

**PASSAIC COUNTY IMPROVEMENT AUTHORITY**  
**(A COMPONENT UNIT OF THE COUNTY OF PASSAIC)**  
**COUNTY OF PASSAIC, NEW JERSEY**  
**FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**  
**WITH INDEPENDENT AUDITOR'S REPORT**

**PASSAIC COUNTY IMPROVEMENT AUTHORITY  
(A Component Unit of the County of Passaic)**

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(A Component Unit of the County of Passaic)**

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## **Introductory Section**

**PASSAIC COUNTY IMPROVEMENT AUTHORITY  
(A Component Unit of the County of Passaic)**

**ROSTER OF OFFICIALS  
DECEMBER 31, 2017**

<u>COMMISSIONERS</u>	<u>POSITION</u>	<u>TERM EXPIRES</u>
Dennis Marco	Chairperson	03/2021
Joseph Petriello	Vice Chairperson	03/2018
Wayne Alston	Commissioner	03/2017 (Holdover)
Ronda Casson Cotroneo	Commissioner	03/2020
Michael Bradley	Commissioner	03/2019

**Financial Section**

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

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## INDEPENDENT AUDITOR'S REPORT

Honorable Chairperson and Commissioners  
Passaic County Improvement Authority  
930 Riverview Drive, Suite 250  
Totowa, NJ 07512

### **Report on the Financial Statements**

We have audited the accompanying statements of net position of the Passaic County Improvement Authority as of December 31, 2017 and 2016, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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

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

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

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Passaic County Improvement Authority as of December 31, 2017 and 2016, and the respective changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

*Required Supplementary Information*

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



Honorable Chairperson and Commissioners  
Passaic County Improvement Authority  
Page 3.

*Other Information*

Our audit was conducted for the purpose of forming opinions on the basic financial statements that collectively comprises the Passaic County Improvement Authority's financial statements as a whole. The supplementary schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplemental schedules are the responsibility of management and were derived from and relate 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 supplemental schedules are 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 6, 2018 on our consideration of the Passaic County Improvement Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Passaic County Improvement Authority's internal control over financial reporting and compliance.

Very truly yours,

*Ferraioli, Wielkocz, Cerullo & Cuva, P.A.*

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

June 6, 2018

## **Management Discussion and Analysis**

**PASSAIC COUNTY IMPROVEMENT AUTHORITY**  
**(A Component Unit of the County of Passaic)**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

*As management of the Passaic County Improvement Authority, we offer the Authority's financial statements this narrative overview and analysis of the Authority's financial performance during the fiscal year ended December 31, 2017 and 2016. Please read this analysis in conjunction with the Authority's financial statements, which follow this section.*

**Financial Highlights**

- The Authority's assets exceeded its liabilities by \$304,458 (net position) for the fiscal year reported. This compares to the previous year when assets exceeded liabilities by \$265,512.
  
- Total net position is comprised of the following:
  - (1) Net position of \$18,105 are restricted by constraints imposed from outside the Authority such as debt covenants, grantors, laws or regulations.
  - (2) Unrestricted net position of \$286,353 represent the portion available to maintain the Authority's continuing obligations to citizens and creditors.
  
- Total liabilities of the Authority decreased by \$71,333 to \$440,815 during the fiscal year largely due to decreases in accounts payable.

**Overview of the Financial Statements**

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

*Required Financial Statements*

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

**PASSAIC COUNTY IMPROVEMENT AUTHORITY**  
**(A Component Unit of the County of Passaic**  
**MANAGEMENT’S DISCUSSION AND ANALYSIS (CONTINUED)**

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

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

*Notes to the Financial Statements*

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

*Other Information*

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

**Financial Analysis of the Authority**

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

**PASSAIC COUNTY IMPROVEMENT AUTHORITY**  
**(A Component Unit of the County of Passaic)**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

**Net Position**

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

The Authority's net position at fiscal year-end is \$304,458. This is a \$38,946 increase under last year's restated net position of \$265,512. A summary of the Authority's statement of net position is presented in the following table:

**Condensed Statement of Net Position**

	<u>FY 2017</u>	<u>FY 2016</u>	<u>Dollar Change</u>	<u>Percent Change</u>
<b>Assets:</b>				
Current and Other Assets	<u>\$729,526</u>	<u>\$673,558</u>	<u>\$55,968</u>	8.31%
Total Assets	<u>729,526</u>	<u>673,558</u>	<u>55,968</u>	
<b>Deferred Outflows:</b>				
Deferred Outflows of Resources Related to PERS	<u>79,239</u>	<u>104,421</u>	<u>(25,182)</u>	(24.12)%
Total Deferred Outflows	<u>79,239</u>	<u>104,421</u>	<u>(25,182)</u>	
<b>Liabilities:</b>				
Other Liabilities	125,635	120,157	5,478	4.56%
Noncurrent Liabilities	<u>315,180</u>	<u>391,990</u>	<u>(76,810)</u>	(19.59)%
Total Liabilities	<u>440,815</u>	<u>512,147</u>	<u>(71,332)</u>	
<b>Deferred Inflows:</b>				
Deferred Inflows of Resources Related to PERS	<u>63,492</u>	<u>320</u>	<u>63,172</u>	19741.25%
Total Deferred Inflows	<u>63,492</u>	<u>320</u>	<u>63,172</u>	
<b>Net Position:</b>				
Restricted	18,105	19,651	(1,546)	(7.87)%
Unrestricted	<u>286,353</u>	<u>245,861</u>	<u>40,492</u>	16.47%
Total Net Position	<u>\$304,458</u>	<u>\$265,512</u>	<u>\$38,946</u>	

**PASSAIC COUNTY IMPROVEMENT AUTHORITY**  
**(A Component Unit of the County of Passaic)**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

**Net Position (Continued)**

A summary of the Authority's prior year statement of net position is presented with comparative FY 2015, as restated, balances in the following table:

**Condensed Statement of Net Position**

	<u>FY 2016</u>	<u>Restated FY 2015</u>	<u>Dollar Change</u>	<u>Percent Change</u>
<b>Assets:</b>				
Current and Other Assets	<u>\$673,558</u>	<u>\$673,796</u>	<u>\$(238)</u>	(.04)%
Total Assets	<u>673,558</u>	<u>673,796</u>	<u>(238)</u>	
<b>Deferred Outflows:</b>				
Deferred Outflows of Resources Related to PERS	<u>104,421</u>	<u>50,170</u>	<u>54,251</u>	108.13%
Total Deferred Outflows	<u>104,421</u>	<u>50,170</u>	<u>54,251</u>	
<b>Liabilities:</b>				
Other Liabilities	120,157	95,907	24,250	25.28%
Noncurrent Liabilities	<u>391,990</u>	<u>296,302</u>	<u>95,688</u>	32.29%
Total Liabilities	<u>512,147</u>	<u>392,209</u>	<u>119,938</u>	
<b>Deferred Inflows:</b>				
Deferred Inflows of Resources Related to PERS	<u>320</u>	<u>5,177</u>	<u>(4,857)</u>	(93.82)%
Total Deferred Inflows	<u>320</u>	<u>5,177</u>	<u>(4,857)</u>	
<b>Net Position:</b>				
Restricted	19,651	32,610	(12,959)	(39.74)%
Unrestricted	<u>245,861</u>	<u>293,970</u>	<u>(48,109)</u>	(16.37)%
Total Net Position	<u>\$265,512</u>	<u>\$326,580</u>	<u>\$(61,068)</u>	

**PASSAIC COUNTY IMPROVEMENT AUTHORITY**  
**(A Component Unit of the County of Passaic)**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

**Net Position (Continued)**

While the *Statement of Net Position* shows the change in financial position of net position, the *Statement of Revenues, Expenses and Changes in Net Position* provides answers as to the nature and source of these changes. As can be seen in the following table, net position increased by \$38,946.

