

**SAYREVILLE ECONOMIC AND REDEVELOPMENT AGENCY
COUNTY OF MIDDLESEX
NEW JERSEY**

**REPORT OF AUDIT
ON THE
FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017**

**SAMUEL KLEIN AND COMPANY
CERTIFIED PUBLIC ACCOUNTANTS**

SAYREVILLE ECONOMIC AND REDEVELOPMENT AGENCY

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INDEPENDENT AUDITOR'S REPORT

The Board of Commissioners
Sayreville Economic and Redevelopment Agency
Sayreville, New Jersey 08872

Report on the Financial Statements

We have audited the accompanying financial statements of the Sayreville Economic and Redevelopment Agency, a component unit of the Borough of Sayreville, County of Middlesex, State of New Jersey, as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements which comprise the Sayreville Economic and Redevelopment Agency's financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Sayreville Economic and Redevelopment Agency, State of New Jersey, as of December 31, 2017 and 2016, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 5 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 opinions on the financial statements that collectively comprise the Agency's basic financial statements. The information included in the supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements.


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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 16, 2018 on our consideration of the Sayreville Economic and 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 solely 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 effectiveness of the Agency's 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 Sayreville Economic and Redevelopment Agency's internal control over financial reporting and compliance.


SAMUEL KLEIN AND COMPANY
CERTIFIED PUBLIC ACCOUNTANTS


JOSEPH J. FACCONI, RMA, PA

MANAGEMENT'S DISCUSSION AND ANALYSIS

Within this section of the Sayreville Economic and Redevelopment Agency's (the "Agency") annual financial report, the management of the Agency provides narrative discussion and analysis of the financial activities of the Agency for the audit year ending December 31, 2017.

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

Discussion of Financial Statements Included in Annual Audit

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

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

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

The Agency has historically presented its financial statements on a "GAAP Basis", and continues to do so because it relates more fairly to the annual budget for the same period. The annual budget records all encumbrances as charges against the adopted appropriation even if the items or services have not been received.

Contained in the supplementary information are statements that report the Schedule of Operating Revenues and Expenditures Compared to Budget. This statement compares the "Budget" revenues and expenses to "Actual" revenues and expenses. This includes operating revenues and expenses, nonoperating revenues and nonoperating expenses.

The Budget to Actual statement is a very important statement to the Agency management staff, because it is how we measure our financial performance, particularly as it compares to the approved and adopted annual budget and how it relates to the operational performance.

Other information or statements incorporated within the annual audit report are the Schedules of Cash Receipts, Cash Disbursements and Changes in Cash and Cash Equivalents - Restricted and Unrestricted, the detail listing of property held for redevelopment, and the Analysis of Accounts Payable.

For the purpose of the Management's Discussion and Analysis, the ensuing discussion will review the financial statements of the Sayreville Economic and Redevelopment Agency, those prepared on an accrual basis and in accordance with accounting principles generally accepted in the United States of America (GAAP) applicable to Enterprise Funds of state and local governments. This is the first set of statements included in the annual audit report.

The Agency's Liabilities and Deferred Inflows of Resources of \$814,641.62 at the year ended December 31, 2017 decreased from the December 31, 2016 balance of \$833,568.72 primarily due to the recognition of the net pension liability being reduced to \$210,774.00.

Comparative Statement of Net Position

The Sayreville Economic and Redevelopment Agency's Total Assets and Deferred Outflows of Resources increased \$171,822.40 due mainly to an increase in unrestricted assets. Total liabilities decreased \$61,171.10 due to a decrease in long-term liabilities. Assets exceeded liabilities by \$24,350,900.82. This compares to 2016 where the assets exceeded liabilities by \$24,160,151.32.

The Sayreville Economic and Redevelopment Agency's Net Position of \$24,350,900.82 is comprised of the following:

Contributed Capital	\$22,692,200.00
Plus: Unrestricted Net Position	<u>1,658,700.82</u>
	<u><u>\$24,350,900.82</u></u>

	<u>As of December 31,</u>	
	<u>2017</u>	<u>2016</u>
Total Current Assets	\$ 1,880,401.82	\$ 1,674,042.32
Total Restricted Assets	539,165.62	555,124.72
Net Capital Assets	22,692,200.00	22,692,200.00
Deferred Outflows of Resources	<u>53,775.00</u>	<u>72,353.00</u>
	<u>25,165,542.44</u>	<u>24,993,720.04</u>
Total Current Liabilities Payable from Current Assets	22,238.00	14,753.00
Total Current Liabilities Payable from Restricted Assets	539,165.62	555,124.72
Total Long-Term Liabilities Payable	210,774.00	263,471.00
Total Deferred Inflows of Resources	<u>42,464.00</u>	<u>220.00</u>
Total Liabilities	<u>814,641.62</u>	<u>833,568.72</u>
Net Position	<u><u>\$24,350,900.82</u></u>	<u><u>\$24,160,151.32</u></u>

Total Current Assets increased because of increases to cash.

Total Restricted Assets have decreased because of developer's deposits.

Total Current Liabilities Payable from Current Assets increased because accounts payable increased.

Total Current Liabilities Payable from Restricted Assets decreased because reserves for developer's escrow decreased.

Comparative Statement of Revenues, Expenses and Changes in Net Position

Operating Expenses decreased by \$197,882.91.

Total Net Position as of December 31, 2017 increased \$190,749.50 from \$24,160,151.32 to \$24,350,900.82.

	<u>2017</u>	<u>2016</u>
Operating Expenses	\$ 229,165.86	\$ 130,167.51
Operating Loss	(229,165.86)	(130,167.51)
Nonoperating Revenues	419,915.36	518,799.92
Change in Net Position	190,749.50	388,632.41
Capital Addition/(Deletions) for Year - Net		(31,800.00)
Net Position, Beginning	24,160,151.32	23,803,318.91
Net Position, Ending	<u>\$ 24,350,900.82</u>	<u>\$24,160,151.32</u>

Statement of Cash Flows

The net increase in Cash and Cash Equivalents was \$562,403.58.

