 2025 and principal payments will commence in 2026 and will continue on a semi-annual basis over 19 years at 2.00% interest.

BOROUGH OF MOUNTAIN LAKES
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2025

(Continued)

Note 2: Long-Term Debt (Cont'd)

Schedule of Annual Debt Service for Principal and Interest for the Next Five Years and Thereafter for Bonds and Loans Issued and Outstanding:

<u>Year</u>	<u>General Capital Fund</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	
2026	\$ 634,838	\$ 294,078	\$ 928,916
2027	651,744	272,772	924,516
2028	668,688	250,928	919,616
2029	680,672	228,444	909,116
2030	682,696	205,520	888,216
Thereafter:			
2031-35	3,500,283	716,946	4,217,229
2036-40	2,857,331	314,098	3,171,429
2041-44	1,523,748	61,132	1,584,880
	<u>\$ 11,200,000</u>	<u>\$ 2,343,918</u>	<u>\$ 13,543,918</u>

Note 3: Fund Balance Appropriated

Fund balances at December 31, 2025, which are appropriated and included in the Current and Utility Operating Funds adopted budgets for the year ending December 31, 2026, are as follows:

Current Fund	\$ 2,100,000
Water Utility Operating Fund	195,000
Sewer Utility Operating Fund	125,000

Note 4: Deferred Charges to be Raised in Succeeding Years

Certain expenditures are required to be deferred to budgets of the succeeding year. At December 31, 2025, the Borough had no deferred charges.

Note 5: Pension Plans

Borough employees participate in one of the two contributory, defined benefit public employee retirement systems: the State of New Jersey Public Employee's Retirement System (PERS) or the State of New Jersey Police and Firemen's Retirement System (PFRS); or the Defined Contribution Retirement Program (DCRP), a tax-qualified defined contribution money purchase pension plan under Internal Revenue Code (IRC) 401(a).

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 annual financial statements which can be found at www.nj.gov/treasury/pensions/annual-reports.shtml.

BOROUGH OF MOUNTAIN LAKES
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2025

(Continued)

Note 5: Pension Plans (Cont'd)

A. Public Employees' Retirement System (PERS) (Cont'd)

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. 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 with 25 or more years of service credit before age 62 and Tier 5 with 30 or more years of service credit before age 65.

Benefits are reduced by a fraction of a percent for each month that a member retires prior to the age at which a member can receive full early retirement benefits in accordance with their respective tier. Tier 1 members can receive an unreduced benefit from age 55 to age 60 if they have at least 25 years of service. Deferred retirement is available to members who have at least 10 years of service credit and have not reached the service retirement age for the respective tier.

Contributions

The contribution policy for PERS is set by N.J.S.A. 43:15A and requires contributions by active members and contributing employers. State legislation has modified the amount that is contributed by the State. The State's pension contribution is based on an actuarially determined amount, which includes the employer portion of the normal cost and an amortization of the unfunded accrued liability. Funding for noncontributory group insurance benefits is based on actual claims paid. For fiscal year 2024, the State's pension contribution was more than the actuarially determined amount.

The local employers' contribution amounts are based on an actuarially determined rate which includes the normal cost and unfunded accrued liability. Chapter 19, P.L. 2009 provided an option for local employers of PERS to contribute 50% of the normal and accrued liability contribution amounts certified for payments due in State fiscal year 2009. Such employers were credited with the full payment and any such amounts were not included in their unfunded liability. The actuaries have determined the unfunded liability of those retirement systems, by employer, for the reduced normal and accrued liability contributions provided under this law. This unfunded liability is being paid by the employer in level annual payments over a period of 15 years, which began with the payments due in the fiscal year ended June 30, 2012 and is adjusted by the rate of return on the actuarial value of assets.

BOROUGH OF MOUNTAIN LAKES
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2025

(Continued)

Note 5: Pension Plans (Cont'd)

A. Public Employees' Retirement System (PERS) (Cont'd)

Contributions (Cont'd)

Borough contributions to PERS amounted to \$174,257 for 2025. During the fiscal year ended June 30, 2024, the State of New Jersey contributed \$5,610 to the PERS for normal pension benefits on behalf of the Borough.

The employee contribution rate was 7.50% effective July 1, 2018.

Special Funding Situation

Under N.J.S.A. 43:15A-15, local participating employers are responsible for their own contributions based on actuarially determined amounts, except where legislation was passed that legally obligated the State if certain circumstances occurred. The legislation, which legally obligates the State, is Chapter 366, P.L. 2001 and Chapter 133, P.L. 2001. The amounts contributed on behalf of the local participating employers under the legislation is considered to be a special funding situation as defined by GASB Statement No. 68 and the State is treated as a nonemployer contributing entity. Since the local participating employers do not contribute under the legislation directly to the plan (except for employer specific financed amounts), there is no pension liability or deferred outflows or inflows of resources to report in the financial statement of the local participating employers related to the legislation. However, the notes to the financial statements of the local participating employers must disclose the portion of the nonemployer contributing entities' total proportionate share of the collective net pension liability that is associated with the local participating employer. In addition, each local participating employer must recognize pension expense associated with the employers in an amount equal to the nonemployer contributing entities' total proportionate share of the collective pension expense associated with the local participating employer.

Pension Liabilities and Pension Expense

At June 30, 2024, the Borough's liability was \$1,740,096 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2024, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2023 which was rolled forward to June 30, 2024. The Borough's proportion of the net pension liability was based on a projection of the Borough's long-term share of contributions to the pension plan relative to the projected contributions of all participating members, actuarially determined. At June 30, 2024, the Borough's proportion was 0.0128%, which was a decrease of 0.0005% from its proportion measured as of June 30, 2023. The Borough has rolled forward the net pension liability as of June 30, 2024 with no adjustments. The State of New Jersey Public Employees' Retirement System (PERS)' valuation cycle is July 1 instead of December 31. The roll forward methodology puts them a year in arrears in terms of valuation. The Division of Local Government Services, Department of Community Affairs, State of New Jersey is permitting municipalities and counties to include the June 30, 2024 information in the Notes to the Financial Statements as the June 30, 2025 information has not been released as of the date of this audit.

There was no state proportionate share of net pension liability attributable to the Borough as of June 30, 2024.

For the year ended December 31, 2025, the Borough recognized actual pension expense in the amount of \$174,257.