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

	<u>FY 2017</u>	<u>FY 2016</u>	<u>Dollar Change</u>	<u>Percent Change</u>
<b>Revenues:</b>				
Operating Revenues	<u>\$285,688</u>	<u>\$219,831</u>	<u>\$65,857</u>	
Total Revenues	<u>285,688</u>	<u>219,831</u>	<u>65,857</u>	29.96%
<b>Expenses:</b>				
Operating Expense	<u>250,566</u>	<u>284,566</u>	<u>(34,000)</u>	
Total Operating Expenses	<u>250,566</u>	<u>284,566</u>	<u>(34,000)</u>	(11.95)%
<b>Operating Income (Loss)</b>	<u>35,122</u>	<u>(64,735)</u>	<u>99,857</u>	(154.26)%
<b>Non-Operating Revenues (Expenses):</b>				
Non-Operating Income	<u>3,824</u>	<u>3,667</u>	<u>157</u>	
Total Non-Operating Revenues (Expenses)	<u>3,824</u>	<u>3,667</u>	<u>157</u>	4.28%
<b>Change in Net Position</b>	<u>38,946</u>	<u>(61,068)</u>	<u>100,014</u>	(163.77)%
Net Position, January 1,	<u>265,512</u>	<u>326,580</u>	<u>99,7100</u>	30.53%
Net Position, December 31,	<u>\$304,458</u>	<u>\$265,512</u>	<u>\$38,946</u>	14.67%

The Authority's operating revenues increased by \$65,857 to 285,688 in fiscal year 2017 from \$219,831 in 2016. This increase is primarily due to additional operating fees. Non-operating revenues increased by \$157 to \$3,824 from \$3,667 due to carrying additional cash balances in the bank. Operating expenses decreased by \$34,000 largely due to a decrease in expenses relating to the reductions in other miscellaneous expenses.

**PASSAIC COUNTY IMPROVEMENT AUTHORITY**  
**(A Component Unit of the County of Passaic)**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

**Net Position (Continued)**

A summary of the Authority's prior year statement of revenues, expenses and change in net position is presented with comparative FY 2015, as restated, figures in the following table:

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

	<u>FY 2016</u>	<u>Restated FY 2015</u>	<u>Dollar Change</u>	<u>Percent Change</u>
<b>Revenues:</b>				
Operating Revenues	<u>\$219,831</u>	<u>\$255,252</u>	<u>\$(35,421)</u>	
Total Revenues	<u>219,831</u>	<u>255,252</u>	<u>(35,421)</u>	(13.88)%
<b>Expenses:</b>				
Operating Expense	<u>284,566</u>	<u>200,011</u>	<u>84,555</u>	
Total Operating Expenses	<u>284,566</u>	<u>200,011</u>	<u>84,555</u>	42.28%
<b>Operating Income (Loss)</b>	<u>(64,735)</u>	<u>55,241</u>	<u>(119,976)</u>	(217.19)%
<b>Non-Operating Revenues (Expenses):</b>				
Non-Operating Income	<u>3,667</u>	<u>3,439</u>	<u>228</u>	
Total Non-Operating Revenues (Expenses)	<u>3,667</u>	<u>3,439</u>	<u>228</u>	6.63%
<b>Change in Net Position</b>	<u>(61,068)</u>	<u>58,680</u>	<u>(119,748)</u>	(204.07)%
Net Position, January 1,	<u>326,580</u>	<u>267,900</u>	<u>(120,204)</u>	(44.87)%
Net Position, December 31,	<u>\$265,512</u>	<u>\$326,580</u>	<u>\$(61,068)</u>	(18.70)%

**Budgetary Highlights**

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



**PASSAIC COUNTY IMPROVEMENT AUTHORITY**  
**(A Component Unit of the County of Passaic)**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

**Budgetary Highlights (Continued)**

The following tables provides a FY 2017 and FY 2016 budget comparison:

**Budget vs. Actual**  
**FY 2017**

**Administrative Fund:**

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>Operating Revenues:</b>			
Annual Administration Fees	\$131,636	\$285,688	\$154,052
Development and Financial Assistance	15,700,134		(15,700,134)
Miscellaneous	<u>11,575</u>		<u>(11,575)</u>
Total Operating Revenues	<u>15,843,345</u>	<u>285,688</u>	<u>(15,557,657)</u>
<b>Non-Operating Revenues:</b>			
Interest on Investments	<u>2,400</u>	<u>3,716</u>	<u>1,316</u>
Total Non-Operating Revenues	<u>2,400</u>	<u>3,716</u>	<u>1,316</u>
Total Revenues	<u>15,845,745</u>	<u>289,404</u>	<u>(15,556,341)</u>
<b>Operating Appropriations:</b>			
<b>Administration:</b>			
Salaries and Wages	96,637	95,749	888
Fringe Benefits	45,500	31,369	14,131
Other Expenses	126,505	97,707	28,798
Principal Payment on Debt Service in Lieu of Depreciation	<u>8,475,705</u>		<u>8,475,705</u>
Total Operating Appropriations	<u>8,744,347</u>	<u>224,825</u>	<u>8,519,522</u>
<b>Non-Operating Appropriations:</b>			
Interest Payments on Debt	<u>7,224,430</u>		<u>7,224,430</u>
Total Non-Operating Appropriations	<u>7,224,430</u>		<u>7,224,430</u>
Total Appropriations	<u>15,968,777</u>	<u>224,825</u>	<u>15,743,952</u>
<b>Total Budgetary Income/(Loss)</b>	<u><b>\$(123,032)</b></u>	<u><b>\$64,579</b></u>	<u><b>\$187,611</b></u>

**PASSAIC COUNTY IMPROVEMENT AUTHORITY**  
**(A Component Unit of the County of Passaic)**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

**Budgetary Highlights (Continued)**

**Budget vs. Actual  
FY 2016**

**Administrative Fund:**

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>Operating Revenues:</b>			
Annual Administration Fees	\$125,412	\$219,831	\$94,419
Development and Financial Assistance	11,493,044		(11,493,044)
Miscellaneous	<u>10,500</u>		<u>(10,500)</u>
Total Operating Revenues	<u>11,628,956</u>	<u>219,831</u>	<u>(11,409,125)</u>
<b>Non-Operating Revenues:</b>			
Interest on Investments	<u>2,000</u>	<u>3,516</u>	<u>1,516</u>
Total Non-Operating Revenues	<u>2,000</u>	<u>3,516</u>	<u>1,516</u>
Total Revenues	<u>11,630,956</u>	<u>223,347</u>	<u>(11,407,609)</u>
<b>Operating Appropriations:</b>			
<b>Administration:</b>			
Salaries and Wages	97,600	96,867	733
Fringe Benefits	41,500	48,958	(7,458)
Other Expenses	129,475	88,641	40,834
Principal Payment on Debt Service in Lieu of Depreciation	<u>4,690,727</u>		<u>4,690,727</u>
Total Operating Appropriations	<u>4,959,302</u>	<u>234,466</u>	<u>4,724,836</u>
<b>Non-Operating Appropriations:</b>			
Interest Payments on Debt	<u>6,799,208</u>		<u>6,799,208</u>
Total Non-Operating Appropriations	<u>6,799,208</u>		<u>6,799,208</u>
Total Appropriations	<u>11,758,510</u>	<u>234,466</u>	<u>11,524,044</u>
<b>Total Budgetary Income/(Loss)</b>	<u><b>\$(127,554)</b></u>	<u><b>\$(11,119)</b></u>	<u><b>\$116,435</b></u>

**PASSAIC COUNTY IMPROVEMENT AUTHORITY**  
**(A Component Unit of the County of Passaic)**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

**Economic Factors, Future Years' Budgets and Rates**

The Commissioners and management of the Authority consider many factors when preparing each year's budget. The main factors are growth in the Authority's customer base.

