

PASSAIC REDEVELOPMENT AGENCY
(A component unit of the City of Passaic)
REPORT OF AUDIT
FOR THE YEAR ENDED DECEMBER 31, 2017
AND THE SIX MONTH TRANSITION PERIOD
ENDED DECEMBER 31, 2016

PASSAIC REDEVELOPMENT AGENCY

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LERCH, VINCI & HIGGINS, LLP

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Passaic Redevelopment Agency, a component unit of the City of Passaic, as of and for the year ended December 31, 2017 and as of and for the six month transition period ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Passaic Redevelopment Agency'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 misstatement, whether due to fraud or error.

Auditor's Responsibility

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 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 from 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 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 Redevelopment Agency as of December 31, 2017 and 2016, and the respective changes in its financial position and its cash flows for the periods then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

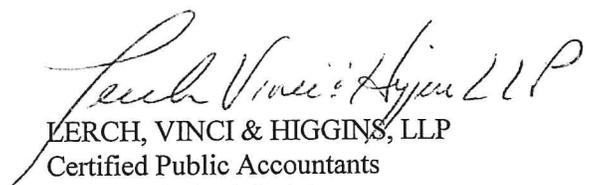
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis identified in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required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

Other Information

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

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated May 23, 2018 on our consideration of the Passaic Redevelopment Agency'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 Redevelopment Agency's internal control over financial reporting and compliance.


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

Fair Lawn, New Jersey
May 23, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD & A)

**PASSAIC REDEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2017**

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 year ended December 31, 2017. Please read it in conjunction with the Agency's basic financial statements and accompanying notes.

The purpose of the Agency is to carryout the redevelopment plans of the City of Passaic.

FINANCIAL HIGHLIGHTS

- The Agency's assets exceeded its liabilities at December 31, 2017 by \$120,746.
- The Agency's total assets increased by \$72,398.
- Operating revenues increased by \$44,127.
- Operating expenses increased by \$31,206.
- Operating Income increased by \$12,921.

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

FINANCIAL ANALYSIS OF THE AGENCY

Net Assets – The following is a summary of the Agency's financial position as of December 31, 2017, December 31, 2016 and June 30, 2016:

	December 31, <u>2017</u>	December 31, <u>2016</u>	June 30, <u>2016</u>
Current Assets	\$ 340,189	\$ 267,791	\$ 285,221
Total Assets	<u>340,189</u>	<u>267,791</u>	<u>285,221</u>
Current Liabilities	<u>219,443</u>	<u>160,613</u>	<u>176,732</u>
Total Liabilities	<u>219,443</u>	<u>160,613</u>	<u>176,732</u>
Net Position:			
Unrestricted	<u>120,746</u>	<u>107,178</u>	<u>108,489</u>
Total Net Position	<u>\$ 120,746</u>	<u>\$ 107,178</u>	<u>\$ 108,489</u>

**PASSAIC REDEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2017
(Continued)**

FINANCIAL ANALYSIS OF THE AGENCY (Continued)

The Agency's Net Position increased \$13,568, or 12.7% during the year ended December 31, 2017.

Operating Activities – The following table summarizes the revenues, expenses and changes in net position for the year ended December 31, 2017, the six month transition period ended June 30, 2016 and the fiscal year ended June 30, 2016:

	<u>2017</u>	TY <u>2016</u>	SFY <u>2016</u>
OPERATING REVENUES			
Redevelopers' Fees and Contributions	\$ 94,254	\$ 55,127	\$ 221,007
Intergovernmental Contributions	<u>10,000</u>	<u>5,000</u>	<u>10,000</u>
Total Operating Revenues	<u>104,254</u>	<u>60,127</u>	<u>231,007</u>
OPERATING EXPENSES			
Administration	53,728	24,149	51,007
Cost of Providing Services	<u>39,254</u>	<u>37,627</u>	<u>180,967</u>
Total Operating Expenses	<u>92,982</u>	<u>61,776</u>	<u>231,974</u>
OPERATING INCOME	11,272	(1,649)	(967)
NON-OPERATING REVENUES			
Interest Income	<u>2,296</u>	<u>338</u>	<u>702</u>
CHANGE IN NET POSITION	13,568	(1,311)	(265)
NET POSITION, BEGINNING OF YEAR	<u>107,178</u>	<u>108,489</u>	<u>108,754</u>
NET POSITION, END OF YEAR	<u>\$ 120,746</u>	<u>\$ 107,178</u>	<u>\$ 108,489</u>

