

PASSAIC COUNTY IMPROVEMENT AUTHORITY

COUNTY OF PASSAIC, NEW JERSEY

REPORT OF AUDIT

YEAR ENDED DECEMBER 31, 2012

PASSAIC COUNTY IMPROVEMENT AUTHORITY

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INTRODUCTORY SECTION

PASSAIC COUNTY IMPROVEMENT AUTHORITY
930 Riverview Drive
Totowa, New Jersey 07512

June 28, 2013

To the Board of Commissioners
Passaic County Improvement Authority
Totowa, New Jersey

The comprehensive annual financial report (CAFR) of the Passaic County Improvement Authority ("Authority") for the year ended December 31, 2012 is submitted herewith. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation including all disclosures, rests with Authority management. We believe that the data presented is accurate in all material respects; that the report is presented in a manner designed to fairly set forth the results of operations of the Authority as measured by the financial activity of its funds; that the report fairly presents the financial position of the Authority for the year then ended; and that all disclosures necessary to enable the reader to gain a maximum understanding of the Authority's financial activities have been included.

The CAFR is presented in two main sections:

1. **Introductory Section:** Provides information on the contents of the report, this transmittal letter and the Authority's organizational structure.
2. **Financial Section:** Includes the auditor's opinion, management discussion and analysis, basic financial statements and other supplemental information.

Profile of the Government

In the ten (10) years since the Board of Chosen Freeholders created the Passaic County Improvement Authority, the Authority has financed over one hundred thirty million dollars of capital projects in Passaic County, significantly reducing interest, financing and debt service costs to taxpayers. Entities served include the County, health care facilities and non-profit entities.

Organization of Structure

The Passaic County Improvement Authority consists of a Chairman, a Vice-Chairman, Secretary/Treasurer and two (2) other Commissioners. In 2007, the Improvement Authority employed an Executive Director.

Overview of Services

Our professional finance team constantly monitors the public bond markets for fluctuations that create refunding opportunities to generate present value savings of at least 3% for our borrowers.

The Authority has unique capabilities when navigating the public bond markets on behalf of municipalities, school districts and local utility authorities. Our ability to conduct negotiated bond sales often results in significant savings, even as the bonds are being priced. The ability to pool the needs of different government entities not only generates issuance costs savings through economies of scale; it also creates bond sales of a size and of terms attractive to institutional investors. Local governments and school districts are able to take advantage of Passaic County's good name and excellent credit rating to achieve lower interest rates.

Future Plans

The Authority has several financings planned for 2013 and is hopeful that additional project financing requests are presented for their consideration.

Financial Information

Internal Controls

In developing and evaluating the Authority's accounting system, an important consideration is the overall adequacy of internal controls. Internal controls are designed to provide the Authority management with reasonable (but not absolute) assurance regarding (a) the safeguarding of assets against loss from unauthorized use or disposition, and (b) the overall reliability of the financial records for preparing financial statements and for maintaining accountability and control over the Authority's assets.

The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived, and (2) the evaluation of cost and benefits requires estimates and judgment by management.

Financial Operating Results

The management discussion and analysis that follows, summarizes and reviews the Authority's financial operations.

Independent Audit

The Authority is required to have an annual audit of the books of account, financial records, and transactions conducted by independent certified public accountants selected by the Board of Commissioners. This requirement has been complied with. The independent auditors' report on the 2012 fiscal year financial statements of the Authority has been included in the financial section of this report.

Acknowledgment

In closing, preparation of the report would not have been possible without the leadership and support of the fellow Commissioners, our attorney and the entire professional team.

PASSAIC COUNTY IMPROVEMENT AUTHORITY

OFFICIALS IN OFFICE

DECEMBER 31, 2012

The following were in office at December 31, 2012:

Members of the Authority

Dennis F. Marco	Chairman	March 2016
Wayne Alston	Vice Chairman	March 2012
Joseph C. Petriello, Esq.	Commissioner	March 2013
Michael R. F. Bradley	Commissioner	March 2014
Russell J. Bleecker	Secretary/Treasurer	March 2010

Other Officials

Nicole S. Fox - Beadle	Executive Director
Peter A. Tucci, Jr.	Attorney
Wilentz, Goldman & Spitzer	Bond Counsel
Samuel Klein and Company	Independent Auditors
PNC Bank	Depository
Capital One	Depository
TD Wealth Management	Trustee
U.S. Bank Corporate Services	Trustee
N W Financial Group, LLC	Financial Advisor

FINANCIAL SECTION

SAMUEL KLEIN AND COMPANY
CERTIFIED PUBLIC ACCOUNTANTS

550 BROAD STREET, 11TH FLOOR
NEWARK, N.J. 07102-4543
PHONE (973) 624-6100
FAX (973) 624-6101

36 WEST MAIN STREET, SUITE 303
FREEHOLD, N.J. 07728-2291
PHONE (732) 780-2600
FAX (732) 780-1030

INDEPENDENT AUDITOR'S REPORT

Honorable Chairman and Members of the
Passaic County Improvement Authority
County of Passaic, New Jersey

Report on the Financial Statements

We have audited the accompanying financial statements of the Passaic County Improvement Authority, County of Passaic, State of New Jersey (the "Authority"), as of and for the years ended December 31, 2012 and 2011, and the related notes to the financial statements, which comprise the Authority's financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

INDEPENDENT AUDITOR'S REPORT

Auditor's Responsibility (Continued)

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of December 31, 2012 and 2011, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 9 through 11 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The information included in the supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements.