**Contacting the Authority**

This financial report is designed to provide our customers and creditors with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the fees it receives. If you have any questions about this report or need additional information, contact the Passaic County Improvement Authority, 930 Riverview Drive, Suite 250, Totowa, NJ 07512.

## **Basic Financial Statements**

**PASSAIC COUNTY IMPROVEMENT AUTHORITY**  
**(A Component Unit of the County of Passaic)**  
**COMPARATIVE STATEMENTS OF NET POSITION**  
**AS OF DECEMBER 31, 2017 AND 2016**

Exhibit A

	<u>2017</u>	<u>2016</u>
<b>ASSETS</b>		
Unrestricted Current Assets		
Cash and Cash Equivalents	\$ 691,889	622,311
Accounts Receivable	18,032	30,096
Prepaid Expenses	1,500	1,500
	<u>711,421</u>	<u>653,907</u>
Total Unrestricted Current Assets		
Restricted Current Assets		
Cash and Cash Equivalents	18,105	19,651
	<u>18,105</u>	<u>19,651</u>
Total Restricted Current Assets		
Total Current Assets	<u>729,526</u>	<u>673,558</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred Outflows - PERS	79,239	104,421
	<u>79,239</u>	<u>104,421</u>
Total Deferred Outflows of Resources		
Total Assets and Deferred Outflows of Resources	\$ <u>808,765</u>	\$ <u>777,979</u>
<b>LIABILITIES</b>		
Current Liabilities		
Accounts Payable	125,635	120,157
	<u>125,635</u>	<u>120,157</u>
Total Current Liabilities		
Non-Current Liabilities		
Net Pension Liability - PERS	315,180	391,990
	<u>315,180</u>	<u>391,990</u>
Total Non-Current Liabilities		
Total Liabilities	<u>440,815</u>	<u>512,147</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred Inflows - PERS	63,492	320
	<u>63,492</u>	<u>320</u>
Total Liabilities and Deferred Inflows of Resources	<u>504,307</u>	<u>512,467</u>
<b>NET POSITION</b>		
Restricted For:		
Tourism	18,105	19,651
Unrestricted	286,353	245,861
	<u>286,353</u>	<u>245,861</u>
Total Net Position	\$ <u><u>304,458</u></u>	\$ <u><u>265,512</u></u>

**PASSAIC COUNTY IMPROVEMENT AUTHORITY**  
**(A Component Unit of the County of Passaic)**  
**COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND**  
**CHANGES IN NET POSITION**  
**FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

Exhibit B

	<u>2017</u>	<u>2016</u>
<b>OPERATING REVENUES</b>		
Annual Administrative Fees	<u>285,688</u>	<u>219,831</u>
Total Operating Revenues	<u>285,688</u>	<u>219,831</u>
<b>OPERATING EXPENSES</b>		
Administrative	<u>250,566</u>	<u>284,566</u>
Total Operating Expenses	<u>250,566</u>	<u>284,566</u>
<b>OPERATING INCOME (LOSS)</b>	<u>35,122</u>	<u>(64,735)</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
Interest on Investments	<u>3,824</u>	<u>3,667</u>
Total Non-Operating Income (Expenses)	<u>3,824</u>	<u>3,667</u>
<b>CHANGE IN NET POSITION</b>	<u>38,946</u>	<u>(61,068)</u>
Net Position, January 1, As Previously Reported	<u>265,512</u>	<u>326,580</u>
Net Position, December 31,	<u>\$ 304,458</u>	<u>265,512</u>

**PASSAIC COUNTY IMPROVEMENT AUTHORITY**  
**(A Component Unit of the County of Passaic)**  
**COMPARATIVE STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

Exhibit C

	<u>2017</u>	<u>2016</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash Received from Customers	\$ 297,752	202,161
Cash Paid to Employees	(121,135)	(112,297)
Cash Paid to Suppliers and Others	<u>(112,317)</u>	<u>(111,439)</u>
Net Cash Provided by Operating Activities	<u>64,300</u>	<u>(21,575)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest Received	<u>3,824</u>	<u>3,667</u>
Net Cash Provided by Investing Activities	<u>3,824</u>	<u>3,667</u>
Net Increase (Decrease) in Cash and Cash Equivalents	68,124	(17,908)
Cash and Cash Equivalents, January 1,	<u>641,870</u>	<u>659,870</u>
Cash and Cash Equivalents, December 31,	<u>\$ 709,994</u>	<u>641,962</u>
<b>ANALYSIS OF BALANCE AT DECEMBER 31</b>		
Unrestricted - Cash and Cash Equivalents	691,889	622,311
Restricted - Cash and Cash Equivalents	<u>18,105</u>	<u>19,651</u>
	<u>\$ 709,994</u>	<u>641,962</u>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:</b>		
Operating Income (Loss)	\$ <u>35,122</u>	<u>(64,735)</u>
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:		
(Increase)/Decrease in Accounts Receivable	12,064	(17,670)
Pension Obligation	11,636	36,580
Increase/(Decrease) in Accounts Payable and Accrued Expenses	<u>5,478</u>	<u>24,250</u>
Total Adjustments	<u>29,178</u>	<u>43,160</u>
Net Cash Provided by Operating Activities	<u>\$ 64,300</u>	<u>(21,575)</u>

**Notes to Financial Statements**



**PASSAIC COUNTY IMPROVEMENT AUTHORITY**  
**(A Component Unit of the County of Passaic)**

**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 AND 2016**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting Entity**

The Passaic County Improvement Authority (the "Authority") is a public body politic, corporate, organized and existing under the County Improvement Authorities Law, constituting Chapter 183 of the Pamphlet Laws of 160, as Amended and Supplemented (the "Act"), N.J.S.A. 40:37A-1, et. seq. The Authority has broad powers under the Act including, among others, the following: to retain, operate and administer its property; to provide for bonds and to secure their payment and rights of holders thereof; to charge and collect service charges for the use of its facilities and to revise such service charges to ensure that the revenues of the Authority will at all times be adequate to pay all operating and maintenance and expenses, including reserves, insurance, extensions and replacements, and to pay the principal of and the interest on any bonds or loans, and to maintain such reserves or sinking funds therefore as may be required by the terms of any contract of the Authority; and to make and enforce rules and regulations for the management of its business and affairs.

The Authority is governed by a Board of Commissioners (the "Board") consisting of five members appointed by the County of Passaic Board of Chosen Freeholders. An Executive Director is appointed by the Board and functions as Chief Executive Officer responsible for the daily operations of the Authority.

**Component Unit**

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

**PASSAIC COUNTY IMPROVEMENT AUTHORITY**  
**(A Component Unit of the County of Passaic)**

**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 AND 2016**  
**(CONTINUED)**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting Entity**

**Component Unit, (continued)**

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

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

Based upon the application of these criteria, the Authority has no component units and is a component unit of the County of Passaic.

**B. Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The accounts of the Authority are organized on the basis of funds, in accordance with the various Bond Resolutions, each of which is considered a separate accounting activity. The operations of each system are accounted for with a separate set of self-balancing accounting records that comprise its assets, deferred inflows and outflows, liabilities, net position, revenues and expenses. Government resources are allocated and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various activities are grouped into one generic fund type and one broad fund category, as follows:

**Proprietary Fund Type**

*Enterprise Fund* - The Enterprise Fund is used to account for governmental operations which are financed and operated in a manner similar to private enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to its users on a continuing basis be financed or recovered primarily through user charges.

