

**CARTERET REDEVELOPMENT AGENCY
BOROUGH OF CARTERET
MIDDLESEX COUNTY, NEW JERSEY**

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED
DECEMBER 31, 2012**

HODULIK & MORRISON, P.A.
CERTIFIED PUBLIC ACCOUNTANTS
REGISTERED MUNICIPAL ACCOUNTANTS
HIGHLAND PARK, N.J.

**CARTERET REDEVELOPMENT AGENCY
BOROUGH OF CARTERET, MIDDLESEX COUNTY, NEW JERSEY**

TABLE OF CONTENTS - CY 2012

	<u>PAGE(S)</u>
Independent Auditor's Report	1 - 3
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	4 - 5
<u>Required Supplementary Information – Part I</u>	6
Management's Discussion and Analysis	7 - 11
<u>Basic Financial Statements</u>	12
<u>Governmental Funds/District-Wide</u>	13
Exh. A Governmental Funds Balance Sheet/ Statement of Net Position - December 31, 2012	14
Exh. B Statement of Governmental Fund Revenues, Expenses and Changes in Fund Balance/ Statement of Activities - Year Ended December 31, 2012	15
<u>Fiduciary Funds</u>	16
Exh. C Statement of Fiduciary Net Position	17
Exh. D Statement of Changes in Fiduciary Net Position	18
Notes to Financial Statements	19 - 36
<u>Required Supplementary Information – Part II</u>	37
Sch. 1 Supplemental Schedule of Revenues and Expenses Compared To Budget and Actual Revenues (Budgetary Basis)	38
<u>Other Supplementary Information</u>	39
Sch. 2 Supplemental Schedule of Cash Receipts, Disbursements and Changes in Cash and Investments	40
Sch. 3 Schedule of Revenue Bonds Payable	41 - 42
Sch. 4 Schedule of Notes Payable	43
Sch. 5 Schedule of Loans Payable	44
Sch. 6 Roster of Officials	45
General Comments	46 - 47
Recommendations	48

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INDEPENDENT AUDITOR'S REPORT

Honorable Chairman and Members of the
Middlesex County Improvement Authority
County of Middlesex, New Jersey

Report on Financial Statements

We have audited the accompanying financial statements of the Middlesex County Improvement Authority, County of Middlesex, New Jersey (the "Authority") as of December 31, 2012, and the related notes to the 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 and the audit requirements as prescribed by the Division of Local Government, Department of Community Affairs, State of New Jersey. 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 risk 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 statement.

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 Middlesex County Improvement Authority, County of Middlesex, New Jersey, as of December 31, 2012 and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principals generally accepted in the United States of America require that the management's discussion and analysis as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the 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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements the Middlesex County Improvement Authority, County of Middlesex, New Jersey. The information included in Part II – Supplementary Schedules and Part III – Supplementary Information and Data, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the financial statements of the Middlesex County Improvement Authority, County of Middlesex, New Jersey. The Part II – Supplementary Schedules 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. The 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 data section is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The Part III – Supplementary Information and Data section has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on them

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 Authority's internal control over financial reporting and 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 the internal control over the financial reporting or on compliance. That report is an integral part of an audit performed in accordance Government Auditing Standards in considering the Authority's internal control over financial reporting and compliance.

Hodulik & Morrison, P.A.

HODULIK & MORRISON, P.A.
Certified Public Accountants
Registered Municipal Accountants

Andrew G. Hodulik
Registered Municipal Account
No. 406

Highland Park, New Jersey
April 29, 2013

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

Honorable Chairman and Members of the
Carteret Redevelopment Agency
Carteret, New Jersey

We have audited, 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 and the audit requirements as prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the governmental activities of the Carteret Redevelopment Agency, Middlesex County, New Jersey, (the "Agency") as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise Carteret Redevelopment Agency basic financial statements, and have issued our report thereon dated August 5, 2013.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or 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 the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in the 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 Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of the 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying General Comments Section of this report.

We noted certain matters, including matters of control deficiencies, which we reported to the Agency in the General Comments section of this report.

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 for the information and use of the members and management of the Carteret Redevelopment Agency and the Division of Local Government Services and is not intended to be, and should not be, used by anyone other than these specified parties.

Hodulik & Morrison, P.A.

HODULIK & MORRISON, P.A.
Certified Public Accountants
Registered Municipal Accountants
Public School Accountants

Highland park, New Jersey
August 5, 2013

REQUIRED SUPPLEMENTARY INFORMATION – PART I

**CARTERET REDEVELOPMENT AGENCY
BOROUGH OF CARTERET
MIDDLESEX COUNTY, NEW JERSEY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
For Year Ended December 31, 2012
(Unaudited)**

The Agency is a corporate and politic body organized under the laws of the State of New Jersey. The Carteret Redevelopment Agency (the "Agency") is a component-unit of the Borough of Carteret, County of Middlesex, New Jersey (the "Borough"). The following Management's Discussion and Analysis of the activities and financial performance of the Agency provide an introduction to the financial statements of the Agency for the year ended December 31, 2012. Please read it in conjunction with the Agency's financial statements and accompanying notes.

The Management's Discussion and Analysis is an element of the new reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No.34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, issued June 1999.

FINANCIAL HIGHLIGHTS

Entity - Wide

Cash, cash equivalents decreased by \$800,117 (42.6%) to \$1,075,909 in 2012 from \$1,876,026 in 2011.

Total net position increased by \$1,038,055 to \$39,926,320 in 2012 from \$37,404,321 in 2011.

Liabilities decreased by \$1,939,398 (4.7%) to \$38,888,265 in 2012 from \$40,827,663 in 2011.

Expenditures/Expenses decreased by \$367,421 (22.2%) to \$1,327,722 in 2012 from \$1,648,293 in 2011.

OVERVIEW OF THE FINANCIAL STATEMENTS

This report consists of two parts: management's discussion and analysis (this section) and the basic financial statements. The Agency is a special-purpose government that engages in a single governmental activity program, and has elected to combine the government-wide and fund financial statements. The basic financial statements include the two kinds of combined statements that present different views of the Agency:

- **Government-wide financial statements** provide both short-term and long-term information about the Agency's overall financial status. The government-wide financial statements are designed to provide readers with a broad overview of the agency's finances, in a manner similar to a private sector business

- **Fund financial statements** that focus on individual parts of the Agency, reporting the Agency's operations in more detail than the district-wide statements. A fund is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. All of the funds of the Agency can be categorized into one category – governmental funds.

Governmental Funds – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike government-wide financial statements, governmental fund financial statements focus on current resources uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year.

The *Statement of Net Position and Governmental Funds Balance Sheet* presents the Agency's fund financial statements adjusted to the government-wide financial statements.

The *Statement of Activities and Governmental Fund Revenues, Expenditures, and Changes in Fund Balance* presents the Agency's fund financial statements adjusted to the government-wide financial statements.

Fiduciary Funds – Fiduciary Funds are used to account for assets held by the Agency in a Trustee capacity or as an agent for individuals, private organizations, or other governments and/or other funds.

Notes to Financial Statements - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements can be found as listed in the table of contents,

FINANCIAL ANALYSIS OF THE AUTHORITY

Financial Position. The following table summarizes the Statement of Net Position between December 31, 2012 and 2011:

Figure A - 3
Net Position

	Governmental Activities 2012	Governmental Activities 2011	% Increase (Decrease)
Assets			
Current and other assets	1,075,909	1,876,026	-42.65%
Receivables	36,301,429	33,523,592	8.29%
Unamortized Bond Issue Costs	0	203,721	-100.00%
Capital assets	2,548,982	1,800,982	100.00%
Total assets	39,926,320	37,404,321	6.74%
Liabilities			
Current and other liabilities	4,569,985	7,335,419	-37.70%
Unamortized Bond Discount	0	(31,348)	-100.00%
Long-term liabilities	34,318,280	33,523,592	2.37%
Total Liabilities	38,888,265	40,827,663	-4.75%
Net position			
Net assets invested in capital Assets net of debt	2,548,982	1,800,982	100.00%
Restricted	356,743	347,657	2.61%
Unrestricted	(1,867,670)	(5,571,981)	-66.48%
Total net position	1,038,055	(3,423,342)	-130.32%
Total net position and liabilities	39,926,320	37,404,321	6.74%

The results of this year's operations for the Agency Governmental Activities as a whole are reported in the Statement of activities. Figure A - 4, below, takes the information from the Statement, rounds off the numbers, and rearranges them so slightly so you can see our total revenues and expenses for the year.

