

**PASSAIC REDEVELOPMENT AGENCY**

**(A component unit of the City of Passaic)**

**REPORT OF AUDIT**

**FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**

# PASSAIC REDEVELOPMENT AGENCY

## TABLE OF CONTENTS

	<u>Page</u>
<b><u>Exhibit</u></b>	
Independent Auditors' Report	1-2
Management's Discussion and Analysis (MD&A)	3-5
<b><u>Basic Financial Statements</u></b>	
A Comparative Statements of Net Assets as of June 30, 2012 and 2011	6
B Comparative Statements of Revenues, Expenses and Changes in Net Assets for the Years Ended June 30, 2012 and 2011	7
C Comparative Statement of Cash Flows for the Years Ended June 30, 2012 and 2011	8-9
Notes to the Basic Financial Statements	10-17
<b><u>Supplementary Schedule</u></b>	
1 Schedule of Revenues and Expenses Compared to Budget for the Year Ended June 30, 2012 – Budgetary Basis	18
<b><u>Government Auditing Standards</u></b>	
Report on Internal Controls over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards	19-20
<b>Roster of Officials as of June 30, 2012</b>	21
<b>Comments/Recommendations</b>	22
<b>Appreciation</b>	22

# LERCH, VINCI & HIGGINS, LLP

CERTIFIED PUBLIC ACCOUNTANTS  
REGISTERED MUNICIPAL ACCOUNTANTS

17 - 17 ROUTE 208

FAIR LAWN, NJ 07410

TELEPHONE (201) 791-7100

FACSIMILE (201) 791-3035

WWW.LVHCPA.COM

DIETER P. LERCH, CPA, RMA, PSA  
GARY J. VINCI, CPA, RMA, PSA  
GARY W. HIGGINS, CPA, RMA, PSA  
JEFFREY C. BLISS, CPA, RMA, PSA  
PAUL J. LERCH, CPA, RMA, PSA  
DONNA L. JAPHET, CPA, PSA  
JULIUS B. CONSONI, CPA, PSA

ELIZABETH A. SHICK, CPA, RMA, PSA  
ANDREW PARENTE, CPA, RMA, PSA  
ROBERT W. HAAG, CPA, PSA  
DEBORAH K. LERCH, CPA, PSA  
DEBRA GOLLE, CPA  
CINDY JANACEK, CPA, RMA  
RALPH M. PICONE, CPA, RMA, PSA  
EDWARD N. KERE, CPA

## INDEPENDENT AUDITOR'S REPORT

The Board of Commissioners  
Passaic Redevelopment Agency  
Passaic, New Jersey

We have audited the accompanying basic financial statements of the Passaic Redevelopment Agency ("the Agency"), a component unit of the City of Passaic, as of and for the years ended June 30, 2012 and 2011 as listed in the table of contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audits.

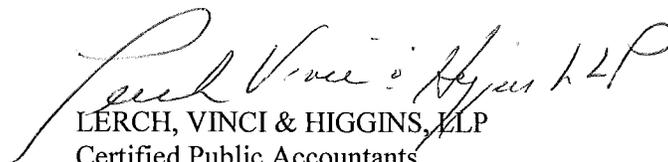
We conducted our audits in accordance with auditing standards generally accepted in the United States of America; audit requirements prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey; and Government Auditing Standards, issued by the Comptroller 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 includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Passaic Redevelopment Agency's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Passaic Redevelopment Agency as of June 30, 2012 and 2011, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued a report dated December 18, 2012 on our consideration of the Agency's internal control structure over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts and grants, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of our audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information 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 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.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the Passaic Redevelopment Agency taken as a whole. The accompanying supplementary schedule listed in the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements of the Passaic Redevelopment Agency. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

  
LERCH, VINCI & HIGGINS, LLP  
Certified Public Accountants  
Registered Municipal Accountants

Fair Lawn, New Jersey  
December 18, 2012

**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD & A)**

**PASSAIC REDEVELOPMENT AGENCY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2012**

This section of the Passaic Redevelopment Agency's ("Agency") annual financial report presents our discussion and analysis of the Agency's financial performance during the fiscal year ended on June 30, 2012. Please read it in conjunction with the Agency's financial statements and accompanying notes.

**FINANCIAL HIGHLIGHTS**

- The Agency's assets exceeded its liabilities at June 30, 2012 by \$107,608.
- The Agency's total assets decreased \$1,556,105 (91%)
- Operating Revenues decreased by \$2,917,104 (100%)
- Operating Expenses increased by \$2,865,795 (99%)
- Operating Income decreased by \$51,309 (370%)

**OVERVIEW OF FINANCIAL STATEMENTS**

This annual financial report consists of two parts: Management's Discussion and Analysis (this section) and the basic financial statements. The Agency is a self-supporting entity and follows enterprise fund reporting; accordingly, the financial statements are presented using the economic resources measurement focus and the accrual basis of accounting.