INDEPENDENT AUDITOR'S REPORT

Other Information (Continued)

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 28, 2013 on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



Walter Ryglicki
Certified Public Accountant
Registered Municipal Accountant #408



SAMUEL KLEIN AND COMPANY

Newark, New Jersey
June 28, 2013

SAMUEL KLEIN AND COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Honorable Chairman and Members of the
Passaic County Improvement Authority
County of Passaic, New Jersey

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Governmental Auditing Standards issued by the Comptroller General of the United States, the financial statements and fund information of Passaic County Improvement Authority, County of Passaic, State of New Jersey (the "Authority"), as of and for the year ended December 31, 2012, and the related notes to the financial statements, which comprise of the Authority's financial statements, and have issued our report thereon dated June 28, 2013.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

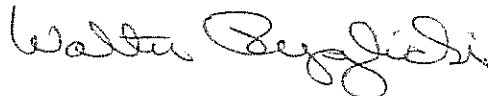
**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

Compliance and Other Matters

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

Purpose of this Report

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



Walter Ryglicki
Certified Public Accountant
Registered Municipal Accountant #408



SAMUEL KLEIN AND COMPANY

Newark, New Jersey
June 28, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

Within this section of the Passaic County Improvement Authority's ("Authority") annual financial report, the management of the Authority provides narrative discussion and analysis of the financial activities of the Authority for the audit year ending December 31, 2012.

The Authority's financial performance is discussed and analyzed within the context of the accompanying financial statements and notes following this section.

Discussion of Financial Statements Included in Annual Audit

The Authority prepares and presents its financial statements on several different bases, because of accounting requirements and for internal use purposes.

The first set of statements which consist of the Comparative Statement of Net Position, the Comparative Statement of Revenues, Expenses and Change in Net Position, and the Comparative Statement of Cash Flows is prepared on an accrual basis and is in accordance with accounting principles generally accepted in the United States of America (GAAP) applicable to enterprise funds of state and local governments. These statements are the official financial statements of the Passaic County Improvement Authority.

After the first set of statements and the "Notes to the Financial Statements" that follow is the second set of statements. These statements are considered "Supplemental Information".

For the purpose of the Management Discussion and Analysis, the ensuing discussion will review the official statements of the Passaic County Improvement Authority, those prepared on an accrual basis and in accordance with accounting principles generally accepted in the United States of America (GAAP) applicable to enterprise funds of state and local governments. This is the first set of statements included in the annual audit report.

**MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)**

Statement of Net Position

The Passaic County Improvement Authority's Total Assets were \$188,823,164. Total liabilities were \$188,325,630. Assets exceed liabilities by \$497,534.

The Passaic County Improvement Authority's Net Position of \$497,534 are comprised of the following:

1. Unrestricted Net Position \$497,534 represent the portion available to maintain the Authority's continuing operating obligations.

	<u>Year Ended December 31,</u>	
	<u>2012</u>	<u>2011</u>
Total Current Assets	\$ 1,000,804	\$ 839,418
Total Restricted Assets	183,481,424	185,563,165
Deferred Charges	<u>4,340,936</u>	<u>3,786,522</u>
 Total Assets	 <u>\$ 188,823,164</u>	 <u>\$ 190,189,105</u>
 Total Current Liabilities Payable from Unrestricted Assets	 \$ 58,218	 \$ 49,663
Total Current Liabilities Payable from Restricted Assets	16,051,142	18,255,743
Long Term Bonds Payable - Net	<u>172,216,270</u>	<u>171,513,456</u>
 Total Liabilities	 <u>\$ 188,325,630</u>	 <u>\$ 189,818,862</u>
 Net Position - Unrestricted	 <u>\$ 497,534</u>	 <u>\$ 370,243</u>

**MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)**

Statement of Revenues, Expenses and Change in Net Position

Net Position as of December 31, 2012 was \$497,534.

	<u>Year Ended December 31,</u>	
	<u>2012</u>	<u>2011</u>
Operating Revenues	\$ <u>7,962,508</u>	\$ <u>7,112,246</u>
Operating Expenses	\$ <u>7,652,207</u>	\$ <u>6,986,482</u>
Operating Income	\$ 310,301	\$ 125,764
Nonoperating Revenues/ (Expenses) - Net	\$ <u>(183,009)</u>	\$ <u>(215,069)</u>
Change in Net Position	127,292	(89,305)
Net Position, Beginning	<u>370,243</u>	<u>459,548</u>
Net Position, Ending	<u>\$ 497,535</u>	<u>\$ 370,243</u>

Statement of Cash Flows

Net decrease in Cash and Cash Equivalents is \$3,368,820.

FINANCIAL STATEMENTS

THE PASSAIC COUNTY IMPROVEMENT AUTHORITY
COMPARATIVE STATEMENT OF NET POSITION
DECEMBER 31, 2012 AND 2011

	2012			2011		
	Unrestricted Fund	Restricted Fund	Total	Unrestricted Fund	Restricted Fund	Total
ASSETS						
Current assets:						
Cash and Cash Equivalents	\$ 536,091	\$	\$ 536,091	\$ 398,108	\$	\$ 398,108
Prepaid Expenses	1,259		1,259	2,827		2,827
Accounts Receivable	20,635		20,635	21,204		21,204
Other current assets	369,389		369,389	374,982		374,982
Due from participants	71,197		71,197	40,064		40,064
Interfund receivable	46,571	(44,338)	2,233	15,114	(12,881)	2,233
Total current assets	557,985	487,157	1,000,804	422,139	430,160	839,418
Restricted Cash and Cash Equivalents		13,954,716	13,954,716		17,323,535	17,323,535
Restricted net investment in direct financing leases, less construction costs to be incurred of \$3,121,385 and \$4,497,830 in 2012 and 2011 respectively		169,526,708	169,526,708		168,239,630	168,239,630
Noncurrent assets:						
Bond issuance costs, less accumulated amortization		4,340,936	4,340,936		3,786,522	3,786,522
Total assets	\$ 557,985	\$ 188,309,517	\$ 188,823,164	\$ 422,139	\$ 189,779,847	\$ 190,189,105
LIABILITIES						
Current liabilities:						
Current portion of bonds payable	\$	\$ 4,550,318	\$ 4,550,318	\$	\$ 3,589,715	\$ 3,589,715
Due to participants		3,386,785	3,386,785		3,346,586	3,346,586
Accrued expenses and other current liabilities	58,218	8,111,806	8,170,024	49,663	11,317,209	11,366,872
Interfund payable	2,233	44,338	2,233	2,233	(12,881)	2,233
Total current liabilities	60,451	16,093,247	16,109,360	51,896	18,266,391	18,305,406
Noncurrent liabilities:						
Bonds payable, net of current portion, and unamortized original issue premium/discount		172,216,270	172,216,270		171,513,456	171,513,456
Total liabilities	60,451	188,309,517	188,325,530	51,896	189,779,847	189,818,862
NET POSITION						
Unrestricted	\$ 497,534	\$ -	\$ 497,534	\$ 370,243	\$ -	\$ 370,243

See Notes to Financial Statements.