Operating Revenues increased \$44,127 or 73% in 2017 mainly as a result of increased amounts received for a full year of operations compared with the prior amounts representing six months of operations.

Operating Expenses increased \$31,206 or 51% in 2017 mainly as a result of increased expenses associated with administration for a full year of operations compared with the prior amounts representing six months of operations.

**PASSAIC REDEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2017
(Continued)**

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The Agency had no capital assets as of December 31, 2017, December 31, 2016 and June 30, 2016.

Debt

The Agency had no debt as of December 31, 2017, December 31, 2016 and June 30, 2016.

OTHER FINANCIAL INFORMATION

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

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.

The budget for the calendar year ended December 31, 2018 was approved by the Division of Local Government Services and adopted by the Agency.

CONTACTING THE AGENCY'S FINANCIAL MANAGEMENT

This financial report is designed to provide the City of Passaic, New Jersey citizens and redevelopers with a general overview of the Agency's finances to demonstrate the Passaic Redevelopment 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.

FINANCIAL STATEMENTS

**PASSAIC REDEVELOPMENT AGENCY
COMPARATIVE STATEMENT OF NET POSITION
AS OF DECEMBER 31, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
ASSETS		
Unrestricted Current Assets:		
Cash	\$ 335,871	\$ 265,226
Escrow Deposits Receivable	<u>1,752</u>	<u>-</u>
Total Unrestricted Current Assets	<u>337,623</u>	<u>265,226</u>
Restricted Current Assets:		
Cash	<u>2,566</u>	<u>2,565</u>
Total Restricted Current Assets	<u>2,566</u>	<u>2,565</u>
Total Assets	<u>340,189</u>	<u>267,791</u>
LIABILITIES		
Current Liabilities (Payable from Unrestricted Assets)		
Accounts Payable	16,040	25,387
Due to City of Passaic	82,720	50,018
Escrow Deposits Payable	<u>118,117</u>	<u>82,643</u>
Total Current Liabilities (Payable from Unrestricted Assets)	<u>216,877</u>	<u>158,048</u>
Current Liabilities (Payable from Restricted Assets)		
Escrow Deposits Payable	<u>2,566</u>	<u>2,565</u>
Total Current Liabilities (Payable from Restricted Assets)	<u>2,566</u>	<u>2,565</u>
Total Current Liabilities	<u>219,443</u>	<u>160,613</u>
NET POSITION		
Unrestricted	<u>120,746</u>	<u>107,178</u>
Total Net Position	<u>\$ 120,746</u>	<u>\$ 107,178</u>

PASSAIC REDEVELOPMENT AGENCY
COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2017
AND THE SIX MONTH TRANSITION PERIOD ENDED DECEMBER 31, 2016

	<u>2017</u>	<u>TY 2016</u>
OPERATING REVENUES		
Redevelopers Fees and Contributions	\$ 94,254	\$ 55,127
Municipal Contribution	<u>10,000</u>	<u>5,000</u>
Total Operating Revenues	<u>104,254</u>	<u>60,127</u>
OPERATING EXPENSES		
Administration		
Interlocal Agreement - Salaries and Wages	32,702	16,978
Other Expenses	<u>21,026</u>	<u>7,171</u>
Total Administration Expenses	<u>53,728</u>	<u>24,149</u>
Cost of Providing Services		
Other Expenses	<u>39,254</u>	<u>37,627</u>
Total Cost of Providing Services	<u>39,254</u>	<u>37,627</u>
Total Operating Expenses	<u>92,982</u>	<u>61,776</u>
OPERATING INCOME (LOSS)	<u>11,272</u>	<u>(1,649)</u>
NON-OPERATING REVENUES		
Interest Revenue	<u>2,296</u>	<u>338</u>
Total Non-Operating Revenue	<u>2,296</u>	<u>338</u>
CHANGE IN NET POSITION	13,568	(1,311)
Total Net Position, Beginning of Period	<u>107,178</u>	<u>108,489</u>
Total Net Position, End of Period	<u>\$ 120,746</u>	<u>\$ 107,178</u>