**PASSAIC COUNTY IMPROVEMENT AUTHORITY**  
**(A Component Unit of the County of Passaic)**

**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 AND 2016**  
**(CONTINUED)**

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

**B. Measurement Focus, Basis of Accounting and Financial Statement Presentation, (continued)**

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The Authority's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. All assets, all deferred inflows and outflows and all liabilities associated with these operations are included on the Statement of Net Position. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The Authority's financial transactions are recorded in accounts that are created by various resolutions adopted by the Authority to meet bond or note covenant requirements.

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management of the Authority to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates are used to determine useful lives of leasehold improvements and certain claims and judgment liabilities, among other accounts. Accordingly, actual results could differ from those estimates.

**Reclassifications**

Certain reclassifications have been made to the December 31, 2016 balances to conform to the December 31, 2017 presentation.

**PASSAIC COUNTY IMPROVEMENT AUTHORITY**  
**(A Component Unit of the County of Passaic)**

**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 AND 2016**  
**(CONTINUED)**

**C. Assets, Deferred Inflows and Outflows, Liabilities and Net Position**

**Cash, Cash Equivalents and Investments**

Cash and cash equivalents are considered to be cash on hand, cash in banks, certificates of deposit, deposits with the New Jersey Cash Management Fund and all short-term investments with original maturities of three months or less from the date of purchase. Investments are reported at market value and except for the operating accounts are limited by the 1997 Bond Resolution as amended and supplemented thereto. Operating account investments are limited by NJSA 40A:5-15.1 et seq.

**Inventory**

The costs of inventories are deemed immaterial and are recognized as expenses when purchased rather than when consumed. The Authority does not record inventory on its statement of net position.

**Accounts Receivable**

All receivables are reported at their gross value and where appropriate, are reduced by the estimated portion that is expected to be uncollectible. Changes in the allowance for uncollectibles is recorded as an adjustment to revenue or as bad debt expenses depending on its effect on current year or prior year allowance amounts and the results of those changes.

**Interfunds Receivable and Payable**

During the course of its operations, the Authority has numerous transactions between funds (accounts) to finance operations, provide services, construct assets, and retire debt. To the extent that certain transactions between the accounts had not been paid or received as of the balance sheet dates, balances of interfund amounts receivable and payable have not been recorded.

**Restricted Assets**

Certain assets are classified as restricted on the statement of net position because they are maintained in separate bank accounts and their use is limited by the various Bond Resolutions as amended and supplemented thereto.

**PASSAIC COUNTY IMPROVEMENT AUTHORITY**  
**(A Component Unit of the County of Passaic)**

**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 AND 2016**  
**(CONTINUED)**

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

C. **Assets, Deferred Inflows and Outflows, Liabilities and Net Position, (continued)**

**Deferred Outflows and Deferred Inflows of Resources**

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

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

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

**Compensated Absences**

Sick leave, personnel time, compensatory time and salary related payments and in certain instances vacation benefits are accrued as a liability as the benefits are earned if the employee's rights to receive compensation are attributable to services already rendered and it is probable that the Authority will compensate the employee for the benefits.

**Net Position**

Restricted net position is limited to outside third-party restrictions either by law or by other organizations or persons external to the Authority. Unrestricted net position represents the net position neither restricted nor invested in capital assets, net of related debt.

**PASSAIC COUNTY IMPROVEMENT AUTHORITY**  
**(A Component Unit of the County of Passaic)**

**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 AND 2016**  
**(CONTINUED)**

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

**C. Assets, Deferred Inflows and Outflows, Liabilities and Net Position, (continued)**

**Net Position Flow Assumption**

Sometimes the Authority will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted — net position and unrestricted — net position in the financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Authority's policy to consider restricted — net position to have been depleted before unrestricted — net position is applied.

**D. Revenues and Expenses**

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Authority are charges to customers for services. Operating expenses include the cost of operations and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. State and federal grants for the operation of the Authority are considered operating revenues. Transactions or other events that are both unusual in nature and infrequent in occurrence are reported as extraordinary items.

**2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**Budgets and Budgetary Accounting**

The Authority annually prepares operating budgets for the General Fund and Tourism Fund. The budgets are prepared in accordance with the Budget Manual for Local Public Authorities as promulgated by the Division of Local Government Services, Bureau of Authority Regulation, which differs in certain respects from accounting principles generally accepted in the United States of America. The budgets serve as a plan for expenses and the proposed means for financing them. Budgetary control is exercised within the respective system. Unexpended appropriations lapse at year end.

**PASSAIC COUNTY IMPROVEMENT AUTHORITY**  
**(A Component Unit of the County of Passaic)**

**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 AND 2016**  
**(CONTINUED)**

**2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY, (continued)**

The annual budgets are approved at least sixty days prior to the beginning of the fiscal year. The budgets must be approved by the Board and submitted to the Division of Local Government Services, Bureau of Authority Regulation for approval prior to adoption. Budget adoptions and amendments are recorded in the Authority's minutes.

The encumbrance method of accounting is utilized by the Authority for budgetary purposes. Under this method purchase orders, contracts and other commitments for expenditures of resources are recorded to reserve a portion of the applicable budget appropriation.

In accordance with accounting principles generally accepted in the United States of America, outstanding encumbrances at year-end for which goods or services are received, are classified to expenses and accounts payable. All other encumbrances in the annual budgeted funds are designated at year-end and are either cancelled or are included as reappropriations of unrestricted net position for the subsequent year.

**Revenues**

Service charge fees for managing the conduit debt are determined as part of the debt issue.

**3. DEPOSITS AND INVESTMENTS**

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

Bank balances are insured up to \$250,000 in the aggregate by the FDIC for each bank. SIPC replaces cash claims up to a maximum of \$250,000 for each failed brokerage firm. At December 31, 2017 and 2016, the book value of the Authority's deposits were \$709,994 and \$641,962, respectively, and bank balances of the Authority's cash and deposits amounted to \$719,738 and \$647,184, respectively.

**PASSAIC COUNTY IMPROVEMENT AUTHORITY**  
**(A Component Unit of the County of Passaic)**

**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 AND 2016**  
**(CONTINUED)**

**3. DEPOSITS AND INVESTMENTS, (continued)**

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

<u>Depository Account</u>	<u>2017</u>	<u>2016</u>
Insured:		
Restricted	\$18,105	\$19,651
Unrestricted	<u>691,889</u>	<u>622,311</u>
	<u>\$709,994</u>	<u>\$641,962</u>

**Custodial Credit Risk - Deposits** - Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Authority does not have a formal policy for custodial credit risk. As of December 31, 2017, none of the Authority's bank balances were exposed to custodial credit risk.

**4. USER CHARGES AND OTHER FEES RECEIVABLE**

User charges and other fees receivable at December 31, 2017 and 2016 consisted of the following:

	<u>2017</u>	<u>2016</u>
Accounts Receivable - Administrative Fees	<u>\$18,032</u>	<u>\$30,096</u>
Gross Accounts Receivable	<u>\$18,032</u>	<u>\$30,096</u>

**5. CONDUIT DEBT OBLIGATIONS**

The Authority has issued debt on behalf of third-party entities. The Authority has no obligation for the debt beyond the resources provided by the related leases or loans, and, accordingly, the debt is not reflected as a liability in the accompanying financial statements.



