

MORRIS COUNTY IMPROVEMENT AUTHORITY
(A COMPONENT UNIT OF THE COUNTY OF MORRIS)
COUNTY OF MORRIS, NEW JERSEY

FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
WITH INDEPENDENT AUDITOR'S REPORT

MORRIS COUNTY IMPROVEMENT AUTHORITY

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MORRIS COUNTY IMPROVEMENT AUTHORITY
(A Component Unit of the County of Morris)
ROSTER OF OFFICIALS
DECEMBER 31, 2012

<u>COMMISSIONERS</u>	<u>POSITION</u>	<u>TERM EXPIRES</u>
John Bonanni	Chairperson	February 1, 2017
Christina Ramirez	Vice Chairperson	February 1, 2013
Ellen Sandman	Secretary	February 1, 2014
Glenn Roe	Treasurer	February 1, 2016
Frank Pinto	Assistant Secretary	February 1, 2015

Inglesino, Pearlman, Wyciskala & Taylor, LLC	General Counsel and Bond Counsel
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Thomas M. Ferry, CPA, RMA	Auditor
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Acacia Financial Group, Inc.	Financial Advisor
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NW Financial Group, LLC	Financial Advisor
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Ferraioli, Wielkottz, Cerullo & Cuva, P.A.

Charles J. Ferraioli, Jr., MBA, CPA, RMA
Steven D. Wielkottz, CPA, RMA
James J. Cerullo, CPA, RMA
Paul J. Cuva, CPA, RMA
Thomas M. Ferry, CPA, RMA

Certified Public Accountants
401 Wanaque Avenue
Pompton Lakes, New Jersey 07442
973-835-7900
Fax 973-835-6631

Newton Office
100B Main Street
Newton, N.J. 07860
973-579-3212
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INDEPENDENT AUDITOR'S REPORT

Honorable Chairperson and Commissioners
Morris County Improvement Authority
County of Morris
Administration and Records Building
5th Floor
Morristown, New Jersey 07963-0900

Report on the Financial Statements

We have audited the accompanying statement of net position of the Morris County Improvement Authority as of December 31, 2012, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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



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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Morris County Improvement Authority as of December 31, 2012, and the respective changes in financial position and cash flows for the year 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 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprises the Morris County Improvement Authority's financial statements. The supplementary information listed in the table of contents and schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the letter of comments and recommendations section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplemental information listed in the table of contents and schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, the schedule of federal financial awards are the responsibility of management and were 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 supplemental information listed in the table of contents, schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* are fairly stated in all material respects in relation to the financial statements taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 29, 2013 on our consideration of the Morris County Improvement Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Morris County Improvement Authority's internal control over financial reporting and compliance.



Thomas M. Ferry, C.P.A.
Registered Municipal Accountant

Ferraioli, Wielkutz, Cerullo, & Cuva, P.A.

FERRAIOLI, WIELKOTZ, CERULLO & CUVA, P.A.
Certified Public Accountants

April 29, 2013



MORRIS COUNTY IMPROVEMENT AUTHORITY
(A Component Unit of the County of Morris)

MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2012

As management of the Morris County Improvement Authority, we offer the Authority's financial statements, this narrative overview and analysis of the Authority's financial performance during the fiscal year ended December 31, 2012. Please read this analysis in conjunction with the Authority's financial statements, which follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

REQUIRED FINANCIAL STATEMENTS

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

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

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

FINANCIAL ANALYSIS OF THE AUTHORITY

One of the most important questions asked about the Authorities finances is "Is the Authority as a whole better able to fulfill its mission as a result of this years activities?" The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report information about the Authority's activities in a way that will help answer this question. In addition, long-term trends need to be reviewed to best assess the financial health of the Authority. These two statements report net assets of the Authority and the changes in those assets. The reader can think of the Authority's net position - the difference between

MORRIS COUNTY IMPROVEMENT AUTHORITY
(A Component Unit of the County of Morris)

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED
DECEMBER 31, 2012

FINANCIAL ANALYSIS OF THE AUTHORITY, CONTINUED

assets and liabilities - as one way to measure financial health or financial position. Over time, increases or decreases in the Authority's net position are one indicator of whether its financial health is improving or deteriorating. However, one will need to consider other non - financial factors such as changes in economic conditions, development, and new or changed government regulation.

NET POSITION

A summary of the Authority's Statement of Net Position is presented in the following table:

CONDENSED STATEMENT OF NET POSITION

		<u>FY</u> <u>2012</u>
ASSETS		
Current and Other Assets	\$	<u>453,455</u>
Total Assets	\$	<u>453,455</u>
LIABILITIES		
Accounts Payable	\$	<u>2,903</u>
Total Liabilities	\$	<u>2,903</u>
NET POSITION		
Unrestricted	\$	<u>450,552</u>
Total Net Position	\$	<u>450,552</u>
 Total Liabilities and Net Position	 \$	 <u>453,455</u>

MORRIS COUNTY IMPROVEMENT AUTHORITY
(A Component Unit of the County of Morris)

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED
DECEMBER 31, 2012

FINANCIAL ANALYSIS OF THE AUTHORITY, CONTINUED

**CONDENSED STATEMENT OF REVENUES,
EXPENSES, AND CHANGES IN NET POSITION**

Operating Revenues	\$ 170,374
Non-Operating Revenues	<u>2,001,111</u>
Total Revenues	\$ <u>2,171,485</u>
Operating Expense	\$ 104,477
Non-Operating Expenses	<u>2,000,000</u>
Total Expenses	\$ <u>2,104,477</u>
Changes in Net Position	\$ <u>67,008</u>
Beginning Net Position	\$ <u>383,544</u>
Ending Net Position	\$ <u><u>450,552</u></u>

As can be seen in the above table, net position increased by \$67,008.

MORRIS COUNTY IMPROVEMENT AUTHORITY
(A Component Unit of the County of Morris)

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED
DECEMBER 31, 2012

BUDGETARY HIGHLIGHTS

The Authority prepares and submits an annual operating budget to the State of New Jersey, which approves the budget for adoption by the Authority prior to the beginning of the fiscal year.