BOROUGH OF MOUNTAIN LAKES
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2025

(Continued)

Note 5: Pension Plans (Cont'd)

A. Public Employees' Retirement System (PERS) (Cont'd)

Actuarial Assumptions

The collective total pension liability for the June 30, 2024 measurement date was determined by an actuarial valuation as of July 1, 2023 which was rolled forward to June 30, 2024. This actuarial valuation used the following actuarial assumptions:

Inflation Rate:	
Price	2.75%
Wage	3.25%
Salary Increases	2.75 – 6.55% based on years of service
Investment Rate of Return	7.00%

Pre-retirement mortality rates were based on the Pub-2010 General Below-Median Income Employee Mortality Table with an 82.2% adjustment for males and 101.4% adjustment for females, and with future improvement from the base year of 2010 on a generational basis. Post-retirement mortality rates were based on the Pub-2010 General Below-Median Income Healthy Retiree mortality table with a 91.4% adjustment for males and a 99.7% adjustment for females, and with future improvement from the base year of 2010 on a generational basis. Disability retirement rates used to value disabled retirees were based on the Pub-2010 Non-Safety Disabled Retiree mortality table with a 127.7% adjustment for males and 117.2% adjustment for females, and with future improvement from the base year of 2010 on a generational basis. Mortality improvement is based on Scale MP-2021.

The actuarial assumptions used in the July 1, 2023 valuation were based on the results of an actuarial experience study for the period July 1, 2019 to June 30, 2022.

Long Term Expected Rate of Return

In accordance with State statute, the long-term expected rate of return on pension plan investments (7.00% at June 30, 2024) is determined by the State Treasurer, after consultation with the Directors of the Division of Investments and Division of Pensions and Benefits, the Board of Trustees and the actuaries. The long-term expected rate of return was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to 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.

BOROUGH OF MOUNTAIN LAKES
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2025

(Continued)

Note 5: Pension Plans (Cont'd)

A. Public Employees' Retirement System (PERS) (Cont'd)

Long Term Expected Rate of Return (Cont'd)

Best estimates of arithmetic rates of return for each major asset class included in PERS' target asset allocation as of June 30, 2024 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
U.S. Equity	28.00%	8.63%
Non-U.S. Developed Markets Equity	12.75%	8.85%
International Small Cap Equity	1.25%	8.85%
Emerging Market Equity	5.50%	10.66%
Private Equity	13.00%	12.40%
Real Estate	8.00%	10.95%
Real Assets	3.00%	8.20%
High Yield	4.50%	6.74%
Private Credit	8.00%	8.90%
Investment Grade Credit	7.00%	5.37%
Cash Equivalents	2.00%	3.57%
U.S. Treasuries	4.00%	3.57%
Risk Mitigation Strategies	3.00%	7.10%

Discount Rate

The discount rate used to measure the total pension liability was 7.00% as of June 30, 2024. 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 and the nonemployer contributing entity will be based upon 100% of the actuarially determined contributions for the State employer and 100% of actuarially determined contributions for the local employers. Based on those assumptions, the plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan member. Therefore, the long-term expected rate of return on plan investments was applied to all projected benefit payments in determining the total pension liability.

BOROUGH OF MOUNTAIN LAKES
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2025

(Continued)

Note 5: Pension Plans (Cont'd)

A. Public Employees' Retirement System (PERS) (Cont'd)

Sensitivity of the Borough's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the Borough's proportionate share of the collective net pension liability as of June 30, 2024 calculated using the discount rate as disclosed on the previous page, as well as what the Borough's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	June 30, 2024		
	At 1% Decrease (6.00%)	At Current Discount Rate (7.00%)	At 1% Increase (8.00%)
Borough's proportionate share of the Net Pension Liability	\$ 2,312,160	\$ 1,740,096	\$ 1,253,273

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued PERS financial statements.

B. Police and Firemen's Retirement System (PFRS)

Plan Description

The State of New Jersey Police and Firemen's Retirement System (PFRS), 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 PFRS, please refer to the Division's annual financial statements which can be found at www.nj.gov/treasury/pensions/annual-reports.shtml.

Benefits Provided

The vesting and benefit provisions are set by N.J.S.A. 43:16A. The PFRS provides retirement as well as death and disability benefits. All benefits vest after ten years of service, except disability benefits which vest after four years of service.

The following represents the membership tiers for PFRS:

Tier	Definition
1	Members who were enrolled prior to May 22, 2010
2	Members who were eligible to enroll on or after May 22, 2010 and prior to June 28, 2011
3	Members who were eligible to enroll on or after June 28, 2011

BOROUGH OF MOUNTAIN LAKES
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2025

(Continued)

Note 5: Pension Plans (Cont'd)

B. Police and Firemen's Retirement System (PFRS) (Cont'd)

Benefits Provided (Cont'd)

Service retirement benefits are available at age 55 and are generally determined to be 2% of final compensation for each year of creditable service up to 30 years plus 1% for each year of service in excess of 30 years. Members may seek special retirement after achieving 25 years of creditable service, in which benefits would equal 65% (tiers 1 and 2 members) and 60% (tier 3 members) of final compensation plus 1% for each year of creditable service over 25 years but not to exceed 30 years. Members may elect deferred retirement benefits after achieving ten years of service, in which case benefits would begin at age 55 equal to 2% of final compensation for each year of service.

Contributions

The contribution policy for PFRS is set by N.J.S.A. 43:16A and requires contributions by active members and contributing members. State legislation has modified the amount that is contributed by the State. The State's contribution amount is based on an actuarially determined rate, which includes the normal costs and unfunded accrued liability. For fiscal year 2024, the State contributed an amount more than the actuarially determined amount.

The Local Group employers' contribution amounts are based on an actuarially determined rate which includes the normal cost and unfunded accrued liability. Chapter 19, P.L. 2009 provided an option for employers in the Local Group of PFRS to contribute 50% of the normal and accrued liability contribution amounts certified for payments due in State fiscal year 2009. Such employers were credited with the full payment and any such amounts were not included in their unfunded liability. The actuaries have determined the unfunded liability of the retirement systems, by employer, for the reduced normal and accrued liability contributions provided under this law. This unfunded liability is being paid by the employer in level annual payments over a period of 15 years, which began with the payments due in the fiscal year ended June 30, 2012 and is adjusted by the rate of return on the actuarial value of the assets.