Enterprise Fund statements offer short-term and long-term financial information about the activities and operations of the Authority. These statements are presented in the (Government Accounting Standards Board "GASB") prescribed manner.

**FINANCIAL ANALYSIS OF THE AGENCY**

*Net Assets* – The following table summarizes the Statement of Net Asset between June 30, 2012, 2011 and 2010:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Current and Other Assets	\$ 154,357	\$ 1,710,462	\$ 149,798
Total Assets	<u>154,357</u>	<u>1,710,462</u>	<u>149,798</u>
Other Liabilities	<u>46,749</u>	<u>1,567,149</u>	<u>21,791</u>
Total Liabilities	<u>46,749</u>	<u>1,567,149</u>	<u>21,791</u>
Net Assets:			
Unrestricted	<u>107,608</u>	<u>143,313</u>	<u>128,007</u>
Total Net Assets	<u>\$ 107,608</u>	<u>\$ 143,313</u>	<u>\$ 128,007</u>

**PASSAIC REDEVELOPMENT AGENCY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2012  
(Continued)**

**FINANCIAL ANALYSIS OF THE AGENCY (Continued)**

The Agency's Net Assets decreased \$35,705 or 25%. Key elements of this decrease are from reduced revenues from City contribution of property which was realized in the Agency's 2011 fiscal year.

**OPERATING ACTIVITIES**

The following table summarizes the changes in Net Assets between fiscal years 2012, 2011 and 2010:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
OPERATING REVENUES			
Redevelopers' Fees and Contributions	\$ 1,520	\$ 10,000	
Contribution of Property Held for Redevelopment		2,358,624	
Judgments		500,000	
Intergovernmental Contributions		50,000	50,100
Miscellaneous Fees	-	-	2,500
Total Operating Revenues	<u>1,520</u>	<u>2,918,624</u>	<u>52,600</u>
OPERATING EXPENSES			
Administration	38,691	36,115	26,451
Cost of Providing Services	<u>253</u>	<u>2,868,624</u>	<u>-</u>
Total Operating Expenses	<u>38,944</u>	<u>2,904,739</u>	<u>26,451</u>
OPERATING INCOME	(37,424)	13,885	26,149
NON-OPERATING REVENUES			
Interest Income	<u>1,719</u>	<u>1,421</u>	<u>482</u>
CHANGE IN NET ASSETS	(35,705)	15,306	26,631
NET ASSETS, BEGINNING OF YEAR	<u>143,313</u>	<u>128,007</u>	<u>101,376</u>
NET ASSETS, END OF YEAR	<u>\$ 107,608</u>	<u>\$ 143,313</u>	<u>\$ 128,007</u>

**PASSAIC REDEVELOPMENT AGENCY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2012**

*(Continued)*

**OPERATING ACTIVITIES (Continued)**

Operating revenue decreased \$2,917,104 or 99.9% for the year. This was largely due to decreased one-time revenues received in fiscal year 2011 of \$500,000 from a judgment received by the Agency for the environmental cleanup of 663 Main Avenue and contribution of property from the Passaic UEZ with an estimated fair market value of \$2,358,624.

Operating expenses decreased \$2,865,795 or 99% for the year. This was directly related to decreased expenses related to disposal of property held for redevelopment located at 663 Main Avenue with a book value of \$2,858,624.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

*Capital Assets*

The Agency had no capital assets at June 30, 2012, 2011 and 2010.

*Capital Debt*

The Agency had no outstanding debt at June 30, 2012, 2011 and 2010.

**OTHER FINANCIAL INFORMATION**

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

The fiscal year 2013 budget was approved by the Agency on October 6, 2012.

The Agency has committed itself to financial excellence. Its system for financial planning, budgeting, and internal financial controls is audited annually and it plans to continue to manage its finances in order to meet the many challenges ahead.

All of these factors were considered in preparing the Agency's budget for the 2013 fiscal year.

**CONTACTING THE AGENCY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide the citizens of Passaic, investors and creditors, with a general overview of the Agency's finances to demonstrate the Agency's accountability for the revenues it receives. If you have questions about this report or need additional financial information, contact the office of the Executive Director at 330 Passaic Street, Passaic, New Jersey 07055.