The following table provides the 2012 budget highlights:

Budget vs. Actual
FY2012

	2012		2012
	<u>Budget</u>		<u>Actual</u>
<u>Revenues</u>			
Administrative Fees	\$ 63,050	\$	126,286
Participant Contributions for Debt Service	25,672,085		25,057,399
Other Revenues	<u>2,150,000</u>		<u>2,045,200</u>
	\$ <u>27,885,135</u>	\$	<u>27,228,885</u>
 <u>Appropriations</u>			
Administration Expenses	\$ 63,050	\$	60,390
Other Expenses	2,150,000		2,044,088
Non-Operating Appropriations:			
Principal Payments on			
Conduit Debt Service	18,110,000		18,110,000
Interest on Conduit Debt	<u>7,562,085</u>		<u>6,947,399</u>
	\$ <u>27,885,135</u>	\$	<u>27,161,877</u>

DEBT ADMINISTRATION

The Authority has been aggressive in attracting conduit debt issues. At year-end, there is \$212,925,000 of Outstanding Conduit Permanent Debt.

More detailed information about the Authority's long-term debt liabilities is presented in Note 2 of the financial statements.

**MORRIS COUNTY IMPROVEMENT AUTHORITY
(A Component Unit of the County of Morris)**

**MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED
DECEMBER 31, 2012**

CONTACTING THE AUTHORITY

This financial report is designed to provide our customers and creditors with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the fees it receives. If you have any questions about this report or need additional information, contact the Morris County Improvement Authority, County of Morris, Administration and Records Building, 5th floor, Morristown, NJ 07963-0900 or call 973-285-6020.

MORRIS COUNTY IMPROVEMENT AUTHORITY
(A Component Unit of the County of Morris)
STATEMENT OF NET POSITION
DECEMBER 31, 2012

Exhibit A

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 451,568
Accounts Receivable	<u>1,887</u>

Total Current Assets	\$ <u>453,455</u>
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TOTAL ASSETS	\$ <u><u>453,455</u></u>
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LIABILITIES

Accounts Payable	\$ <u>2,903</u>
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TOTAL LIABILITIES	\$ <u><u>2,903</u></u>
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NET POSITION

Unassigned	\$ <u>450,552</u>
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TOTAL NET POSITION	\$ <u><u>450,552</u></u>
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The accompanying Notes to the Basic Financial Statements are an integral part of this statement.

MORRIS COUNTY IMPROVEMENT AUTHORITY
(A Component Unit of the County of Morris)
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN NET POSITION
DECEMBER 31, 2012

Exhibit B

Operating Revenues	
Administrative Fees	\$ 126,286
Miscellaneous Revenue	44,088
	<u>\$ 170,374</u>
Operating Expenses	
Administrative	\$ 104,477
Total Operating Expenses	<u>\$ 104,477</u>
Operating Income (Loss)	<u>\$ 65,897</u>
Non-Operating Revenues (Expenses)	
U.S. Department of Energy Grant	2,000,000
Grant Expenditures (Reduction of Power Purchase Agreement)	(2,000,000)
Interest Income	\$ 1,111
Total Non-Operating Revenues (Expenses)	<u>\$ 1,111</u>
Change in Net Position	<u>\$ 67,008</u>
Net Position, January 1,	<u>\$ 383,544</u>
Net Position, December 31,	<u><u>\$ 450,552</u></u>

The accompanying Notes to the Basic Financial Statements are an integral part of this statement.

MORRIS COUNTY IMPROVEMENT AUTHORITY
(A Component Unit of the County of Morris)
STATEMENT OF CASH FLOWS
DECEMBER 31, 2012

Exhibit C

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash receipts from customers	201,931
Cash payments to suppliers for goods and services	<u>(110,136)</u>
Net cash provided by (used for) Operating Activities	<u>91,795</u>

CASH FLOWS PROVIDED BY NONCAPITAL FINANCING ACTIVITIES:

Federal Sources	2,000,000
Grant Expenditures (Power Purchase Agreement)	<u>(2,000,000)</u>
Net cash provided by (used for) noncapital financing activities	<u></u>

CASH FLOW FROM INVESTING ACTIVITIES:

Interest on cash equivalents	<u>1,111</u>
Net Cash Provided by (used for) Investing Activities	<u>1,111</u>

NET INCREASE / DECREASE IN CASH AND CASH EQUIVALENTS	92,906
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CASH AND CASH EQUIVALENTS, JANUARY 1,	<u>358,662</u>
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CASH AND CASH EQUIVALENTS, DECEMBER 31,	<u><u>451,568</u></u>
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**RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH
PROVIDED (USED) BY OPERATING ACTIVITIES:**

Operating Income (Loss)	65,897
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Adjustments to Reconcile Net Income to Net Cash Provided by

Operating Activities	
Change in Current Assets and Liabilities:	
Decrease in Account Payable	(5,658)
Decrease in Accounts Receivable	<u>31,556</u>

Total Adjustments	<u>25,898</u>
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NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>91,795</u></u>
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The accompanying Notes to the Basic Financial Statements are an integral part of this statement.

MORRIS COUNTY IMPROVEMENT AUTHORITY
(A Component Unit of the County of Morris)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Authority Description

The Morris County Improvement Authority (the "Authority") is a public body politic, corporate, organized, and existing under the County Improvement Authorities Law, constituting Chapter 183 of the Pamphlet Laws of 160, as Amended and Supplemented, N.J.S.A. 40:37A-1, et seq., and was created by virtue of an ordinance of the County of Morris, New Jersey (the "County"), adopted April 10, 2002.

B. Component Unit

The Authority is a component unit of the County under Governmental Accounting Standards Boards (GASB) Statement No. 14.

C. Accounting Principles

On August 26, 1983, the State of New Jersey enacted P.L. 1983, Chapter 313 providing for a State review of the financial operations of local authorities. The responsibility for this review was given to the Local Finance Board and the Division of Local Government Services of the Department of Community Affairs (DCA).

The DCA has recognized the National Council on Governmental Accounting (NCGA) Statement 1, "Governmental Accounting and Financial Reporting Principles", and subsequent NCGA statements and interpretations as authoritative on application of generally accepted accounting principles (GAAP) for local authorities. In July of 1984, the Governmental Accounting Standards Board (GASB) became the successor organization to the NCGA as the promulgator of standards of financial accounting and reporting with respect to activities and transactions of State and local governmental entities.