Figure A - 4
Change in Net Position

	<u>2012</u>	<u>2011</u>	<u>Increase (Decrease)</u>
Revenues:			
General revenue			
Local subsidy	\$25,000	\$25,000	\$0
Pledged Annual Service Charges	918,541	946,949	(\$28,408)
Interest and Miscellaneous	10,245	6,282	3,963
Total general revenues	<u>953,786</u>	<u>978,231</u>	<u>(24,445)</u>
Total revenues	<u>\$953,786</u>	<u>\$978,231</u>	<u>(\$24,445)</u>
Function/program expense:			
Redevelopment - Operations	86,365	663,345	(576,980)
Interest on Debt	1,194,507	976,214	218,293
Costs of Issuance	46,850		
Amortization & Depreciation	<u>0</u>	<u>8,734</u>	<u>(8,734)</u>
Total expenses	<u>\$1,327,722</u>	<u>\$1,648,293</u>	<u>(\$367,421)</u>
Increase (Decrease) net position	<u><u>(\$373,936)</u></u>	<u><u>(\$670,062)</u></u>	<u><u>\$296,126</u></u>

General Fund Budgetary Highlights

Actual expenditures reflect a positive budgetary variance of \$35,154, and revenues reflect a negative budgetary variance of \$46,236., resulting in net budgetary revenue over expense of (11,082).

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At December 31, 2012, the Agency reported \$2,548,982 in land within the Governmental Activities Funds. No depreciation was recorded during the year, as such assets were inexhaustible (such as land) or not placed in service.

At December 31, 2012 the Agency reported \$1,613,306 in land and other assets within the Fiduciary Fund. No depreciation was recorded during the year, as such assets were inexhaustible (such as land) or not placed in service.

Long-Term Debt

At the end of this year, the Agency had \$36,301,429 in Bonds and Loans outstanding versus \$33,523,592 last year – an increase of \$2,777,837, representing 8.2%. This represents the net activity of Revenue Bonds issued and Principal amounts redeemed. The Long-term debt consisted of:

<u>Description</u>	<u>Amount</u>
Environmental Infrastructure Trust and Fund Loans	\$29,991,429
Revenue Bonds, Series 2008A	1,685,000
Revenue Bonds, Series 2012C	<u>4,625,000</u>
Total	<u>\$36,301,429</u>

Short-Term Debt

The Agency held the following short-term debt as at December 31, 2012:

Project Note, Series 2012A	1,587,000	Washington Avenue Project
Project Note, Series 2012B	<u>663,000</u>	Washington Avenue Project

TOTAL **\$2,250,000**

CONTACTING THE AUTHORITY'S MANAGEMENT

This financial report is designed to provide the Borough residents and taxpayers, and the Agency's customers, investors and creditors, (where applicable) with a general overview of the Agency's finances and to demonstrate the Agency's accountability for the money it receives. If you have questions about this report or need additional information, please contact the Executive Director, Eric F.M. Chubenko, Municipal Building, 61 Cooke Avenue, Carteret, New Jersey, 07008.

BASIC FINANCIAL STATEMENTS

GOVERNMENTAL FUNDS/ DISTRICT-WIDE

**CARTERET REDEVELOPMENT AGENCY
BOROUGH OF CARTERET
MIDDLESEX COUNTY, NEW JERSEY**

**STATEMENT OF NET POSITION AND
GOVERNMENTAL FUNDS BALANCE SHEET
DECEMBER 31, 2012**

	General Fund	Capital Projects Fund	Debt Service Fund	Total Governmental Funds	Adjustments (Note 1Q.)	Statement of Net Assets
ASSETS						
Cash and cash equivalents	\$ 81,381	\$ 637,785	\$ 356,743	\$ 1,075,909	\$	\$ 1,075,909
Pledged annual service charges receivable					36,301,429	36,301,429
Capital assets (net of depreciation)					2,548,982	2,548,982
Total Assets	\$ 81,381	\$ 637,785	\$ 356,743	\$ 1,075,909	\$ 38,850,411	\$ 39,926,320
LIABILITIES						
Project note payable	\$	\$ 2,250,000	\$	\$ 2,250,000	\$	\$ 2,250,000
Accrued interest payable					336,837	336,837
Long -term liabilities:						
Due within one year					1,983,148	1,983,148
Due after one year					34,318,280	34,318,280
Total Liabilities		2,250,000		2,250,000	36,638,265	38,888,265
FUND BALANCE/ NET POSITION						
Fund balances:						
Restricted for:						
Debt service fund			356,743	356,743	(356,743)	
Assigned - Designated for subsequent years budget	59,890			59,890	(59,890)	
Unassigned	21,491	(1,612,215)		(1,590,724)	1,590,724	
Total fund balance	81,381	(1,612,215)	356,743	(1,174,091)	1,174,091	-
Total liabilities and fund balance	\$ 81,381	\$ 637,785	\$ 356,743	\$ 1,075,909		
Net position:						
Investment in capital assets, net of related debt					2,548,982	2,548,982
Restricted for:						
Debt service					356,743	356,743
Unrestricted					(1,867,670)	(1,867,670)
Total net position					\$ 1,038,055	\$ 1,038,055
Total liabilities and net position						\$ 39,926,320

Note: See Notes to Financial Statements.

CARTERET REDEVELOPMENT AGENCY
 BOROUGH OF CARTERET
 MIDDLESEX COUNTY, NEW JERSEY

STATEMENT OF ACTIVITIES AND
 GOVERNMENTAL FUND REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCES
 YEAR ENDED DECEMBER 31, 2012

	General Fund	Capital Projects Fund	Debt Service Fund	Total Governmental Funds	Adjustments (Note 10.)	Statement of Net Assets
Expenditures/expenses:						
Redevelopment - operations	\$ 67,238	\$ 767,127	\$	\$ 834,365	\$ (748,000)	\$ 86,365
Debt service:						
Principal			2,097,163	2,097,163	(2,097,163)	0
Interest			957,410	957,410	237,097	1,194,507
Costs of Issuance			46,850	46,850		46,850
Total expenditures/expenses	67,238	767,127	3,101,423	3,935,788	(2,608,066)	1,327,722
General revenues:						
Local subsidy	25,000			25,000		25,000
Pledged annual service charges			3,015,704	3,015,704	(2,097,163)	918,541
Investment/miscellaneous earnings	662	110	9,473	10,245		10,245
Total general revenues	25,662	110	3,025,177	3,050,949	(2,097,163)	953,786
Excess (deficiency) in revenues over expenditures	(41,577)	(767,017)	(76,245)	(884,839)	884,839	
Changes in net position					(373,936)	(373,936)
Other financing sources (uses):						
Proceeds issuance of bonds		4,500,000		4,500,000		4,500,000
Proceeds issuance of bonds - COI			85,331	85,331		85,331
Proceeds project note payoff		250,000		250,000		250,000
Total other financing sources (uses)		4,750,000	85,331	4,835,331		4,835,331
Beginning of year	122,958	(5,595,198)	347,657	(5,124,583)		(3,423,342)
End of year	\$ 81,381	\$ (1,612,215)	\$ 356,743	\$ (1,174,091)	\$	\$ 1,038,055

Note: See Notes to Financial Statements.

FIDUCIARY FUNDS

**CARTERET REDEVELOPMENT AGENCY
BOROUGH OF CARTERET
MIDDLESEX COUNTY, NEW JERSEY**

**STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUND
DECEMBER 31, 2012**

		Private- purpose Trusts
ASSETS		
	Cash and cash equivalents	\$ 124,586
	Loans receivable	44,974
	Tax title liens receivable	4,797
	Capital assets, net of depreciation	<u>1,613,306</u>
Total Assets		<u>\$ 1,787,663</u>
LIABILITIES		
	Other liabilities and payables	<u>3,908</u>
Total Liabilities		<u>3,908</u>
NET POSITION		
	Investment in capital assets	1,613,306
	Held in Trust for redevelopment costs and other related purposes	<u>\$ 170,448</u>
TOTAL NET POSITION		<u>\$ 1,783,754</u>
TOTAL LIABILITIES AND NET POSITION		<u>\$ 1,787,663</u>

Note: See Notes to Financial Statements.