**BASIC FINANCIAL STATEMENTS**

**PASSAIC REDEVELOPMENT AGENCY  
COMPARATIVE STATEMENTS OF NET ASSETS  
AS OF JUNE 30, 2012 AND 2011**

<b>ASSETS</b>	<u>2012</u>	<u>2011</u>
Unrestricted Current Assets:		
Cash	\$ 151,805	\$ 257,717
Contract Receivable - Due from Developer		1,449,180
Due from City of Passaic	<u>          -</u>	<u>          1,013</u>
Total Unrestricted Current Assets	<u>151,805</u>	<u>1,707,910</u>
Restricted Current Assets:		
Cash	<u>          2,552</u>	<u>          2,552</u>
Total Restricted Current Assets	<u>          2,552</u>	<u>          2,552</u>
<b>TOTAL ASSETS</b>	<u>154,357</u>	<u>1,710,462</u>
 <b>LIABILITIES</b>		
Current Liabilities (Payable from Unrestricted Assets)		
Accounts Payable	5,717	20,417
Due to Passaic Urban Enterprise Zone		1,504,180
Escrow Deposits Payable	<u>38,480</u>	<u>40,000</u>
Total Current Liabilities (Payable from Unrestricted Assets)	<u>44,197</u>	<u>1,564,597</u>
Current Liabilities (Payable from Restricted Assets)		
Escrow Deposits Payable	<u>          2,552</u>	<u>          2,552</u>
Total Current Liabilities (Payable from Restricted Assets)	<u>          2,552</u>	<u>          2,552</u>
Total Current Liabilities	<u>46,749</u>	<u>1,567,149</u>
 <b>NET ASSETS</b>		
Unrestricted	<u>107,608</u>	<u>143,313</u>
Total Net Assets	<u>\$ 107,608</u>	<u>\$ 143,313</u>

The Accompanying Notes are an Integral Part of the Basic Financial Statements

**PASSAIC REDEVELOPMENT AGENCY**  
**COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
<b>OPERATING REVENUES</b>		
Redevelopers Fees and Contributions	\$ 1,520	\$ 10,000
Contribution of Property Held for Redevelopment - FMV		2,358,624
Judgments		500,000
Municipal Contribution		50,000
Miscellaneous Fees	-	-
	<hr/>	<hr/>
Total Operating Revenues	1,520	2,918,624
<b>OPERATING EXPENSES</b>		
Administration		
Salaries and Wages	32,750	21,877
Other Expenses	5,941	14,238
	<hr/>	<hr/>
Total Administration Expenses	38,691	36,115
Cost of Providing Services		
Contribution to Passaic Urban Enterprise Zone		1,999,180
Loss on Disposition of Property Held for Redevelopment		859,444
Other Expenses	253	10,000
	<hr/>	<hr/>
Total Cost of Providing Services	253	2,868,624
	<hr/>	<hr/>
Total Operating Expenses	38,944	2,904,739
	<hr/>	<hr/>
OPERATING INCOME	(37,424)	13,885
<b>NONOPERATING REVENUES</b>		
Interest Revenue	1,719	1,421
	<hr/>	<hr/>
Total Nonoperating Revenue	1,719	1,421
	<hr/>	<hr/>
Change in Net Assets	(35,705)	15,306
	<hr/>	<hr/>
Total Net Assets, Beginning of Year	143,313	128,007
	<hr/>	<hr/>
Total Net Assets, End of Year	<u>\$ 107,608</u>	<u>\$ 143,313</u>

The Accompanying Notes are an Integral Part of the Basic Financial Statements

**PASSAIC REDEVELOPMENT AGENCY  
COMPARATIVE STATEMENT OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
Cash Flows from Operating Activities		
Proceeds from Sale of Property Held for Redevelopment	\$ 1,449,180	\$ 50,000
Cash Received from Redevelopers		50,000
Cash Received from City Contribution		47,443
Cash Received from Judgments		500,000
Cash Paid to Passaic Urban Enterprise Zone	(1,504,180)	(500,000)
Cash Paid to Redevelopers		(514)
Cash Paid to Suppliers for Goods and Services	(19,881)	(16,002)
Cash Paid to Employees	<u>(32,750)</u>	<u>(21,877)</u>
Net Cash Provided by (Used for) Operating Activities	<u>(107,631)</u>	<u>109,050</u>
Cash Flows from Investing Activities		
Interest Received	<u>1,719</u>	<u>1,421</u>
Net Cash Provided by Investment Activities	<u>1,719</u>	<u>1,421</u>
Net Increase (Decrease) in Cash	(105,912)	110,471
Cash, Beginning of Year	<u>260,269</u>	<u>149,798</u>
Cash, End of Year	<u>\$ 154,357</u>	<u>\$ 260,269</u>
Analysis of Balance at June 30,		
Unrestricted - Cash	\$ 151,805	\$ 257,717
Restricted - Cash	<u>2,552</u>	<u>2,552</u>
	<u>\$ 154,357</u>	<u>\$ 260,269</u>