**THE PASSAIC COUNTY IMPROVEMENT AUTHORITY
COMPARATIVE STATEMENT OF REVENUES AND EXPENSES
AND CHANGE IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011**

	2012			2011		
	Unrestricted Fund	Restricted Fund	Total	Unrestricted Fund	Restricted Fund	Total
Operating Revenues:						
Administrative	\$ 305,374	\$ 28,543	\$ 333,917	\$ 162,738	\$ 1,301	\$ 164,039
Development and financial assistance		7,628,591	7,628,591		6,948,207	6,948,207
Total operating revenues	305,374	7,657,134	7,962,508	162,738	6,949,508	7,112,246
Operating Expenses:						
Administrative	179,389	177,110	356,499	214,098	167,240	381,338
Interest, net		7,295,708	7,295,708		6,605,144	6,605,144
Total operating expenses	179,389	7,472,818	7,652,207	214,098	6,772,384	6,986,482
Operating income/(loss)	125,985	184,316	310,301	(51,360)	177,124	125,764
Nonoperating revenues/(expenses):						
Contributed Capital		(184,316)	(184,316)	(39,401)	(177,124)	(39,401)
Amortization of costs of issuance	1,307		1,307	1,456		1,456
Interest on investments						
Total nonoperating revenues (expenses)	1,307	(184,316)	(183,009)	(37,945)	(177,124)	(215,069)
Change in net position	127,292		127,292	(89,305)		(89,305)
Net position, beginning	370,243	-	370,243	459,548	-	459,548
Net position, ending	\$ 497,535	\$ -	\$ 497,535	\$ 370,243	\$ -	\$ 370,243

See Notes to Financial Statements.

THE PASSAIC COUNTY IMPROVEMENT AUTHORITY
 COMPARATIVE STATEMENT OF CASH FLOWS
 FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012			2011		
	Unrestricted Fund	Restricted Fund	Total	Unrestricted Fund	Restricted Fund	Total
Cash flows from operating activities:						
Changes in net positions	\$ 127,292	\$	\$ 127,292	\$ (89,305)	\$ -	\$ (89,305)
Adjustments to reconcile revenues over/(under) expenses to net cash provided by operating activities:						
Depreciation and amortization		184,316	184,316		177,124	177,124
Amortization of bond discounts/premiums		(124,278)	(124,278)		(117,588)	(117,588)
Changes in assets and liabilities:						
(Increase)/decrease in prepaid expenses	1,568		1,568	(1,872)		(1,872)
(Increase)/decrease in Accounts Receivable	569		569	(21,204)		(21,204)
Increase/(decrease) in due to/from participants		151,460	151,460		639,675	639,675
(Increase)/decrease in other current assets		5,593	5,593		42,173	42,173
Increase/(decrease) in accrued expenses and other liabilities	8,554	(2,257,480)	(2,248,926)	1,829	5,915,208	5,917,037
Increase/(decrease) in capitalized interest payable		(414,573)	(414,573)		(1,309,049)	(1,309,049)
Increase/(decrease) in interfund payables				(2,815)		(2,815)
Net cash provided by operating activities	137,983	(2,454,962)	(2,316,979)	(113,367)	5,347,543	5,255,380
Cash flows provided by/(used in) investing activities:						
Proceeds from issuance of bonds payable, net		59,557,301	59,557,301			
Transferred to refunding escrow		(60,090,651)	(60,090,651)		(3,403,223)	(3,403,223)
Issuance in restricted bonds receivable		3,455,000	3,455,000		(19,800,780)	(19,800,780)
Transferred unused Project Cost, Net		1,176,000	1,176,000			
Net cash (used in)/provided by investing activities	-	4,097,650	4,097,650	-		
Cash flows from financing activities:						
Payment of bonds payable		(3,589,715)	(3,589,715)			
Proceeds utilized for project costs		(1,421,793)	(1,421,793)			
Net cash provided by/(used in) financing activities		(5,011,508)	(5,011,508)		(23,204,003)	(23,204,003)
Net increase/(decrease) in cash and cash equivalents	137,983	(3,368,820)	(3,230,837)	(113,367)	(17,856,460)	(17,969,827)
Cash and cash equivalents, beginning of year	398,108	17,323,536	17,721,644	511,475	35,179,996	35,691,471
Cash and cash equivalents, end of year	\$ 536,091	\$ 13,954,716	\$ 14,490,807	\$ 398,108	\$ 17,323,536	\$ 17,721,644
Reconciliation to balance sheet:						
Cash and cash equivalents - Unrestricted	\$ 536,091	\$	\$ 536,091	\$ 398,108	\$	\$ 398,108
Cash and cash equivalents - Restricted		13,954,716	13,954,716		17,323,535	17,323,535
	\$ 536,091	\$ 13,954,716	\$ 14,490,807	\$ 398,108	\$ 17,323,535	\$ 17,721,643

See Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS

THE PASSAIC COUNTY IMPROVEMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012

1. **REPORTING ENTITY**

The Passaic County Improvement Authority (the "Authority") is a political subdivision of the State of New Jersey. The Authority has the power to acquire, construct, renovate and install any "public facility", to issue its bonds, notes or other obligations to finance the costs of such public facility and to purchase bonds.