Special Funding Situation

Under N.J.S.A. 43:16A-15, local participating employers are responsible for their own contributions based on actuarially determined amounts, except where legislation was passed which legally obligated the State if certain circumstances occurred. The legislation which legally obligates the State is as follows: Chapter 8, P.L. 2000, Chapter 318, P.L. 2001, Chapter 86, P.L. 2001, Chapter 511, P.L. 1991, Chapter 109, P.L. 1979, Chapter 247, P.L. 1993 and Chapter 201, P.L. 2001. The amounts contributed on behalf of the local participating employers under this legislation is considered to be a special funding situation as defined by GASB Statement No. 68 and the State is treated as a nonemployer contributing entity. Since the local participating employers do not contribute under this legislation directly to the plan (except for employer specific funded amounts), there is no net pension liability or deferred outflows or inflows of resources to report in the financial statements of the local participating employers related to this legislation. However, the notes to the financial statements of the local participating employers must disclose the portion of the nonemployer contributing entities' total proportionate share of the collective net pension liability that is associated with the local participating employer.

BOROUGH OF MOUNTAIN LAKES
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2025

(Continued)

Note 5: Pension Plans (Cont'd)

B. Police and Firemen's Retirement System (PFRS) (Cont'd)

Special Funding Situation (Cont'd)

Borough contributions to PFRS amounted to \$510,959 for the year ended December 31, 2025. During the fiscal year ended June 30, 2024, the State of New Jersey contributed \$86,516 to the PFRS for normal pension benefits on behalf of the Borough, which is the same as the contractually required contribution of \$86,516.

The employee contributions for PFRS are 10.00% of employees' annual compensation, as defined.

Pension Liabilities and Pension Expense

At June 30, 2024, the Borough's liability for its proportionate share of the net pension liability was \$3,814,574. The net pension liability was measured as of June 30, 2024, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2023 which was rolled forward to June 30, 2024. The Borough's proportion of the net pension liability was based on a projection of the Borough's long-term share of contributions to the pension plan relative to the projected contributions of all participating members, actuarially determined. At June 30, 2024, the Borough's proportion was 0.0369%, which was a decrease of 0.0039% from its proportion measured as of June 30, 2023. The Borough has rolled forward the net pension liability as of June 30, 2024 with no adjustments. The State of New Jersey Police and Firemen's Retirement System (PFRS)' valuation cycle is July 1 instead of December 31. The roll forward methodology puts them a year in arrears in terms of valuation. The Division of Local Government Services, Department of Community Affairs, State of New Jersey is permitting municipalities and counties to include the June 30, 2024 information in the Notes to the Financial Statements as the June 30, 2025 information has not been released as of the date of this audit.

Additionally, the State's proportionate share of the net pension liability attributable to the Borough is \$752,035 as of June 30, 2024. The net pension liability was measured as of July 1, 2023, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2023 which was rolled forward to June 30, 2024. The State's proportionate share of the net pension liability associated with the Borough was based on a projection of the Borough's long-term share of contributions to the pension plan relative to the projected contributions of all participating members, actuarially determined. At June 30, 2024, the State's proportion was 0.0369%, which was a decrease of 0.0039% from its proportion measured as of June 30, 2023 which is the same proportion as the Borough's.

Borough's Proportionate Share of the Net Pension Liability	\$ 3,814,574
State's Proportionate Share of the Net Pension Liability Associated with the Borough	752,035
Total Net Pension Liability	\$ 4,566,609

For the year ended December 31, 2025, the Borough recognized total pension expense of \$510,959.

BOROUGH OF MOUNTAIN LAKES
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2025

(Continued)

Note 5: Pension Plans (Cont'd)

B. Police and Firemen's Retirement System (PFRS) (Cont'd)

Actuarial Assumptions

The collective total pension liability for the June 30, 2024 measurement date was determined by an actuarial valuation as of July 1, 2023 which was rolled forward to June 30, 2024. This actuarial valuation used the following actuarial assumptions:

Inflation Rate:	
Price	2.75%
Wage	3.25%
Salary Increases:	
All future years	3.25 – 16.25% based on years of service
Investment Rate of Return	7.00%

Employee mortality rates were based on the Pub-2010 Safety Employee amount-weighted mortality table (sex specific) projected generationally from 2010 with Scale MP-2021 mortality projection. For healthy annuitants, mortality rates were based on the Pub-2010 Safety Retiree Below Median amount-weighted mortality table (sex-specific), projected generationally from 2010 with Scale MP-2021 mortality projection. Disability rates were 144% of the Pub-2010 Safety Disabled Retiree amount-weighted mortality table for males and 100% of the Pub-2010 Safety Disabled Retiree amount-weighted mortality table for females, projected generationally from 2010 with Scale MP-2021 mortality projection.

The actuarial assumptions used in the July 1, 2023 valuation were based on the results of an actuarial experience study for the period July 1, 2019 to June 30, 2022.

Long Term Expected Rate of Return

In accordance with State statute, the long-term expected rate of return on pension plan investments (7.00% at June 30, 2024) is determined by the State Treasurer, after consultation with the PFRS Board of Trustees, the Directors of the Division of Investments and Division of Pensions and Benefits, the board of trustees and the actuaries. The long-term expected rate of return was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future rates of return by the target asset allocation percentage and by adding expected inflation.

BOROUGH OF MOUNTAIN LAKES
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2025

(Continued)

Note 5: Pension Plans (Cont'd)

B. Police and Firemen's Retirement System (PFRS) (Cont'd)

Long Term Expected Rate of Return (Cont'd)

Best estimates of arithmetic rates of return for each major asset class included in PFRS' target asset allocation as of June 30, 2024 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
U.S. Large-Cap Equity	24.00%	6.90%
U.S. Small/Mid Cap Equity	4.00%	7.40%
Non-U.S. Developed Large-Cap Equity	9.50%	6.70%
Non-U.S. Developed Small Cap Equity	2.00%	7.50%
Emerging Markets Large-Cap Equity	6.00%	9.60%
Emerging Markets Small-Cap Equity	1.50%	9.60%
U.S. Treasury Bond	7.00%	4.10%
U.S. Corporate Bond	5.00%	5.90%
U.S. Mortgage-Backed Securities	5.00%	4.40%
Global Multisector Fixed Income	6.00%	6.50%
Cash	2.00%	3.40%
Real Estate Core	3.00%	5.10%
Real Estate Non-Core	4.00%	6.50%
Infrastructure	3.00%	7.00%
Private Debt/Credit	8.00%	9.10%
Private Equity	10.00%	10.10%

Discount Rate – PFRS

The discount rate used to measure the total pension liability was 7.00% as of June 30, 2024. 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 and the nonemployer contributing entity will be based upon 100% of the actuarially determined contributions for the employers in the State Group and 100% of actuarially determined contributions for the employers in the Local Group. Based on those assumptions, the plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all projected benefit payments in determining the total pension liability.