The Notes to the Financial Statements are an Integral Part of this Statement

**PASSAIC REDEVELOPMENT AGENCY
COMPARATIVE STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2017
AND THE SIX MONTH TRANSITION PERIOD ENDED DECEMBER 31, 2016**

	<u>2017</u>	<u>TY 2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Redevelopers	\$ 133,040	\$ 101,523
Cash Received from City Contribution	10,000	5,000
Cash Paid to Redevelopers	(5,064)	-
Cash Paid to Suppliers for Goods and Services	<u>(69,627)</u>	<u>(106,060)</u>
Net Cash Provided by Operating Activities	<u>68,349</u>	<u>463</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Interest Received from Escrow Deposits	<u>1</u>	<u>-</u>
Net Cash Provided by Noncapital Financing Activities	<u>1</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Received	<u>2,296</u>	<u>338</u>
Net Cash Provided by Investment Activities	<u>2,296</u>	<u>338</u>
Net Increase in Cash	70,646	801
Cash, Beginning of Period	<u>267,791</u>	<u>266,990</u>
Cash, End of Period	<u>\$ 338,437</u>	<u>\$ 267,791</u>
ANALYSIS OF BALANCE AT END OF PERIOD		
Unrestricted - Cash	\$ 335,871	\$ 265,226
Restricted - Cash	<u>2,566</u>	<u>2,565</u>
	<u>\$ 338,437</u>	<u>\$ 267,791</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities		
Operating Income (Loss)	<u>\$ 11,272</u>	<u>\$ (1,649)</u>
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities		
(Increase)/Decrease in Escrow Deposits Receivable	(1,752)	18,231
Increase/(Decrease) in Accounts Payable	(9,347)	(61,262)
Increase/(Decrease) in Due to City of Passaic	32,702	16,978
Increase/(Decrease) in Escrow Deposits Payable	<u>35,474</u>	<u>28,165</u>
Total Adjustments	<u>57,077</u>	<u>2,112</u>
Net Cash Provided by Operating Activities	<u>\$ 68,349</u>	<u>\$ 463</u>

The Notes to the Financial Statements are an Integral Part of this Statement

NOTES TO THE FINANCIAL STATEMENTS

**PASSAIC REDEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017
AND SIX MONTH TRANSITION PERIOD ENDED DECEMBER 31, 2016**

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 FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017
AND SIX MONTH TRANSITION PERIOD ENDED DECEMBER 31, 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. New Accounting Standards

During the year ended December 31, 2017 and the six month transition period ended December 31, 2016, the Authority adopted the following GASB Statement:

- GASB No. 80, *Blending Requirements for Certain Component Units* – An Amendment of GASB Statement No. 14. The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14. *The Financial Reporting Entity, as amended.*

Other accounting standards that the Authority is currently reviewing for applicability and potential impact on the financial statements include:

- GASB No. 84, *Fiduciary Activities*, will be effective with the year ending December 31, 2019. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement established criteria for identifying fiduciary activities of all state and local governments.
- GASB No. 85, *Omnibus 2017*, will be effective with the year ending December 31, 2018. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and post-employment benefits (pensions and other post-employment benefits (OPEB)).

C. 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 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.

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.

**PASSAIC REDEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017
AND SIX MONTH TRANSITION PERIOD ENDED DECEMBER 31, 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting and Basis of Presentation (Continued)

1. **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.
2. **Reclassifications** – Certain reclassifications may have been made to the December 31, 2017 balances to confirm to the December 31, 2017 presentation.