The Authority's primary activities consist of the administration and further development of financings to provide local government units, including the County with funds for the acquisition, construction renovation or installation of any public facility.

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

A. **Basis of Financial Statements**

The financial statements of the Authority have been prepared on the accrual basis of accounting with certain elimination entries, in accordance with governmental accounting standards applicable to local government unit for enterprise funds. The Authority's operations are segregated into unrestricted operations, which include operating the Authority, development and financial assistance functions and administrative functions, and restricted operations of the Authority, which include the administration of the various financing programs for the local government units or other qualified units. All significant interfund balances and transactions have been eliminated for the purpose of financial reporting.

B. **Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

C. **Unrestricted – Cash, Cash Equivalents and Investments**

Cash includes petty cash, change funds, cash in banks, savings accounts, money markets, or highly liquid securities with a maturity date of three (3) months or less at the time of purchase which may be withdrawn at any time without prior notice or penalty. Cash equivalents are defined as short-term, highly liquid securities that are both readily convertible to known amounts of cash and so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. Generally, only securities with original maturities of three (3) months or less meet this definition. For the Statements of Cash Flows the Authority includes all cash, cash equivalents and investments.

THE PASSAIC COUNTY IMPROVEMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Restricted – Cash, Cash Equivalents and Investments

Restricted cash, cash equivalents and investments are stated at cost, which approximates market. These assets are restricted for the future redemption of bonds payable and future investments in direct financing leases. Restricted cash, cash equivalents and investments are principally held in interest bearing bank accounts or U. S. Government obligations, and are held by independent trustees.

E. Inventory

At December 31, 2012, the Authority had no inventory.

F. Capital Assets

At December 31, 2012, the Authority had no Capital Assets.

G. Bond Issuance Costs

Bond issuance costs are stated at cost less accumulated amortization. Amortization is provided over the lives of the bonds (15 to 30 years).

H. Refunding's of Debt

Governmental Accounting Standard Statement No. 23, "Accounting and Financial Reporting for Refunding's of Debt Reported by Proprietary Activities, provides for current and advance refunding's resulting in defeasance of debt to defer the difference between the reacquisition price and the net carrying of the amount defeased indebtedness and amortize the difference as a component of interest expense over the shorter of the remaining life of the old indebtedness or the life of the new debt.

3. CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash and Cash Equivalents

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

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

THE PASSAIC COUNTY IMPROVEMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2012

3. CASH, CASH EQUIVALENTS AND INVESTMENTS (CONTINUED)

Cash and Cash Equivalents (Continued)

New Jersey statutes and the Authority's Bond resolutions permit the deposit of public funds in institutions located in New Jersey that are insured by the Federal Deposit Insurance Corporation, or by any other agency of the United States that insures deposits made in public depositories.

In accordance with the previous of the Governmental Unit Deposit Protection Act of new Jersey (GUDPA), public depositories are required to maintain collateral for deposits of public funds that exceed depository insurance limits as follows:

The market value of the collateral must equal at least 5% of the average daily balance of collected public funds on deposit.

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

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

Investments

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

- Bonds or other obligations of the United States of America or obligations guaranteed by the United States of America. This includes instruments such as Treasury bills, notes and bonds.
- Government money market mutual funds.
- Any federal agency or instrumentality obligation authorized by Congress that matures within 397 days from the date of purchase, and has a fixed rate of interest not dependent on any index or external factors.
- Bonds or other obligations of the local unit or school districts of which the local unit is a part.
- Any other obligations with maturities not exceeding 397 days, as permitted by the Division of Investments, New Jersey State Department of Treasury.
- Local government investment pools.

THE PASSAIC COUNTY IMPROVEMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2012

3. CASH, CASH EQUIVALENTS AND INVESTMENTS (CONTINUED)

Investments (Continued)

- New Jersey State Cash Management Fund.
- Repurchase agreements of fully collateralized securities, subject to special conditions.

New Jersey statutes and the various participants' Bond Resolutions authorize the Authority to invest in obligations which are obligations of or guaranteed by the Federal Government and certain State managed funds whose investments are primarily in federal securities and certain banking institutions. As indicated by GASB #3 as amended by GASB #40, all securities with a maturity date of more than three (3) months from the date of purchase are deemed to be investments of the Authority.

At December 31, 2012, the Authority's total cash, cash equivalents and investments are as follows:

Unrestricted	\$ 536,091
Restricted	<u>5,180,146</u>
	<u>\$ 5,716,237</u>

THE PASSAIC COUNTY IMPROVEMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2012

4. **RESTRICTED NET INVESTMENT IN DIRECT FINANCING LEASES**

The Authority issued bonds (Refer to Note 5) to finance the acquisition, construction and renovation of certain capital improvements on behalf of local government units. The Authority then leased such capital assets to the local government units and the County of Passaic. The leases are accounted for as direct financing leases with payment terms parallel to the bond debt service requirements. The restricted investment in direct financing leases represents the future minimum lease payments receivable less the cost to be incurred in connection with the construction of the capital improvements at December 31, 2012.