BOROUGH OF MOUNTAIN LAKES
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2025

(Continued)

Note 5: Pension Plans (Cont'd)

B. Police and Firemen's Retirement System (PFRS) (Cont'd)

Sensitivity of the Total Net Pension Liability (including the State's proportionate share of the net pension liability attributable to the Borough) to Changes in the Discount Rate

The following presents the total net pension liability (including the State's proportionate share of the net pension liability attributable to the Borough) as of June 30, 2024 calculated using the discount rate disclosed above, as well as what the collective net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	June 30, 2024		
	At 1% Decrease (6.00%)	At Current Discount Rate (7.00%)	At 1% Increase (8.00%)
Borough's proportionate share of the Net Pension Liability and the State's proportionate share of the Net Pension Liability associated with the Borough	\$ 6,524,668	\$ 4,566,609	\$ 2,935,974

Plan Fiduciary Net Position - PFRS

Detailed information about the PFRS's fiduciary net position is available in the separately issued PFRS financial statements.

C. Defined Contribution Retirement Program (DCRP)

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 or PFRS, 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.

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 Chapter 103, 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.

For DCRP, the Borough recognized pension expense of \$7,114 for 2025. Employee contributions to DCRP were \$10,114 for 2025.

BOROUGH OF MOUNTAIN LAKES
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2025

(Continued)

Note 6: Local School District Taxes

Regulations provide for the deferral of not more than 50% of the annual levy when school taxes are raised for a school year and have not been requisitioned by the school district.

The Borough of Mountain Lakes has elected not to defer school taxes.

Note 7: Accrued Vacation Benefits

The Borough permits the members of the Police Department to accrue a limited amount of unused vacation pay, which may be taken as time off or paid at a later date at an agreed-upon rate. Officers with at least 15 years of service with the Borough are permitted to bank up to a maximum of 25 Vacation Days. All other employees of the Borough may accrue up to five days of the unused portion of their current year vacation leave. Accrued vacation leave must be used within the first six months of the following year.

It is estimated that the current cost of unpaid vacation compensation would approximate \$55,861 at December 31, 2025. This amount is not reported either as an expenditure or a liability. As of December 31, 2025, the Borough has a reserve of \$62,232 for accumulated absences.

Balance December 31, 2024	\$	51,861
Net Change		4,000
Balance December 31, 2025	\$	55,861
Due within One Year	\$	-0-

Note 8: Selected Tax Information

Property taxes are levied as of January 1 on property values assessed as of the previous calendar year. The tax levy is divided into two billings. The first billing is an estimate of the current year's levy based on the prior year's taxes. The second billing reflects adjustments to the current year's actual levy. The final tax bill is usually mailed on or before June 14th along with the first half estimated tax bills for the subsequent year. The first half estimated taxes are divided into two due dates, February 1 and May 1. The final tax bills are also divided into two due dates, August 1 and November 1. A ten-day grace period is usually granted before the taxes are considered delinquent and the imposition of interest charges. A penalty may be assessed for any unpaid taxes in excess of \$10,000 at December 31 of the current year. Unpaid taxes of the prior year may be placed in lien at a tax sale held after April 1 and through December.

BOROUGH OF MOUNTAIN LAKES
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2025

(Continued)

Note 8: Selected Tax Information (Cont'd)

Comparative Schedule of Tax Rate Information

	<u>2025</u>	<u>2024</u>	<u>2023</u>
<u>Tax Rate</u>	\$ 2.299	\$ 2.388	\$ 2.528
<u>Apportionment of Tax Rate</u>			
Municipal	.451	.452	.494
County	.262	.256	.260
Local School	1.586	1.680	1.774
<u>Assessed Valuations</u>			
2025	<u>\$ 1,650,062,400</u>		
2024		<u>\$ 1,526,180,600</u>	
2023			<u>\$ 1,413,717,100</u>

Comparison of Tax Levies and Collection Currently

A study of this tabulation could indicate a possible trend in future tax levies.

<u>Year</u>	<u>Tax Levy</u>	<u>Currently</u>	
		<u>Cash Collections</u>	<u>Percentage of Collection</u>
2025	\$ 37,955,776	\$ 37,671,462	99.25%
2024	36,472,739	36,245,570	99.37%
2023	35,768,598	35,443,351	99.09%

Also, increases in future tax levies can also be warranted if revenue sources outside of those directly generated by the municipality, such as federal or state aid, should decline without corresponding decreases in budgeted expenditures.

BOROUGH OF MOUNTAIN LAKES
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2025

(Continued)

Note 9: Cash and Cash Equivalents and Investments

Cash and cash equivalents include petty cash, change funds, amounts in deposits, money market accounts, and short-term investments with original maturities of three months or less.

Investments are stated at cost. The Borough classifies certificates of deposit which have original maturity dates of more than three months but less than twelve months from the date of purchase, as investments.

GASB requires disclosure of the level of custodial credit risk assumed by the Borough in its cash, cash equivalents and investments, if those items are uninsured or unregistered. Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned.

Interest Rate Risk – In accordance with its cash management plan, the Borough ensures that any deposit or investment matures within the time period that approximates the prospective need for the funds, deposited or invested, so that there is not a risk to the market value of such deposits or investments.

Credit Risk – The Borough limits its investments to those authorized in its cash management plan which are those permitted under state statute as detailed in the investments section of this note.

Custodial Credit Risk – The Borough's policy with respect to custodial credit risk requires that the Borough ensures that Borough funds are only deposited in financial institutions in which NJ municipalities are permitted to invest their funds.

Deposits:

New Jersey statutes require that municipalities deposit public funds in public depositories located in New Jersey which are insured by the Federal Deposit Insurance Corporation, or by any other agency of the United States that insures deposits made in public depositories. Municipalities are also permitted to deposit public funds in the State of New Jersey Cash Management Fund.

New Jersey statutes require public depositories to maintain collateral for deposits of public funds that exceed insurance limits as follows:

The market value of the collateral must equal 5% of the average daily balance of collected public funds on deposit, and

In addition to the above collateral requirement, if the public funds deposited exceed 75% of the capital funds of the depository, the depository must provide collateral having a market value at least equal to 100% of the amount exceeding 75%.