**CARTERET REDEVELOPMENT AGENCY
BOROUGH OF CARTERET
MIDDLESEX COUNTY, NEW JERSEY**

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2010**

	Private- purpose Trusts
ADDITIONS	
Contributions:	
Loan/Rental Proceeds	\$ <u>137,767</u>
Total Contributions	<u>137,767</u>
Other revenues:	
Interest on Deposits	2,915
Miscellaneous Receipts	<u>5,122</u>
Total Other Revenues	<u>8,038</u>
Total Additions	\$ 145,804
DEDUCTIONS	
Redevelopment Expenditures	<u>145,386</u>
Total Deductions	145,386
Change in Net Assets	418
Net Position - Beginning of Year	<u>1,783,336</u>
Net Position - End of Year	\$ <u><u>1,783,754</u></u>

Note: See Notes to Financial Statements.

**CARTERET REDEVELOPMENT AGENCY
BOROUGH OF CARTERET
MIDDLESEX COUNTY, NEW JERSEY**

**NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2012**

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. General Statement

The Carteret Redevelopment Agency "the Agency" is a public body corporate and politic body organized under the laws of the State of New Jersey and was created by an ordinance adopted by the governing body, effective in December 2000, of the Borough of Carteret ("the creating municipality"), a municipal corporation of the State of New Jersey located in the County of Middlesex.

The Agency was created for the purpose of fostering the economic development of the community, specifically the revitalizing of the designated District's within the boundaries of Carteret Borough.

The ordinance creating the Agency provides that the Authority shall consist of seven commissioners, each of whom shall be appointed by the Mayor with the advice and consent of the Borough Council.

New Jersey Statutes provide for the creation, dissolution and operations of separate bodies corporate and politic for the purpose of fostering the economic development of the community (Redevelopment Agency). These statutes were enacted pursuant to Chapter 79 of the Laws of New Jersey 1992, under N.J.S.A. 40A:12A-1 through 40A:12A-9. Additional statutory requirements relating to the financial operations of independent local authorities were established as the "Local Authorities Fiscal Control Law", which is codified as NJSA 40A:5A-1 et seq. The provisions of the Local Authorities Fiscal Control Law established the Local Finance Board and the Division of Local Government Services, in the Department of Community Affairs (DCA), State of New Jersey, as oversight agencies for the creation, project financing, budgeting and overall financial condition of local authorities.

The Local Finance Board adopted the approving resolution on January 10, 2001 approving the Borough's request for establishment of a redevelopment agency. The Borough adopted the enacting ordinance on February 1, 2001. The Carteret Redevelopment Agency began operation during the calendar year 2001, accordingly, the year ended December 31, 2001 represent the first year of operation.

The Agency has no stockholders or equity holders.

As a public body under existing statute, the Agency is exempt from both Federal and State income taxes.

The financial statements of the Agency have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and reporting. GASB pronouncements constitute GAAP for governmental units.

The DCA has recognized the statements and interpretations of the Governmental Accounting Standards Board (GASB) as authoritative on application of generally accepted accounting principles (GAAP) for local authorities.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

B. Reporting Entity

The primary criterion for including activities within the Agency's reporting entity, as set forth in Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards, is whether:

- the organization is legally separate (can sue or be sued in their own name)
- the Agency holds the corporate powers of the organization
- the Agency appoints a voting majority of the organization's board
- the Agency is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the Agency
- there is a fiscal dependency by the organization on the Agency

The Agency is considered to be a "Component Unit" of the Borough of Carteret under GAAP. This determination is based on the oversight responsibility of the Borough, which manifests itself primarily in the selection of Commissioners of the Agency, and on a financial benefit/burden relationship that exists between the Agency and the Borough.

The Borough of Carteret does not follow GAAP for accounting and financial reporting purposes. Rather, it follows a regulatory basis, utilizing accounting principles, which differ, in some cases significantly, from GAAP. Of particular note is the exclusion from the Borough's financial statements of potential component units, based on separate legal status of these units. Accordingly, the financial statements of the Borough do not include the agency as a component unit.

Based on the aforementioned criteria, the Agency has no component units.

C. GASB STATEMENT NO. 34

The Agency adopted the provisions of GASB Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments during the year ended December 31, 2003. Statement 34 established standards for external financial reporting for all state and local governmental entities, which includes a Management's Discussion and Analysis section, a Statement of Net Position, a Statement of Revenues, Expenses and Change in Net Position. It requires the classification of Net Assets into three components – Invested in Capital Assets, net of related debt; Restricted for Debt Service; and Unrestricted.

The adoption of Statement 34 had little effect on the basic financial statements except for the classification of net position, the reflection of capital contributions as a change in net position, and the inclusion of Management's Discussion and Analysis (MD&A) section providing an analysis of the Agency's overall financial position and results of operations.

D. Basis of Presentation

The government-wide financial statements (i.e. the Statement of Net Position and the Statement of Activities) display information about the reporting government as a whole. These statements include all the financial activities of the Agency.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

D. Basis of Presentation (Cont'd)

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and grants and contributions that are restricted to meeting the operational; or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements:

The Agency segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance.

Governmental funds are those funds through which most governmental functions typically financed. The measurement focus of governmental funds is on the sources, uses and balance of current financial resources. The Agency reports the following governmental and fiduciary funds:

Governmental Funds

General Fund

The General Fund is the general operating fund of the Agency. It is used to account for all financial resources except those required to be accounted for in another fund. All revenues and receipts that are not restricted by law or contractual agreement are accounted for in this fund. General operating expenditures that are not paid through other funds are paid from the General Fund.

Pursuant to single-program government reporting, the Agency has elected to combine the following: 1. statement of net position and balance sheet for governmental funds; 2. statement of activities and revenues, expenditures, and changes in fund balance for governmental funds.

Fiduciary Funds

Private-purpose Trust is used to report all trust arrangements under which principal and income benefit individuals, private organizations or other governments.

E. Measurement Focus/Basis of Accounting

The accounting and financial reporting treatment applied is determined by its measurement focus and basis of accounting. The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this basis of accounting transactions are recorded in the following manner:

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

E. Measurement Focus/Basis of Accounting (Cont'd)

Revenue Recognition – Revenue is recognized when it becomes measurable and available. “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Other revenue is considered available if collected within one year.

Recording of Expenditures – Expenditures are generally recorded when a liability is incurred.

F. Cash and Cash Equivalents

Cash and cash equivalents include money market funds and short-term investments, which may include Certificates of Deposit, with a maturity of three months or less carried at cost, which approximates market.

G. Investments

Investments consist of certificates of deposit and direct obligations of the U.S. Government, U.S. Government Agencies, repurchase agreements and investments in money market funds and are valued at cost or amortized cost, which approximates market.

H. Local Subsidy Receivable

Local subsidy receivable at December 31, 2012 consisted of the amount of \$0.00 due from the Borough of Carteret, County of Middlesex pursuant to the 2012 local subsidy agreement.

I. Pledged Annual Services Charges

Annual Service Charge represents the amount the Redeveloper Entity shall pay the Borough (directed to the Trustee in accordance with Financial Agreement) in order to make the requisite debt service payments.

J. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

K. Short-Term Receivables/Payables:

Short-term receivables/payables represent amounts that are owed, other than charges for goods or services rendered to/from a particular fund in the Agency and that are due within one year.

The \$1,587,000 and \$663,000 Project Notes, Series 2011A & B, respectively have been recorded as a fund liability within the Capital Projects Fund as at December 31, 2012.

L. Costs of Issuance/Bond Discount

Bond Issue Costs and Bond Premiums are deferred and amortized over the term of the bond/loan using the straight-line method. Unamortized issue costs and discounts are recorded as other assets.

M. Capital Assets:

Capital assets are capitalized at historical cost, or estimated historical cost for assets where actual historical cost is not available. Donated assets are recorded as capital assets at their estimated fair market value at the date of donation. The Agency maintains a threshold level of \$5,000 or more for capitalizing capital assets. The system for accumulation of fixed assets cost data does not provide the means for determining the percentage of assets valued at actual and those valued at estimated cost.

Capital assets are recorded in the Agency-wide financial statement, but are not reported in the Fund financial statements. Capital assets are depreciated using the straight-line method over their estimated useful lives. Since surplus assets are sold for an immaterial amount when declared as no longer needed for public school purpose by the Agency, no salvage value is taken into consideration for depreciation purpose. Useful lives vary from 20 to 50 years for land improvements and buildings, and 5 to 15 years for equipment.