**PASSAIC REDEVELOPMENT AGENCY  
COMPARATIVE STATEMENT OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
Reconciliation of Operating Income to Net Cash Provided by		
Operating Activities		
Operating Income (Loss)	\$ (37,424)	\$ 13,885
Adjustments to Reconcile Operating Income to Net Cash		
Provided by Operating Activities:		
(Increase)/Decrease in Contract Receivable	1,449,180	(1,449,180)
(Increase)/Decrease in Due from City of Passaic	1,013	(1,013)
Increase/(Decrease) in Accounts Payable	(14,700)	8,236
Increase/(Decrease) in Due to Passaic Urban Enterprise Zone	(1,504,180)	1,499,180
Increase/(Decrease) in Due to City of Passaic	-	(1,544)
Increase/(Decrease) in Escrow Deposits Payable	<u>(1,520)</u>	<u>39,486</u>
 Total Adjustments	 <u>(70,207)</u>	 <u>95,165</u>
 Net Cash Provided (Used) by Operating Activities	 <u>\$ (107,631)</u>	 <u>\$ 109,050</u>

**NOTES TO THE BASIC FINANCIAL STATEMENTS**

**PASSAIC REDEVELOPMENT AGENCY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Description of Reporting Entity and Activities**

The Passaic Redevelopment Agency (the "Agency") is a public body corporate and politic of the State of New Jersey. The Agency was created by municipal ordinance on June 3, 2002 pursuant to the provisions of N.J.S.A. 40A:12A-1, et seq., for the purpose of carrying out the redevelopment plans for the City of Passaic. The Agency is empowered to exercise public and essential government functions, including acquisition, condemnation, clearance, renovation and redevelopment of property in designated blighted areas and to carry out redevelopment plans for the City of Passaic.

The Agency is governed by a Board of Commissioners (the "Board") consisting of seven members, who are appointed by the Mayor with the advice and consent of the City Council. The Board of Commissioners determines policy actions, approves resolutions and selects an executive director to be responsible for the overall operation of the Agency.

The Passaic Redevelopment Agency includes in its financial statements the primary government and those component units for which the primary government is financially accountable. Financial accountability is defined as appointment of a voting majority of the component unit's board, and either a) the ability to impose will by the primary government, or b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government. There were no component units with a positive response to any of these reporting criteria. Furthermore, the Agency would be includable as a component unit of the City of Passaic on the basis of such criteria.

On August 5, 1992, the Legislature of the State of New Jersey adopted the Local Redevelopment and Housing Law (NJSA 40A:12A-1 et. seq.) which became effective on a retroactive basis to January 1, 1992. This law requires all redevelopment agencies to be subject to the provisions of the "Local Authorities Fiscal Control Law". As a result of this legislation, the Passaic Redevelopment Agency is subject to the laws, rules and regulations promulgated for Authorities in the State of New Jersey and must report to the Bureau of Authority Regulation, Division of Local Government Services, Department of Community Affairs, State of New Jersey.

The Passaic Redevelopment Agency includes in its financial statements the primary government and those component units for which the primary government is financially accountable. Component units are legally separate organizations for which the Agency is financially accountable or other organizations for which the nature and significance of their relationship with the primary government is such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The Agency is financially accountable for an organization if the Agency appoints a voting majority of the organization's board, and (1) the Agency is able to significantly influence the programs or services performed or provided by the organization; or (2) the Agency is legally entitled to or can otherwise access the organization's resources; the Agency is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization, or the Agency is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the Agency in that the Agency approves the budget, the issuance of debt or the levying of taxes. Based on the foregoing criteria, the Agency has no component units. The Agency would be includable as a component unit of the City of Passaic on the basis of such criteria.

**PASSAIC REDEVELOPMENT AGENCY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

The accounts of the Agency are organized and operated on the basis of funds. The agency maintains an Enterprise Fund to account for its operations. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related, legal and contractual provisions. A description of the Agency's fund type it maintains to account for its financial transactions is as follows:

*Proprietary Fund Types* – This fund type accounts for operations that are organized to be self-supporting and includes Enterprise Funds. An enterprise fund is used to account for those operations that are financed and operated in a manner similar to private business or where the entity has decided that the periodic determination of revenues earned, costs incurred and/or net income is appropriate for management accountability purposes.

The Agency's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. All assets and all liabilities associated with these operations are included on the Statement of Net Assets. 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.

Private-sector standards of accounting and financial reporting issued by the Financial Accounting Standards Board (FASB) prior to December 1, 1989, generally are followed in proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board (GASB). Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Agency has elected not to follow FASB guidance issued subsequent to December 1, 1989.