Future Economic Outlook

The Sayreville Economic and Redevelopment Agency continues to work toward the acquisition and redevelopment of the National Lead tract. The courts have authorized the Agency to take title to the property through eminent domain and the Agency expects to finalize a deal with a redeveloper for the site after having received qualifications from prospective developers.

Despite continued economic uncertainties in the region, the Agency expects that increasing growth and development in the area and the strong demand for commercial projects in the Middlesex County region will be beneficial to the ongoing redevelopment efforts of the Agency.

SAYREVILLE ECONOMIC AND REDEVELOPMENT AGENCY
COMPONENT UNIT
COMPARATIVE STATEMENTS OF NET POSITION
DECEMBER 31, 2017 AND DECEMBER 31, 2016

Exhibit A
Sheet #1

<u>ASSETS</u>	<u>Balance</u> <u>Dec. 31, 2017</u>	<u>Balance</u> <u>Dec. 31, 2016</u>
Unrestricted Assets:		
Cash and Cash Equivalents	\$ 1,754,484.54	\$ 1,176,121.86
Accounts Receivable	<u>125,917.28</u>	<u>497,920.46</u>
Total Unrestricted Assets	<u>1,880,401.82</u>	<u>1,674,042.32</u>
Restricted Assets:		
Developer Deposits	95,643.68	111,602.78
Proceeds from Sale of Property: Cash and Cash Equivalents	<u>443,521.94</u>	<u>443,521.94</u>
Total Restricted Assets	<u>539,165.62</u>	<u>555,124.72</u>
Noncurrent Assets:		
Property Held for Redevelopment	<u>22,692,200.00</u>	<u>22,692,200.00</u>
Total Noncurrent Assets	<u>22,692,200.00</u>	<u>22,692,200.00</u>
TOTAL ASSETS	<u>25,111,767.44</u>	<u>24,921,367.04</u>
 <u>DEFERRED OUTFLOWS OF RESOURCES</u>		
Deferred Outflows Related to Pensions	<u>53,775.00</u>	<u>72,353.00</u>
Total Deferred Outflows of Resources	<u>53,775.00</u>	<u>72,353.00</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 25,165,542.44</u>	<u>\$ 24,993,720.04</u>

SAYREVILLE ECONOMIC AND REDEVELOPMENT AGENCY
COMPONENT UNIT
COMPARATIVE STATEMENTS OF NET POSITION
DECEMBER 31, 2017 AND DECEMBER 31, 2016

Exhibit A
Sheet #2

<u>LIABILITIES</u>	<u>Balance</u> <u>Dec. 31, 2017</u>	<u>Balance</u> <u>Dec. 31, 2016</u>
Current Liabilities Payable from Unrestricted Assets:		
Accounts Payable	\$ 13,850.00	\$ 6,850.00
Pensions Payable	8,388.00	7,903.00
	<u>22,238.00</u>	<u>14,753.00</u>
Total Current Liabilities Payable from Unrestricted Assets		
Current Liabilities Payable from Restricted Assets:		
Reserve for Sale of Property	443,521.94	443,521.94
Reserve for Developer's Escrow	95,643.68	111,602.78
	<u>539,165.62</u>	<u>555,124.72</u>
Total Current Liabilities Payable from Restricted Assets		
Long-Term Liabilities Payable:		
Net Pension Liability	210,774.00	263,471.00
	<u>210,774.00</u>	<u>263,471.00</u>
Total Long-Term Liabilities Payable		
TOTAL LIABILITIES	<u>\$ 772,177.62</u>	<u>\$ 833,348.72</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>		
Deferred Inflows Related to Pensions	<u>\$ 42,464.00</u>	<u>\$ 220.00</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>\$ 42,464.00</u>	<u>\$ 220.00</u>
NET POSITION:		
Contributed Capital	\$ 22,692,200.00	\$ 22,692,200.00
Unrestricted	1,658,700.82	1,467,951.32
TOTAL NET POSITION	<u>\$ 24,350,900.82</u>	<u>\$ 24,160,151.32</u>

See accompanying notes to financial statements.

SAYREVILLE ECONOMIC AND REDEVELOPMENT AGENCY
COMPONENT UNIT
COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE FISCAL YEARS ENDED DECEMBER 31, 2017 AND DECEMBER 31, 2016

Exhibit B

	<u>Dec. 31, 2017</u>	<u>Dec. 31, 2016</u>
Operating Expenses:		
Administrative - Budgeted	\$ 220,555.86	\$ 111,961.51
Pension Expenses - Unbudgeted	<u>8,610.00</u>	<u>18,206.00</u>
Operating Loss	<u>(229,165.86)</u>	<u>(130,167.51)</u>
Nonoperating Revenues:		
Lease Agreements	112,807.80	93,648.24
Developer's Administration Fee	223,750.00	234,726.78
Developer's Reimbursement	79,439.26	
Sale of Property		188,000.00
Miscellaneous	398.85	
Interest Earned	<u>3,519.45</u>	<u>2,424.90</u>
Total Nonoperating Revenues	<u>419,915.36</u>	<u>518,799.92</u>
Change in Net Position	<u>190,749.50</u>	<u>388,632.41</u>
Unrestricted Net Position, Beginning of Year	1,467,951.32	1,079,318.91
Unrestricted Net Position, End of Year	<u>1,658,700.82</u>	<u>1,467,951.32</u>
Contributed Capital - Net, Beginning of Year	22,692,200.00	22,724,000.00
Capital Additions/(Deletions) for Year - Net		<u>(31,800.00)</u>
Contributed Capital - Net, End of Year	<u>22,692,200.00</u>	<u>22,692,200.00</u>
Total Net Position, End of Year	<u><u>\$24,350,900.82</u></u>	<u><u>\$24,160,151.32</u></u>

See accompanying notes to financial statements.