All collateral must be deposited with the Federal Reserve Bank, the Federal Home Loan Bank Board or a banking institution that is a member of the Federal Reserve System and has capital funds of not less than \$25,000,000.

BOROUGH OF MOUNTAIN LAKES
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2025

(Continued)

Note 9: Cash and Cash Equivalents and Investments: (Cont'd)

Investments:

New Jersey statutes permit the Borough to purchase the following types of securities:

- (1) Bonds or other obligations of the United States of America or obligations guaranteed by the United States of America;
- (2) Government money market mutual funds;
- (3) Any obligation that a federal agency or a federal instrumentality has issued in accordance with an act of Congress, which security has a maturity date not greater than 397 days from the date of purchase, provided that such obligation bears a fixed rate of interest not dependent on any index or other external factor;
- (4) Bonds or other obligations of the local unit or bonds or other obligations of school districts of which the local unit is a part or within which the school district is located;
- (5) Bonds or other obligations, having a maturity date not more than 397 days from the date of purchase, issued by New Jersey school districts, municipalities, counties, and entities subject to the "Local Authorities Fiscal Control Law" P.L. 1983, c. 313 (C.40A:5A-1 et seq.) Other bonds or obligations having a maturity date not more than 397 days from the date of purchase may be approved by the Division of Local Government Services in the Department of Community Affairs for investment by local units;
- (6) Local government investment pools;
- (7) Deposits with the State of New Jersey Cash Management Fund established pursuant to section 1 of P.L. 1977, c.281 (C.52:18A-90.4); or

BOROUGH OF MOUNTAIN LAKES
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2025

(Continued)

Note 9: Cash and Cash Equivalents and Investments: (Cont'd)

Investments (Cont'd)

- (8) Agreements for the repurchase of fully collateralized securities if:
- (a) the underlying securities are permitted investments pursuant to paragraphs (1) and (3) of this subsection a. or are bonds or other obligations, having a maturity date not more than 397 days from the date of purchase, issued by New Jersey school districts, municipalities, counties and entities subject to the "Local Authorities Fiscal Control Law", P.L. 1983 c.313 (C.40A:5A-1 et seq.);
 - (b) the custody of collateral is transferred to a third party;
 - (c) the maturity of the agreement is not more than 30 days;
 - (d) the underlying securities are purchased through a public depository as defined in section 1 of P.L. 1970, c.236 (C.17:9-41); and
 - (e) a master repurchase agreement providing for the custody and security of collateral is executed.

As of December 31, 2025, cash and cash equivalents of the Borough of Mountain Lakes consisted of the following:

<u>Fund</u>	<u>Cash on Hand</u>	<u>Checking Accounts</u>	<u>Totals</u>
Current	\$ 200	\$ 5,362,762	\$ 5,362,962
Animal Control		4,886	4,886
Other Trust		1,018,686	1,018,686
General Capital		2,816,522	2,816,522
Water Utility Operating		631,554	631,554
Water Utility Capital		13,878	13,878
Sewer Utility Operating		558,887	558,887
Sewer Utility Capital		39,604	39,604
	<u>\$ 200</u>	<u>\$ 10,446,779</u>	<u>\$ 10,446,979</u>

The Borough did not hold any investments during the year ended December 31, 2025. The carrying amount of the Borough's cash and cash equivalents at December 31, 2025, was \$10,446,979 and the bank balance was \$10,391,380.

Note 10: Risk Management

The Borough 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. Health Benefits are provided to employees through the State of New Jersey health benefits plan.

BOROUGH OF MOUNTAIN LAKES
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2025
(Continued)

Note 10: Risk Management (Cont'd)

The Borough of Mountain Lakes is a member of both the Morris County Municipal Joint Insurance Fund (“MCMJIF”) and, for dental coverage, the North Jersey Municipal Employee Benefits Fund (“NJMEBF”). These funds are both insured and self-administered groups of municipalities established for the purpose of providing certain low-cost insurance coverage for member municipalities in order to keep local property taxes at a minimum.

The following coverages are offered by the MCMJIF to its members:

- a.) Workers' Compensation and Employers' Liability
- b.) Liability Other Than Motor Vehicles
- c.) Property Damage Other Than Motor Vehicles
- d.) Motor Vehicle
- e.) Public Officials' Liability/Employment Practices Coverage
- f.) Environmental Coverage

The following health benefit coverages are offered by the NJMEBF to its members:

- a.) Medical
- b.) Prescription
- c.) Dental

As a member of the Funds, the Borough could be subject to supplemental assessments in the event of deficiencies. If the assets of the Fund were to be exhausted, members would become responsible for their respective shares of the Fund's liabilities. There is a very narrow possibility that the MCMJIF will impose supplemental assessments. In the thirty-three year history of the MCMJIF, a supplemental assessment has never been declared.

The Funds can declare and distribute dividends to members upon approval of the State of New Jersey Department of Banking and Insurance. These distributions are divided amongst the members in the same ratio as their individual assessment relates to the total assessment of the membership body. In accordance with the Governmental Accounting Standards Board, these distributions are used to reduce the amount recorded for membership expense in the year in which the distribution was declared.

The December 31, 2025 audit reports for the MCMJIF and NJMEBF are not available as of the date of this audit. Selected summarized financial information for the MCMJIF and the NJMEBF as of December 31, 2024 is as follows:

	<u>MCMJIF</u>	<u>NJMEBF</u>
Total Assets	<u>\$ 41,731,805</u>	<u>\$ 13,597,835</u>
Net Position	<u>\$ 14,656,747</u>	<u>\$ 5,816,409</u>
Total Revenue	<u>\$ 27,339,632</u>	<u>\$ 65,064,161</u>
Total Expenses	<u>\$ 26,449,607</u>	<u>\$ 71,163,285</u>
Members Dividends	<u>\$ 266,542</u>	<u>\$ -0-</u>
Change in Net Position for the Year Ended December 31	<u>\$ 623,483</u>	<u>\$ (6,099,124)</u>

BOROUGH OF MOUNTAIN LAKES
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2025

(Continued)

Note 10: Risk Management (Cont'd)

Financial statements for these funds are available at the Office of the Executive Director.