Capital assets not being depreciated include land and construction in progress.

The Agency does not possess any material amounts of infrastructure capital assets, such as sidewalks and parking lots. Such items are considered to be part of the cost of buildings or other improvable property.

The Agency capitalizes and records capital assets acquired through the CARA Development Account in the Private-purpose Trust as reported within the Fiduciary Funds. The Capital Assets recorded do not include assets acquired by the Redeveloper and transferred to the agency for holding until requisitioned for project construction and utilization.

N. Fund Equity:

Restricted represent those portions of fund equity not available for appropriation for expenditure or legally segregated for a specific future use. Assigned fund balances represent plans for future use of financial resources.

NOTES TO FINANCIAL STATEMENTS

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

O. Restricted Assets

Restricted assets are cash and cash equivalents whose use is limited by legal requirements such as capital requirements and proceeds from the issuing of the bonds related to the capital project.

P. Net Position:

Net position represents the difference between assets and liabilities in the Agency-wide financial statements. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulation depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the capital assets. Net assets are reported as restricted in the Agency-wide financial statement when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

Q. Reconciliation of Adjustments

The following adjustments/reclassifications were required for the combing of the government-wide and fund financial statements in accordance with GASB:

Statement of Net Position and Governmental Fund Balance Sheet:

	<u>From</u>	<u>Adjustment</u>	<u>To</u>
Assets			
Annual Service Charge			
Receivable	\$0	\$36,301,429	\$36,301,429
Capital Assets	0	2,548,982	2,548,982
Liabilities			
Accrued Interest Pay.	0	336,837	336,837
Long-term Liabilities			
Due within 1 yr.	0	1,943,148	1,943,148
Due after 1 yr.	0	34,318,280	34,318,280
Fund Balance			
Restricted for Debt Serv.	356,743	(356,743)	0
Unassigned	(1,590,724)	1,590,724	0
Assigned	59,890	(59,890)	0
Net Position			
Net Assets			
Invest. in Capital Assets	0	2,548,982	2,548,982
Restricted For			
Debt Service	0	356,743	356,743
Unrestricted	0	(1,867,670)	(1,867,670)

NOTES TO FINANCIAL STATEMENTS

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Statement of Activities and Governmental Revenues, Expenditures, and Changes in Fund Balance:

Q. Reconciliation of Adjustments (Cont'd)

	<u>From</u>	<u>Adjustment</u>	<u>To</u>
Expenditures/Expenses			
Redevelopment-Operations	834,365	(748,000)	86,365
Debt Service			
Principal	2,097,163	(2,097,163)	0
Interest	957,410	237,097	1,194,507
Costs of Issuance		46,850	46,850
General Revenues			
Pledged annual serv chrgs.	2,097,163	(2,097,163)	918,541
Excess of Revenues over Expenditures	(884,839)	884,839	0
Change in Net Position	0	373,936	(373,936)

R. Use of Estimates

The preparation of 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 amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

S. Recent Accounting Standards

GASB issued Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position", in June 2011. The objective of the statement is to provide guidance for reporting for these financial statement elements.

GASB issued Statement No. 64, "Derivative Instruments: Application of Hedge Accounting Termination Provisions – an amendment of GASB No. 53" in June 2011. The objective of the statement is to clarify circumstances in which hedge accounting should continue to be applied.

GASB issued Statement No. 65, "Items Previously Reported as Assets and Liabilities" in March 2012. The objective of the Statement is to amend the financial statement element classification of certain items previously reported as assets and liabilities for consistency with the definitions included in Concepts Statement 4.

GASB issued Statement No. 66, "Technical Corrections-2012- an amendment of GASB Statements No. 10 and 62" in March 2012. The objective of this Statement is to improve accounting and financial reporting by resolving conflicting guidance that resulted from the issuance of two pronouncements.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**S. Recent Accounting Standards (Cont'd)**

GASB issued Statement No. 67, "Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25" in June 2012. The objective of this Statement is to improve financial reporting by state and local governmental 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 interperiod 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.

GASB issued Statement No. 68, "Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27" in June 2012. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers 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 interperiod equity, and creating additional transparency.

The Agency prepares its financial statements in accordance with accounting principles generally accepted in the United States of America. The District is required to adopt these new standards in connection with the organization's financial statements.

T. Disclosures about Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash and cash equivalents and short-term investments: The carrying amount approximates fair value because of the short maturity of those instruments.

Long-term investments: The fair values of long-term investments are estimated based on quoted market prices for those or similar investments. Additional information pertinent to the value of these investments is provided in Note 3.

Long-term debt: The Authority's long-term debt is stated at face value, net of unamortized discounts and premiums. The debt is not traded and it is not practicable to determine its fair value without incurring excessive cost. Additional information pertinent to the Authority's long-term debt is provided in Note 4.

Note 2: DEPOSITS, CASH AND CASH EQUIVALENTS AND INVESTMENTS

Deposits

New Jersey statutes permit the deposit of public funds in institutions located in New Jersey that are insured by the Federal Deposit Insurance Corporation (FDIC), or by any other agencies of the United States that insures deposits or the State of New Jersey Cash Management Fund. New Jersey statutes require public depositories to maintain collateral for deposit of public funds that exceed insurance limits to protect deposits from loss under the provisions of the Governmental Unit Deposit Protection Act ("GUDPA"). GUDPA was enacted in 1970 to protect Governmental Units from a loss of funds on deposit with a failed banking institution in New Jersey.

New Jersey statutes require public depositories to maintain collateral for deposit 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.

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 that mature within one year. Collateralization of fund investments is generally not required.

Cash and Cash Equivalents

The Agency had the following depository accounts. All deposits are carried at cost plus accrued interest. The government does not have a deposit policy.

As of December 31, 2012 cash and cash equivalents consisted of the following amounts:

<u>Depository Account</u>	<u>Book Value</u>
Demand & Checking	\$205,967
Trustee – Money Market Funds	994,528
Total	<u>\$1,200,495</u>

**Note 2: DEPOSITS, CASH AND CASH EQUIVALENTS AND INVESTMENTS
(CONT'D)**

During the period ended December 31, 2012, the Agency no held investments in the State of New Jersey Cash Management Fund. Under criteria established in Governmental Accounting Standards Board Statement No. 9, the year-end balances in State of New Jersey Cash Management Fund are considered to be cash equivalents under GAAP.

Custodial Credit Risk – Deposits – Custodial credit risk is the risk that in the event of a bank failure, the Agency’s deposits may not be returned. The government does not have a specific deposit policy for custodial risk other than those policies that adhere to the requirements of statute. As of December 31, 2012, based upon the insured balances provided by the FDIC and NJGUDPA coverage, \$994,528 of the Agency’s bank balance of \$1,200,495 was considered exposed to custodial risk. As of December 31, 2012, based upon the insured balances provided by the FDIC and NJGUDPA coverage, the Agency’s bank balance of \$205,967 was considered exposed to custodial risk as follows.

<u>Depository Account</u>	<u>Deposit Amount</u>
Insured – FDIC	\$205,967
Insured – NJGUDPA (N.J.S.A. 17:941)	<u>0</u>
Total	<u><u>\$205,967</u></u>

Interest Rate Risk – This is the risk that changes in interest rates will adversely affect the fair value of an investment. The Agency does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from interest rate fluctuations.

Investments

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

1. Bonds or other obligations of the United States of America or obligations guaranteed by the United States;
2. Government money market mutual funds;
3. Any obligation that a federal agency or a federal instrumentality has issued in accordance with an act of Congress, which security has a maturity date not greater than 397 days from the date of purchase, provided such obligation bear a fixed rate of interest not dependent on any index or other external factor;
4. Bonds or other obligations of the local unit or bonds or other obligations of school districts of which the local unit is a part or within which the school district is located;
5. Bonds or other obligations, having a maturity date of not more than 397 days from the date of purchase, approved by the Division of Investment in the Department of the Treasury for investment by local units;
6. Local government investment pools;

**Note 2: DEPOSITS, CASH AND CASH EQUIVALENTS AND INVESTMENTS
(CONT'D)**

Investments (Cont'd)

7. Deposits with the State of New Jersey Cash Management Fund established pursuant to section 1 of P.L. 1997, c. 281 (C.52: 18A-90.4); or
8. Agreements for the repurchase of fully collateralized securities, if:
 - a. the underlying securities are permitted investments pursuant to paragraphs (1) and (3);
 - b. the custody of collateral is transferred to a third party;
 - c. the maturity of the agreement is not more than 30 days;
 - d. the underlying securities are purchased through a public depository as defined in section 1 of P.L. 1970, c. 236 (C.19:9-41) and for which a master repurchase agreement providing for the custody and security of collateral is executed.