SAYREVILLE ECONOMIC AND REDEVELOPMENT AGENCY
COMPONENT UNIT
COMPARATIVE STATEMENTS OF CASH FLOWS
FOR THE FISCAL YEARS ENDED DECEMBER 31, 2017 AND DECEMBER 31, 2016

Exhibit C

	<u>Dec. 31, 2017</u>	<u>Dec. 31, 2016</u>
Cash Flows from Operating Activities:		
Change in Net Position	<u>\$ 190,749.50</u>	<u>\$ 388,632.41</u>
Adjustments to Reconcile Change in Net Position to Net Cash Provided by (Used in) Operating Activities:		
Change in Assets and Liabilities:		
Unbudgeted Pension Expense	8,610.00	18,206.00
(Increase)/Decrease in Accounts Receivable	372,003.18	(37,165.59)
Increase/(Decrease) in Accounts Payable:		
Payable from Unrestricted Assets	7,000.00	(6,250.00)
Increase/(Decrease) in Reserve for Developer's Escrow	<u>(15,959.10)</u>	<u>(30,930.54)</u>
Total Adjustments to Change in Net Position	<u>371,654.08</u>	<u>(56,140.13)</u>
Net Cash Provided by Operating Activities	<u>562,403.58</u>	<u>332,492.28</u>
Net Increase in Cash and Cash Equivalents	562,403.58	332,492.28
Cash and Cash Equivalents, Beginning of Year	<u>1,731,246.58</u>	<u>1,398,754.30</u>
Cash and Cash Equivalents, End of Year	<u><u>\$2,293,650.16</u></u>	<u><u>\$1,731,246.58</u></u>
Reconciliation to Balance Sheet:		
Unrestricted Cash and Cash Equivalents	\$1,754,484.54	\$1,176,121.86
Restricted Cash and Cash Equivalents	<u>539,165.62</u>	<u>555,124.72</u>
	<u><u>\$2,293,650.16</u></u>	<u><u>\$1,731,246.58</u></u>

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

**SAYREVILLE ECONOMIC AND REDEVELOPMENT AGENCY
COMPONENT UNIT**

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

1. ORGANIZATION

Reporting Entity

The Sayreville Economic and Redevelopment Agency (SERA) (the "Agency") is a public body corporate and politic of the State of New Jersey. The Agency was created by municipal ordinance on June 24, 1998 pursuant to the provisions of N.J.S.A. 40A:12A-1 et seq., for the purpose of carrying out the urban renewal program activities for the Borough of Sayreville. 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 Borough of Sayreville.

The Agency is governed by a Board of Commissioners consisting of nine members, who are appointed by the Mayor of the Borough of Sayreville. No more than 2 members shall be officers or employees of the Borough. The Board of Commissioners determines policy actions, approves resolutions and selects an executive director to be responsible for the overall operation of the Agency. Based upon this criteria and the possibility of the Agency providing a financial benefit to the Borough, the Agency is considered a component unit of the Borough.

On August 5, 1992, the Legislature of the State of New Jersey adopted the Local Redevelopment and Housing Law (N.J.S.A. 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 change, the 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 Agency meets the criteria established by the Governmental Accounting Standards Board (GASB) to be deemed a component unit of the primary government unit, the Borough of Sayreville. This classification does not diminish the autonomous character of the Agency.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation and Accounting

The Agency's financial statements are presented on the full accrual basis in accordance with accounting principles generally accepted in the United States of America. The Agency applies all Governmental Accounting Standards Board (GASB) pronouncements as well as Financial Accounting Standards Board (FASB) statements and interpretations, and the Accounting Principles Board (APB) of the Committee on Accounting Procedure issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The Agency has not adopted the provisions of FASB No. 71, Accounting for the Effects of Certain Types of Regulations.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Basis of Presentation and Accounting (Continued)

These financial statements include the implementation of GASB No. 34, Basic Financial Statements, Management's Discussion and Analysis, for State and Local Governments and related standards. This new standard provides for significant changes in terminology; recognition of contributions in the Statement of Revenues, Expenses and Changes in Net Position; inclusion of a management discussion and analysis as supplementary information; and other changes.

All activities of the Agency are accounted for within a single Proprietary (Enterprise) Fund. Proprietary Funds are used to account for operations that are (a) financed and operated in a manner similar to private business enterprise where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The accounting and financial reporting treatment applied to the Agency is determined by its measurement focus. The transactions of the Agency are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the balance sheet. Net assets (i.e., total assets net of total liabilities) are segregated into invested in capital assets, net of related debt; restricted for capital activity; restricted for debt service; and unrestricted components.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet date, and reported amounts of revenues and expenses during the report period. Estimates are used to determine depreciation expense, the allowance for doubtful accounts and certain claims and judgment liabilities, among other accounts. Actual results may differ from those estimates.

B. Grants

Contributions received from various sources as grants are recorded in the period they become measurable. Developer financed construction is recorded in the period in which the system is donated by the Agency. Donated assets are recorded at fair market value at the date of the gift. Grants not externally restricted and utilized to finance operations are identified as nonoperating revenues.

Grants externally restricted for nonoperating purposes are recorded as contributed capital and identified as grants-in-aid.

C. Capital Assets

Capital assets are stated at cost, which includes direct construction costs and other expenditures related to construction. Land is stated at assessed valuations.

	Balance <u>Dec. 31, 2017</u>	Balance <u>Dec. 31, 2016</u>
Land	<u>\$ 22,692,200.00</u>	<u>\$ 22,692,200.00</u>

D. Restricted Funds

Restricted Funds consist of funds received from developers for engineering and legal costs associated with these plans, grants from Federal and State Agencies and proceeds from sale of property.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Deferred Revenue

There was no deferred revenue as of December 31, 2017.

F. Budgetary Information

An operating budget is adopted each fiscal year by the Agency. The Board may, at their discretion, modify the budget subsequent to adoption. The legal level of budget control is defined by the Agency as the current budget plus other available funds.

G. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt to the extent expended consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Agency or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

H. Measurement Focus, Basis of Accounting and Basis of Presentation

Recent Accounting Pronouncements Not Yet Effective

In March 2016, the Governmental 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 Statements No. 67, *Financial Reporting for Pensions*, 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 and is effective for reporting periods beginning after June 25, 2017. The Agency is currently reviewing what effect, if any, this Statement might have on future financial statements.

In November 2016, the Governmental Accounting Standards Board issued GASB Statement No. 83, Certain Asset Retirement Obligations. This Statement addresses accounting and financial reporting for certain asset retirement obligations (ARO's). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement and is effective for reporting periods beginning after June 15, 2017. The Agency is currently reviewing what effect, if any, this Statement might have on future financial statements.

In January 2017, the Governmental Accounting Standards Board issued GASB Statement No. 84, "Fiduciary Activities". 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 and is effective for reporting periods beginning after December 15, 2018. The Agency is currently reviewing what effect, if any, this Statement might have on future financial statements.

In March 2017, the Governmental Accounting Standards Board issued GASB Statement No. 85, "Omnibus 2017". The object 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)) and is effective for reporting periods beginning after June 15, 2017. The Agency is currently reviewing what effect, if any, this Statement might have on future financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Recent Accounting Pronouncements Not Yet Effective (Continued)

In May, 2017, the Governmental Accounting Standards Board issued GASB Statement No. 86, "*Certain Debt Extinguishment Issues*". The object of this Statement is to improve 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 and is effective for reporting periods beginning after June 15, 2017. The Agency 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*". The object of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of government's 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 contracts and is effective for reporting periods beginning after December 15, 2019. The Agency is currently reviewing what effect, if any, this Statement might have on future financial statements.

3. CASH, CASH EQUIVALENTS AND INVESTMENTS

A. Cash and Cash Equivalents

New Jersey statutes permit the deposit of public funds in institutions located in New Jersey which are insured by the Federal Deposit Insurance Corporation (FDIC) or any other agencies of the United States that insures deposits or the State of New Jersey Cash Management Fund.

The State of New Jersey Cash Management Fund is authorized by statute and regulations of the State Investment Council to invest in fixed income and debt securities which mature or are redeemed within one year. Twenty-five percent of the Fund may be invested in eligible securities which mature within two years provided, however, the average maturity of all investments in the Fund shall not exceed one year. Collateralization of Fund Investments is generally not required.

In addition, by regulation of the Division of Local Government Services, municipalities are allowed to deposit funds in the Municipal Bond Insurance Association (MBIA) through their investment management company, the Municipal Investors Service Corporation.

In accordance with the provisions of the Governmental Unit Deposit Protection Act of New Jersey, public depositories are required to maintain collateral for deposits of public funds that exceed insurance limits as follows:

The market value of the collateral must equal 5 percent of the average daily balance of public funds or

If the public funds deposited exceed 75 percent of the capital funds of the depository, the depository must provide collateral having a market value equal to 100 percent of the amount exceeding 75 percent.

All collateral must be deposited with the Federal Reserve Bank, The Federal Home Loan Bank Board or a banking institution that is a member of the Federal Reserve System and has capital funds of not less than \$25,000,000.00.

3. CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

A. Cash and Cash Equivalents (Continued)

Cash equivalents include money market funds, mutual funds, cash management funds and certificates of deposit with maturity dates of less than three months. Investments include certificates of deposit with maturity dates of more than three months. Cash equivalents and investments are stated at cost, which approximates market. Cash equivalents and investments were held by the Agency's Trustee in the Agency's name.

Custodial Credit Risk - Deposits - Custodial credit risk is the risk that in the event of a bank failure, the deposits may not be returned. The Agency does not have a specific deposit policy for custodial risk other than those policies that adhere to the requirements of statute, which requires cash be deposited only in New Jersey based bank institutions that participate in the New Jersey Governmental Depository Protection Act (GUDPA) or in qualified investments established in New Jersey Statutes 40A:5-15.1(a) that are treated as cash equivalents. Under the act, all demand deposits are covered by the Federal Deposit Insurance Corporation (FDIC). Public funds owned by the Agency in excess of FDIC insured amounts are protected by GUDPA. As of December 31, 2017, of the cash balance in the bank, \$250,000.00 was covered by Federal Depository Insurance and \$2,043,650.16 was covered under the provisions of NJGUDPA.

As of December 31, 2017 and 2016, the Agency's cash, cash equivalents and investments consisted of:

	<u>2017</u>	<u>2016</u>
Amboy Bank - Checking Accounts	\$ 828,602.69	\$ 767,480.83
Amboy Bank - Savings Accounts	465,047.47	463,765.75
Amboy Bank - Certificates of Deposit	<u>1,000,000.00</u>	<u>500,000.00</u>
Total Cash, Cash Equivalents and Investments	<u>\$ 2,293,650.16</u>	<u>\$ 1,731,246.58</u>

During the year the Agency had none of its idle funds invested in repurchase agreements collateralized by eligible securities. At the close of 2017 and 2016, no such investments were held by the Agency

As of December 31, 2017 and 2016, the Agency had no investments.

B. Investments

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

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

3. CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

B. Investments (Continued)

In addition, a variety of state laws permit local governments to invest in a wide range of obligations issued by State governments and its agencies.

C. Risk Category

As of December 31, 2017, the Agency had funds invested in certificates of deposit and on deposit in checking accounts. The amount of the Agency's cash and cash equivalents as of December 31, 2017 was \$2,293,650.16. These funds constitute "deposits with financial institutions" as defined by GASB Statement No. 40. There were no securities that the Agency held that could be categorized as investments.

4. CONTINGENT LIABILITIES

The Agency operates under an encumbrance system for all funds.

The Agency is party to various legal proceedings. These legal proceedings are not likely to have a material adverse impact on the Agency, based upon inquiry of management and direct confirmation from the Agency Attorney.

The Agency has no accrued liability for compensated absences at December 31, 2017.

5. PENSION PLAN - PERS

Description of Systems

Substantially all of the Agency's employees participate in the following contributory defined benefit public employee retirement system which has been established by State statute, the Public Employees' Retirement System (PERS). This system is sponsored and administered by the New Jersey Division of Pensions and Benefits. The Public Employees' Retirement System is considered a cost-sharing multiple-employer plan.