MCMJIF and NJMEBF
PERMA Inc.
9 Campus Drive, Suite 216
Parsippany, New Jersey 07054-4412
(201) 881-7632

New Jersey Unemployment Compensation Insurance

The Borough has elected to fund its New Jersey Unemployment Compensation Insurance under the "Contributory Method". Under this plan, the Borough is required to remit employee withholdings to the State on a quarterly basis. All of the Borough's claims are paid by the State.

Self-Insurance Deductible

The Reserve for Liability Insurance account was established in the Trust Funds to fund the Borough's self-insured retention for Employment Practices Liability ("EPL") and Proof of Loss ("POL") claims should they occur. The Borough's obligation or exposure on an EPL/POL claim is the first \$20,000 of the claim and then 20% of the first \$250,000 for a combined possible exposure of \$70,000 per claim.

Note 11: Contingent Liabilities

The Borough is also periodically involved in various other lawsuits arising in the normal course of business, which often include claims for property damage, personal injury, and various contract disputes. In the opinion of management, the ultimate outcome of these lawsuits will not have a material adverse effect on the Borough's financial position as of December 31, 2025.

Amounts received or receivable from grantors, principally federal and state governments are subject to regulatory requirements and adjustments by the agencies. Any disallowed claims, including amounts previously recognized by the Borough as revenue would constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantors cannot be determined at this time, although Borough officials expect such amounts, if any, to be immaterial.

Various tax appeals on assessed valuations have been filed against the Borough and are awaiting tax court decisions. The ultimate outcome and effect of such appeals have not been determined; however, the Borough Tax Assessor will aggressively defend the Borough's assessments. The Borough has established a reserve for this contingency in the amount of \$423,378 which it feels is sufficient.

BOROUGH OF MOUNTAIN LAKES
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2025

(Continued)

Note 12: Interfund Receivables and Payables

There following interfund balances remain on the balance sheet at December 31, 2025:

Fund	Interfund Receivable	Interfund Payable
Current Fund		\$ 42,789
Federal and State Grant Fund	\$ 42,789	
	\$ 42,789	\$ 42,789

The Federal and State Grant Fund interfund receivable due from the Current Fund is a result of the Current Fund receiving and disbursing funds on the Federal and State Grant Fund’s behalf.

Note 13: Deferred Compensation

The Borough offers its employees two deferred compensation plans created in accordance with Internal Revenue Code Section 457b. The plans, which are administered by Lincoln National Life Insurance Co. and AXA Equitable permit participants to defer a portion of their salary until future years. Amounts deferred under the plans are not available to employees until termination, retirement, death or unforeseeable emergency.

Note 14: Economic Dependency

The Borough of Mountain Lakes receives a substantial amount of support from federal and state governments. A significant reduction in the level of support, if this were to occur, may have an effect on the Borough’s programs and activities.

Note 15: Postemployment Benefits Other Than Pensions (OPEB)

State Health Benefit Local Government Retired Employees Plan

General Information about the OPEB Plan

Plan Description

The State Health Benefit Local Government Retired Employees Plan (the Plan) is a cost sharing multiple employer defined benefit other postemployment benefit (OPEB) plan with a special funding situation. It covers employees of local government employers that have adopted a resolution to participate in the Plan. For additional information about the Plan, please refer to the State of New Jersey (the State), Division of Pensions and Benefits’ (the Division) annual financial statements, which can be found at <https://www.state.nj.us/treasury/pensions/financial-reports.shtml>.

BOROUGH OF MOUNTAIN LAKES
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2025

(Continued)

Note 15: Postemployment Benefits Other Than Pensions (OPEB) (Cont'd)

State Health Benefit Local Government Retired Employees Plan (Cont'd)

General Information about the OPEB Plan (Cont'd)

Benefits Provided

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

In accordance with Chapter 330, P.L. 1997, which is codified in N.J.S.A. 52:14-17.32i, the State provides medical and prescription coverage to local police officers and firefighters, who retire with 25 years of service or on a disability from an employer who does not provide postretirement medical coverage. Local employers were required to file a resolution with the Division in order for their employees to qualify for State-paid retiree health benefits coverage under Chapter 330. The State also provides funding for retiree health benefits to survivors of local police officers and firefighters who die in the line of duty under Chapter 271, P.L. 1989.

In accordance with the Borough's resolution, Borough employees are entitled to the following benefits:

The coverage applies to the employee and dependents. In the event of an employee's death, coverage ceases. Police and fire retirees with 25 years of service from the PFRS pension system are provided 80% of the cost of their health insurance through the system. All other retired employees with twenty-five (25) years of service to the Borough or those who are over the age of fifty-five (55) years with 20 years of service are provided 50% of their health insurance from the Borough. The employee must register for PERS health insurance and pay the remaining 50% of the cost. Current retirees are being reimbursed in accordance with the Borough policy in effect at the time of their respective retirements. Future retirees will not have the benefit of receiving reimbursement by the Borough once they become eligible for Medicare.

BOROUGH OF MOUNTAIN LAKES
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2025
(Continued)

Note 15: Postemployment Benefits Other Than Pensions (OPEB) (Cont'd)

State Health Benefit Local Government Retired Employees Plan (Cont'd)

General Information about the OPEB Plan (Cont'd)

Contributions

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

Special Funding Situation

Under Chapter 330, P.L. 1997, the State shall pay the premium or periodic charges for the qualified local police and firefighter retirees and dependents equal to 80 percent of the premium or periodic charge for the category of coverage elected by the qualified retiree under the State managed care plan or a health maintenance organization participating in the program providing the lowest premium or periodic charge. The State also provides funding for retiree health benefits to survivors of local police officers and firefighters who die in the line of duty under Chapter 271, P.L. 1989.

Therefore, these employers are considered to be in a special funding situation as defined by GASB Statement No. 75 and the State is treated as a nonemployer contributing entity. For New Jersey local governments who report under the regulatory basis of accounting, the net OPEB liability and related deferred inflows are not recorded in the financial statements and there is only note disclosure of this information. Since the local participating employers do not contribute under this legislation directly to the plan, there is no net OPEB liability, deferred outflows of resources, or deferred inflows of resources to report in the financial statements of the local participating employers related to this legislation. However, the notes to the financial statements of the local participating employers must disclose the portion of the nonemployer contributing entities' total proportionate share of the collective net OPEB liability that is associated with the local participating employer.