**PASSAIC COUNTY IMPROVEMENT AUTHORITY**  
**(A Component Unit of the County of Passaic)**

**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 AND 2016**  
**(CONTINUED)**

**5. CONDUIT DEBT OBLIGATIONS, (continued)**

The Authority's conduit debt activity for the year ending December 31, 2017 is as follows:

	Balance		Balance
	<u>Dec. 31, 2016</u>	<u>Issued</u>	<u>Dec. 31, 2017</u>
2005 Parking Facility Revenue Bonds	\$14,905,000	\$	\$14,395,000
2009 Capital Equipment Lease Revenue Bonds	6,992,000		6,542,000
2010 Yashiva K"Tana Revenue Refund Bonds	18,183,617		17,496,882
2010 Hospital Plaza Corporation Project Bonds	27,220,000		2,015,000
2010 Recovery Zone Project Bonds	8,241,000		7,852,000
2012 Lease Revenue Refunding Bonds for Preakness Healthcare Center Expansion Project	54,875,000		52,875,000
2013 Banc Program	715,637		257,648
2014 Banc Program	12,587,010		12,587,010
2015 Government Loan Revenue for City of Paterson Project	19,885,000		17,015,000
2015 Lease Revenue Refunding Bonds for Prosecutor's Office Building Project	3,215,000		2,915,000
2015 Lease Revenue Refunding Bonds for Preakness Healthcare Center Expansion Project	19,550,000		18,920,000
2015 Banc Program	2,407,013		1,821,176
2016 Banc Program	2,040,601		1,605,049
2016 Governmental Loan Revenue Bond Anticipation Notes	14,340,000		0
2017 Banc Program		1,233,000	1,104,321
2017 Governmental Loan Revenue Bonds for City of Paterson Project		33,835,000	33,835,000
2017 Hospital Plaza Corporation Project Refunding Bonds		<u>24,650,000</u>	<u>24,650,000</u>
	<u>\$205,156,878</u>	<u>\$59,718,000</u>	<u>\$50,330,003</u>
			<u>\$214,544,875</u>

(A) The \$18,370,000 Parking Facility Revenue Bonds, Series 2005 (Paterson Parking Authority) are comprised of:

The \$14,535,000 Series A (tax exempt) bonds are payable in annual installments ranging from \$425,000 in 2018 to \$565,000 in 2025 at interest rates ranging from 4.0% to 4.5%.

The \$3,835,000 Series B (taxable) bonds are payable in annual installments ranging from \$105,000 in 2018 to \$155,000 in 2025 at interest rates ranging from 5.25% 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, 2017 are subject to redemption.

**PASSAIC COUNTY IMPROVEMENT AUTHORITY**  
**(A Component Unit of the County of Passaic)**

**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 AND 2016**  
**(CONTINUED)**

**5. CONDUIT DEBT OBLIGATIONS, (continued)**

- (B) 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 \$650,000 in 2018 to \$1,075,000 in 2023. The bonds bear interest at rates ranging from 4.00% to 5.5% and a term bond of \$1,587,000 at 5.5%, due October 1, 2025.

- (C) 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 \$54,977.63 on January 1, 2018 to \$111,963.27 on September 5, 2035.

- (D) 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 \$655,000 in 2018 to \$690,000 in 2020. The bonds bear interest at rates ranging from 2.5% to 3%.

- (E) 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 4.91% to 6.54%.

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

- (F) 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 \$2,105,000 in 2018 to \$3,915,000 in 2035. The bonds bear interest at rates ranging from 2.125% to 5%.

- (G) The \$2,876,647 Banc Program for 2013 for leases for various school districts.

The final remaining installment for \$257,648 is payable in 2018.

- (H) The \$14,323,631 Banc Program for 2014 for lease for various school districts.

**PASSAIC COUNTY IMPROVEMENT AUTHORITY**  
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**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 AND 2016**  
**(CONTINUED)**

**5. CONDUIT DEBT OBLIGATIONS, (continued)**

The lease payments are payable in annual installments ranging from \$928,446 in 2018 to \$975,144 in 2030. The lease payments bear interest at rates ranging from 1.65% to 2.93%.

- (I) The \$24,795,000 Governmental Loan Revenue Board for 2015 for the City of Paterson Project.

The remaining bonds are payable in annual installments ranging from \$1,995,000 in 2018 to \$1,135,000 in 2031. The bonds bear interest at 5.00%.

- (J) The \$3,510,000 Lease Revenue Refunding Bonds for Prosecutor's Office Building Series 2015.

The remaining bonds are payable in annual installments ranging from \$310,000 in 2018 to \$430,000 in 2025. The bonds bear interest at rates ranging from 3.00% to 5.00%.

- (K) The \$19,550,000 Lease Revenue Refunding Bonds for Preakness Healthcare Center Expansion Project Series 2015.

The remaining bonds are payable in annual installments ranging from \$655,000 in 2018 to \$1,375,000 in 2036. The bonds bear interest at rates ranging from 3.00% to 5.00%.

- (L) The \$3,344,949 Banc Program for 2015 for leases for various school districts.

The lease payments are payable in annual and semi-annual payments from \$596,322 in 2018 to \$585,836 in 2020. The lease payments bear interest at rates ranging from 1.70% to 1.82%.

- (M) The \$2,178,484 Banc Program for 2016 for leases for various school districts.

The lease payments are payable in annual and semi-annual payments from \$674,869 in 2018 to \$195,043 in 2023. The lease payments bear interest at rates ranging from 1.50% to 1.9%.

- (N) The \$1,233,000 Banc Program for 2017 for leases for various school districts.

The lease payments are payable in annual payments from \$128,679 to \$84,862. The lease payments bear interest at rates ranging from 1.7% to 1.9%.

- (O) The \$33,835,000 Governmental Loan Revenue Bonds for 2017 for the City of Paterson Project.

The remaining Bonds are payable in annual installments ranging from \$2,855,000 in 2018 to \$1,640,000 in 2037 at interest rates ranging from 2.0% to 5.0%.

**PASSAIC COUNTY IMPROVEMENT AUTHORITY**  
**(A Component Unit of the County of Passaic)**

**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 AND 2016**  
**(CONTINUED)**

**5. CONDUIT DEBT OBLIGATIONS, (continued)**

(P) The \$24,650,000 County Guaranteed 200 Hospital Plaza Corporation Project Refunding Bonds.

The remaining bonds are payable in annual installments ranging from \$145,000 in 2018 to \$1,660,000 in 2042. The bonds bear interest at rates ranging from 2.0% to 5.0%.

These are direct financing leases with participants that have parallel repayment terms to provide the funds for this indebtedness.

**6. LITIGATION**

The Authority's management and attorney have informed them that they are unaware of any material commitments and contingencies that would have a material effect on the financial statements.

**7. PENSION PLANS**

Description of Plans:

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

*Public Employees' Retirement System (PERS)*

Plan Description

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

Benefits Provided

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

**PASSAIC COUNTY IMPROVEMENT AUTHORITY**  
**(A Component Unit of the County of Passaic)**

**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 AND 2016**  
**(CONTINUED)**

**7. PENSION PLAN, (continued)**

Benefits Provided, (continued)

<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 1/55<sup>th</sup> 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 1/60<sup>th</sup> of final average salary for each year of service credit is available to Tier 4 members upon reaching age 62 and to Tier 5 members upon reaching age 65. Early retirement benefits are available to Tiers 1 and 2 members before reaching age 60, to Tiers 3 and 4 before age 62 with 25 or more years of service credit and Tier 5 with 30 or more years of service credit before age 65. Benefits are reduced by a fraction of a percent for each month that a member retires prior to the age at which a member can receive full early retirement benefits in accordance with their respective tier. Tier 1 members can receive an unreduced benefit from age 50 to age 60 if they have at least 25 years of service. Deferred retirement is available to members who have at least 10 years of service credit and have not reached the service retirement age for the respective tier.