The amount of the Agency's contribution is certified each year by PERS on the recommendation of the actuary, who makes an annual actuarial valuation. The valuation is based on a determination of the financial condition of the retirement system. It includes the computation of the present dollar value of benefits payable to former and present members and the present dollar value of future employer and employee contributions, giving effect to mortality among active and retired members and also to the rates of disability, retirement, withdrawal, former service, salary and interest. In accordance with State statute, the long-term expected rate of return on plan investments 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. Specific information on actuarial assumptions and rates of return can be found at www.state.nj.us/treasury/pensions/annrprts.shtml.

The actuarially determined employer contribution includes funding for cost-of-living adjustments and noncontributory death benefits in the PERS. In the PERS the employer contribution includes funding for post-retirement medical premiums.

Assumptions

The total PERS pension liability for June 30, 2017 measurement date was determined by an actuarial valuation as of July 1, 2016 using an actuarial experience study for the period July 1, 2011 to June 30, 2014. The pension liability was rolled forward to June 30, 2017. The actuarial valuation used an inflation rate of 2.25%, projected salary increases through 2026 of 1.65% to 4.15% for PERS based on age and thereafter 2.65% for PERS and an investment rate of return of 7.00%.

5. PENSION PLAN - PERS (Continued)

Assumptions (Continued)

For PERS, preretirement mortality rates were based on the RP-2000 Employee Preretirement 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 plan actuary's modified MP-2014 projection scale. Post-retirement mortality rates were based on the RP-2000 Combined Healthy Male and Female Mortality Tables (set back 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).

The discount rate used to measure the total pension liability was 5.00% for PERS 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 for PERS. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2040 for PERS and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liability. More information on mortality rates and other assumptions and investment policies can be found at www.state.nj.us/treasury/pensions/annrpts.shtml.

Funding Policy

The Public Employees' Retirement System (PERS) was established January 1, 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 eight to ten years of service and twenty-five years for health care coverage. Members are eligible for retirement at age sixty with an annual benefit generally determined to be 1/55th of the average annual compensation for the highest three fiscal years' compensation for each year of membership during years of creditable service. Pension benefits for members enrolled in the system after May 21, 2010 would be based on 1/60th of the average annual compensation for the last five (5) years of service or any five fiscal years of membership that provide the largest benefit to the member or the member's beneficiary. Early retirement is available to those under age sixty with twenty-five or more years of credited service. Anyone who retires early and is under age fifty-five receives retirement benefits as calculated in the above-mentioned formula but at a reduced rate (one quarter of one percent for each month the member lacks of attaining age fifty-five)

Significant Legislation

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

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

- New members of PERS hired on or after June 28, 2011, (Tier 5 members), will need 30 years of creditable service and age 65 for receipt of the early retirement benefit without a reduction of ¼ to 1 percent for each month that the member is under age 65.

5. PENSION PLAN - PERS (Continued)

Significant Legislation (Continued)

- The eligibility age to qualify for a service retirement in the PERS is increased from age 62 to 65 for Tier 5 members.
- The annual benefit under special retirement for new PERS members enrolled after June 28, 2011 (Tier 3 members), will be 60 percent instead of 65 percent of the member's final compensation plus 1 percent for each year of creditable service over 25 years but not to exceed 30 years.
- 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).

Employee contributions through June 30, 2017 were seven and twenty hundredths percent (7.20%) and effective July 1, 2017 seven and thirty-four hundredths percent (7.34%) of the employee's base wages. Employer's contributions are actuarially determined annually by the Division of Pensions. The Agency's contributions to the plan for the past three (3) years are as follows:

<u>Fiscal Year</u>	<u>Agency Share</u>	<u>Employee Contributions</u>
2017	\$ 7,903.00	\$ 4,964.12
2016	7,628.00	4,809.57
2015	7,153.00	4,277.80

Public Employees' Retirement System (PERS)

The information for PERS was abstracted from State of New Jersey Public Employees' Retirement System Schedules of Employer Allocations and Schedules of Pension Amounts by Employer as of June 30, 2017 and June 30, 2016 Independent Auditor's Report dated April 27, 2018 and April 20, 2017, respectively.

The Agency reported a liability of \$210,774.00 and \$263,471.00 for its proportionate share of the net pension liability at December 31, 2017 and December 31, 2016, respectively. The net pension liability was measured as of June 30, 2017 and June 30, 2016 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of those dates. The Agency's proportion of the net pension liability was based on a projection of the Agency's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined.

	June 30,	
	<u>2017</u>	<u>2016</u>
Local Group Share	\$ 23,278,401,588	\$ 29,617,131,759
Agency Proportionate Percentage	0.0009054471%	.0008895911%
Difference - Increase	0.0000158560%	

5. PENSION PLAN - PERS (Continued)

Public Employees' Retirement System (PERS) (Continued)

For the year ended December 31, 2017, the Agency recognized pension expense of \$8,124. At December 31, 2017, the Agency reported deferred outflows of resources and deferred inflows of resources related to PERS from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes in Assumptions	\$ 42,464	\$ 42,308
Net Difference Between Expected and Actual Experience	4,963	
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investment	1,435	
Changes in Proportion	<u>4,913</u>	<u>156</u>
Total	<u>\$ 53,775</u>	<u>\$ 42,464</u>

The \$53,775 reported as deferred outflows of resources related to pensions resulting from entities contributions subsequent to the measurement date (i.e. for the Agency year ending December 31, 2017, the plan measurement date is June 30, 2017) will be recognized as a reduction of the net pension liability in the Agency year ended December 31, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense based on local share is as follows:

<u>Year Ended December 31,</u>	<u>Amount</u>
2018	\$ 4,962
2019	7,488
2020	4,537
2021	(6,034)
2022	(4,398)

Additional Information

Collective local employers' balances at June 30, 2017 and June 30, 2016 are as follows:

	<u>June 30, 2017</u>	<u>June 30, 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
Agency's Proportion	0.0009054471%	0.0008895911%

5. PENSION PLAN - PERS (Continued)

Public Employees' Retirement System (PERS) (Continued)

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. The total pension liability for the December 31, 2017 measurement date was determined by an actuarial valuation as of 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, 2017 valuation were based on the results of an actuarial experience study for the period July 1, 2016 and rolled forward to June 30, 2017.