New Jersey Cash Management Fund – All investments in the Fund are governed by the regulations of the Investment Council, which prescribe specific standards designed to insure the quality of investments and to minimize the risks related to investments. In all the years of the Division of Investment's existence, the Division has never suffered a default of principal or interest on any short-term security held by it due to the bankruptcy of a securities issuer; nevertheless, the possibility always exists, and for this reason a reserve is being accumulated as additional protection for the "Other-than-State" participants. In addition to the Council regulations, the Division sets further standards for specific investments and monitors the credit of all eligible securities issuers on a regular basis. As of December 31, 2012 the Agency had no amounts on deposit with the New Jersey Cash Management Fund.

The Agency held no investments at December 31, 2012, and no investment activity related to purchase and redemption during the calendar year 2012.

NOTE 3: CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2012 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers</u>	<u>Ending Balance</u>
Governmental Fund:					
Land	1,800,982	748,000			2,548,982
Governmental Fund - Totals at Historical Cost	1,800,982	748,000			2,548,982
Fiduciary Fund:					
Land	1,515,306				1,515,306
Other assets	98,000				98,000
Fiduciary Fund - Totals at Historical Cost	1,613,306				1,613,306
Total Capital Assets, Net	\$ 3,414,288	\$ 748,000	\$	\$	\$ 4,162,288

The Agency acquired land and other assets through the CARA Development Account. The assets acquired are accounted for and reported in the Private-purpose Trust within the Fiduciary Fund of the Agency's financial statements.

No depreciation has been recorded as assets may not be subject to depreciation or have not been placed into operation.

The Agency has obtained title to assets acquired by the Redeveloper Entity for inventory and holding until requisitioned for project construction and utilization. The Agency has not capitalized the assets acquired by the Redeveloper subject to transfers upon request.

NOTE 4: LONG TERM DEBT

Long-term debt liability activity for the year ended December 31, 2012 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Governmental Activities:					
Revenue Bonds Payable	\$ 1,720,000.00	\$ 4,625,000.00	\$ (35,000.00)	\$ 6,310,000.00	\$ 135,000.00
Total Bonds Payable	1,720,000.00	4,625,000.00	(35,000.00)	6,310,000.00	135,000.00
Loans Payable	31,803,592		(1,812,163)	29,991,429	1,848,148
Total Loans Payable	31,803,592	-	(1,812,163)	29,991,429	1,848,148
Total Long-Term Liabilities	\$ 33,523,592	\$ 4,625,000	\$ (1,847,163)	\$ 36,301,429	\$ 1,983,148

NOTES TO FINANCIAL STATEMENTS

Note 4: LONG-TERM DEBT (CONT'D)

The following is disclosure of information about long-term liabilities. Long-term liability activity for the year ended December 31, 2012 was as follows:

A. Loans Payable (Conduit Debt) - The New Jersey Environmental Infrastructure Trust issued Series 2006B Bonds on behalf of the Carteret Redevelopment Agency, and pursuant to the issuance has established a Trust Loan Agreement in the amount of \$28,180,000 and a Fund Loan Agreement in the amount of \$18,292,833, of which totals \$38,472,833, dated November 9, 2006. The Bonds are guaranteed by the Borough of Carteret, County of Middlesex, and the Redeveloper Urban Renewal Entity, subject to the Panattoni Agency Guaranty Agreements. During 2011, the Panattoni Agency Guaranty Agreements have been assigned to KTR Partners. Additionally, the Borough of Carteret has executed a Financial Agreement with the Redeveloper Urban Renewal Entity.

B. Schedule of Annual Debt Service for Principal and Interest for Loan Debt Issued and Outstanding

New Jersey Environmental Infrastructure Trust 2006B – Fund Loan Agreement

Payment due dates are February 1 and August 1, respectively at 0% interest.

<u>Due Date</u>	<u>Principal Amount</u>
2013	\$978,148.26
2014	978,271.42
2015	977,532.44
2016	976,300.80
2017	976,762.66
2018	975,684.97
2019	976,670.29
2020	976,547.13
2021	978,394.60
2022	976,181.49
2023	975,700.37
2024	976,816.54
2025	975,246.21
2026	<u>978,171.56</u>
Total	<u>\$13,676,428.74</u>

NOTES TO FINANCIAL STATEMENTS

Note 4: LONG-TERM DEBT (CONT'D)

B. Schedule of Annual Debt Service for Principal and Interest for Loan Debt Issued and Outstanding (Cont'd)

New Jersey Environmental Infrastructure Trust 2006B – Trust Loan Agreement

Payment due dates are February 1 and August 1, respectively at a multiple interest rate between 4% and 5%.

<u>Due Date</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Principal and Interest Amount</u>
2013	\$870,000.00	\$718,362.50	\$1,588,362.50
2014	905,000.00	683,562.50	1,588,562.50
2015	940,000.00	647,362.50	1,587,362.50
2016	985,000.00	600,362.50	1,585,362.50
2017	1,035,000.00	551,112.50	1,586,112.50
2018	1,085,000.00	499,362.50	1,584,362.50
2019	1,130,000.00	455,962.50	1,585,962.50
2020	1,175,000.00	410,762.50	1,585,762.50
2021	1,225,000.00	363,762.50	1,588,762.50
2022	1,275,000.00	310,168.75	1,585,168.75
2023	1,330,000.00	254,387.50	1,584,387.50
2024	1,390,000.00	196,200.00	1,586,200.00
2025	1,450,000.00	133,650.00	1,583,650.00
2026	<u>1,520,000.00</u>	<u>68,400.00</u>	<u>1,588,400.00</u>
Total	<u>\$16,315,000.00</u>	<u>\$5,893,418.77</u>	<u>\$22,208,418.77</u>

C. Bonds Payable - The Agency issued \$1,750,000 Revenue Bonds, Series 2008A (Borough Guaranteed) related to the Lower Roosevelt Avenue Redevelopment Project. The Bonds consist of Term Bonds with principal requirements ranging from \$295,000 - \$675,0000 and interest rates 4.250% - 5.375%, which subject to mandatory sinking fund requirements.

The Obligations constitute special. Limited obligations of the Agency payable from and secured by the assignment of Annual Service Charges due and payable under the Financial Agreement by and between the Borough of Carteret and Gateway, dated July 31, 2007, and the Financial Agreement by and between the Borough of Carteret and Camelot, dated July 31, 2007, the special assessment payments due and payable under the Special Assessments Agreement by and between the Borough of Carteret and Gateway, dated November 1, 2008, and the Special Assessments Agreement by and between the Borough of Carteret and Camelot, dated November 1, 2008, and by proceeds of the obligations held by the Trustee in certain funds pursuant to the Indenture.

NOTES TO FINANCIAL STATEMENTS

Note 4: LONG-TERM DEBT (CONT'D)

D. Schedule of Annual Debt Service for Principal and Interest for Bond Debt Issued and Outstanding – revenue Bonds Payable, Series 2008A

<u>Due Date</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Principal and Interest Amount</u>
2013	\$35,000	\$84,812.50	\$119,812.50
2014	40,000	78,325.00	118,325.00
2015	40,000	81,837.50	121,837.50
2016	40,000	80,137.50	120,137.50
2017	40,000	78,437.50	118,437.50
2018	40,000	76,737.50	116,737.50
2019	45,000	75,037.50	120,037.50
2020	45,000	72,900.00	117,900.00
2021	50,000	70,762.50	120,762.50
2022	50,000	68,387.50	118,387.50
2023	55,000	66,012.50	121,012.50
2024	55,000	63,400.00	118,400.00
2025	60,000	60,650.00	120,650.00
2026	60,000	57,650.00	117,650.00
2027	65,000	54,650.00	119,650.00
2028	70,000	51,400.00	121,400.00
2029	70,000	47,812.50	117,812.50
2030	75,000	44,225.00	119,225.00
2031	80,000	40,381.26	120,381.26
2032	85,000	36,281.26	121,281.26
2033	85,000	31,712.50	116,712.50
2034	90,000	27,143.76	117,143.76
2035	95,000	22,306.26	117,306.26
2036	100,000	17,200.00	117,200.00
2037	105,000	11,825.00	116,825.00
2038	115,000	6,181.26	121,181.26
Total	\$1,685,000	\$1,411,206.30	\$3,096,206.30

E. Revenue Bonds Payable - The Agency issued \$4,625,000 Revenue Bonds, Series 2012C (Borough Guaranteed) related to the Lower Roosevelt Avenue Redevelopment Project. The Bonds consist of Term Bonds with principal requirements ranging from \$100,000 - \$280,0000 and interest rates 1.173% - 4.850%, which subject to mandatory sinking fund requirements, maturing in years 2013 through 2040.