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. Operating expenses for enterprise funds include the cost of operations and services, administrative expenses and depreciation on capital assets. The Agency considers transactions pertaining to property held for redevelopment to be operating revenues and expenses since these transactions are connected with its principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**C. Assets, Liabilities and Net Assets**

1. **Cash and Investments** - The Agency considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Investments are stated at fair value and are limited by N.J.S.A. 40A:5-15.1.
2. **Property Held for Redevelopment** - Property is stated at cost or, if contributed, at fair market value on the date of the transfer in connection with properties acquired from the City for no consideration pursuant to NJSA 55:14B-4. Gains on sale of property and contributions of property are treated as operating income, if such proceeds and property are retained by the Agency. Losses on the sale of property are treated as operating expenses, if such property was owned by the Agency.

**PASSAIC REDEVELOPMENT AGENCY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**C. Assets, Liabilities and Net Assets (Continued)**

3. **Intergovernmental Receivables and Payables** - Transactions between the Agency and the City of Passaic that are representative of city contributions outstanding for City budget appropriations at the end of the fiscal year are recorded as intergovernmental receivables.

Amounts owed to the City at the end of the year as a result of contractual arrangements are reported as intergovernmental payables.

4. **Restricted Assets** - Certain assets are classified restricted because they are maintained in separate bank accounts and their use is limited as the result of certain agreements entered into between the Agency and third parties.
5. **Net Assets** - Restricted net assets are limited to outside third-party restrictions either by law or by other organizations or persons external to the Agency. Unrestricted net assets represent the net assets neither restricted nor invested in capital assets.
6. **Reclassifications** - Certain reclassifications have been made to the June 30, 2010 balances to confirm to the June 30, 2011 presentation.
7. **Use of Estimates** - The preparation of financial statements requires management of the Agency 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 accrued revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

**D. Budgetary Information**

An annual operating budget is prepared and adopted each fiscal year by the Agency. The budget is prepared in accordance with the Budget Manual for Local Authorities as promulgated by the Division of Local Government Services which differs in certain respects from accounting principles generally accepted in the United States of America. The Board may at their discretion modify the budget subsequent to adoption. The legal level of budget control is defined in the Agency as the current budget plus other available funds. Unencumbered appropriations lapse at year-end.

- E. Revenue Recognition** - City budget appropriations are recognized as operating revenue when they become available as appropriations in the City budget. Grants received are recognized as revenue when the resources are expended for the purpose specified in the grant agreement. Grant funds received and the related program income not yet expended are reported as deferred revenue. There were no grant funds received for the years ended June 30, 2012 and 2011.

**PASSAIC REDEVELOPMENT AGENCY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**

**NOTE 2 DEPOSITS AND INVESTMENTS**

**Deposits**

The Agency'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 Agency 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 5% of the average amount of its public deposits and 100% of the average amount of its public funds in excess of 75% of its capital funds 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 June 30, 2012 and 2011, the book value of the Agency's deposits was \$154,357 and \$260,269, respectively, and the bank balance of the Agency's cash and deposits amounted to \$151,972 and \$234,655, respectively.

<u>Depository Account</u>	<u>Bank Balance</u>	
	<u>2012</u>	<u>2011</u>
Insured	<u>\$151,972</u>	<u>\$234,655</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 Agency does not have a formal policy for custodial credit risk.

**Investments**

The Agency is permitted to invest public funds in accordance with the types of securities authorized by N.J.S.A. 40A:5-15.1. Investments include bonds or other obligations of the United States or obligations guaranteed by the United States of America, Government Money Market Mutual Funds, bonds or other obligations of the Agency or bonds or other obligations of the school districts which are part of the Agency or school districts located within the Agency, Local Government investment pools, and agreements or the repurchase of fully collateralized securities, if transacted in accordance with N.J.S.A. 40A:5-15.1 (8a-8e).

As of June 30, 2012 and 2011, the Agency had no outstanding investments.

**NOTE 3 CAPITAL ASSETS**

Capital asset activity for the years ended June 30, 2012 and 2011 was as follows:

	Balance July 1, <u>2011</u>	<u>Increases</u>	<u>Decreases</u>	Balance, June 30, <u>2012</u>
<u>2012</u>				
Capital assets:				
Property Held for Redevelopment	\$ -	\$ -	\$ -	\$ -
Total capital assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**PASSAIC REDEVELOPMENT AGENCY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**

**NOTE 3 CAPITAL ASSETS**

	Balance July 1, <u>2010</u>	<u>Increases</u>	<u>Decreases</u>	Balance, June 30, <u>2011</u>
<u>2011</u>				
Capital assets:				
Property Held for Redevelopment	\$ -	\$ 2,358,624	\$ 2,358,624	\$ -
Total capital assets	<u>\$ -</u>	<u>\$ 2,358,624</u>	<u>\$ 2,358,624</u>	<u>\$ -</u>

**NOTE 4 EMPLOYEE RETIREMENT SYSTEMS**

The State of New Jersey sponsors and administers the cost-sharing contributory defined benefit public employee retirement systems (retirement systems) covering substantially all state and local government employees. Employees of the Passaic Redevelopment Agency who are eligible for pension coverage are enrolled in the Public Employees Retirement System (PERS).