Pre-retirement mortality rates were based on the RP-2000 Employee Pre-retirement Mortality Table for male and female active participants. 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 plan actuary's modified MP-2014 projection scale. Post-retirement mortality rates were based on the RP-2000 Combined Healthy Male and Female Mortality Tables (set back 1 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).

The actuarial assumptions used in the July 1, 2016 valuation were based on the results of an actuarial experience study for one 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 impact on future financial statements.

Long-Term Expected 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 Investment 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 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:

5. PENSION PLAN - PERS (Continued)

Public Employees' Retirement System (PERS) (Continued)

Long-Term Expected 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%
Buyout/Venture Capital	8.25%	13.08%

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 and June 30, 2016, 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 one percentage point lower or one percentage point higher than the current rate:

	<u>June 30, 2017</u>		
	<u>1%</u>	<u>At Current</u>	<u>1%</u>
	<u>Decrease</u>	<u>Discount Rate</u>	<u>Increase</u>
	<u>4.00%</u>	<u>5.00%</u>	<u>6.00%</u>
Agency's Proportionate Share of the Local Group Pension Liability	<u>\$ 261,479</u>	<u>\$ 210,774</u>	<u>\$ 168,530</u>
	<u>June 30, 2016</u>		
	<u>1%</u>	<u>At Current</u>	<u>1%</u>
	<u>Decrease</u>	<u>Discount Rate</u>	<u>Increase</u>
	<u>2.98%</u>	<u>3.98%</u>	<u>4.98%</u>
Agency's Proportionate Share of the Local Group Pension Liability	<u>\$ 322,853</u>	<u>\$ 263,471</u>	<u>\$ 214,446</u>

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).

6. DEFINED CONTRIBUTION RETIREMENT PROGRAM

Description of System

The Defined Contribution Retirement Program (DCRP) was established on July 1, 2007 for certain public employees under the provisions of Chapter 92, P.L. 2007 and Chapter 103, P.L. 2007. The program provides eligible members, with a minimum base salary of \$1,500.00 or more, with a tax-sheltered, defined contribution retirement benefit, in addition to life insurance and disability coverage. The DCRP is jointly administered by the Division of Pensions and Benefits and Prudential Financial.

If the eligible elected or appointed official will earn less than \$5,000.00 annually, the official may choose to waive participation in the DCRP for that office or portion. This waiver is irrevocable.

This retirement program is a new pension system where the value of the pension is based on the amount of the contribution made by the employee and employer and through investment earnings. It is similar to a Deferred Compensation Program where the employee has a portion of tax deferred salary placed into an account that the employee manages through investment options provided by the employer.

The law requires that three classes of employees enroll in the DCRP, detailed as follows:

- All elected officials taking office on or after July 1, 2007, except that a person who is reelected to an elected office held prior to that date without a break in service may remain in the Public Employees' Retirement System (PERS).
- A Governor appointee with the advice and consent of the Legislature or who serves at the pleasure of the Governor only during that Governor's term of office.
- Employees enrolled in the PERS on or after July 1, 2007 or employees enrolled in the PERS after May 21, 2010 who earn salary in excess of established "maximum compensation" limits.
- Employees otherwise eligible to enroll in the PERS on or after November 2, 2008 who do not earn the minimum salary for PERS Tier 3, but who earn salary of at least \$5,000.00.
- Employees otherwise eligible to enroll in the PERS after May 21, 2010, who do not work the minimum number of hours per week required for PERS Tier 4 or Tier 5 enrollment (32 hours per week) but who earn salary of at least \$5,000.00 annually.

Notwithstanding the foregoing requirements, other employees who hold a professional license or certificate or meet other exceptions are permitted to remain in PERS.

Contributions Required and Made

Contributions made by employees for DCRP are currently 5.5% of their base wages. Member contributions are matched by a 3.0% employer contribution.

During the year 2017, there were no officials or employees enrolled in the DCRP.

7. DEFERRED COMPENSATION PLAN

There is currently no deferred compensation plan offered by the Agency.

8. RISK MANAGEMENT

The Agency is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets, errors and omissions, injuries to its employees and natural disasters. The Agency maintains commercial insurance coverage for general liability, damage and destruction of assets, errors and omissions, injuries to employees and natural disasters.

9. LOAN - MIDDLESEX COUNTY

Middlesex County took out a Bond Anticipation Note of \$39 million on behalf of SERA to fund the acquisition of the National Lead property. Also, expenses related to the acquisition were to be paid by Middlesex County from this account. On March 23, 2005, after a Court ruling affirming SERA's right to take the property, SERA filed a declaration of taking and posted \$33,050,000.00 from this account as estimated just compensation of the NL property. Repayment of the loan was to be made by SERA to Middlesex County in 2006. As reported under Outstanding Liability, the Agency had defaulted on repayment of this loan.

10. FINANCIAL ASSURANCE FUND

A \$20,000,000.00 fund has been established. This fund is not reflected on the balance sheet of SERA. This fund is to be used for remediation clean-up of the former National Lead Site.

11. LITIGATION

The Agency's attorney letter indicated that the Agency is one of many defendants in a suit brought by Raritan Baykeeper in the U.S. District Court for the District of New Jersey. The Court has stayed the case as to the Agency pending the cleanup of the site.

12. OUTSTANDING LIABILITY

In accordance with the Third Amended and Restated Agreement dated September 21, 2006, the Sayreville Economic and Redevelopment Agency was obligated to repay the Loan Repayment Obligation on or before April 1, 2007. The Agency has failed to repay this loan and on April 2, 2007, the County of Middlesex declared the Agency in default of its obligation. SERA has designated O'Neill Properties as Redeveloper for the National Lead Project.