Future minimum lease payments to be received for the next five (5) years and every five (5) years thereafter under direct financing leases are as follows:

	Restricted
Next five years:	
2013	\$ 4,550,318
2014	4,735,531
2015	5,160,727
2016	5,378,834
2017	5,595,705
	25,421,115
Thereafter:	
2018	6,073,625
2019	6,318,524
2020	6,650,767
2021	6,922,342
2022	7,402,401
	33,367,659
2023	7,693,594
2024	8,468,636
2025	7,172,508
2026	7,032,366
2027	7,402,541
	37,769,645

THE PASSAIC COUNTY IMPROVEMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2012

4. **RESTRICTED NET INVESTMENT IN DIRECT FINANCING LEASES**
(CONTINUED)

	<u>Restricted</u>
2028	\$ 7,286,148
2029	7,553,002
2030	7,850,428
2031	7,852,380
2032	7,966,442
	38,508,400
2033	8,302,077
2034	8,648,960
2035	8,610,236
2036	2,725,000
2037	1,365,000
	29,651,273
2038	1,435,000
2039	1,505,000
2040	1,585,000
2041	1,660,000
2042	1,745,000
	7,930,000
	\$ 172,648,092
Reconciliation to Statement of Net Position:	
Current Portion	\$ 4,550,318
Add- Non Current Portion	168,097,774
	\$ 172,648,092
Reconciliation to Total Debt:	
Gross Debt	\$ 172,648,092
Less: Construction Costs to be Incurred	3,121,384
	\$ 169,526,708

THE PASSAIC COUNTY IMPROVEMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2012

5. **NONCURRENT DEBT**

- (A) The \$6,000,000 Prosecutors Office Building Improvements Project Lease Revenue Bonds, Series 2005, were issued to (i) provide funds for the renovation of a building which shall serve as a consolidated location from which the governmental functions of the County of Passaic Prosecutor are carried out, (ii) provide funds for the costs of issuance, and (iii) to provide funds for capitalized interest.

The remaining bonds are payable in annual installments ranging from \$270,000 in 2013 to \$450,000 in 2025. The bonds bear interest at rates ranging from 4% to 5%.

The bonds maturing on or after December 15, 2016 are subject to redemption prior to maturity at the option of the Authority, with consent of the County, on or after April 15, 2015.

- (B) The \$18,370,000 Parking Facility Revenue Bonds, Series 2005 (Paterson Parking Deck Project) are comprised of:

The \$14,535,000 Series A (tax exempt) bonds are payable in annual installments ranging from \$355,000 in 2013 to \$565,000 in 2025 at interest rates ranging from 3.5% to 4.5%.

The \$3,835,000 Series B (taxable) bonds are payable in annual installments ranging from \$85,000 in 2013 to \$155,000 in 2025 at interest rates ranging from 4.99% to 5.375%.

The Bonds were issued to (i) finance a portion of the cost of an approximately 950 space parking garage and connecting walkway with Passaic County Community College, (ii) fund capitalized interest, (iii) fund the Bond Reserve Fund, (iv) provide for costs of issuance and (v) reimburse the Paterson Parking Authority.

The Bonds maturing on or after April 15, 2016 are subject to redemption prior to maturity on or after April 15, 2015.

THE PASSAIC COUNTY IMPROVEMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2012

5. **NONCURRENT DEBT (CONTINUED)**

- (C) The \$65,000,000 Preakness Healthcare Center Expansion Project Lease Revenue Bonds, Series 2005 were issued to provide funds to finance (i) renovation and expansion of Preakness Healthcare Center (ii) capitalized interest and (iii) the payment of certain costs of issuance.

The remaining Bonds are payable in annual installments ranging from \$1,440,000 in 2013 to \$1,595,000 in 2015. The Bonds bear interest at rate 5%.

The Bonds maturing on or after May 1, 2016 are subject to redemption prior to maturity on or after May 1, 2015. A 2012 Debt Refunding Issue provided for all bonds maturing after May 1, 2015.

- (D) The \$22,960,000 Preakness Healthcare Center Expansion Project Lease Revenue Bonds, Series 2006 were issued to provide additional funds necessary to complete the expansion of the Preakness Healthcare Center.

The remaining Bonds are payable in annual installments ranging from \$510,000 in 2013 to \$1,425,000 in 2036. The Bonds bear interest at rates ranging from 4% to 5%.

The Bonds maturing on or after May 1, 2017 are subject to redemption prior to maturity on or after May 1, 2016.

- (E) The \$8,587,000 Capital Equipment Lease Revenue Bonds, Series 2009 were issued to provide funds to finance capital equipment for certain municipal local units.

The remaining bonds are payable in annual installments ranging from \$170,000 in 2013 to \$1,075,000 in 2023. The bonds bear interest at rates ranging from 4.25% to 5.5% and a term bond of \$1,587,000 at 5.5% due October 1, 2025.

- (F) The \$21,931,500 Yeshiva K'Tana Revenue Refunding Bond, Series 2010 were issued to finance outstanding loans of the entity.

The remaining bonds are payable on a monthly basis from \$47,133.08 on January 1, 2013 to \$111,963.27 on September 5, 2035.

- (G) The \$29,620,000 200 Hospital Plaza Corporation Project, Series 2010 were issued to finance the construction of a parking facility.

The remaining bonds are payable in annual installments ranging from \$575,000 in 2013 to \$1,745,000 in 2042. The bonds bear interest at rates ranging from 2% to 5%.

THE PASSAIC COUNTY IMPROVEMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2012

5. NONCURRENT DEBT (CONTINUED)

- (H) The \$10,292,000 Recovery Zone Project (Taxable), Series 2010 were issued to finance various municipal and county capital projects.

The remaining bonds are payable in annual installments ranging from \$199,000 to \$813,000. The bonds bear interest rates of 2.30% to 6.54%.

The participants of this project will be receiving federal subsidy of 45% for semi-annual interest payments.

- (I) The \$57,425,000 Lease Revenue Refunding Bonds for the Preakness Healthcare Center Expansion Project, Series 2012 were issued to refund part of the Series 2005 Bonds.

The remaining bonds are payable in annual installments ranging from \$210,000 in 2013 to \$3,915,000 in 2035. The bonds bear interest at rates ranging from 1.50% to 5%.

There are direct financing leases with participants that have parallel repayment terms to provide the funds for this indebtedness (Refer to Note 4).

THE PASSAIC COUNTY IMPROVEMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2012

6. PENSION PLAN

Description of Systems

The Authority's employee participates in the following contributory defined benefit public employee retirement systems which have been established by statute: the Public Employees' Retirement System (PERS). This system is sponsored and administered by the New Jersey Division of Pensions and Benefits. The PERS is considered a cost sharing multiple-employer plan.