GASB Statement No. 20 recognizes that the accounting and financial reporting activities of authorities are considered to be proprietary activities. In accordance with Statement No. 20, the Authority has applied all GASB pronouncements, as well as the Financial Accounting Standards Board (FASB) pronouncements that were issued prior to November 30, 1989. The Authority has elected not to apply FASB pronouncements issued after that date unless they have specifically been made applicable by the GASB.

D. Budgets and Budgetary Accounting

An annual budget is required to be adopted and integrated into the accounting system to provide budgetary control over revenues and expenditures. Budget amounts presented in the accompanying financial statements represent amounts adopted by the Authority and approved by the State Division of Local Government Services per N.J.S.A. 40A:4 et seq.

MORRIS COUNTY IMPROVEMENT AUTHORITY
(A Component Unit of the County of Morris)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012
(continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

E. Basis of Presentation

On January 1, 2012, the Authority adopted the provisions of Governmental Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which amends the net asset reporting requirement of Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis for State and Local Governments*, and other pronouncements by incorporating deferred outflows from resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The classifications of net position are defined as follows:

- *Invested in capital assets, net of related debt* - This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are any significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of invested in capital assets, net of related debt. Rather that portion of the debt is included in the same net assets component as the unspent proceeds.
- *Restricted* - This component of net position consists of constraints placed on net assets used through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- *Unrestricted* - This component of net position consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

F. Basis of Accounting

The financial statements of the Authority have been prepared on the accrual basis and in accordance with accounting principles generally accepted in the United States of America (GAAP) under the accrual basis of accounting, revenues are recognized when they are earned and expenses are recognized when the liability is incurred.

G. Property, Plant, and Equipment

At December 31, 2012, the Authority did not own any property, plant, or equipment.

MORRIS COUNTY IMPROVEMENT AUTHORITY
(A Component Unit of the County of Morris)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012
(continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

H. Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

I. Recent Accounting Pronouncements

The Government Accounting Standards Board issued GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The Authority has applied GASB No. 65 for the year ending December 31, 2012.

The Government Accounting Standards Board issued GASB Statement No. 66, *Technical Corrections - 2012 - an amendment of GASB Statement No. 10 and No. 62*. The objective of this Statement is to improve accounting and financial reporting for a government financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statement No. 54, *Fund Balance Reporting Guidance Contained in Pre-November 20, 1989 FASB and AICPA Pronouncements*. This Statement is effective for periods beginning after December 15, 2012. The Authority does not believe this Statement will materially affect its current practice.

The Government Accounting Standards Board issued GASB Statement No. 67, *Financial Reporting for Pension Plans - an amendment of GASB Statement No. 25*. The objective of this Statement is to improve financial reporting by state and local government pension plans. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision - useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency. This Statement replaces the requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 25 and 50 remain applicable to pension plans that are not administered through trusts covered by the scope of this Statement and to defined contribution plans that provide postemployment benefits other than pensions. This Statement is effective for financial statements for fiscal years beginning after June 15, 2013. The Authority is currently reviewing what effect, if any, this Statement might have on future financial statements.

MORRIS COUNTY IMPROVEMENT AUTHORITY
(A Component Unit of the County of Morris)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012
(continued)

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

I. **Recent Accounting Pronouncements, (continued)**

The Government Accounting Standards Board issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*. The primary objective of this Statement is to improve financial reporting by state and local government for pensions. It also improves information provided by state and local governmental employees about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating transparency. This Statement is effective for financial statements for fiscal years beginning after June 15, 2014. The Authority is currently reviewing what effect, if any, this Statement might have on future financial statements.

The Government Accounting Standards Board issued GASB Statement No. 69 *Government Combinations and Disposals of Government Operations*. This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term "government combinations" includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations. This Statement is effective for financial statements beginning after December 15, 2013. The Authority does not believe this Statement will materially affect its current practice.

MORRIS COUNTY IMPROVEMENT AUTHORITY
(A Component Unit of the County of Morris)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012
(continued)

2. CONDUIT DEBT OBLIGATIONS

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

The aggregate principal amounts outstanding on this debt at December 31, 2012 are as follows:

Bonds:		<u>2012</u>
Pooled Program Bonds (Refunded)	Series 2003 (Note 2A)	\$ 950,000
Loan Revenue Bonds (Refunded)	Series 2003 (Note 2B)	1,305,000
District Revenue Bonds (Refunded)	Series 2004 (Note 2C)	2,880,000
Lease Revenue Bonds	Series 2004 (Note 2D)	2,450,000
Pooled Program Bonds	Series 2005 (Note 2E)	11,160,000
Lincoln Park	Series 2009 (Note 2F)	20,930,000
Newton	Series 2009 (Note 2G)	3,540,000
Renewable Energy 2009A	Series 2009A (Note 2H)	18,720,000
Refunding Bonds	Series 2010 (Note 2I)	12,120,000
Renewable Energy 2011A	Series 2011 (Note 2J)	33,100,000
Pooled Program Lease Revenue	Series 2011 (Note 2K)	15,810,000
Pooled ERI Refunding Bonds	Series 2011 (Note 2L)	6,500,000
Sussex Renewable Energy	Series 2011 (Note 2M)	26,715,000
School District Revenue Refunding	Series 2012 (Note 2N)	28,230,000
Pooled Program Bonds, 2012A	Series 2012A (Note 2O)	20,015,000
Pooled Program Bonds, 2012B	Series 2012B (Note 2P)	8,500,000
		<u>\$ 212,925,000</u>
Notes:		
Sussex Renewable Energy		
Lease Revenue Note	Series 2011B (Note 2M)	\$ 985,000.00
Renewable Energy Lease Revenue	Series 2011B (Note 2J)	1,200,000.00
		<u>\$2,185,000.00</u>

A. Pooled Program Bonds, Series 2003 (County Guaranteed)

On July 15, 2003, The MCIA issued bonds in the amount of \$20,870,000.00, with a final maturity date of August 15, 2023, at an interest rate ranging from 2.00% to 5.00%. On August 11, 2010 \$11,705,000 of these bonds were refunded through issuance of County of Morris Guaranteed Authority Refunding Pooled Program Bonds (See Note 2I). The amount of bonds not refunded amount to \$2,745,000 and have a final maturity date of August 15, 2013, at interest rates ranging from 3.50% to 4.00%. The program consisted of two components. The proceeds of the Series 2003

MORRIS COUNTY IMPROVEMENT AUTHORITY
(A Component Unit of the County of Morris)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012
(continued)

2. CONDUIT DEBT OBLIGATIONS, (continued)

Pooled Bonds were used to acquire the various series of the Authority's Lease Revenue Bonds Series 2003, and a bond issued by the Board of Education of the Township of Washington. The proceeds of the Lease Revenue Bonds were used by the Authority to acquire and install certain equipment to be leased to the local units. These proceeds have been depleted. The proceeds of the Washington Board of Education Bond will be used to construct a new elementary school.