Allocation Methodology

GASB Statement No. 75 requires participating employers in the Plan to recognize their proportionate share of the collective net OPEB liability, collective deferred outflows of resources, collective deferred inflows of resources, and collective OPEB (benefit)/expense. The special funding situation's and nonspecial funding situation's net OPEB liability, deferred outflows of resources, deferred inflows of resources, and OPEB expense are based on separately calculated total OPEB liabilities. The nonspecial funding situation's net OPEB liability, deferred outflows of resources, deferred inflows of resources, and OPEB (benefit)/expense are further allocated to employers based on the ratio of the plan members of an individual employer to the total members of the Plan's nonspecial funding situation during the measurement period July 1, 2023 through June 30, 2024. Employer and nonemployer allocation percentages were rounded for presentation purposes; therefore, amounts presented in the schedule of OPEB amounts by employer and nonemployer may result in immaterial differences.

BOROUGH OF MOUNTAIN LAKES
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2025

(Continued)

Note 15: Postemployment Benefits Other Than Pensions (OPEB) (Cont'd)

State Health Benefit Local Government Retired Employees Plan (Cont'd)

OPEB Expense

The Borough has rolled forward the net OPEB liability as of June 30, 2024 with no adjustments. The Division of Local Government Services, Department of Community Affairs, State of New Jersey is permitting municipalities and counties to include the June 30, 2024 information in the Notes to the Financial Statements as the June 30, 2025 information has not been released as of the date of this audit.

The total OPEB liability as of June 30, 2024 was determined by an actuarial valuation as of July 1, 2023, which was rolled forward to June 30, 2024.

At June 30, 2024, the Borough had a liability of \$3,580,194 for its proportionate share of the net OPEB liability. At June 30, 2024, the Borough's proportion was .020% which was a decrease of .003% from its proportion at June 30, 2023. At June 30, 2024, the State's proportionate share of the net OPEB liability attributable to the Borough was \$6,643,307. At June 30, 2024, the State's proportion related to the Borough was .136227%. This is the percentage of the total State Share of the net OPEB liability of the Plan.

For the year ended June 30, 2024 the Borough's OPEB benefit as determined by the State of New Jersey Division of Pensions and Benefits was \$131,085. For the year ended June 30, 2024 the State of New Jersey's OPEB benefit related to the Borough was \$643,624.

The Borough's actual postemployment payments in 2025 for 2 retiree employees were \$10,662.

Actuarial Assumptions and Other Inputs

The actuarial assumptions vary for each plan member depending on the pension plan the member is enrolled in. This actuarial valuation used the following actuarial assumptions, applied to all periods in the measurement.

Salary Increases*:

Public Employees' Retirement System (PERS):

Rate for All Future Years 2.75% to 6.55%

Police and Firemens' Retirement System (PFRS):

Rate for All Future Years 3.25% to 16.25%

* - Salary increases are based on years of service within the respective plan.

BOROUGH OF MOUNTAIN LAKES
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2025
(Continued)

Note 15: Postemployment Benefits Other Than Pensions (OPEB) (Cont'd)

State Health Benefit Local Government Retired Employees Plan (Cont'd)

Actuarial Assumptions and Other Inputs (Cont'd)

Pre-Retirement Healthy Mortality

Pre-retirement mortality rates for PERS were based on the PUB-2010 General classification headcount-weighted mortality table with fully generational mortality improvement projections from the central year using Scale MP-2021. Preretirement mortality rates for PFRS were based on the PUB-2010 Safety classification headcount-weighted mortality table with fully generational mortality improvement projections from the central year using Scale MP-2021.

Post-Retirement Healthy Mortality

Post-retirement mortality rates for Chapter 330 retirees were based on the PUB-2010 Safety classification headcount-weighted mortality table with fully generational mortality improvement projections from the central year using Scale MP-2021. Post-retirement mortality rates for other retirees is based on the PUB-2010 General classification headcount-weighted mortality table with fully generational mortality improvement projections from the central year using Scale MP-2021.

Disabled Retiree Mortality

Disabled retiree mortality rates for PERS future disabled retirees were based on the PUB-2010 General classification headcount-weighted disabled mortality table with fully generational mortality improvement projections from the central year using Scale MP-2021. Disabled retiree mortality rates for PFRS future disabled retirees were based on the PUB-2010 Safety classification headcount-weighted disabled mortality table with fully generational mortality improvement projections from the central year using Scale MP-2021.

Disabled retiree mortality rates for Chapter 330 current retirees were based on the PUB-2010 Safety classification headcount-weighted disabled mortality table with fully generational mortality improvement projections from the central year using Scale MP-2021. Disabled retiree mortality rates for other current retirees were based on the PUB-2010 General classification headcount-weighted disabled mortality table with fully generational mortality improvement projections from the central year using Scale MP-2021.

Actuarial assumptions used in the July 1, 2023 valuation were based on the results of the PFRS and PERS experience studies prepared for July 1, 2018 to June 30, 2021.

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

Health Care Trend Assumptions

For pre-Medicare medical benefits, the trend rate is initially 7.50% and decreases to a 4.50% long term trend rate after nine years. For post-65 medical benefits PPO, the trend rate is increasing to 22.62% in fiscal year 2027 and decreases to 4.50% in fiscal year 2034. For HMO, the trend rate is increasing to 23.58% in fiscal year 2027 and decreases to 4.50% in fiscal year 2034. For prescription drug benefits, the initial trend rate is 12.75% and decreases to a 4.50% long term rate after nine years. For the Medicare Part B reimbursement, the trend rate is 5.00%.

BOROUGH OF MOUNTAIN LAKES
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2025
(Continued)

Note 15: Postemployment Benefits Other Than Pensions (OPEB) (Cont'd)

State Health Benefit Local Government Retired Employees Plan (Cont'd)

Discount Rate

The discount rate for June 30, 2024 was 3.93%. This represents the municipal bond return rate as chosen by the State. The source is the Bond Buyer Go 20-Bond Municipal Bond Index, which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. As the long-term rate of return is less than the municipal bond rate, it is not considered in the calculation of the discount rate, rather the discount rate is set at the municipal bond rate.