Public Employees' Retirement System:

The Public Employees' Retirement System (PERS) was established as of January, 1955 under the provisions of NJSA 43:15A to provide retirement, death, disability and medical benefits to certain qualified members. The PERS is a cost-sharing multiple-employer plan. Membership is mandatory for substantially all full-time employees of the State of New Jersey or any county, municipality, school district or public agency, provided the employee is not required to be a member of another State-administered retirement system or other state or local jurisdiction.

Significant Legislation

P.L.2011, c.78, effective June 28, 2011, made various changes to the manner in which PERS operates and to the benefit provisions of that system.

This new legislation's provisions impacting employee pension and health benefits include:

- New members of PERS hired on or after June 28, 2011 (Tier 5 members), will need 30 years of creditable service and age 65 for receipt of the early retirement benefit without a reduction of $\frac{1}{4}$ to 1 percent for each month that the member is under age 65.
- The eligibility age to qualify for a service retirement in the PERS is increased from age 62 to 65 for Tier 5 members.
- The annual benefit under special retirement for new PERS members enrolled after June 28, 2011 (Tier 3 members), will be 60 percent instead of 65 percent of the member's final compensation plus 1 percent for each year of creditable service over 25 years but not to exceed 30 years.

THE PASSAIC COUNTY IMPROVEMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2012

6. PENSION PLAN

Significant Legislation (Continued)

- Active member contribution rates will increase. PERS active member rates increase from 5.5 percent of annual compensation to 6.5 percent plus an additional one percent phased-in over 7 years. For fiscal year 2012, the member contribution rates increased in October 2011. The phase-in of the additional incremental member contributions for PERS members will take place in July of each subsequent fiscal year.
- The payment of automatic cost-of-living adjustment (COLA) additional increases to current and future retirees and beneficiaries is suspended until reactivated as permitted by this law.

In addition, this new legislation changes the method for amortizing the pension systems' unfunded accrued liability (from a level percent of pay method to level dollar of pay).

The pension contribution and withholding for the last three (3) years are as follows:

<u>Year</u>	<u>Amount</u>		
	<u>Employer</u>	<u>Employee</u>	
2012	\$ 10,140.00	\$ 5,612.00	*
2011	9,686.00	5,612.00	*
2010	Not Determined	7,370.00	*

*Includes back deductions

Post Employment Retirement Benefits

The Authority had no Post Employment Retirement Benefit expense and currently does not expect to provide its employees' with any post-employment retirement benefits.

THE PASSAIC COUNTY IMPROVEMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2012

7. **ACCRUED SICK DAY AND VACATION BENEFITS**

The Authority accounts for accrued sick and vacation benefits under the terms defined in the Executive Director's contract.

Accrued Sick Days

Sick days accumulated at the rate of one and quarter (1¼) per month. Any amount of sick day's allowance not used in the fiscal year shall accumulate to the individual's credit. From year to year to be used if and when needed. Upon termination of employment, unused sick days may be paid up to half of the accumulated time at the then per diem rate with the payment not to exceed \$12,000.00.

Vacations

Vacation pay accumulated at the rate of one and quarter (1¼) per month. Upon the end of employment, the individual will be entitled to payment for any unused vacation days.

The accrued sick days and vacation benefits for the year ended December 31, 2012 financial statements included an liability for accrued sick and vacation days of \$9,600.09.

8. **COMMITMENTS AND CONTINGENCIES**

The Authority may be a party to various legal proceedings. Based upon inquiry of management and direct confirmation from the Authority Attorney, no litigation is pending.

9. **INTERLOCAL AGREEMENT**

During 2010 the Authority renewed an Interlocal Agreement for services related to payroll services and benefits for its employees with the County of Passaic. This agreement will automatically terminate on or about June 30, 2014 but either party may terminate upon thirty (30) days written notice.

THE PASSAIC COUNTY IMPROVEMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2012

10. LEASE

For 2012 the Authority is reviewing the current agreement for the leased office space with the County of Passaic. The lease is subject to renewal annually. The leased office space for the Authority was rent free for the current year.

11. INTERNAL REVENUE SERVICE ARBITRAGE REBATE LIABILITY

On the fifth (5th) anniversary date of the issuance of any bond, a review shall be conducted to determine if the bond proceeds have been expended in accordance with IRS regulations. If said bond proceeds have not been expended in accordance with said regulation, an arbitrage rebate calculation must be performed. If the arbitrage rebate calculation results in an amount due and is filed late, penalties and interest could be added to the obligation. Currently, the PCIA has several bond issues which have been reviewed for rebate and no liability exists.

SUPPLEMENTARY INFORMATION

THE PASSAIC COUNTY IMPROVEMENT AUTHORITY
STATEMENT OF NET POSITION
DECEMBER 31, 2012
UNRESTRICTED FUND

	<u>Total Administrative</u>
 <u>ASSETS</u> 	
Current assets:	
Cash and Cash Equivalents	\$ 536,091
Accounts Receivable	20,635
Prepaid Expenses	<u>1,259</u>
Total current assets	<u>557,985</u>
Total assets	<u>\$ 557,985</u>
 <u>LIABILITIES</u> 	
Liabilities:	
Current liabilities:	
Accrued expenses and other current liabilities	\$ 58,217
Interfund payable	<u>2,233</u>
Total current liabilities	<u>60,451</u>
Total liabilities	<u>\$ 60,451</u>
 <u>NET POSITION</u> 	
Unrestricted	<u>\$ 497,534</u>
Total Net Position	<u>\$ 497,534</u>

THE PASSAIC COUNTY IMPROVEMENT AUTHORITY
COMBING STATEMENT OF ASSETS AND LIABILITIES
DECEMBER 31, 2012
RESTRICTED FUND BY PROGRAM