On November 9, 2007 the County agreed to extend the extended Deferral Period until December 31, 2007 under the following conditions:

- a) Closing of title for the first land takedown by O'Neill shall have been set for on or before December 31, 2007 for a consideration of not less than \$42 million and SERA shall certify to the County that it is in a position to convey clear and marketable title to O'Neill.
- b) SERA and O'Neill have executed the Memorandum of Understanding required as a precondition by O'Neill. O'Neill acknowledges same to County, in writing, and the Agency shall have further satisfied all other conditions for closing established by O'Neill in their final proposal for designation as Redeveloper.
- c) National Lead shall have agreed, in writing, to release its lis pendens for that portion of the National Lead property to be acquired by O'Neill at the December 31, 2007 closing of title.
- d) O'Neill shall have posted an unconditional irrevocable Letter of Credit in the minimum amount of \$42 million dollars naming the County of Middlesex as beneficiary thereof.

13. OUTSTANDING LIABILITY (Continued)

- e) The Agency shall have acknowledged and accepted the terms and conditions for extension and payment as more fully set forth below:

Notes Principal	\$ 37,000,000.00
Net Interest on Notes	<u>5,070,573.05</u>
Total Principal and Interest on Notes	42,070,573.05
Less Payment Received from SERA December 28, 2006	<u>254,630.00</u>
Net Principal and Interest Due	41,815,943.05
Accrued Administration Fees	<u>552,426.38</u>
Total Due County Projected to December 31, 2007	<u><u>\$ 42,368,369.43</u></u>

The County extended these terms through December 31, 2008. On October 16, 2008, payments of \$32,946,958.88 were received by the County. Additional payments have been received by the County.

As of December 31, 2017, the amount of \$3,385,309.00 was still due to the County under the conditions as detailed above.

SAYREVILLE ECONOMIC AND REDEVELOPMENT AGENCY
COMPONENT UNIT
SCHEDULE OF CASH RECEIPTS AND CASH DISBURSEMENTS
AND CHANGES IN CASH AND CASH EQUIVALENTS
UNRESTRICTED ACCOUNTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2017

Schedule 1

Cash and Cash Equivalents:			
January 1, 2017			\$ 1,176,121.86
Cash Receipts:			
Lease Agreements	\$112,807.80		
Developer's Administration Fee	223,750.00		
Developer's Reimbursement	79,439.26		
National Lead Remediation	657,385.64		
Miscellaneous	398.85		
Accounts Receivable	4,726.78		
Interest Earned:			
General Account	1,764.20		
Escrow Account	473.53		
Savings Account	1,281.72		
			1,082,027.78
			2,258,149.64
Cash Disbursements:			
Administrative Expenses	87,541.30		
National Lead Remediation	290,109.24		
Cost of Providing Services	126,014.56		
			503,665.10
Cash and Cash Equivalents:			
December 31, 2017			\$1,754,484.54

SAYREVILLE ECONOMIC AND REDEVELOPMENT AGENCY
COMPONENT UNIT
SCHEDULE OF CASH RECEIPTS AND CASH DISBURSEMENTS
AND CHANGES IN CASH AND CASH EQUIVALENTS
RESTRICTED ACCOUNTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2017

Schedule 2

Cash and Cash Equivalents:		\$ 555,124.72
January 1, 2017		
Cash Receipts:		
Developer's Escrow		<u>70,037.91</u>
		625,162.63
Cash Disbursements:		
Legal Fees	\$ 31,790.92	
Escrow Returned	10,696.09	
Engineering Fees	<u>43,510.00</u>	
		<u>85,997.01</u>
Cash and Cash Equivalents:		
December 31, 2017		<u><u>\$ 539,165.62</u></u>

SAYREVILLE ECONOMIC AND REDEVELOPMENT AGENCY
COMPONENT UNIT

COMPARATIVE SCHEDULES OF OPERATING REVENUES AND EXPENDITURES FUNDED
BY OPERATING REVENUE COMPARED TO BUDGET
UNRESTRICTED ACCOUNT

FOR THE FISCAL YEARS ENDED DECEMBER 31, 2017 AND DECEMBER 31, 2016

Schedule 3

	Dec. 31, 2017			Dec. 31, 2016		
	<u>Budget</u>	<u>Realized</u>	<u>Excess (Deficit)</u>	<u>Budget</u>	<u>Realized</u>	<u>Excess (Deficit)</u>
<u>Revenues</u>						
Nonoperating Revenues:						
Lease Agreements	\$ 100,000.00	\$ 112,807.80	\$ 12,807.80	\$ 105,000.00	\$ 93,648.24	\$ (11,351.76)
Developer's Administration Fee	230,000.00	223,750.00	(6,250.00)	230,000.00	234,726.78	4,726.78
Developer's Reimbursement	100,000.00	79,439.26	(20,560.74)	25,000.00		(25,000.00)
Interest on Investments and Deposits		3,519.45	3,519.45		2,424.90	2,424.90
Sale of Property		398.85	398.85		188,000.00	188,000.00
Miscellaneous	3,700,000.00		(3,700,000.00)	3,425,000.00		(3,425,000.00)
Developer's Agreement						
Total Nonoperating Revenues	4,130,000.00	419,915.36	(3,710,084.64)	3,785,000.00	518,799.92	(3,266,200.08)
<u>Expenditures</u>						
Administration:						
Salary and Wages	72,000.00	59,041.00	12,959.00	62,000.00	62,000.00	8,632.66
Fringe Benefits	23,000.00	17,788.57	5,211.43	23,000.00	14,367.34	19,244.77
Other Expenses	25,000.00	10,711.73	14,288.27	23,000.00	3,755.23	3,425,000.00
Intergovernmental Loan	3,700,000.00		3,700,000.00	3,425,000.00		3,425,000.00
Cost of Providing Services	345,000.00	133,014.56	211,985.44	275,000.00	31,838.94	243,161.06
Total Operating Expenses	4,165,000.00	220,555.86	3,944,444.14	3,808,000.00	111,961.51	3,696,038.49
Excess of Revenues Over/(Under) Expenditures	\$ (35,000.00)	\$ 199,359.50	\$ 234,359.50	\$ (23,000.00)	\$ 406,838.41	\$ 429,838.41