D. Assets, Liabilities and Net Position

1. **Cash, Cash Equivalents 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. **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.
3. **Capital Assets** – Property held for redevelopment is recorded at cost or, if donated or contributed, is stated at the estimated fair market value on the date of receipt by the Agency. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of an asset are expensed.
4. **Net Position** – In the statement of net position, there is one class of net position:
 - **Unrestricted Net Position** – any portion of net position not already classified as either net investment in capital assets or net position – restricted is classified as net position – unrestricted.

NOTE 2 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgets and Budgetary Information

The Agency annually prepares an operating budget. The budget is prepared in accordance with the Budget Manual for Local Public 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 budgets serve as a plan for expenses and the proposed means for financing them. Unexpended appropriations lapse at year end.

The annual budget is 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 Agency's minutes.

Six Year Capital budgets are also prepared. Included within the budget are individual projects along with their estimated cost, completion date and source of funding.

The encumbrance method of accounting is utilized by the Agency 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.

**PASSAIC REDEVELOPMENT AGENCY
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2017
 AND SIX MONTH TRANSITION PERIOD ENDED DECEMBER 31, 2016**

NOTE 2 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

A. Budgets and Budgetary Information (Continued)

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 reversed at year-end and are either cancelled or are included as reappropriations of fund equity for the subsequent year. Encumbrances at year-end in funds that are budgeted on a project basis automatically carry forward along with their related appropriations and are not subject to annual cancellations and reappropriations.

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 Agency 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.

B. Revenue Recognition

City budget appropriations are recognized as operating revenue when they become available as appropriations in the City's 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 unearned revenue.

NOTE 3 DEPOSITS AND INVESTMENTS

Cash Deposits – The Agency's deposits are insured through either the Federal Deposit Insurance Corporation (FDIC), National Credit Union Share Insurance Fund (NCUSIF), 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 Protect Act requires all banks doing business in the State of New Jersey to pledge plus 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 or NCUSIF.

Bank balances are insured up to \$250,000 in the aggregate by the FDIC for each bank. NCUSIF insures credit union accounts up to \$250,000 in the aggregate for each financial institution, 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 Agency's deposits were \$338,437 and \$267,791, respectively, and the bank balance of the Agency's cash and deposits amounted to \$344,531 and \$267,791, respectively.

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

<u>Depository Account</u>	<u>Bank Balance</u>	
	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Insured		
Unrestricted	\$341,965	\$265,226
Restricted	<u>2,566</u>	<u>2,565</u>
	<u>\$344,531</u>	<u>\$267,791</u>

**PASSAIC REDEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017
AND SIX MONTH TRANSITION PERIOD ENDED DECEMBER 31, 2016**

NOTE 3 DEPOSITS AND INVESTMENTS

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 unrestricted operating 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 December 31, 2017 and 2016 the Agency has no outstanding investments.

NOTE 4 CAPITAL ASSETS

The Agency had no capital assets activity for the year ended December 31, 2017 and six month transition period ended December 31, 2016.

NOTE 5 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 City's Public Employees Retirement System (PERS) pension plan. Therefore, the Agency was not required to directly contribute for normal cost pension contributions.

NOTE 5 EMPLOYEE RETIREMENT SYSTEMS (Continued)

Post-Retirement Medical Benefits

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

NOTE 6 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 included in the City of Passaic's 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 December 31, 2017 and 2016, there have been no claims filed or pending against the Agency to the knowledge of the Agency's General Counsel.