B. Loan Revenue Bonds, Series 2003 (County Guaranteed)

On February 1, 2003, the MCIA issued bonds in the amount of \$16,890,000.00, with a final maturity date of March 1, 2021, at an interest rate ranging from 1.75% to 5.75%. On December 20, 2011 \$6,005,000 of these bonds were refunded through issuance of County of Morris Guaranteed Authority Refunding Pooled Program Bonds at an interest rate ranging from .7% to 3.48% with a final maturity of June 30, 2021 (See Note 2L). The amount of bonds not refunded amount to \$2,675,000 and have a final maturity date of March 1, 2016, at interest rates ranging from 4.95% to 5.75%. The bonds are being issued to provide funds to make a loan to each of the local units. The local units will apply the proceeds of the loans to (1) raise funds sufficient to retire the present value of the unit's respective unfunded accrued liability for the early retirement system incentive benefits previously granted by the state to each local unit and (2) pay certain costs of issuance of the series 2003 bonds, and the refunding bonds. The Loan Revenue Bonds are secured by restricted cash and investments, loan agreements with each local unit and an unconditional and irrevocable guarantee of the County. The local units who participated are as follows:

Chester Township Board of Education	Mount Olive Township
Morris County	Mount Olive Board of Education
Morris Plains Borough	Roxbury Township
Morris Township	Roxbury Township Board of Education

C. School District Revenue Bonds, Series 2004 (County Guaranteed)

On March 18, 2004, the MCIA issued bonds in the amount of \$43,092,000, with a final maturity date of October 1, 2029, at an interest rate ranging from 3.125% to 4.25%. On March 28, 2012 \$30,507,000 of these bonds were refunded through the issuance of County of Morris Guaranteed School District Revenue Refunding Bonds at an interest rate ranging from 2.000% to 5.000% with a final maturity of October 1, 2029 (See Note 2N). The amount of bonds not refunded amount to \$4,240,000 and have a final maturity date of October 1, 2014 at interest rates ranging from 3.500% to 4.00%. The School District Bonds are being issued to make a loan to the Board of Education of the Morris Hills Regional District (the "School District") for the purpose of financing (1) the construction and equipping of various renovations and additions to both the Morris Hills High School and the Morris Knolls High School and (2) the payment of certain costs of issuing the School Bonds. To evidence its obligation to repay such loan, the School District will issue and deliver to the Authority \$43,092,000 principal amount

MORRIS COUNTY IMPROVEMENT AUTHORITY
(A Component Unit of the County of Morris)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012
(continued)

2. CONDUIT DEBT OBLIGATIONS, (continued)

of its General Obligation Bonds (Morris Hills Regional District), series 2004 (the "School District General Obligation Bonds"). The Advance Refunding Project consists of the advance refunding of all of the outstanding callable principal amount of the County of Morris Guaranteed School District Revenue Bonds, Series 2004, dated March 31, 2004 and maturing on or after October 1, 2015.

D. Lease Revenue Bonds, Series 2004 (County Guaranteed)

On March 18, 2004, the MCIA issued bonds in the amount of \$4,940,000, with a final maturity date of October 1, 2024, at an interest rate ranging from 1.00% to 4.125%. The Bonds are being issued to (1) finance certain property improvements for the Educational Service Commission of Morris County the (the "ESC"), (2) to defease and/or refund all of the ESC's outstanding 1996 COPS and 1999 COPS, and (3) to finance any needed reserves and costs of issuance. The MCIA will acquire a leasehold interest in a portion of the property to be financed and refinancing through issuance of the ESC Bonds and pursuant to a Lease Purchase Agreement between MCIA and the ESC. The MCIA will re-lease such property to the ESC and the ESC will be obligated to make payments sufficient, inter alia, to pay principal of, premium, if any, and interest on the ESC Bonds.

E. Pooled Program Bonds, Series 2005 (County Guaranteed)

On May 26, 2005, the MCIA issued bonds in the amount of \$19,085,000, with a final maturity date of September 1, 2023, at an interest rate ranging from 3.00% to 5.00%. The payment of principal and interest on the entire bond issuance is secured by a full unconditional irrevocable guarantee by the County. The Bonds are being issued to finance the leasing of capital equipment and/or property in accordance with the County Improvement Authorities Law of the following Local Government Units:

Township of Denville

Township of Brick

The Educational Services Commission of Morris County

F. Loan Program Bonds, Lincoln Park, Series 2009 (County Guaranteed)

On February 25, 2009 the MCIA issued bonds in the amount of \$20,930,000, with a final maturity date of March 15, 2030, at an interest rate ranging from 2.000% to 5.000%. Lincoln Park shall apply the proceeds of Lincoln Park bond to refund it bond anticipation notes dated February 27, 2008 and maturing February 26, 2009 in the aggregate principal amount of \$21,078,850 issued for the purpose of temporarily financing the costs of the Lincoln Park Projects and to pay a portion of the interest due on the Series 2009 Bonds on September 15, 2009.

The Lincoln Park Project consists of (i) the construction and renovation of certain municipal buildings and various other capital projects in and by Lincoln Park, and (ii) the payment of any costs associated with the issuance of the Lincoln Park Bond (the "Lincoln Park Projects").

MORRIS COUNTY IMPROVEMENT AUTHORITY
(A Component Unit of the County of Morris)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012
(continued)

2. CONDUIT DEBT OBLIGATIONS, (continued)

G. Loan Program Bonds, Town of Newton, Series 2009 (County Guaranteed)

On September 16, 2009 the MCIA issued bonds in the amount of \$4,285,000 with a final maturity date of October 1, 2023, at an interest rate ranging from 2.00% to 5.00%. The proceeds will be issued in (1) refinancing bond anticipation notes originally issued for various purposes including the acquisition of equipment, renovation of buildings and infrastructure and the initial planning expenses for redevelopment planning; and (ii) payment of certain costs of issuance in connection with the issuance of the Newton Local Unit Bond.