The Bonds were issued to currently refund the principal of the Agency's \$4,500,000 Project Note, Series 2010B (Lower Roosevelt Avenue Development Project) dated and issued November 23, 2010 and maturing on November 21, 2012.

NOTES TO FINANCIAL STATEMENTS

Note 4: LONG-TERM DEBT (CONT'D)

F. Schedule of Annual Debt Service for Principal and Interest for Bond Debt Issued and Outstanding – Revenue Bonds Payable, Series 2012C

<u>Due Date</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Principal and Interest Amount</u>
2013	\$100,000	\$198,632.68	\$298,632.68
2014	105,000	191,570.30	296,570.30
2015	105,000	190,144.40	295,144.40
2016	105,000	188,438.60	293,468.60
2017	110,000	186,485.16	296,485.16
2018	110,000	184,077.26	294,077.26
2019	115,000	180,227.26	295,227.26
2020	120,000	176,202.26	296,202.26
2021	125,000	172,002.26	297,002.26
2022	125,000	167,627.26	292,627.26
2023	130,000	163,252.26	293,252.26
2024	135,000	157,914.46	292,914.46
2025	140,000	152,371.36	292,371.36
2026	150,000	146,622.96	296,622.96
2027	155,000	140,463.96	295,463.96
2028	160,000	133,425.40	293,425.40
2029	170,000	126,159.80	296,159.80
2030	175,000	118,440.10	293,440.10
2031	185,000	110,493.36	295,493.36
2032	195,000	102,092.50	297,092.50
2033	200,000	92,635.00	292,635.00
2034	210,000	82,935.00	292,935.00
2035	220,000	72,750.00	292,750.00
2036	230,000	62,080.00	292,080.00
2037	245,000	50,925.00	295,925.00
2038	255,000	39,042.50	294,042.50
2039	270,000	26,675.00	296,675.00
2040	280,000	13,580.00	293,580.00
Total	<u>\$4,625,000</u>	<u>\$3,327,296.10</u>	<u>\$8,252,296.10</u>

Note 5: SHORT-TERM DEBT

The Agency issued Project Notes, Series 2012A and Project Note, Series 2012B (Borough Guaranteed) related to the Washington Avenue Redevelopment Project in the total amount of \$2,500,000, consisting of \$1,587,000 bearing an interest rate of 1.50%, maturing on September 27, 2013 and \$663,000 bearing an interest rate of 2.50%, maturing on September 27, 2013. The Notes were issued to redeem the Project Notes, Series 2011A and 2011B, respectively, issued in the total amount of \$2,500,000 due on September 28, 2012. In addition, the Agency budgeted a note paydown in the amount of \$250,000.

The Project Notes are reported within the Capital Projects Fund of the Agency for the year ended December 31, 2012.

NOTES TO FINANCIAL STATEMENTS

Note 6: PENSION PLAN

Employees of the Carteret Redevelopment Agency are enrolled in the Public Employees Retirement System (PERS). The Division of Pensions in the Department of the Treasury, State of New Jersey, administers the PERS plan. The plan is funded annually based on the projected benefit method with aggregate level normal cost and frozen initial unfunded accrued liability. The plan, which covers public employees throughout the State, does not maintain separate records for each reporting unit and, accordingly, the actuarial data for the employees of the Authority who are members of the plan is not available.

The State of New Jersey, Department of the Treasury, Division of Pensions and Benefits issues publicly available financial reports that include the financial statements and required supplementary information for PERS. The financial reports may be obtained by writing to the State of New Jersey, Department of the Treasury, Division of Pension and Benefits, P.O. Box 295, Trenton, New Jersey 08625-0295.

Note 7: OPERATING LEASES

The Agency did not enter into any operating lease agreements during 2012, and accordingly no future minimum lease payments disclosed.

Note 8: COMPENSATED ABSENCES

The Agency has not adopted a compensated absence policy for the years ended December 31, 2012 and prior, and accordingly no expenditures or accruals have been made.

Note 9: ADMINISTRATION OF REDEVELOPMENT AGREEMENT

The Carteret Redevelopment Agency accepted by resolution (#04-3) of the Board of Commissioners the designation to administer the Redevelopment Agreement between the Borough of Carteret and Kaplan at Carteret, LLC pursuant to the terms of resolution #04-75 adopted by the Governing Body on March 4, 2004. In accordance with the designation by the Borough of Carteret, the Borough retains all statutory responsibility as redevelopment entity for implementation of the Redevelopment Agreement.

The Carteret Redevelopment Agency accepted by resolution no. 05-1, adopted March 1, 2005, the amended designation of Redevelopment Entity to implement the Lower Roosevelt Avenue Redevelopment Plan pursuant to the terms of resolution no. 05-48 adopted by the Governing Body on January 27, 2005. The Borough of Carteret maintains financial accounting and reporting responsibility of all funding related to the Redeveloper Agreement, including all redeveloper escrow deposits and expenditures. The Borough of Carteret, County of Middlesex accounts for and reports all Redeveloper Escrow transactions within the Trust Fund section of the Borough's financial statements.

Note 10: ANNUAL SERVICE CHARGES RECEIVABLE

The Borough has executed a Financial Agreement with Titan-PDC Carteret Urban Renewal, LLC /assumed by KTR setting forth annual service charges for the Carteret Landfill Redevelopment Project. The annual services charges represent pledged and unpledged amounts due to the Borough and the Borough has assigned the annual service charged, which are pledged to the Carteret Redevelopment Agency for payment of debt service requirements as detailed in Schedule 1 "Debt Service portion of Pledged Annual Service Charge", Financial Agreement, dated August 18, 2006, as amended.

NOTES TO FINANCIAL STATEMENTS

Note 10: ANNUAL SERVICE CHARGES RECEIVABLE (CONT'D)

The Borough has executed a Financial Agreement with Camelot at Carteret Urban Renewal, LLC setting forth annual service charges for the Lower Roosevelt Avenue Redevelopment Project. The annual services charges represent pledged and unpledged amounts due to the Borough and the Borough has assigned the annual service charged, which are pledged to the Carteret Redevelopment Agency for payment of debt service requirements as detailed in Article s 4 & 5 "Debt Service portion of Pledged Annual Service Charge", Financial Agreement, dated July 31, 2007.

The Agency has recorded the amount of \$33,523,592 respectively on the Statement of Net Position as at December 31, 2012. The pledged annual service charges receivable in the amount of \$36,301,429 represents the total bond and loan principal outstanding and subject to the pledged annual service charge agreements.

Note 11: CARA DEVELOPMENT ACCOUNT

The Carteret Redevelopment Agency adopted by resolution authorization to execute a memorandum of agreement with the Borough of Carteret for the future development account (CARA Development Account) funded and controlled by the Borough of Carteret. The executed agreement contains Article I, which sets forth the requirements of the future development account.

The Carteret Redevelopment Agency adopted resolution number 07-18 granting a loan from the CARA Development Account, pursuant to authorization and direction from the Borough of Carteret. The Loan will be amortized over a seven-year period bearing a 6 % rate of interest.

The Carteret Redevelopment Agency adopted resolution number 09-14 granting a loan from the CARA Development Account, pursuant to authorization and direction from the Borough of Carteret. The Loan will be amortized over a seven-year period bearing a 6 % rate of interest.

The Carteret Redevelopment Agency reports the funds within the Fiduciary Funds within the Agency's financial statements.

Note 12: FUND BALANCE (DEFICIT)

General Fund - Of the total General Fund Balance at December 31, 2012, the amount of \$59,890 is Assigned - Designated for the subsequent years budget and the remaining \$21,491 is reported as unassigned.