ASSETS							
Current assets:							
Other current assets							
Due from participants							
Interfund receivable							2,233
Total current assets							2,233
Restricted cash and cash equivalents							
Restricted net investment in direct financing leases (Costs to be incurred)/Earnings utilized							
Net restricted net investments in direct financing leases							
Deferred costs:							
Bond issuance costs, less accumulated amortization							
Total assets							2,233
LIABILITIES							
Current liabilities:							
Current portion of bonds payable							
Accrued interest on bonds							
Due to participants							
Deferred Revenue							
Accrued expenses and other current liabilities							
Reserve for Fees							
Interfund payable							2,233
Total current liabilities							2,233
Noncurrent liabilities:							
Bonds payable, net of current portion, and unamortized original issue premium/discount							
Total liabilities							2,233
Preakness Healthcare Center Expansion Project Lease Revenue Bonds, Series 2005	\$	2					
Parking Facility Revenue Bonds Paterson Parking Project Series 2005	\$						
Prosecutor's Office Building Improvement Project Lease Revenue Bonds, Series 2005	\$						
Preakness Healthcare Center Expansion Project Lease Revenue Bonds, Series 2006	\$						
County Guaranteed Governmental Lease Revenue Bonds, Series 2009	\$						
Treasurer's Account	\$						

THE PASSAIC COUNTY IMPROVEMENT AUTHORITY
COMBING STATEMENT OF ASSETS AND LIABILITIES
DECEMBER 31, 2012
RESTRICTED FUND BY PROGRAM

	Revenue Refunding Yeshiva K'Tana Series 2010	200 Hospital Plaza Corporation Project Series 2010	Recovery Zone Project Series 2010 (Federally Subsidized)	Preakness Healthcare Center Expansion Project Lease Revenue Refunding Bonds, Series 2012	Total Restricted Funds
ASSETS					
Current assets:					
Other current assets	\$ 52,607	\$ 21	\$ 219,540	\$	\$ 369,389
Due from participants	39,436		31,761		71,197
Interfund receivable				27,157	48,571
Total current assets	<u>92,043</u>	<u>21</u>	<u>251,301</u>	<u>27,157</u>	<u>487,157</u>
Restricted cash and cash equivalents		8,774,570	12,099	2,655,651	13,954,716
Restricted net investment in direct financing leases (Costs to be incurred)/Earnings utilized	20,682,092 (438,617)	29,620,000	9,674,000 (205,840)	57,425,000	172,648,092 (3,121,385)
Net restricted net investments in direct financing leases	<u>20,243,476</u>	<u>29,620,000</u>	<u>9,468,160</u>	<u>57,425,000</u>	<u>169,526,708</u>
Deferred costs:					
Bond issuance costs, less accumulated amortization	399,141	362,289	199,561	1,443,583	4,340,936
Total assets	<u>\$ 20,734,659</u>	<u>\$ 38,756,880</u>	<u>\$ 9,931,120</u>	<u>\$ 61,561,391</u>	<u>\$ 188,309,517</u>
LIABILITIES					
Current liabilities:					
Current portion of bonds payable	\$ 590,318	\$ 575,000	\$ 345,000	\$ 210,000	\$ 4,550,318
Accrued interest on bonds	52,567	209,819	219,540	378,668	948,952
Due to participants		1,536,190			3,386,785
Deferred Revenue		7,023,195	92,226		7,115,421
Accrued expenses and other current liabilities					45,200
Reserve for Fees					2,233
Interfund payable					44,338
Total current liabilities	<u>642,885</u>	<u>9,344,203</u>	<u>656,766</u>	<u>588,668</u>	<u>16,093,247</u>
Noncurrent liabilities:					
Bonds payable, net of current portion, and unamortized original issue premium/discount	20,091,774	29,412,677	9,274,354	60,972,723	172,216,270
Total liabilities	<u>\$ 20,734,659</u>	<u>\$ 38,756,880</u>	<u>\$ 9,931,120</u>	<u>\$ 61,561,391</u>	<u>\$ 188,309,517</u>

THE PASSAIC COUNTY IMPROVEMENT AUTHORITY
STATEMENT OF REVENUES AND EXPENSES AND CHANGE IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2012
UNRESTRICTED FUND

	<u>Total Administrative</u>
Operating Revenues:	
Administrative:	
2005 Preakness Healthcare Center Expansion Project	\$ 29,953
2005 Paterson Parking Project	22,185
2005 Prosecutor's Office Building Improvement Project	4,605
2006 Preakness Healthcare Center Expansion Project	21,140
2010 Revenue Refunding -Yeshiva K'Tana	20,635
2010 200 Hospital Plaza Corporation Project	53,620
2010 Recovery Zone Project	9,674
2012 Preakness Healthcare Center Expansion Project	
Refunding Bonds	<u>143,563</u>
Total administrative	<u>305,374</u>
Total operating revenues	<u>305,374</u>
Operating Expenses:	
Salaries And Wages	85,998
Fringe Benefits	10,233
Pension	10,140
Payroll Taxes	5,250
Professional services	63,801
Other Expenses	<u>3,967</u>
Total operating expenses	<u>179,389</u>
Operating Income/(Loss)	<u>125,985</u>
Nonoperating Revenue/(Expenses):	
Interest on Investments	<u>1,307</u>
Total nonoperating revenues	<u>1,307</u>
Change in Net Position	127,292
Net Position, beginning	<u>370,243</u>
Net Position, ending	<u>\$ 497,535</u>

THE PASSAIC COUNTY IMPROVEMENT AUTHORITY
COMBINING STATEMENT OF REVENUES AND EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2012
RESTRICTED FUND BY PROGRAM