Defined Contribution Retirement Program

Prudential Financial jointly administers the DCRP investments with the NJ Division of Pensions and Benefits. If an employee is ineligible to enroll in the PERS 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 expanded under the provisions of Chapter 89, P.L. 2008. Employee contributions for DCRP are matched by a 3% employer contribution.

**PASSAIC COUNTY IMPROVEMENT AUTHORITY**  
**(A Component Unit of the County of Passaic)**

**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 AND 2016**  
**(CONTINUED)**

**7. PENSION PLAN, (continued)**

Contribution Requirements

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

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

<u>Fiscal</u> <u>Year</u>	<u>PERS</u>
2017	\$12,542
2016	11,348
2015	10,855

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

**Public Employees Retirement System (PERS)**

At December 31, 2017, the Authority reported a liability of \$315,180 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Authority's proportion of the net pension liability was based on a projection of the Authority's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2017, the Authority's proportion was 0.0013539607 percent, which was an increase of 0.0000003044 percent from its proportion measured as of June 30, 2016.

For the year ended December 31, 2017, the Authority recognized pension expense of \$24,087. At December 31, 2017, the Authority reported deferred outflows of resources and deferred inflows of resources related to PERS from the following sources:

**PASSAIC COUNTY IMPROVEMENT AUTHORITY**  
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**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 AND 2016**  
**(CONTINUED)**

7. **PENSION PLAN, (continued)**

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

**Public Employees Retirement System (PERS), (continued)**

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$7,421	\$
Changes of assumptions	63,498	63,265
Net difference between projected and actual earnings on pension plan investments	2,146	
Changes in proportion and differences between Authority contributions and proportionate share of contributions		
Authority contributions subsequent to the measurement date	<u>6,174</u>	<u>227</u>
Total	<u>\$79,239</u>	<u>\$63,492</u>

Amounts reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date (June 30, 2017) will be recognized as a reduction of the net pension liability in the subsequent year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions (excluding changes in proportion) will be recognized in pension expense as follows:

Year ended December 31:	
2018	\$7,420
2019	11,196
2020	6,784
2021	(9,023)
2022	(6,577)

**Changes in Proportion**

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

**PASSAIC COUNTY IMPROVEMENT AUTHORITY**  
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**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 AND 2016**  
**(CONTINUED)**

**7. PENSION PLAN, (continued)**

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

**Public Employees Retirement System (PERS), (continued)**

**Additional Information**

Local Group Collective balances at December 31, 2017 and 2016 are as follows:

	<u>Dec. 31, 2017</u>	<u>Dec. 31, 2016</u>
Collective deferred outflows of resources	\$6,424,455,842	\$8,685,338,380
Collective deferred inflows of resources	5,700,625,981	870,133,595
Collective net pension liability	23,278,401,588	29,617,131,759
Authority's Proportion	0.0013539607%	0.0013235242%

**Actuarial Assumptions**

The total pension liability for the June 30, 2017 measurement date was determined by an actuarial valuation as of July 1, 2016, which rolled forward to June 30, 2017. This actuarial valuation used the following assumptions, applied to all periods in the measurement.

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

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2011 to June 30, 2014. It is likely that future experience will not exactly conform to these assumptions. To the extent that actual experience deviates from these assumptions, the emerging liabilities may be higher or lower than anticipated. The more the experience deviates, the larger the impact on future financial statements.



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**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 AND 2016**  
**(CONTINUED)**

7. **PENSION PLAN, (continued)**

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

**Public Employees Retirement System (PERS), (continued)**

**Mortality Rates**

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

**Long-Term Rate of Return**

In accordance with State statute, the long-term expected rate of return on plan investments (7.00% at June 30, 2017) is determined by the State Treasurer, after consultation with the Directors of the Division of Investments and Division of Pensions and Benefits, the board of trustees and the actuaries. The long-term expected rate of return was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in PERS's target asset allocation as of June 30, 2017 are summarized in the following table:

**PASSAIC COUNTY IMPROVEMENT AUTHORITY**  
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**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 AND 2016**  
**(CONTINUED)**

7. **PENSION PLAN, (continued)**

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

**Public Employees Retirement System (PERS), (continued)**

**Long-Term Rate of Return, (continued)**

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

**Discount Rate**

The discount rate used to measure the total pension liability was 5.00% as of June 30, 2017. This single blended discount rate was based on the long-term expected rate of return on pension plan investments of 7.00% and a municipal bond rate of 3.58% as of June 30, 2017 based on the Bond Buyer GO 20-Bond Municipal Bond Index, which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made based on the contribution rate in the most recent fiscal year. The State employer contributed 40% of the actuarially determined contributions and the local employers contributed 100% of their actuarially determined contributions. Based on those assumptions, the plan's fiduciary net position was projected to be available to make projected future benefit payments of current plan members through 2040. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2040 and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liability.

**PASSAIC COUNTY IMPROVEMENT AUTHORITY**  
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**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 AND 2016**  
**(CONTINUED)**

7. **PENSION PLAN, (continued)**

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

**Public Employees Retirement System (PERS), (continued)**

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

The following presents the collective net pension liability of the participating employers as of June 30, 2017 respectively, calculated using the discount rate as disclosed above as well as what the collective net pension liability would be if it was calculated using a discount rate that is 1 -percentage point lower or 1- percentage-point higher than the current rate:

	June 30, 2017		
	1% Decrease <u>4.00%</u>	At Current Discount Rate <u>5.00%</u>	1% Increase <u>6.00%</u>
Authority's proportionate share of the pension liability	\$391,003	\$315,180	\$252,011

**Pension Plan Fiduciary Net Position**

Detailed information about the pension plan's fiduciary net position is available in the separately issued Financial Report for the State of New Jersey Public Employees Retirement System (PERS). The financial report may be accessed at [www.state.nj.us/treasury/pensions](http://www.state.nj.us/treasury/pensions).

8. **RECENT ACCOUNTING PRONOUNCEMENTS**

The Government Accounting Standards Board issued GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. This Statement applies to government employers who provided OPEB plans to their employees and basically parallels GASB Statement 68 and replaces GASB Statement 45. The Statement is effective for fiscal years beginning after June 15, 2017. The Authority does not believe this Statement will have any effect on future financial statements.

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**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 AND 2016**  
**(CONTINUED)**

**8. RECENT ACCOUNTING PRONOUNCEMENTS, (continued)**

The Government Accounting Standards Board issued GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which reduces the GAAP hierarchy to two categories of authoritative GAAP from the four categories under GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The first category of authoritative GAAP consists of GASB Statements of Governmental Accounting Standards. The second category comprises GASB Technical Bulletins and Implementation Guides, as well as guidance from the American Institute of Certified Public Accountants that is cleared by the GASB. The Authority does not believe this Statement will have any effect on future financial statements.

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

The Government Accounting Standards Board issued GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, which establishes the criteria for identifying the applicable pension plans and addresses measurement and recognition for pension liabilities, expense and expenditures; note disclosures of descriptive information about the plan, benefit terms, and contributions items; and required supplementary information presenting required contribution amounts for the past 10 fiscal years. The Authority does not believe this Statement will have any effect on future financial statements.

The Government Accounting Standards Board issued GASB Statement No. 79, *Certain External Investment Pools and Pool Participation*, which permits qualifying external investment pools to measure pool investments at amortized cost for financial reporting purposes. The Authority does not believe this Statement will have any effect on future financial statements.

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

**PASSAIC COUNTY IMPROVEMENT AUTHORITY**  
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**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 AND 2016**  
**(CONTINUED)**

**8. RECENT ACCOUNTING PRONOUNCEMENTS, (continued)**

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

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

In November 2016, the Government Accounting Standards Board issued GASB Statement No. 83, Certain Asset Retirement Obligations. This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflows of resources for asset retirement obligations (AROs). The Authority does not believe this Statement will have any effect on future financial statements.