Debt Service Fund - Of the \$356,743 total Debt Service Fund Balance at December 31, 2012, the entire amount is reserved for debt service purposes.

Capital Projects Fund - Capital Projects Fund Balance at December 31, 2012 was reported in a deficit amount of \$1,612,215. The deficit amount reported was the effect of the expenditure of short term financing - Project Notes within the Capital Projects Fund.

Note 13: CONTINGENT LIABILITIES AND PENDING LITIGATION

Pending Litigation

As at December 31, 2012 and the date of this report, there was no litigation pending which, in the event of an adverse or unfavorable outcome, would materially impair the financial position of the Carteret Redevelopment Agency.

REQUIRED SUPPLEMENTARY INFORMATION – PART II

**CARTERET REDEVELOPMENT AGENCY
BOROUGH OF CARTERET
MIDDLESEX COUNTY, NEW JERSEY**

**SUPPLEMENTAL SCHEDULE OF REVENUES AND EXPENSES COMPARED TO BUDGET
AND ACTUAL REVENUES FOR THE PRIOR YEAR
(BUDGETARY BASIS)
FOR THE CALENDAR YEAR ENDED DECEMBER 31, 2012**

	<u>2012 BUDGET</u>	<u>2012 ACTUAL</u>	<u>2011 ACTUAL</u>
Revenues:			
Fund Balance	\$ 59,890	\$ 59,890	\$ 59,890
Local Subsidy			
Borough of Carteret	40,000	25,000	25,000
Pledged Annual Service Charges	3,057,075	3,015,704	2,760,467
Miscellaneous			5,462
Interest Income		10,135	632
	<u> </u>	<u> </u>	<u> </u>
TOTAL REVENUES - BUDGETARY	\$ <u>3,156,965</u>	\$ <u>3,110,729</u>	\$ <u>2,851,451</u>
Expenses:			
Administration			
Salaries and Wages/Fringe Benefits	\$ 51,200	\$ 51,794	\$ 50,557
Other Expenses	48,690	15,444	7,354
Debt Service:			
Principal	2,097,163	2,097,163	1,813,518
Interest	959,912	957,410	989,950
	<u> </u>	<u> </u>	<u> </u>
TOTAL EXPENSES - BUDGETARY	\$ <u>3,156,965</u>	\$ <u>3,121,811</u>	\$ <u>2,861,380</u>
Budgetary Revenues over Expenses	\$ <u>3,156,965</u>	\$ <u>(11,082)</u>	\$ <u>(9,929)</u>
Reconciliation of Budgetary Basis to Net Income:			
Budgetary Revenues over Expenses			
Brought Forward		\$ (11,082)	\$ (9,929)
Adjustments to Budgetary Basis:			
Less: Appropriations of Retained Earnings		(59,890)	(59,890)
Add: Unbudgeted COI		<u>(46,850)</u>	<u> </u>
Total Adjustments - Net		<u>(106,740)</u>	<u>(59,890)</u>
Net Income (Loss)		\$ <u>(117,822)</u>	\$ <u>(69,819)</u>
<u>Analysis of Balance - Net Income (Loss):</u>			
General Fund		\$ (41,577)	(26,833)
Debt Service Fund		<u>(76,245)</u>	<u>(42,986)</u>
Totals	- 38 -	\$ <u>(117,822)</u>	\$ <u>(69,819)</u>

Other Supplementary Information

CARTERET REDEVELOPMENT AGENCY
 BOROUGH OF CARTERET
 MIDDLESEX COUNTY, NEW JERSEY

SUPPLEMENTAL SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS AND
 CHANGES IN CASH AND INVESTMENTS - ALL FUNDS
 YEAR ENDED DECEMBER 31, 2012

	GOVERNMENTAL FUNDS			FIDUCIARY FUND	TOTAL ALL FUNDS
	GENERAL FUND	CAPITAL PROJECTS FUND	DEBT SERVICE FUND	PRIVATE-PURPOSE TRUST	
Cash and Cash Equivalent Balance - December 31, 2010	\$ 123,568	\$ 1,405,852	\$ 346,608	\$ 112,770	\$ 1,988,798
Cash Receipts:					
Local Subsidies Collected	25,000				25,000
Pledged Annual Service Charges Collected			3,015,704		3,015,704
Loan/Rental/Miscellaneous Proceeds				140,872	140,872
Interest & Dividends Received	387	110	9,473	2,924	12,894
Revenue Bonds Issued		4,500,000	85,331		4,585,331
Project Notes Issued		2,250,000			2,250,000
Note Paydown requirement		250,000			250,000
Miscellaneous Receipts	275		1,050	13,407	14,732
Total Cash Receipts	25,662	7,000,110	3,111,558	157,203	10,294,532
Cash Disbursements:					
Operating Expenses	67,848	1,050			68,898
Capital Outlay Expenditures		767,127			767,127
Redevelopment Costs				145,386	145,386
Project Notes Redeemed		7,000,000			7,000,000
Payment of Debt Service			3,101,423		3,101,423
Total Cash Disbursements	67,848	7,768,177	3,101,423	145,386	11,082,835
Cash and Cash Equivalent Balance - December 31, 2012	\$ 81,381	\$ 637,785	\$ 356,743	\$ 124,586	\$ 1,200,496

Analysis of Cash, Cash Equivalent and Investment Balance -
 December 31, 2012:

By Account Type:					
Cash and cash equivalents	\$ 81,381	\$ 637,785	\$ 356,743	\$ 124,586	\$ 1,200,496
	\$ 81,381	\$ 637,785	\$ 356,743	\$ 124,586	\$ 1,200,496

**CARTERET REDEVELOPMENT AGENCY
BOROUGH OF CARTERET
MIDDLESEX COUNTY, STATE OF NEW JERSEY**

**SCHEDULE OF REVENUE BONDS PAYABLE
FOR THE PERIOD ENDED DECEMBER 31, 2012**

Revenue Bonds, Series 2012C	11/13/2012	\$ 4,625,000	12/1/13	\$ 100,000.00	1.173%	\$	4,625,000.00	\$	4,625,000.00
			12/1/14	105,000.00	1.358%				
			12/1/15	105,000.00	1.596%				
			12/1/16	105,000.00	1.889%				
			12/1/17	110,000.00	2.189%				
			12/1/18	110,000.00	3.500%				
			12/1/19	115,000.00	3.500%				
			12/1/20	120,000.00	3.500%				
			12/1/21	125,000.00	3.500%				
			12/1/22	* 125,000.00	3.500%				
			12/1/23	130,000.00	4.106%				
			12/1/24	135,000.00	4.106%				
			12/1/25	140,000.00	4.106%				
			12/1/26	* 150,000.00	4.106%				
			12/1/27	155,000.00	4.541%				
			12/1/28	160,000.00	4.541%				
			12/1/29	170,000.00	4.541%				
			12/1/30	175,000.00	4.541%				
			12/1/31	* 185,000.00	4.541%				
			12/1/32	195,000.00	4.850%				
			12/1/33	200,000.00	4.850%				
			12/1/34	210,000.00	4.850%				
			12/1/35	220,000.00	4.850%				
			12/1/36	230,000.00	4.850%				
			12/1/37	245,000.00	4.850%				
			12/1/38	255,000.00	4.850%				
			12/1/39	270,000.00	4.850%				
			12/1/40	* 280,000.00	4.850%				

* Term Bonds

Term Bonds Due December 1, 2022
 Term Bonds Due December 1, 2026
 Term Bonds Due December 1, 2031
 Term Bonds Due December 1, 2040

\$ 595,000.00
 555,000.00
 845,000.00
2,105,000.00

\$ 4,100,000.00

Totals

\$ 1,720,000.00 \$ 4,625,000.00 \$ 35,000.00 \$ 6,310,000.00

CARTERET REDEVELOPMENT AGENCY
 BOROUGH OF CARTERET
 MIDDLESEX COUNTY, STATE OF NEW JERSEY

SCHEDULE OF NOTES PAYABLE
 FOR THE PERIOD ENDED DECEMBER 31, 2012

ISSUE	DATE OF ISSUE	AMOUNT OF ORIGINAL ISSUE	MATURITY DATE	AMOUNT	INTEREST RATE	BALANCE JANUARY 1, 2012	ISSUED	RETIRED	BALANCE DECEMBER 31, 2012
Project Note, Series 2010B	11/23/2010	\$ 4,500,000	11/21/12	4,500,000.00	2.000%	\$ 4,500,000.00	\$	4,500,000.00	\$ 0.00
Project Note, Series 2012A		1,587,000	9/27/13	1,587,000.00	1.500%	1,587,000.00	1,587,000.00	1,587,000.00	1,587,000.00
Project Note, Series 2012B		913,000	9/27/13	913,000.00	2.500%	913,000.00	663,000.00	913,000.00	663,000.00
Totals						\$ 7,000,000.00	\$ 2,250,000.00	\$ 7,000,000.00	\$ 2,250,000.00