SUPPLEMENTARY SCHEDULE

PASSAIC REDEVELOPMENT AGENCY
SCHEDULE OF REVENUES AND EXPENSES COMPARED TO BUDGET
FOR THE YEAR ENDED DECEMBER 31, 2017
BUDGETARY BASIS

(With Comparative Actual Amounts for the Six Month Transition Period Ended December 31, 2016)

	2017 Adopted <u>Budget</u>	2017 <u>Actual</u>	Variance Excess (Deficit)	TY 2016 <u>Actual</u>
OPERATING REVENUES				
Intergovernmental - City of Passaic Contribution	\$ 10,000	\$ 10,000	\$ -	\$ 5,000
Redevelopers Fees and Contributions	<u>-</u>	<u>55,000</u>	<u>55,000</u>	<u>17,500</u>
Total Operating Revenues	<u>10,000</u>	<u>65,000</u>	<u>55,000</u>	<u>22,500</u>
NON-OPERATING REVENUES				
Interest	<u>-</u>	<u>2,296</u>	<u>2,296</u>	<u>338</u>
Total Non-Operating Revenues	<u>-</u>	<u>2,296</u>	<u>2,296</u>	<u>338</u>
Total Revenues	<u>10,000</u>	<u>67,296</u>	<u>57,296</u>	<u>22,838</u>
OPERATING APPROPRIATIONS				
Administration:				
Interlocal Agreement - Salaries and Wages	35,500	32,702	2,798	16,978
Other Expenses	<u>44,500</u>	<u>21,026</u>	<u>23,474</u>	<u>7,171</u>
Total Administration	<u>80,000</u>	<u>53,728</u>	<u>26,272</u>	<u>24,149</u>
Total Operating Appropriations	<u>80,000</u>	<u>53,728</u>	<u>26,272</u>	<u>24,149</u>
Budgetary Income (Loss)	<u>\$ (70,000)</u>	\$ 13,568	<u>\$ 83,568</u>	\$ (1,311)
Reconciliation of Budgetary Income (Loss) to Change in Net Position				
Increases to Budgetary Income:				
Redeveloper Reimbursements		39,254		37,627
Decreases to Budgetary Income:				
Redeveloper Expenses		<u>(39,254)</u>		<u>(37,627)</u>
Change in Net Position		<u>\$ 13,568</u>		<u>\$ (1,311)</u>

GOVERNMENT AUDITING STANDARDS REPORT



LERCH, VINCI & HIGGINS, LLP

CERTIFIED PUBLIC ACCOUNTANTS
REGISTERED MUNICIPAL ACCOUNTANTS

DIETER P. LERCH, CPA, RMA, PSA
GARY J. VINCI, CPA, RMA, PSA
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DEBRA GOLLE, CPA
CINDY JANACEK, CPA, RMA
MARK SACO, CPA
SHERYL M. NICOLOSI, CPA, PSA

**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**

INDEPENDENT AUDITOR'S REPORT

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the Passaic Redevelopment Agency, as of and for the year ended December 31, 2017, and the related notes to the financial statements, as listed in the table of contents which collectively comprise the Passaic Redevelopment Agency's basic financial statements, and have issued our report thereon dated May 23, 2018.

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 of the financial statements, we considered the Passaic Redevelopment Agency's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the Passaic Redevelopment Agency's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Passaic Redevelopment Agency's financial statements are free from 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 Passaic Redevelopment Agency'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 Passaic Redevelopment Agency's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.


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

Fair Lawn, New Jersey
May 23, 2018

ROSTER OF OFFICIALS
AND
GENERAL COMMENTS AND RECOMMENDATIONS

ROSTER OF OFFICIALS

DECEMBER 31, 2017

<u>Name</u>	<u>Title</u>
David Spector	Chairman
Peter Ceden-Castro	Vice-Chairman
Chaim Munk	Commissioner
Ruth Perez	Commissioner
Arthur Soto	Commissioner
Angel U. Torres	Commissioner
Hector C. Lora	Mayor
Ricardo Fernandez	Executive Director
Vidya Nayak	Chief Financial Officer

COMMENTS/RECOMMENDATIONS

There are none.

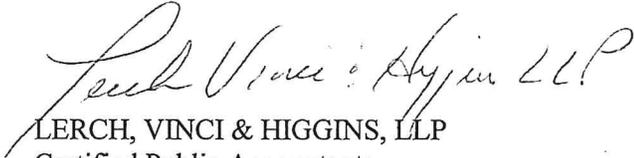
Status of Prior Year's Audit Comments and Recommendations

There were none.

Appreciation

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

Respectfully submitted,


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