H. Renewable Energy Program, Series 2009A (County Guaranteed)

On February 18, 2010 the Morris County Improvement Authority issued bonds in the amount of \$21,600,000 with a final maturity date of August 15, 2025, at an interest rate ranging from 1.223% to 5.200%. The bonds are being issued to (i) finance the Renewable Energy Projects and the Capital Improvement Projects for each of the Series 2009A Local Units, (ii) reimburse certain Renewable Energy Program development costs paid by the County and the Authority, (iii) pay certain fees and costs incurred by or for the Tioga Solar Morris County 1, LLC (the "Company") in connection with the Renewable Energy Program, and (iv) pay the various costs of issuing the Series 2009A Bonds.

I. Refunding Bonds, Series 2010 (County Guaranteed)

On August 11, 2010 the MCIA issued Refunding bonds on behalf of Washington Township Board of Education in the amount of \$12,260,000 with a final maturity date of August 15, 2023, at an interest rate ranging from 2.00% to 4.00%. These bonds were issued to provide for the refunding of 2014-2023 maturities of the outstanding 2003 Bonds of the School District (the Local Unit "Refunding Bond Ordinance"), and resulted in a net present value savings of \$472,332 (See Note 2A).

J. Renewable Energy Program, Series 2011A (County Guaranteed)

On December 8, 2011 the Morris County Improvement Authority issued bonds in the amount of \$33,100,000 with a final maturity date of June 15, 2027, at an interest rate ranging from 1.062% to 4.705%. On May 15, 2012 a \$1,200,000 note was issued maturing on January 15, 2013 at an interest rate of 1.062%. The purpose of which was to deposit in a capitalized interest account sufficient dollars to pay the interest on the Series 2011A Bonds on June 15, 2012 and December 15, 2012. The \$1,200,000 note was then extended to mature on January 15, 2014. The bonds were issued to (i) finance a portion of the costs of the Renewable Energy Projects for each of the Series 2011 Local Units, (ii) reimburse certain Renewable Energy Program development costs paid by the County and the Authority, (iii) pay certain fees and costs incurred by or for Sunlight General Morris Solar, LLC (the "Company") in connection with the Renewable Energy Program, and (iv) pay the various costs of issuing the Series 2011A Bonds.

MORRIS COUNTY IMPROVEMENT AUTHORITY
(A Component Unit of the County of Morris)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012
(continued)

2. CONDUIT DEBT OBLIGATIONS, (continued)

K. Pooled Program Bonds, Series 2011 (County Guaranteed)

On August 30, 2011 the MCIA issued bonds in the amount of \$16,490,000 with a final maturity date of August 15, 2036, at an interest rate ranging from 2.00% to 5.00%, and notes in the amount of \$10,930,000 at a rate of 1.5%. The payment of principal and interest on the entire bond and note issuance is secured by a full unconditional irrevocable guarantee by the County. The bonds and notes are being issued to finance the leasing of capital equipment and/or property in accordance with the County Improvement Authorities Law of the following Local Government Units:

Borough of Rockaway
Town of Newton
Morris County

L. Refunding Bonds, Pooled ERI, Series 2011 (County Guaranteed)

On December 20, 2011 the MCIA issued Refunding bonds in the amount of \$6,665,000 with a final maturity date of March 1, 2021, at an interest rate ranging from .700% to 3.480%. These bonds were issued to provide funds, together with investment income earned thereon, to (i) advance refund a \$6,005,000 callable portion of the Authority's \$6,230,000 aggregate principal amount of County of Morris Guaranteed Loan Revenue Bonds, Series 2003 (Pooled ERI), maturing on March 1 in the years 2014, 2015 and 2021, (ii) pay interest accrued and to accrue on the Callable Bonds from the date of delivery of the Series 2011 Bonds to and including March 1, 2013, the date fixed for the redemption of the Callable Bonds; and (iii) pay the costs of issuance incurred in connection with the issuance and delivery of the Series 2011 Bonds (See Note 2B).

M. Sussex Renewable Energy Program, Series 2011A&B

On December 14, 2011 the Morris County Improvement Authority issued bonds in the amount of \$26,715,000 with a final maturity date of June 15, 2027, at an interest rate ranging from 1.138% to 4.938% and notes in the amount of \$985,000 maturing January 15, 2013 at an interest rate of 1.50%. The bonds and notes are being issued to (i) finance a portion of the costs of the Renewable Energy Projects for each of the Series 2011 Local Units, (ii) reimburse certain Renewable Energy Program development costs paid by the County of Sussex and the Authority, (iii) pay certain fees and costs incurred by or for Sunlight General Sussex Solar, LLC (the "Company") in connection with the Renewable Energy Program, and (iv) pay the various costs of issuing the Series 2011A Bonds and the Series 2011B Note.

MORRIS COUNTY IMPROVEMENT AUTHORITY
(A Component Unit of the County of Morris)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012
(continued)

2. CONDUIT DEBT OBLIGATIONS, (continued)

N. School District Revenue Refunding Bonds, Series 2012 (County Guaranteed)

On March 28, 2012 the Morris County Improvement Authority issued refunding bonds in the amount of \$28,230,000 with a final maturity date of October 1, 2029, at an interest rate ranging from 2.000% to 5.000%. The Bonds consists of (i) the advance refunding of \$30,507,000 of the outstanding callable principal amounts of the \$43,092,000 aggregate principal amounts of the County of Morris Guaranteed School District Revenue Bonds, Series 2004 dated March 31, 2004 maturing on or after October 1, 2015 at par, plus any unpaid accrued interest to October 1, 2014 and (ii) the payment of any costs associated with the issuance of the Series 2012 Local Unit Refunding Bond or the Series 2012 Bonds (See Note 2C).