Revenue Bonds Issued	\$ 4,500,000.00
Notes Payable Redeemed	<u>2,500,000.00</u>
	\$ 7,000,000.00

**CARTERET REDEVELOPMENT AGENCY
BOROUGH OF CARTERET
MIDDLESEX COUNTY, STATE OF NEW JERSEY**

**SCHEDULE OF LOANS PAYABLE
FOR THE PERIOD ENDED DECEMBER 31, 2012**

ISSUE	DATE OF ISSUE	AMOUNT OF ORIGINAL ISSUE	ANNUAL DATE	MATURITIES AMOUNT	INTEREST RATE	BALANCE JANUARY 1, 2012	ISSUED	RETIRED	BALANCE DECEMBER 31, 2012	
New Jersey Environmental Infrastructure Trust Trust Loan Agreement	11/9/2006	\$ 20,180,000	8/1/13	870,000.00	4.000%	\$ 17,150,000.00	\$	\$ 835,000.00	\$ 16,315,000.00	
			8/1/14	905,000.00	4.000%					
			8/1/15	940,000.00	5.000%					
			8/1/16	985,000.00	5.000%					
			8/1/17	1,035,000.00	5.000%					
			8/1/18	1,085,000.00	4.000%					
			8/1/19	1,130,000.00	4.000%					
			8/1/20	1,175,000.00	4.000%					
			8/1/21	1,225,000.00	4.375%					
			8/1/22	1,275,000.00	4.375%					
			8/1/23	1,330,000.00	4.375%					
			8/1/24	1,390,000.00	4.500%					
			8/1/25	1,450,000.00	4.500%					
			8/1/26	1,520,000.00	4.500%					
	New Jersey Environmental Infrastructure Trust Fund Loan Agreement	11/9/2006	18,292,833	2/1/13	221,191.64	0.000%	14,653,591.69		977,162.95	13,676,428.74
				8/1/13	756,956.62	0.000%				
			2/1/14	210,476.34	0.000%					
			8/1/14	767,795.08	0.000%					
			2/1/15	199,329.97	0.000%					
			8/1/15	778,202.47	0.000%					
			2/1/16	184,858.16	0.000%					
			8/1/16	791,442.64	0.000%					
			2/1/17	169,693.54	0.000%					
			8/1/17	807,069.12	0.000%					
			2/1/18	153,759.15	0.000%					
			8/1/18	821,925.82	0.000%					
			2/1/19	140,395.82	0.000%					
			8/1/19	836,274.47	0.000%					
			2/1/20	126,478.25	0.000%					
			8/1/20	850,068.88	0.000%					
		2/1/21	112,006.44	0.000%						
		8/1/21	866,388.16	0.000%						
		2/1/22	95,504.34	0.000%						
		8/1/22	880,677.15	0.000%						
		2/1/23	78,328.68	0.000%						
		8/1/23	897,371.69	0.000%						
		2/1/24	60,412.11	0.000%						
		8/1/24	916,404.43	0.000%						
		2/1/25	41,152.29	0.000%						
		8/1/25	934,093.92	0.000%						
		2/1/26	21,061.10	0.000%						
		8/1/26	957,110.46	0.000%						
Totals						\$ 31,803,591.69	\$ 0.00	\$ 1,812,162.95	\$ 29,991,428.74	

**CARTERET REDEVELOPMENT AGENCY
BOROUGH OF CARTERET
MIDDLESEX COUNTY, NEW JERSEY**

**ROSTER OF OFFICIALS
AS AT DECEMBER 31, 2012**

Roster of Officials - December 31, 2012:

<u>AGENCY COMMISSIONERS</u>	<u>POSITION</u>
Anthony Neibert	Chairman
Chester Bohanek, Jr.	Vice-Chairman
Talisa Andrews	Commissioner
Vincent Bellino	Commissioner
Dennis Cherepski	Commissioner
Christopher Fiore	Commissioner
Frank Kaskiw	Commissioner

AGENCY OFFICIAL

Eric F.M. Chubenko	Executive Director
Michael T. Sica	General Counsel

**CARTERET REDEVELOPMENT AGENCY
BOROUGH OF CARTERET
COUNTY OF MIDDLESEX, NEW JERSEY**

**GENERAL COMMENTS AND RECOMMENDATIONS
YEAR ENDED DECEMBER 31, 2012**

GENERAL COMMENTS

An audit of the financial accounts and transactions of the Carteret Redevelopment Agency, County of Middlesex, New Jersey, for the period ended December 31, 2012, has been completed.

Scope of Audit

The audit covered the financial transactions of the finance function of the Carteret Redevelopment Agency, County of Middlesex, New Jersey.

The audit did not and could not determine the character of services rendered for which payment had been made or for which reserves had been set up, nor could it determine the character, proper price or quantity of materials supplied for which claims had been passed. These details were necessarily covered by the internal review and control before approval of such claims by the Governing Body. Cash on hand was counted and cash and investment balances were reconciled with independent certifications obtained directly from the depositories. Revenues and receipts were established and verified as to source and amount insofar as the records permitted.

INTERNAL CONTROL MATTERS

In planning and performing our audit of the financial statements of Carteret Redevelopment Agency, Borough of Carteret, County of Middlesex, New Jersey as of and for the fiscal year ended December 31, 2012, in accordance with auditing standards generally accepted in the United States of America, we considered the Organization's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

A deficiency 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 significant deficiency is a deficiency, or 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.

A material weakness is a deficiency, or 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.

With respect to the reporting of internal control matters, Statement on Auditing Standards No. 115 requires that only a significant deficiencies and material weaknesses need be reported in writing to management and those charged with governance.

GENERAL COMMENTS

INTERNAL CONTROL MATTERS (Cont'd)

The deficiencies reported are not considered to be significant deficiencies nor material weaknesses. In addition, these control deficiencies are not required to be reported in writing, however, control deficiencies are presented to management and those charged with governance in this report as a means to present those matters identified in review of the Organization's internal controls and as a means to inform management and those charged with governance as to the auditing standards requirements with respect to internal controls.

In addition, during our audit, we noted certain matters involving the internal control and other operational matters that are presented for your consideration. This letter does not affect our report dated August 5, 2013 on the financial statements of the Carteret Redevelopment Agency. Our comments and recommendations, which have been discussed with appropriate members of management, are intended to improve the internal control or result in other operating efficiencies.

Internal Control Over Financial Reporting

Deficiency in Internal Control - Segregation of Duties

Conditions exist whereby the same person may maintain the bookkeeping (receipts & disbursements) and cash management functions of the Agency.

This condition is the result of multiple tasks performed by the same individual engaged by the Agency.

OTHER MATTERS

Condition of Records – Finance Department

The financial records maintained by the Agency during the period were reviewed. The General fund is maintained on a computerized accounting and reporting system. A general ledger (worksheet format) was maintained for the Capital projects and Debt Service Funds, respectively. Adjustments were required to be posted and recorded within the funds in order to reconcile with financial statements prepared and presented on the basis of accounting principles generally accepted in the United States of America.

Internal Control Documentation

The Agency should commence the process of documenting its internal controls. This course of action will serve the purpose of meeting certain requirements as set forth by the Statement on Auditing Standards 115. We suggest the Agency commence this process and also consider utilizing the framework established by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) for its documentation, which includes the five components of internal controls, as follows: Control Environment; Risk Assessment; Control Activities; Information and Communication; and Monitoring. In addition, we suggest the documentation should also include the internal controls that exist over grant compliance.

RECOMMENDATION(S)

NONE

ACKNOWLEDGMENT

During the course of our engagement we received the complete cooperation of the various officials and employees of the Agency, and the courtesies extended to us were greatly appreciated.

Very truly yours,

HODULIK & MORRISON, P.A.



Andrew G. Hodulik, CPA, RMA
No. 406