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

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

**PASSAIC COUNTY IMPROVEMENT AUTHORITY**  
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**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 AND 2016**  
**(CONTINUED)**

**8. RECENT ACCOUNTING PRONOUNCEMENTS, (continued)**

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

In June 2017, the Governmental Accounting Standards Board issued GASB Statement No. 87, *Leases*, which is intended to increase the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, as a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about the government's leasing activities. The Authority is currently reviewing what effect, if any, this Statement might have on future financial statements.

**9. OTHER INFORMATION**

**A. Local Finance Board Applications**

The Authority is preparing several applications to the Local Finance Board to issue new conduit on behalf of some local governments.

**B. Risk Management**

The Authority is exposed to various risks of loss related to property, general liability, automobile coverage, theft of, damage to and destruction of assets; errors and omissions; injuries to employees; termination of employees and natural disasters. The Authority has obtained commercial insurance coverage to guard against these events to minimize the exposure to the Authority should they occur.

**PASSAIC COUNTY IMPROVEMENT AUTHORITY**  
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**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 AND 2016**  
**(CONTINUED)**

**9. OTHER INFORMATION, (continued)**

There has been no significant reduction in insurance coverage from the previous year nor have there been any settlements in excess of insurance coverage's in any of the prior three years.

The Authority has joined the County of Passaic self insured health and prescription benefits plan for its employees. The participating members fund the entire cost of the plan. Claims are paid directly by the plan.

The Authority is a member of the County of Passaic's Self Insurance pool for property, general liability and automobile liability.

The relationship between the Authority and the County of Passaic is governed by a contract and by-laws that have been adopted by resolution of the unit's governing body. The Authority has agreed to pay an annual installment based on a computation of the Authority's share of the County's premium as provided by the County. In return for this, the County of Passaic administers the Authority's insurance funds.

**10. SUBSEQUENT EVENTS**

In February of 2018, the Authority approved the issuance of \$17,000,000 Lease Revenue Bonds for a DPW Building Project.

The Authority has evaluated subsequent events through June 6, 2018, the date which the financial statements were available to be issued and no additional items, except as noted above, were noted for disclosure.

**Required Supplementary Information**



**PASSIAC COUNTY IMPROVEMENT AUTHORITY**  
**Schedules of Required Supplementary Information**  
**Schedule of Authority's Share of Net Pension Liability - PERS**  
*Last 10 Fiscal Years\**

	2017	2016	2015	2014
Authority's proportion of the net pension liability (asset)	0.0135396070%	0.0013235242%	0.0013199465%	0.0013167382%
Authority's proportionate share of the net pension liability (asset)	\$ 315,180	\$ 391,990	\$ 296,302	\$ 246,529
Authority's covered payroll - PERS	\$ 97,403	\$ 96,867	\$ 93,370	\$ 91,054
Authority's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	323.58%	404.67%	317.34%	270.75%

\* GASB requires that ten years of information be presented. However, since 2015 was the first year of GASB 68 implementation ten years is not presented. Each year thereafter, an additional year will be included until ten years of data is presented.

**PASSIAC COUNTY IMPROVEMENT AUTHORITY**  
**Schedules of Required Supplementary Information**  
**Schedule of Authority's Contributions - PERS**  
*Last 10 Fiscal Years\**

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	12,543	11,348	10,855	11,074
Contributions in relation to the contractually required contribution	<u>(12,543)</u>	<u>(11,348)</u>	<u>(10,855)</u>	<u>(11,074)</u>
Contribution deficiency (excess)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Authority's covered payroll - PERS	\$ 97,403	\$ 96,867	\$ 93,370	\$ 91,054
Contributions as a percentage of covered payroll	12.88%	11.72%	11.63%	12.16%

\* GASB requires that ten years of information be presented. However, since 2015 was the first year of GASB 68 implementation ten years is not presented. Each year thereafter, an additional year will be included until ten years of data is presented.

**PASSIAC COUNTY IMPROVEMENT AUTHORITY**  
**Note to Required Schedules of Supplementary Information - Part III**  
**For the Year Ended December 31, 2017**

PUBLIC EMPLOYEES RETIREMENT SYSTEM (PERS)

Change in benefit terms

None

Change in assumptions

The calculation of the discount rate used to measure the total pension liability is dependent upon the long-term expected rate of return, and the municipal bond index rate. There was a change in the municipal bond index rate from the prior measurement date (3.29%) to the current measurement date (3.58%), resulting in a change in the discount rate from 3.98% to 5.00%. This change in the discount rate is considered to be a change in actuarial assumptions under GASBS No. 68.

**Supplemental Schedules**

**PASSAIC COUNTY IMPROVEMENT AUTHORITY**  
**(A Component Unit of the County of Passaic)**  
**COMBINING SCHEDULE OF NET POSITION**  
**AS OF DECEMBER 31, 2017**

	Administrative Fund	Tourism Fund	Total
<b><u>ASSETS</u></b>			
Unrestricted Current Assets			
Cash and Cash Equivalents	\$ 691,889	18,105	709,994
Accounts Receivable (Net)	17,659		17,659
Due From Restricted Fund	373		373
Prepaid Expenses	1,500		1,500
Total Unrestricted Current Assets	711,421	18,105	729,526
Total Assets	711,421	18,105	729,526
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred Outflows - PERS	79,239		79,239
Total Deferred Outflows of Resources	79,239	-	79,239
Total Assets and Deferred Outflows of Resources	\$ 790,660	18,105	808,765
<b>LIABILITIES</b>			
Current Liabilities (Payable from Unrestricted Assets)			
Accrued Expenses and Other Current Liabilities	\$ 125,635		125,635
Total Current Liabilities	125,635	-	125,635
Non-Current Liabilities:			
Net Pension Liability - PERS	315,180		315,180
Total Non-Current Liabilities	315,180	-	315,180
Total Liabilities	440,815	-	440,815
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred Inflows - PERS	63,492		63,492
Total Deferred Inflows of Resources	63,492	-	63,492
Total Liabilities and Deferred Inflows of Resources	504,307	-	504,307
<b>NET POSITION</b>			
Restricted For:			
Tourism		18,105	18,105
Unrestricted	286,353		286,353
Total Net Position	\$ 286,353	18,105	304,458

**PASSAIC COUNTY IMPROVEMENT AUTHORITY**  
**(A Component Unit of the County of Passaic)**  
**COMBINING SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**AS OF DECEMBER 31, 2017**

<u>REVENUES</u>	Administrative Fund	Tourism Fund	Total
2005 Paterson Parking Project	\$ 19,905		19,905
2010 Revenue Refunding-Yeshiva K'Tana	17,444		17,444
2010 200 Hospital Plaza Corporation Project	27,220		27,220
2010 Recovery Zone Project	7,852		7,852
2012 Preakness Healthcare Center Expansion Project Refunding Bonds	27,437		27,437
2015 Preakness Healthcare Center Expansion Project Refunding Bonds	21,835		21,835
2015 City of Paterson Project	9,943		9,943
Bancing Program	45,622		45,622
Financing Fees	84,430		84,430
Monitoring Fees	24,000		24,000
Total Operating Revenues	<u>285,688</u>	<u>-</u>	<u>285,688</u>
 <b>OPERATING EXPENSE</b>			
Salary and Wages	\$ 95,749	1,654	97,403
Fringe Benegfits	31,369		31,369
Pension	35,845		35,845
Payroll Taxes	6,358		6,358
Professional services	47,662		47,662
Other Expenses	31,929		31,929
Total Operating Expenses	<u>248,912</u>	<u>1,654</u>	<u>250,566</u>
<b>OPERATING INCOME (LOSS)</b>	<u>36,776</u>	<u>(1,654)</u>	<u>35,122</u>
 <b>NON-OPERATING INCOME (EXPENSE)</b>			
Interest Income	3,716	108	3,824
Total Non-Operating Income (Expenses)	<u>3,716</u>	<u>108</u>	<u>3,824</u>
<b>CHANGE IN NET POSITION</b>	40,492	(1,546)	38,946
Total Net Position, January 1,	<u>245,861</u>	<u>19,651</u>	<u>265,512</u>
Total Net Position, December 31,	<u>\$ 286,353</u>	<u>18,105</u>	<u>304,458</u>