O. Pooled Program Bonds, Series 2012A (County Guaranteed)

On June 28, 2012 the Morris County Improvement Authority issued bonds in the amount of \$20,015,000 with a final maturity date of February 1, 2037, at an interest rate ranging from 2.000% to 3.625%. The payment of principal and interest on the entire bond and note issuance is secured by a full unconditional irrevocable guarantee by the County. The bonds are being issued to finance the leasing of capital improvements, refund outstanding Bond Anticipation Notes issued by the Borough of Chester, refund the 2011 Pooled Program Notes and additional costs for the expansion of the County Public Safety Academy in accordance with the County Improvement Authority law of the following local Governmental Units:

Borough of Chester
County of Morris

P. Pooled Program Bonds, Series 2012B (County Guaranteed)

On June 28, 2012 the Morris County Improvement Authority issued bonds in the amount of \$8,500,000 with a final maturity date of February 1, 2027, at an interest rate ranging from 2.000% to 3.000%. The payment of principal and interest on the entire bond and note issuance is secured by a full unconditional irrevocable guarantee by the County. The bonds are being issued to finance various improvements to the Morris County Community College and are entitled to the benefits of the New Jersey County College Bonds Act, P.L. 1971, C. 12 as amended (the "Chapter 12 Act").

MORRIS COUNTY IMPROVEMENT AUTHORITY
(A Component Unit of the County of Morris)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012
(continued)

2. CONDUIT DEBT OBLIGATIONS, (continued)

Schedule of Annual Debt Service of Principal and Interest for Local Units

<u>Bonds:</u>			
<u>Year</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total</u>
2013	10,175,000.00	8,058,622.50	18,233,622.50
2014	13,015,000.00	7,687,521.79	20,702,521.79
2015	13,815,000.00	7,340,094.84	21,155,094.84
2016	13,980,000.00	6,951,360.59	20,931,360.59
2017	13,620,000.00	6,539,935.09	20,159,935.09
2018-2022	69,040,000.00	25,072,874.94	94,112,874.94
2023-2027	55,640,000.00	11,285,033.93	66,925,033.93
2028-2032	18,245,000.00	2,562,203.19	20,807,203.19
2033-2037	5,395,000.00	521,093.80	5,916,093.80
	<u>\$212,925,000.00</u>	<u>\$76,018,740.67</u>	<u>\$288,943,740.67</u>
Long Term Portion	\$202,750,000.00		
Short Term Portion	<u>10,175,000.00</u>		
Total	<u>\$212,925,000.00</u>		

Notes:

Sussex Renewable Energy Lease Revenue Notes Series 2011B were issued for \$985,000 on December 14, 2011 maturing on January 15, 2013 at an interest rate of 1.5%.

Guaranteed Renewable Energy Program Lease Revenue Notes, Series 2011B were issued for \$1,200,000 on May 15, 2012 maturing on January 15, 2013 at an interest rate of 1.062%.

Q. County Guaranteed Leasing Program, Series 2004 (County Guaranteed)

On August 4, 2004, the MCIA established a County Guaranteed Leasing Program with the Bank of America Leasing and Capital, LLC, up to a maximum amount of \$10,000,000. On June 12, 2006 this amount was increased to \$20,000,000. On June 11, 2007 it was increased an additional \$10,000,000 to \$30,000,000. The Leasing Program provides low cost, timely and turnkey lease financing to local units desiring to lease finance their equipment needs. The MCIA (Lessee) through a master lease purchase agreement which in 2005 was changed to Commerce Commercial Leasing, LLC (Now TD Equipment Finance) (Lessor), requests lessor to finance the acquisition of equipment on behalf of the local units.

MORRIS COUNTY IMPROVEMENT AUTHORITY
(A Component Unit of the County of Morris)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012
(continued)

2. CONDUIT DEBT OBLIGATIONS, (continued)

Concurrently with or subsequent to the execution and delivery of this Lease, Lessee shall enter into a "Sublease Purchase Agreement", with a political subdivision of the State or a state or local governmental unit within the meaning of 1.103-1(a) of the Treasury Regulations promulgated under the Internal Code of 1986, as amended ("*Sublessee*"), pursuant to which Lessee will sublease the Equipment to Sublessee. In consideration of Lessor and Lessee entering into this Lease, Lessee intends to issue to Lessor a performance bond in a principal amount up to the Maximum Program Amount, which Bond will be issued directly to Lessor and will be payable to Lessor only upon a deficiency in Rental Payments due and owing under the Sublease, in which case the County of Morris will have fully, unconditionally and irrevocably guaranteed the payment of the principal of the Bond up to the Maximum Program Amount, plus interest thereon.

During the twelve month period ending December 31, 2012 nineteen local units had closed on transactions, they are as follows:

Boonton Township Board of Education	\$ 31,828.35
Boonton Township Board of Education	241,494.48
Denville Township Board of Education	99,896.75
Denville Township Board of Education	46,177.10
Chester Board of Education	265,911.45
Mendham Township	18,090.00
Mendham Township Board of Education	55,112.54
Montville Township Board of Education	695,553.47
Montville Township Board of Education	100,733.18
Montville Township Board of Education	449,743.53
Morris Plains School District	210,468.04
Parsippany – Troy Hills Board of Education	1,005,000.00
Mendham Township Board of Education	98,590.50
Mendham Township	25,923.00
Rockaway Township Board of Education	32,327.84
Roxbury Township Board of Education	57,340.28
Township of East Hanover	150,752.01
Rockaway Borough Board of Education	50,250.00
Washington Township Board of Education	599,081.19
	<u>\$4,234,273.71</u>

As of December 31, 2012, \$41,696,458.61 of lease financing had been authorized. Payments totaling \$29,211,903.85 had been made leaving a balance of \$17,515,445.24 available for future loans.

MORRIS COUNTY IMPROVEMENT AUTHORITY
(A Component Unit of the County of Morris)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012
(continued)

3. CASH AND CASH EQUIVALENTS AND INVESTMENTS

Cash

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Authority's policy is based on New Jersey Statutes requiring cash be deposited only in New Jersey based banking institutions that participate in New Jersey Governmental Depository Protection Act (GUDPA) or in qualified investments established in New Jersey Statutes that are treated as cash equivalents. As of December 31, 2012, \$-0- of the Authority's bank balance of \$458,500.08 is exposed to custodial credit risk.

Investments

Investment Rate Risk

The Authority has a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. A formal investment policy was adopted on January 18, 2012.

Credit Risk

New Jersey Statutes limits municipal investments to those specified in the Statutes.

The type of allowed investments are Bonds of the United States of America, bonds or other obligations of the towns or bonds or other obligations of the local unit or units within which the Authority is located; obligations of federal agencies not exceeding 397 days; government money market mutual funds; the State of New Jersey Cash Management Plan; local government investment pools; or repurchase of fully collateralized securities.