	Preakness Healthcare Center Expansion Project Lease Revenue Bonds, Series 2005	Parking Facility Revenue Bonds Paterson Parking Project Series 2005	Prosecutor's Office Building Improvements Project Lease Revenue Bonds, Series 2005	Preakness Healthcare Center Expansion Project Lease Revenue Bonds, Series 2006	County Guaranteed Governmental Loan Revenue Bonds, Series 2009	Treasurer's Account
Revenues:						
Development and financial assistance revenues	\$ 2,466,327	\$ 845,795	\$ 231,126	\$ 1,017,737	\$ 419,680	\$ 1,500
Interest	328	2	18	323	3	
Total revenues	<u>2,466,654</u>	<u>845,797</u>	<u>231,143</u>	<u>1,018,060</u>	<u>419,682</u>	<u>1,500</u>
Expenses:						
Services by contract:						
Administrative fees	29,953		4,605	21,140		1,500
Trustee fees	4,000			4,300		
Services by contract	<u>33,953</u>	<u>22,185</u>	<u>4,605</u>	<u>25,440</u>		<u>1,500</u>
Interest	2,411,641	788,576	210,453	968,209	393,979	
Total expenses	<u>2,445,594</u>	<u>810,761</u>	<u>215,058</u>	<u>993,649</u>	<u>393,979</u>	<u>1,500</u>
Revenues over expenses before amortization	<u>21,060</u>	<u>35,036</u>	<u>16,086</u>	<u>24,411</u>	<u>25,703</u>	
Nonoperating Revenues/(Expenses):						
Amortization of costs of issuance	<u>(21,060)</u>	<u>(35,036)</u>	<u>(16,086)</u>	<u>(24,411)</u>	<u>(25,703)</u>	
Total Change	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>

THE PASSAIC COUNTY IMPROVEMENT AUTHORITY
COMBING STATEMENT OF REVENUES AND EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2012
RESTRICTED FUND BY PROGRAM

	Revenue Refunding Yeshiva K'Tana Series 2010	200 Hospital Plaza Corporation Project Series 2010	Recovery Zone Project Series 2010	Preakness Healthcare Center Expansion Project Lease Revenue Refunding Bonds, Series 2012	Total Restricted Funds
Revenues:					
Development and financial assistance revenues	\$ 817,818	\$ 912,682	\$ 553,238	\$ 362,890	\$ 7,628,591
Interest	817,818	593	11	27,266	28,543
Total revenues	<u>817,818</u>	<u>913,275</u>	<u>553,249</u>	<u>389,856</u>	<u>7,657,134</u>
Expenses:					
Services by contract:					
Administrative fees	20,635	51,620	9,674		161,310
Trustee fees		5,000	2,500		15,800
Services by contract	<u>20,635</u>	<u>56,620</u>	<u>12,174</u>		<u>177,110</u>
Interest	779,638	844,340	530,382	368,490	7,295,708
Total expenses	<u>800,273</u>	<u>900,960</u>	<u>542,556</u>	<u>368,490</u>	<u>7,472,818</u>
Revenues over expenses before amortization	<u>17,545</u>	<u>12,316</u>	<u>10,693</u>	<u>21,466</u>	<u>184,316</u>
Nonoperating Revenues/(Expenses):					
Amortization of costs of issuance	(17,545)	(12,316)	(10,693)	(21,466)	(184,316)
Total Change	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>

GENERAL COMMENTS AND RECOMMENDATIONS

GENERAL COMMENTS
DECEMBER 31, 2012

Unrestricted Fund

Cash Balances

The cash balances were verified with the statements rendered by the trustee and other depositories and also confirmed by direct communication.

Contracts and Agreements Required to be Advertised for N.J.S.A. 40A:11-4 (As Amended)

N.J.S.A. 40A:11-4 (as amended) states, "Every contract or agreement, for the performance of any work or the furnishing or hiring of any materials or supplies, the cost or the contract price whereof is to be paid with or out of public funds not included with the terms of Section 3 of this act, shall be made or awarded only after public act or specifically by any other law. No work, materials or supplies shall be undertaken, acquired or furnished for a sum exceeding in the aggregate of \$17,500.00 except by contract or agreement." The Authority did not employ a Qualified Purchasing Agent (Q.P.A.) therefore the minimum threshold was used in 2012.

The Commissioners of the Authority have the responsibility of determining whether any contract or agreement might result in violation of the statute. When a question arises, the Authority Counsel's opinion should be sought before a commitment is made.

The minutes indicate that resolutions were adopted and advertised authorizing the awarding of contracts or agreements for "Professional Services" per N.J.S.A. 40A:11-5 (as amended).

Inasmuch as the system of records did not provide for an accumulation of payments for categories for the performance of any work or the furnishing or hiring of any materials or supplies, the result of such an accumulation could not reasonably be ascertained. Disbursements were reviewed, however, to determine whether any clear cut violations existed.

Our examination of expenditures did not reveal any individual payments, contracts or agreements in excess of \$26,000.00 "for the performance of any work or the furnishing or hiring of any materials or supplies" other than those where bids had been previously sought by public advertisement or where a resolution had been previously adopted under the provisions of N.J.S.A. 40:11-6.

Revenues

The Authority's revenues from administration and financing fees were adequate to cover the Authority's operating costs.

Receipts from administration and financing charges were checked to the records maintained and verified as proper in conjunction with the fees established by the Authority.

GENERAL COMMENTS (CONTINUED)
DECEMBER 31, 2012

Unrestricted Fund (Continued)

Expenditures

In accordance with the Statutes, the Authority adopted an annual operating budget for the fiscal year ending December 31, 2012.

All principal and interest on the Authority's bonded indebtedness due in 2012 has been paid.

Other Comments

An exit conference with the Authority was held.

Acknowledgment

We wish to express our appreciation for the cooperation received from the Passaic County Improvement Authority officials and professionals, and for the courtesies extended to us during the course of the audit.

Filing Audit Report, N.J.S.A. 40A:5A-15

A copy of this report has been filed with the Division of Local Government Services.

RECOMMENDATIONS
DECEMBER 31, 2012

None.

The comments noted in our audit were not of such magnitude that they precluded us from issuing an unqualified opinion on the financial statements taken as a whole.

Very truly yours,



Walter Ryglicki
Certified Public Accountant
Registered Municipal Accountant #408
For the Firm
SAMUEL KLEIN AND COMPANY
Certified Public Accountants