SAYREVILLE ECONOMIC AND REDEVELOPMENT AGENCY
COMPONENT UNIT
SCHEDULE OF FIXED ASSETS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2017

Schedule 4

Balance December 31, 2016	\$ 22,692,200.00
Balance December 31, 2017	\$ 22,692,200.00

Analysis of Balance

Property Held for Redevelopment

<u>Block</u>	<u>Lot</u>	<u>Address</u>	<u>Assessed Valuation</u>
169	10.023	Popowski Avenue	\$ 445,000.00
169.05	6	Junker Street	13,000.00
169.06	1.01	MacArthur Avenue	8,800.00
169.07	21	MacArthur Avenue	3,000.00
169.09	91	Popowski Avenue	126,800.00
169.10	103	Popowski Avenue	111,900.00
169.11	116	Popowski Avenue	182,600.00
169.30	83	Popowski Avenue	73,800.00
169.31	92	Popowski Avenue	140,400.00
169.41	107	Popowski Avenue	122,700.00
172	1	Washington Canal	273,700.00
175	9	Sayreville Boulevard	660,100.00
175	12.03	Main Street	66,300.00
175	12.04	River Road	490,100.00
175	12.05	River Road	89,800.00
175.01	1	Sayreville Boulevard	268,600.00
176	2.02	Main Street	52,700.00
176	2.04	Main Street	376,300.00
256	3	Raritan River	81,300.00
257	3.04	Chevalier Avenue and Main Street	2,229,300.00
257	3.052	Off Main Street	437,300.00
257.01	1	Chevalier Avenue	14,770,000.00
257.01	1.10	Off Main Street	25,000.00
257.01	5	Along Raritan River	151,000.00
257.01	6	Near Raritan River	10,000.00
257.01	20	Chevalier Avenue	104,200.00
257.02	1	Chevalier Avenue	27,900.00
257.02	1.01	Chevalier Avenue	30,000.00
257.02	22	Chevalier Avenue	14,000.00
257.03	2	Route 9 and Highway 35	1,070,000.00
259	1.01	Highway 35	28,300.00
260	1.02	Raritan River/Highway 35	10,800.00
270	1.01	Raritan River/Highway 35	66,200.00
270	1.12	Raritan River/Highway 35	63,800.00
280	1.11	Off Highway 35	67,500.00
			\$ 22,692,200.00

SAYREVILLE ECONOMIC AND REDEVELOPMENT AGENCY
COMPONENT UNIT
ANALYSIS OF ACCOUNTS PAYABLE - UNRESTRICTED
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2017

Schedule 5

Balance January 1, 2017	\$ 6,850.00
Increased by:	
Unpaid Charges 2017:	
Budget Appropriations	<u>7,000.00</u>
Balance December 31, 2017	<u><u>\$ 13,850.00</u></u>

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
ROSTER OF OFFICIALS
GENERAL COMMENTS, FINDINGS AND RECOMMENDATIONS
YEAR ENDED DECEMBER 31, 2017**

SAMUEL KLEIN AND COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

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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

The Board of Commissioners
Sayreville Economic and Redevelopment Agency
Sayreville, New Jersey 08872

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 Sayreville Economic and Redevelopment Agency as of and for the year ended December 31, 2017 and the related notes to the financial statements, which collectively comprise Sayreville Economic and Redevelopment Agency's basic financial statements, and have issued our report thereon dated October 16, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Sayreville Economic and Redevelopment Agency'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 Sayreville Economic and Redevelopment Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of Sayreville Economic and 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 Sayreville Economic and 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 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.



SAMUEL KLEIN AND COMPANY
CERTIFIED PUBLIC ACCOUNTANTS



JOSEPH J. FACCONI, RMA, PA

Newark, New Jersey
October 16, 2018

ROSTER OF OFFICIALS AS OF DECEMBER 31, 2017

<u>Name</u>	<u>Title</u>
Michael D'Addio	Chairperson
Donald Newton	Vice Chairperson
Raniero Travisano	Commissioner
Pasquale Lembo	Commissioner
Rosetta Fisher	Commissioner
Victoria Kilpatrick	Commissioner
Thomas Pollando	Commissioner
Dennis Grobelny	Commissioner
Keven Dalina	Commissioner
Joseph P. Ambrosio, Esq.	Executive Director
Michael J. Baker, Esq.	Attorney
David J. Samuel, PE, PP	Engineer

GENERAL COMMENTS, FINDINGS AND RECOMMENDATIONS

Other Post-Employment Benefits

Local Finance Notice 2007-15 requires local units that provide non-pension benefits to retired employees, such as health insurance coverage, prescription or other benefits, to disclose the annual payment for currently retired employees and future cost for those employees in the Notes to the Financial Statements.

Those municipalities that are not members of the State Health Benefits Plan or other cost-sharing plans must obtain an actuarially calculated post-employment benefit on a periodic basis for inclusion in the Notes to the Financial Statements.

The Borough of Sayreville maintains private health coverage and provides certain retired employees with post-employment benefits which require appropriate disclosure in the Notes to the Financial Statements in accordance with regulations promulgated by the Local Finance Board.

As of December 31, 2017, the Sayreville Economic and Redevelopment Agency did not have any employees eligible for Post-Employment Benefits.

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

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

RECOMMENDATION

NONE

Acknowledgment

We desire to express our appreciation for the assistance and courtesies rendered by the Agency officials and employees during the course of the examination.

Respectfully submitted,



SAMUEL KLEIN AND COMPANY
CERTIFIED PUBLIC ACCOUNTANTS



JOSEPH J. FACCONI, RMA, PA

Newark, New Jersey
October 16, 2018