Concentration of Credit Risk

The Authority places no limit on the amount the Authority may invest in any one issuer.

4. OTHER MATTERS

There are none at this time.

MORRIS COUNTY IMPROVEMENT AUTHORITY
(A Component Unit of the County of Morris)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012
(continued)

5. SUBSEQUENT EVENTS

On February 13, 2013 an \$11 million Guaranty ordinance securing the Morris County Improvement Authority's County of Morris Guaranteed Denville Township Refunding Bonds, Series 2013 was introduced. The intention is to advance refund all or a portion of the 2005B Pooled Program Bonds issued by the Authority on behalf of Denville.

6. COMMITMENTS AND CONTINGENT LIABILITIES

We are advised by the Authority Counsel that the Authority is involved in litigation, however, at this time, Counsel is unable to express judgment as to the outcome and unable to express an estimate as to potential loss, should a claim be filed, if any.

SUPPLEMENTARY INFORMATION

MORRIS COUNTY IMPROVEMENT AUTHORITY
(A Component Unit of the County of Morris)
SCHEDULE OF OPERATING REVENUES AND COSTS FUNDED BY
OPERATING REVENUES COMPARED TO BUDGET
YEAR ENDED 2012

Schedule 1

GOVERNMENTAL FUND

	<u>2012</u>	<u>2012</u>
<u>REVENUES</u>	<u>Budget</u>	<u>Actual</u>
Administrative fees	\$ 63,050	\$ 126,286
Participant Contributions for Debt Service	25,672,085	25,057,399
Other Revenues	<u>2,150,000</u>	<u>2,045,200</u>
	\$ <u><u>27,885,135</u></u>	\$ <u><u>27,228,885</u></u>

<u>APPROPRIATIONS</u>		
Administration:		
Administration Expenses	\$ 63,050	60,390
Other Expenses	2,150,000	2,044,088
Non-Operating Appropriations:		
Principal Payments on Conduit Debt Service	18,110,000	18,110,000
Interest on Conduit Debt	<u>7,562,085</u>	<u>6,947,399</u>
	\$ <u><u>27,885,135</u></u>	\$ <u><u>27,161,877</u></u>

MORRIS COUNTY IMPROVEMENT AUTHORITY
(A Component Unit of the County of Morris)
SCHEDULE OF CASH RECEIPTS, CASH DISBURSEMENTS
AND CHANGES IN CASH AND CASH EQUIVALENTS
FOR THE YEAR ENDED 2012

Schedule 2

Balance, December 31, 2011

Cash and Cash Equivalents	\$	<u>358,662</u>
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Increased by Receipts:

Administrative fees		157,843
Miscellaneous		44,088
U.S. Department of Energy		2,000,000
Interest Income		<u>1,111</u>

Total Receipts:

	\$	<u>2,203,042</u>
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	\$	<u>2,561,704</u>
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Decreased by Disbursements:

Grant Expenditures (Power Purchase Agreement)		2,000,000
Operating Expenses		<u>\$ 110,136</u>

Total Disbursements:

	\$	<u>2,110,136</u>
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Balance, December 31, 2012

Cash and Cash Equivalents	\$	<u><u>451,568</u></u>
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MORRIS COUNTY IMPROVEMENT AUTHORITY
(A Component Unit of the County of Morris)

*** * * * ***

PART TWO

SINGLE AUDIT SECTION

YEAR ENDED DECEMBER 31, 2012

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

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

Honorable Chairperson and Commissioners
Morris County Improvement Authority
County of Morris
Administration and Records Building, 5th Floor
Morristown, New Jersey 07963-0900

We have audited, in accordance with auditing standards generally accepted in the United States of America; audit requirements as prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey; and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Morris County Improvement Authority, as of and for the year ended December 31, 2012, and the related notes to the financial statements, and have issued our report thereon dated April 29, 2013.

Internal Control Over Financial Reporting

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

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



Our consideration of internal control was for the limited purpose described 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 Morris County Improvement Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Purpose of this Report

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

This report is intended solely for the information of the governing body, management, The Division of Local Government Services, Department of Community Affairs, State of New Jersey, Federal Awarding Agencies and Pass Through Entities and is not intended to be and should not be used by anyone other than these specified parties.

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

FERRAIOLI, WIELKOTZ, CERULLO & CUVA, P.A.
Certified Public Accountants



Thomas M. Ferry, C.P.A.
Registered Municipal Accountant

April 29, 2013

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REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE AS REQUIRED BY OMB CIRCULAR A-133

Honorable Chairperson and Commissioners
Morris County Improvement Authority
County of Morris
Administration and Records Building, 5th Floor
Morristown, New Jersey 07963-0900

Report on Compliance for the Major Federal Program

We have audited the Morris County Improvement Authority in the County of Morris compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on its major federal program for the year ended December 31, 2012. The Morris County Improvement Authority's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Morris County Improvement Authority's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, "*Audits of States, Local Governments, and Non-Profit Organizations*." That standard and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and



material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Morris County Improvement Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination on the Morris County Improvement Authority's compliance.

Opinion on the Major Federal Program

In our opinion, the Morris County Improvement Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2012.

Report on Internal Control Over Compliance

Management of the Morris County Improvement Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Morris County Improvement Authority's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine our auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for its major federal program and to test and report on internal control over compliance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Morris County Improvement Authority's internal control over compliance.

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

Honorable Chairperson and Commissioners
Morris County Improvement Authority
Page 3

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Ferraioli, Wielkotz, Cerullo, + Cuva, P.A.

FERRAIOLI, WIELKOTZ, CERULLO & CUVA, P.A.
Certified Public Accountants



Thomas M. Ferry, C.P.A.
Registered Municipal Accountant

April 29, 2013

Morris County Improvement Authority

Schedule of Expenditures of Federal Awards

For the Year Ended December 31, 2012

Federal Grantor/Pass-Through Grantor/ Program Title	Federal C.F.D.A. Number	Grantors Number	Program or Award Amount	Grant Period From/To	Receipts	Expended	MEMO Cumulative Total Expenditures
US Department of Energy Morris County Renewable Energy Initiative	81.117	DE-EE0003171	2,000,000	9/1/2011 to 9/30/2012	2,000,000	2,000,000	2,000,000

See accompanying notes to Schedules of Expenditures of Federal awards and State Financial Assistance.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2012

Note A. GENERAL

The accompanying Schedule of Expenditures of Federal Awards present the activity of all federal awards of Morris County Improvement Authority. The Authority is defined in Note 1 to the Authority's financial statements. All federal awards received directly from federal agencies, as well as federal awards passed through other government agencies are included on the schedules of expenditures of federal awards.