**Public Employees' Retirement System (PERS)** – Established in January 1955, under the provisions of N.J.S.A. 43:15A to provide coverage, including post-retirement health care, to substantially all full-time employees of the State or any county, municipality, school district, or public agency provided the employee is not a member of another State-administered retirement system. Membership is mandatory for such employees and vesting occurs after 8 to 10 years of service for pension benefits and 25 years for post-retirement health care coverage.

**Defined Contribution Retirement Program (DCRP)** – Established under the provisions of Chapter 92, P.L. 2007 and Chapter 103, P.L. 2008 to provide coverage to elected and certain appointed officials, effective July 1, 2007. Membership is mandatory for such individuals with vesting occurring after one (1) year of membership.

**Other Pension Funds**

The State established and administers a Supplemental Annuity Collective Trust Fund (SACT) which is available to active members of the State-administered retirement systems to purchase annuities to supplement the guaranteed benefits provided by their retirement system. The State or local governmental employers do not appropriate funds to SACT.

The cost of living increase for PERS is funded directly by the system and is considered in the annual actuarial calculation of the required contributions for the system.

According to state law, all obligations of the retirement system will be assumed by the State of New Jersey should the retirement system be terminated

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 above system. The financial reports may be accessed via the State of New Jersey, Department of the Treasury, Division of Pensions and Benefits, website at [www.state.nj.us/treasury/pensions](http://www.state.nj.us/treasury/pensions).

**Basis of Accounting**

The financial statements of the various pension Funds administered by the State of New Jersey are prepared on the accrual basis of accounting. Employer contributions are recognized when payable to the Funds. Benefits or refunds are recognized when due and payable in accordance with the applicable eligibility terms of the funds.

**PASSAIC REDEVELOPMENT AGENCY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**

**NOTE 4 EMPLOYEE RETIREMENT SYSTEMS (Continued)**

**Investment Valuation**

Investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. The fair value of real estate investments is based on independent appraisals. Investments that do not have an established market are reported at estimated fair values.

The State of New Jersey, Department of the Treasury, Division of Investment, issues publicly available financial reports that include the financial statements of the State of New Jersey Cash Management fund, Common Pension Fund A, Common Pension Fund B, and Common Pension Fund D. The financial reports may be obtained by writing to the State of New Jersey, Department of the Treasury, Division of Investment, P.O. Box 290, Trenton, New Jersey 08625-0290.

**Significant Legislation**

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

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

- New members of PERS hired on or after June 28, 2011 (Tier 5 members), will need 30 years of creditable service and age 65 for receipt of the early retirement benefit without a reduction of  $\frac{1}{4}$  to 1 percent for each month that the member is under age 65.
- The eligibility age to qualify for a service retirement in the PERS is increased from age 62 to 65 for Tier 5 members.
- Active member contribution rates will increase. PERS active member rates increase from 5.5 percent of annual compensation to 6.5 percent plus an additional 1 percent phased-in over 7 years. For Fiscal Year 2012, the member contribution rates increased in October 2011. The phase-in of the additional incremental member contributions for PERS members will take place in July of each subsequent fiscal year.
- The payment of automatic cost-of-living adjustment (COLA) additional increases to current and future retirees and beneficiaries is suspended until reactivated as permitted by this law.

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

**Funding Status and Funding Progress**

As of July 1, 2010, the most recent actuarial valuation date, the aggregate funded ratio for all the State administered retirement systems, including PERS, is 70.5 percent with an unfunded actuarial accrued liability of \$36.3 billion. The aggregate funded ratio and unfunded accrued liability for the State-funded systems is 65.2 percent and \$25.6 billion, and the aggregate funded ratio and unfunded accrued liability for local systems including PERS is 78.5 percent and \$10.7 billion.

The funded status and funding progress of the retirement systems is based on actuarial valuations which involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. These amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the probability of future events.

**PASSAIC REDEVELOPMENT AGENCY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**

**NOTE 4 EMPLOYEE RETIREMENT SYSTEMS (Continued)**

**Funding Status and Funding Progress (Continued)**

Actuarial calculations reflect a long-term perspective and are based on the benefits provided under the terms of the retirement systems in effect at the time of each valuation and also consider the pattern of the sharing of costs between the employer and members at that point in time. The projection of benefits for financing reporting purposes does not explicitly incorporate the potential effects of legal or contractual limitations on the pattern of cost sharing between the employer and members in the future.

**Actuarial Methods and Assumptions**

In the July 1, 2010 actuarial valuation, the projected unit credit was used as the actuarial cost method, and the five year average of market value was used as the asset valuation method for the retirement systems. The actuarial assumptions included (1) 8.25 percent for investment rate of return for PERS; and (2) 5.45 percent for projected salary increases in PERS.