Sensitivity of the Net OPEB Liability Attributable to the Authority to Changes in the Discount Rate

The following presents the net OPEB Liability of the Authority as of June 30, 2024, calculated using the discount rate as disclosed in this note, as well as what the net OPEB Liability of the Authority would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	June 30, 2024		
	At 1% Decrease (2.93%)	At Discount Rate (3.93%)	At 1% Increase (4.93%)
	Net OPEB Liability Attributable to the Borough	\$ 4,170,540	\$ 3,580,194

Sensitivity of the Net OPEB Liability Attributable to the Authority to Changes in the Healthcare Trend Rate

The following presents the net OPEB Liability of the Authority as of June 30, 2024, calculated using the healthcare trend rate as disclosed in this note, as well as what the net OPEB Liability of the Authority would be if it were calculated using a healthcare trend rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	June 30, 2024		
	1% Decrease	Healthcare Cost Trend Rate	1% Increase
	Net OPEB Liability Attributable to the Borough	\$ 3,028,113	\$ 3,580,194

BOROUGH OF MOUNTAIN LAKES
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2025
(Continued)

Note 16: Fixed Assets

The following is a summarization of general fixed assets for the years ended December 31, 2025 and 2024:

	Balance Dec. 31, 2024	Additions	Deletions	Balance Dec. 31, 2025
Land	\$ 119,765,800	\$ 5,485		\$ 119,771,285
Buildings	7,681,180			7,681,180
Machinery and Equipment	5,097,623	228,940	\$ 185,527	5,141,036
	<u>\$ 132,544,603</u>	<u>\$ 234,425</u>	<u>\$185,527.00</u>	<u>\$ 132,593,501</u>
	Balance Dec. 31, 2023	Additions	Deletions	Balance Dec. 31, 2024
Land	\$ 119,765,800			\$ 119,765,800
Buildings	2,257,500	\$ 5,423,680		7,681,180
Machinery and Equipment	4,750,917	376,706	\$ 30,000	5,097,623
	<u>\$ 126,774,217</u>	<u>\$ 5,800,386</u>	<u>\$ 30,000.00</u>	<u>\$ 132,544,603</u>

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APPENDIX C

FORM OF OPINION OF BOND COUNSEL

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HAWKINS

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*ADMITTED IN NY ONLY
†ADMITTED IN PA ONLY

July 30, 2026

Borough Council of the
Borough of Mountain Lakes, in the
County of Morris, New Jersey

Ladies and Gentlemen:

We have acted as bond counsel to the Borough of Mountain Lakes, a municipal corporation of the State of New Jersey, situate in the County of Morris (the “Borough”), and have examined a record of proceedings relating to the issuance by the Borough of \$_____ General Bonds of 2026 (the “Bonds”). The Bonds are issued pursuant to the Local Bond Law of the State of New Jersey and as provided by a resolution of the Borough Council of the Borough, entitled: “Resolution providing for the combination of certain issues of bonds of the Borough of Mountain Lakes, in the County of Morris, New Jersey, into a single issue of General Bonds aggregating \$7,950,000 in principal amount”, adopted May 27, 2026 and the bond ordinances referred to therein.

The Bonds are dated the date hereof, and bear interest from their dated date at the rates per annum (payable semi-annually on each January 15 and July 15 until maturity or earlier redemption, commencing January 15, 2027) and mature on July 15 in the years and in the respective principal amounts set forth below:

<u>Year</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Year</u>	<u>Principal Amount</u>	<u>Interest Rate</u>
2027			2035		
2028			2036		
2029			2037		
2030			2038		
2031			2039		
2032			2040		
2033			2041		
2034					

The Bonds maturing prior July 15, 2034 are not subject to redemption prior to maturity at the option of the Borough. The Bonds maturing on and after July 15, 2034 are subject to

redemption prior to maturity at the option of the Borough in whole or in part, in any order of maturity and by lot within a maturity if less than all the Bonds of such maturity are to be redeemed, on any date on or after July 15, 2033, at a redemption price equal to 100% of the principal amount thereof, together with interest accrued, if any, to the date fixed for redemption.

The Internal Revenue Code of 1986, as amended (the "Code") establishes certain requirements to be met subsequent to the issuance and delivery of the Bonds in order that interest on the Bonds be and remain excluded from gross income under Section 103 of the Code. We have examined the Arbitrage and Use of Proceeds Certificate of the Borough delivered in connection with the issuance of the Bonds which contains provisions and procedures regarding compliance with the requirements of the Code. By said Arbitrage and Use of Proceeds Certificate, the Borough has certified that, to the extent it is empowered and allowed under applicable law, it will comply with the provisions and procedures set forth therein and that it will do and perform all acts and things necessary or desirable to assure that interest paid on the Bonds is excludable from gross income under Section 103 of the Code. In rendering this opinion we have assumed that the Borough will comply with the provisions and procedures set forth in its Arbitrage and Use of Proceeds Certificate.

In our opinion, the Bonds are valid and legally binding obligations of the Borough and, unless paid from other sources, are payable from ad valorem taxes levied upon all the taxable property within the Borough without limitation as to rate or amount. The enforceability of rights or remedies with respect to the Bonds may be limited by bankruptcy, insolvency or other laws affecting creditors' rights or remedies heretofore or hereafter enacted.

In our opinion, under existing statutes and court decisions, interest on the Bonds is excluded from gross income for federal income tax purposes pursuant to Section 103 of the Code and interest on the Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code, however interest on the Bonds is included in the "adjusted financial statement income" of certain corporations that are subject to the alternative minimum Section 55 of the Code. In addition, in our opinion, under existing statutes, interest on the Bonds is not included in gross income under the New Jersey Gross Income Tax Act.

Attention is called to the fact that we have not been requested to examine and have not examined any documents or information relating to the Borough other than the record of proceedings hereinabove referred to, and no opinion is expressed as to any financial or other information, or the adequacy thereof, which has been or may be supplied to the purchaser of the Bonds.

We express no opinion as to any other federal, state or local tax consequences arising with respect to the Bonds, or the ownership or disposition thereof, except as stated above. We render our opinion under existing statutes and court decisions as of the date hereof, and assume no obligation to update, revise or supplement our opinion to reflect any action hereafter taken or not taken, any fact or circumstance that may hereafter come to our attention, any change in law or

Borough Council of the
Borough of Mountain Lakes, in the
County of Morris, New Jersey

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interpretation thereof that may hereafter occur, or for any other reason. We express no opinion as to the consequence of any of the events described in the preceding sentence or the likelihood of their occurrence. In addition, we express no opinion on the effect of any action taken or not taken in reliance upon an opinion of other counsel regarding federal, state or local tax matters, including, without limitation, exclusion from gross income for federal income tax purposes of interest on the Bonds.

We have examined an executed bond and, in our opinion, the form of said bonds and their execution are regular and proper.

Very truly yours,

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