Note B. BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards are presented on the cash basis of accounting. The information in this schedule is presented in accordance with the requirements of Federal OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*.

Note C. RELATIONSHIP TO FEDERAL FINANCIAL REPORTS

Amounts reported in the accompanying schedule agree with the amounts reported in the related federal financial reports.

Note D. THRESHOLD FOR FEDERAL AWARDS

The threshold for distinguishing Federal Type A and B programs was \$300,000. The Authority was subject to the single audit provisions of Federal OMB Circular A-133.

Section 1 - Summary of Auditor's Results

unqualified

 yes X no

 yes X none reported

_____ yes X no

 yes X no

_____ yes X none reported

 yes X no

81.117

U. S. Department of Energy

yes X no

**MORRIS COUNTY IMPROVEMENT AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(continued)**

Section 1 - Summary of Auditor's Results, (continued)

State Award

N/A

Section II - Financial Statement Findings

NONE

Section III - Federal Awards and State Financial Assistance Findings and Questioned Costs

NONE

**MORRIS COUNTY IMPROVEMENT AUTHORITY
SUMMARY SCHEDULE OF PRIOR-YEAR AUDIT FINDINGS
AND QUESTIONED COSTS AS PREPARED BY MANAGEMENT
FOR THE YEAR ENDED DECEMBER 31, 2012**

Status of Prior Year Findings

N/A

MORRIS COUNTY IMPROVEMENT AUTHORITY

(A Component Unit of the County of Morris)

*** * * * ***

PART III

COMMENTS AND RECOMMENDATIONS

YEAR ENDED DECEMBER 31, 2012

MORRIS COUNTY IMPROVEMENT AUTHORITY
(A Component Unit of the County of Morris)

GENERAL COMMENTS

Contracts and agreements Required to be Advertised for N.J.S.A. 40A:11-4

N.J.S. 40A:11-3 states:

a. "When the cost or price of any contract awarded by the contracting agent in the aggregate does not exceed in a contract year the total sum of \$17,500, the contract may be awarded by a purchasing agent when so authorized by ordinance or resolution, as appropriate to the contracting unit, of the governing body of the contracting unit without public advertising for bids, except that the governing body of any contracting unit may adopt an ordinance or resolution to set a lower threshold for the receipt of public bids or the solicitation of competitive quotations. If the purchasing agent is qualified pursuant to subsection b. of section 9 of P.L. 1971, c.198 (C.40A:11-9), the governing body of the contracting unit may establish that the bid threshold may be up to \$25,000. Such authorization may be granted for each contract or by a general delegation of the power to negotiate and award such contracts pursuant to this section.

b. Any contracts made pursuant to this section may be awarded for a period of 24 consecutive months, except that contracts for professional services pursuant to subparagraph (i) of paragraph (a) of subsection (1) of section 5 of P.L. 1971, c.198 (C.40A:11-5) may be awarded for a period not exceeding 12 consecutive months. The Division of Local Government Services shall adopt and promulgate rules and regulations concerning the methods of accounting for all contracts that do not coincide with the contracting unit's fiscal year.

c. The Governor, in consultation with the Department of the Treasury, shall, no later than March 1 of every fifth year beginning in the fifth year after the year in which P.L. 1999, c.440 takes effect, adjust the threshold amount and the higher threshold amount which the governing body is permitted to establish, as set forth in subsection a. of this section, or the threshold amount resulting from any adjustment under this subsection, in direct proportion to the rise or fall of the index rate as that term is defined in section 2 of P.L. 1971, c.198 (C.40A:11-2), and shall round the adjustment to the nearest \$1,000. The Governor shall, no later than June 1 of every fifth year, notify each governing body of the adjustment. That adjustment shall become effective on July 1 of the year in which it is made."

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

Effective January 1, 2011, the bid threshold in accordance with N.J.S. 40A:11-3 and 40A:11-4 (as amended) is \$17,500.00 and with a qualified purchasing agent the threshold may be up to \$36,000.00.

MORRIS COUNTY IMPROVEMENT AUTHORITY
(A Component Unit of the County of Morris)

GENERAL COMMENTS (CONTINUED)

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

The Commissioners of the Authority have the responsibility of determining whether the expenditures in any category will exceed the bid threshold within the fiscal year and where question arises as to whether any contract or agreement might result in violation of the statute, the Authorities' Attorney's opinion should be sought before a commitment is made.

1The minutes indicated the bids were requested by public advertising per N.J.S. 40A:11-4. The minutes also indicated that resolutions were adopted authorizing the awarding of contracts or agreements for "Professional Services" per N.J.S. 40A:11-5 for Auditor, Attorney, Financial Advisor and Bond Counsel.

Inasmuch as the system of records did not provide for the accumulation of payments for categories for the performance of any work or the furnishing or hiring of any material or supplies, the results of such an accumulation could not reasonably be ascertained. Disbursements were reviewed, however, to determine whether any clear cut violation existed. None were noted.

Our review of the Authority's minutes indicated that resolutions were adopted authorizing the awarding of contracts or agreements for "Professional Services" per N.J.S.A. 40A:11-5.

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

**COMMENTS AND RECOMMENDATIONS
DECEMBER 31, 2012**

Comments

None

Recommendations

None

STATUS OF PRIOR YEAR'S AUDIT FINDINGS/RECOMMENDATIONS

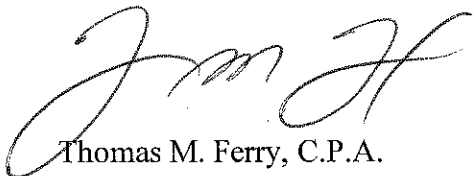
There were no prior year audit findings/recommendations.

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

Respectfully submitted,

Ferraioli, Wielkutz, Cerullo, & Cuva, P.A.

FERRAIOLI, WIELKOTZ, CERULLO & CUVA, P.A.
Certified Public Accountants

A handwritten signature in dark ink, appearing to read 'Tom H' or similar, written in a cursive style.

Thomas M. Ferry, C.P.A.
Registered Municipal Accountant

April 29, 2013