**Employer and Employee Contributions**

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 with the amount of contributions by the State of New Jersey contingent upon the Annual Appropriations Act. As defined, the retirement systems require employee contributions based on 6.5% for PERS and 5.5% for DCRP of the employees' annual compensation.

For PERS, which is a cost sharing multi-employer defined benefit pension plan, the annual pension cost equals contribution made in accordance with Chapter 114, P.L. 1997. In the DCRP, which is a defined contribution plan, member contributions are matched by a 3% employer contribution.

During the years ended June 30, 2012 and 2011, the Agency employees are enrolled in the City's PERS pension plan. Therefore, the Agency was not required to contribute for normal cost pension and accrued liability contributions (including non-contributory group life insurance (NCGI)) or post-retirement medical benefits.

**Post-Retirement Medical Benefits**

The Agency currently does not provide employer paid post-retirement medical benefits to its active or retired employees.

**NOTE 5 RISK MANAGEMENT**

The Agency is exposed to various risks of loss related to general liability, damage and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Agency is not covered by an insurance policy to guard against these events which are intended to provide minimum exposure to the Agency should they occur.

On January 22, 2005, the Agency approved a resolution to indemnify, hold harmless, and defend its employees, officers, commissioners, board members and others from lawsuits, actions and claims asserted against them based on their official actions taken in the course of their duties with the Agency. As of June 30, 2012 and 2011, there have been no claims filed or pending against the Agency to the knowledge of the Agency's General Counsel.

**PASSAIC REDEVELOPMENT AGENCY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**

**NOTE 6 OTHER MATTERS**

On October 30, 2008, the Agency filed a Declaration of Taking for the property located at 663 Main Avenue, Block 2155, Lot 1, Passaic, New Jersey (the "Property") with the Superior Court of New Jersey. The final purchase price for the Property as approved by the Court is \$1,860,000. The \$1,860,000 was paid by the Passaic Urban Enterprise Zone Development Corporation ("Passaic UEZ") and deposited with the Court in October, 2008. On December 11, 2008, the Agency took ownership of the Property and on this same date transferred ownership to the Passaic UEZ for the sum of \$1.00. The Agency has subsequently asserted a claim against the previous owner, 460 Park Associates, for the recovery of environmental costs incurred for the abatement of asbestos and other contaminants found on the property. The parties have reached a settlement in this matter and a check dated October 4, 2010 was received by the Agency and subsequently remitted to the Passaic UEZ in the amount of \$500,000 for settlement in full on this claim.

On June 22, 2011, the Passaic UEZ transferred ownership for the property located at 663 Main Avenue, Passaic, NJ back to the Redevelopment Agency for the sum of \$1.00. Also, on June 22, 2011, the Agency sold the property to Trinity Partners, LLC ("Trinity") for \$1,500,000. Trinity placed a down payment of \$50,000 with the Agency prior to June 30, 2011, and the balance of \$1,449,180 was booked as Contract Receivable at June 30, 2011. On July 7, 2011, Trinity remitted the balance of the purchase price to the Agency. The full purchase price of \$1,499,180 received by the Agency was paid to the Passaic UEZ on September 1, 2011.

**SUPPLEMENTARY SCHEDULES**

**PASSAIC REDEVELOPMENT AGENCY**  
**SCHEDULE OF REVENUES AND EXPENSES COMPARED TO BUDGET**  
**FOR THE YEAR ENDED JUNE 30, 2012**  
**BUDGETARY BASIS**

(With Comparative Actual Amounts for the Year Ended June 30, 2011)

	2012			2011 <u>Actual</u>
	<u>Budget</u>	<u>Actual</u>	Variance <u>Excess (Deficit)</u>	
<b>OPERATING REVENUES</b>				
Intergovernmental - City of Passaic Contribution				\$ 50,000
Contribution of Property Held for Redevelopment				2,358,624
Judgments				500,000
Redevelopers Fees and Contributions	\$ 90,000	\$ 1,520	\$ (88,480)	10,000
<b>Total Operating Revenues</b>	<u>90,000</u>	<u>1,520</u>	<u>(88,480)</u>	<u>2,918,624</u>
<b>NON-OPERATING REVENUES</b>				
Interest	-	1,719	1,719	1,421
<b>TOTAL NON-OPERATING REVENUES</b>	<u>-</u>	<u>1,719</u>	<u>1,719</u>	<u>1,421</u>
<b>Total Revenues</b>	<u>90,000</u>	<u>3,239</u>	<u>(86,761)</u>	<u>2,920,045</u>
<b>OPERATING APPROPRIATIONS</b>				
Administration:				
Salaries and Wages	35,000	32,750	2,250	21,877
Fringe Benefits	5,000	-	5,000	-
Other Expenses	35,000	5,941	29,059	14,238
<b>Total Administration</b>	<u>75,000</u>	<u>38,691</u>	<u>36,309</u>	<u>36,115</u>
Cost of Providing Services				
Contribution to Passaic Urban Enterprise Zone				1,999,180
Loss on Disposition of Property Held for Redevelopment				859,444
Other Expenses	90,000	253	89,747	10,000
<b>Total Cost of Providing Services</b>	<u>90,000</u>	<u>253</u>	<u>89,747</u>	<u>2,868,624</u>
<b>Total Operating Appropriations</b>	<u>165,000</u>	<u>38,944</u>	<u>126,056</u>	<u>2,904,739</u>
<b>Budgetary Income</b>	<u>\$ (75,000)</u>	<u>\$ (35,705)</u>	<u>\$ 39,295</u>	<u>\$ 15,306</u>