**PASSAIC COUNTY IMPROVEMENT AUTHORITY**  
**(A Component Unit of the County of Passaic)**  
**SCHEDULE OF REVENUES AND EXPENSES COMPARED TO BUDGET**  
**ADMINISTRATIVE FUND**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**  
**BUDGETARY BASIS**

(With Comparative Amounts for the Year Ended December 31, 2016)

	2017	2017	Variance	2016
	<u>Budget</u>	<u>Actual</u>	<u>Excess</u> <u>(Deficit)</u>	<u>Actual</u>
<b>OPERATING REVENUES</b>				
Annual Administration Fees	\$ 131,636	285,688	154,052	219,831
Development and Financial Assistance	15,700,134		(15,700,134)	
Miscellaneous	<u>11,575</u>		<u>(11,575)</u>	
Total Operating Revenues	<u>\$ 15,843,345</u>	<u>285,688</u>	<u>(15,557,657)</u>	<u>219,831</u>
<b>NON-OPERATING REVENUES</b>				
Interest on Investments and Deposits	<u>2,400</u>	<u>3,716</u>	<u>1,316</u>	<u>3,516</u>
Total Non-Operating Revenues	<u>2,400</u>	<u>3,716</u>	<u>1,316</u>	<u>3,516</u>
Total Revenues	<u>15,845,745</u>	<u>289,404</u>	<u>(15,556,341)</u>	<u>223,347</u>
<b>OPERATING APPROPRIATIONS</b>				
<b>ADMINISTRATION</b>				
Salaries and Wages	96,637	95,749	888	96,867
Fringe Benefits	45,500	31,369	14,131	48,958
Other Expenses	126,505	97,707	28,798	88,641
Principal Payments on Debt Service in Lieu of Depreciation	<u>8,475,705</u>		<u>8,475,705</u>	
Total Operating Appropriations	<u>8,744,347</u>	<u>224,825</u>	<u>8,519,522</u>	<u>234,466</u>
<b>NON-OPERATING APPROPRIATIONS</b>				
Interest Payments on Debt	<u>7,224,430</u>		<u>7,224,430</u>	
Total Non-Operating Appropriations	<u>7,224,430</u>	<u>-</u>	<u>7,224,430</u>	<u>-</u>
Total Appropriations	<u>15,968,777</u>	<u>224,825</u>	<u>15,743,952</u>	<u>234,466</u>
<b>Total Budgetary Income (Loss)</b>	<u>(123,032)</u>	<u>64,579</u>	<u>187,611</u>	<u>(11,119)</u>
<b>Reconciliation of Budgetary Income (Loss)</b>				
<b>To Change in Net Position (GAAP)</b>				
<b>Decreases to Budgetary Income (Loss):</b>				
Adjustment to Pension Expense		<u>(24,087)</u>		<u>(36,990)</u>
<b>Change in Net Position - GAAP</b>		<u>40,492</u>		<u>(48,109)</u>

**PASSAIC COUNTY IMPROVEMENT AUTHORITY  
(A Component Unit of the County of Passaic)**

**\* \* \* \* \***

**COMMENTS AND RECOMMENDATIONS**

**YEAR ENDED DECEMBER 31, 2017**



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

Charles J. Ferraioli, Jr., MBA, CPA, RMA  
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## **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Honorable Chairperson and Commissioners  
Passaic County Improvement Authority  
930 Riverview Drive, Suite 250  
Totowa, NJ 07512

We have audited, in accordance with auditing standards generally accepted in the United States of America; audit requirements as prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey; and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Passaic County Improvement Authority, as of and for the year ended December 31, 2017, and the related notes to the financial statements, and have issued our report thereon dated June 6, 2018.

### ***Internal Control Over Financial Reporting***

In planning and performing our audit on the financial statements, we considered the Passaic County Improvement 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 Passaic County Improvement Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Passaic County Improvement Authority's internal control.

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

Honorable Chairman and Members of the  
Passaic County Improvement Authority  
Page 2.

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

### ***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the Passaic County Improvement 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.

*Ferraioli, Wielkocz, Cerullo & Cuva, P.A.*

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

June 6, 2018

**PASSAIC COUNTY IMPROVEMENT AUTHORITY  
(A Component Unit of the County of Passaic)**

**GENERAL COMMENTS**

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

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

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

N.J.S.A. 40A:11-4 states that every contract awarded by the contracting agent for the provision or performance of any goods or services, the cost of which in the aggregate exceeds the bid threshold, shall be awarded only by resolution of the governing body of the contracting unit to the lowest responsible bidder after public advertising for bids and bidding therefor, except as is provided otherwise in this act of specifically by any other law. The governing body of a contracting unit may, by resolution approved by a majority of the governing body and subject to subsections b. and c. of this section, disqualify a bidder who would otherwise be determined to be the lowest responsible bidder, if the governing body finds that it has had prior negative experience with the bidder.

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

N.J.S.A. 40A:11-15 was amended with P.L. 1999, c.440 to extend the base contract period. “Any contract made pursuant to this section may be awarded for a period of 24 consecutive months, except that contracts for professional services pursuant to paragraph (1) of subsection (a) of N.J.S.A. 40A:11-5 may be awarded for a period not exceeding 12 consecutive months.”

**PASSAIC COUNTY IMPROVEMENT AUTHORITY  
(A Component Unit of the County of Passaic)**

**GENERAL COMMENTS  
(CONTINUED)**

The governing body of the Authority has the responsibility of determining whether the expenditures in any category will exceed the statutory threshold within the contract year. Where question arises as to whether any contract or agreement might result in violation of the statute, the Authority Counsel's opinion should be sought before a commitment is made.

Resolutions were adopted authorizing the awarding of contracts and agreements for "Professional Services" N.J.S. 40A:11-5.

Inasmuch as the system of records did not provide for an accumulation of payments for categories for the performance of any work or the furnishing or hiring of any material or supplies, the results of such an accumulation could not reasonably be ascertained. Disbursements were reviewed, however, to determine whether any clear cut violation existed. No violations were disclosed.

The results of our examination indicated that no individual payments, contracts, or agreements were made "for the performance of any work or the furnishing or hiring of any materials or supplies," in excess of the statutory thresholds where there had been no advertising for bids in accordance with the provision of N.J.S.A. 40A:11-4.

**PASSAIC COUNTY IMPROVEMENT AUTHORITY  
(A Component Unit of the County of Passaic)**

**SCHEDULE OF FINDINGS  
YEAR ENDED DECEMBER 31, 2017**

**FINDINGS**

NONE

**PASSAIC COUNTY IMPROVEMENT AUTHORITY  
(A Component Unit of the County of Passaic)**

**STATUS OF PRIOR YEAR AUDIT FINDINGS/RECOMMENDATIONS**

Problems and weaknesses noted in our review were not of such magnitude that they would affect our ability to express an opinion on the financial statements taken as a whole.

We wish to thank the Passaic County Improvement Authority for their cooperation during the performance of our audit.

Respectfully submitted,

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

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