# LERCH, VINCI & HIGGINS, LLP

CERTIFIED PUBLIC ACCOUNTANTS  
REGISTERED MUNICIPAL ACCOUNTANTS

17 - 17 ROUTE 208

FAIR LAWN, NJ 07410

TELEPHONE (201) 791-7100

FACSIMILE (201) 791-3035

WWW.LVHCPA.COM

DIETER P. LERCH, CPA, RMA, PSA  
GARY J. VINCI, CPA, RMA, PSA  
GARY W. HIGGINS, CPA, RMA, PSA  
JEFFREY C. BLISS, CPA, RMA, PSA  
PAUL J. LERCH, CPA, RMA, PSA  
DONNA L. JAPHET, CPA, PSA  
JULIUS B. CONSONI, CPA, PSA

ELIZABETH A. SHICK, CPA, RMA, PSA  
ANDREW PARENTE, CPA, RMA, PSA  
ROBERT W. HAAG, CPA, PSA  
DEBORAH K. LERCH, CPA, PSA  
DEBRA GOLLE, CPA  
CINDY JANACEK, CPA, RMA  
RALPH M. PICONE, CPA, RMA, PSA  
EDWARD N. KERE, CPA

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

Honorable Chairman and Members of the Board  
Passaic Redevelopment Agency  
Passaic, New Jersey

We have audited the financial statements of the Passaic Redevelopment Agency ("the Agency") as of and for the fiscal year ended June 30, 2012, and have issued our report thereon dated December 18, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

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

Management of the Passaic Redevelopment Agency is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Passaic Redevelopment Agency's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Passaic Redevelopment Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Passaic Redevelopment Agency's internal control over financial reporting.

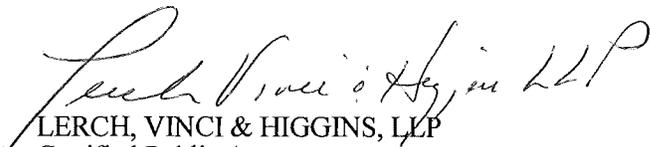
A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal controls such that there is a reasonable possibility that a material misstatement of the Passaic Redevelopment Agency's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Passaic Redevelopment Agency'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 and audit requirements as prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey.

This report is intended solely for the information and use of the Board of Commissioners, management, and the New Jersey State Department of Community Affairs and is not intended to be and should not be used by anyone other than these specified parties.

  
LERCH, VINCI & HIGGINS, LLP  
Certified Public Accountants  
Registered Municipal Accountants

Fair Lawn, New Jersey  
December 18, 2012

**ROSTER OF OFFICIALS**  
**AND**  
**GENERAL COMMENTS AND RECOMMENDATIONS**

## ROSTER OF OFFICIALS

JUNE 30, 2012

<u>Name</u>	<u>Title</u>
David Spector	Chairman
Peter Cedenno-Castro	Vice-Chairman
Robert Koltai	Commissioner
William Diaz	Commissioner
Chaim Munk	Commissioner/Councilman
Delis P. Santana	Commissioner
Dr. Alex D. Blanco	Mayor
Ricardo Fernandez	Executive Director
Jose Agosto	Chief Financial Officer

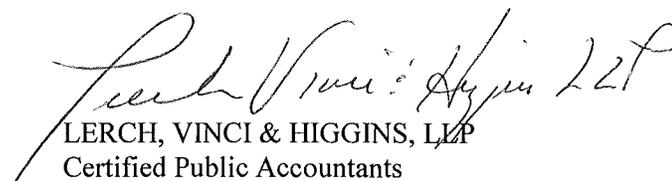
**COMMENTS/RECOMMENDATIONS**

There are none.

**Appreciation**

We desire to express our appreciation of the assistance of the Director of Redevelopment and Agency staff during the course of our audit.

Respectfully submitted,

  
LERCH, VINCI & HIGGINS, LLP  
Certified Public Accountants  
Registered Municipal Accountants