

CITY OF PASSAIC
STATE OF NEW JERSEY

**\$4,500,000 BOND ANTICIPATION NOTE
(Book-Entry Note) (Parity Bid) (Non-Callable) (Bank Qualified)**

Dated: Date of Delivery

Date of Maturity: August 27, 2020

This Official Statement has been prepared by the City of Passaic, a municipal corporation of the State of New Jersey (the “Borough”) to provide information on its \$4,500,000 Bond Anticipation Note (the “Note”). Select information is presented on the cover page and the inside cover page of this Official Statement for the convenience of the user. To make an informed decision regarding the Note, a prospective purchaser should read this Official Statement in its entirety.

Credit Rating The City will not obtain a credit rating related to the issuance of the Note.

Federal Tax Exemption Assuming continuing compliance by the City with certain covenants described herein, under current law, interest on the Note is exempt from federal income taxation. Interest on the Note is not includable when calculating the federal alternative minimum tax on individuals. However, interest on the Note is includable when calculating the federal alternative minimum tax on corporations.

State Tax Exemption Interest on the Note, and any gain from the sale thereof, is not includable in gross income under the New Jersey Gross Income Tax Act.

Redemption The Note is not subject to redemption prior to its stated maturity.

Security The Note will be a valid and legally binding general obligations of the City and, unless paid from other sources, will be payable from *ad valorem* taxes to be levied upon all the taxable property within the City without limitation as to rate or amount, except to the extent that enforcement of such payment may be limited by bankruptcy, insolvency or other similar laws or equitable principles affecting the enforcement of creditors’ rights generally.

Purpose Proceeds from the sale and issuance of the Note will be used by the City as described herein.

Denominations The Note may be purchased in increments of \$5,000 or any integral multiple of \$1,000 in excess thereof. Purchasers of the Note will not receive certificates representing their beneficial ownership interest in the amount of Note purchased.

Coupon _____%. **Yield** _____. **CUSIP No.** _____.

Bond Counsel Waters, McPherson, McNeill, P.C.

Closing On or about August 27, 2019.

Book-Entry System The Depository Trust Company, New York, New York.

Issuer Contact Vidya R. Nayak, Chief Financial Officer
(973) 365-5577

**ELECTRONIC PROPOSALS SUBMITTED VIA THE PARITY ELECTRONIC BIDDING SYSTEM OR
FACSIMILIE / EMAIL BIDS SUBMITTED TO THE CITY’S BOUND COUNSEL PURSUANT
TO THE NOTICE OF SALE WILL BE RECEIVED FOR THE NOTE UNTIL 11:00 AM ON AUGUST 20, 2019
ALL PROPOSALS MUST BE IN ACCORDANCE WITH THE NOTICE OF SALE FOR THE NOTE.**

This is a Preliminary Official Statement and the information contained herein is subject to completion, amendment or other change without notice. The securities described herein may not be sold nor may offers to buy be accepted prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the applicable securities laws of any such jurisdiction.

**THE CITY OF PASSAIC,
IN THE COUNTY OF PASSAIC, NEW JERSEY**

MAYOR

Hector C. Lora

City Council

Gary Schaer – Council President

Jose R. Garcia

Terrence L. Love

Thania Melo

Chaim M. Munk

Salim Y. Patel

Daniel J. Schwartz

Business Administrator

Rick Fernandez

City Clerk

Amada D. Curling

Chief Financial Officer

Vidya R. Nayak

Municipal Attorney

Florio & Kenny, LLP

Hoboken, New Jersey

City Auditor

Lerch, Vinci & Higgins, LLP

Fair Lawn, New Jersey

Bond Counsel

Waters, McPherson, McNeill, P.C.

Secaucus, New Jersey

No dealer, broker, salesperson or other person has been authorized by the City to give any information or to make any representations, other than those contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by the City. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Note by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City since the date hereof.

The information which is set forth herein has been provided by the City and by other sources, but the information provided by such other sources is not guaranteed as to accuracy or completeness by the City. References in this Official Statement to the State of New Jersey statutes, laws, rules, regulations, resolutions, agreements, reports and documents do not purport to be comprehensive or definitive. All references to such documents are qualified in their entirety by reference to the particular document, the full text of which may contain qualifications of or exceptions to statements made herein. Copies of such above-mentioned documents may be inspected at the offices of the City during normal business hours. This Official Statement is submitted in connection with the sale of the Note referred to herein and may not be reproduced or used, in whole or in part, for any other purpose.

The order and the placement of materials in this Official Statement, including the appendices, are not deemed to be a determination of relevance, materiality or importance, and this Official Statement, including the appendices, must be considered in its entirety.

IN CONNECTION WITH THE OFFERING OF THE NOTE, THE UNDERWRITER MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE NOTE AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET, SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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**OFFICIAL STATEMENT
RELATING TO**

**CITY OF PASSAIC
NEW JERSEY**

\$4,500,000 BOND ANTICIPATION NOTE

INTRODUCTION

This Official Statement (the “Official Statement”), which includes the cover page hereof and the appendices hereto, has been prepared by the City of Passaic (the “City”), a municipal corporation of the State of New Jersey (the “State”) and provides certain information regarding the financial and economic condition of the City in connection with the sale and issuance of the City’s \$4,500,000 Bond Anticipation Note described herein (the “Note”). This Official Statement has been executed by and on behalf of the City by the Chief Financial Officer and its distribution and use in connection with the sale of the Note has been authorized by the City.

This Official Statement contains specific information relating to the Note including its general description, certain legal matters, historical financial information and other information pertinent to this issue. This Official Statement should be read in its entirety.

All financial and other information presented herein has been provided by the City from its records, except for information expressly attributed to other sources. The presentation of information is intended to show recent historic information and, but only to the extent specifically provided herein, certain projections into the immediate future and is not necessarily indicative of future or continuing trends in the financial position of the City.

DESCRIPTION OF THE NOTE

General Description

The Note is dated August 27, 2019, matures on August 27, 2020, is Numbered 2019-1 and bears interest at the rate of ___ % per annum (computed on the basis of a 360-day year) payable at maturity. The yield is ___ and the CUSIP number is _____.

Redemption

The Note is not subject to redemption prior to its stated maturity.

Security

The Note is a valid and legally binding obligation of the City and, unless paid from other sources, is payable from *ad valorem* taxes levied upon all the taxable real property within the City for the payment of the Note and the interest thereon without limitation as to rate or amount, provided, however, that the rights of the holders of the Note and the enforceability thereof may be subject to bankruptcy, reorganization, insolvency, moratorium and other similar laws affecting creditors’ rights heretofore or hereafter enacted and that the enforcement thereof may also be subject to the exercise of judicial discretion in appropriate cases. See “Noteholders’ Remedies in the Event of Default” and “Municipal Bankruptcy” herein.

Book-Entry System

DTC will act as securities depository for the Note (the “Securities”). The Securities will be issued as fully registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered certificate will be issued for the Securities, in the aggregate principal amount of the Securities, and will be deposited with DTC.

DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has a Standard & Poor’s credit rating of AA+. The DTC Rules applicable to its Direct Participants and Indirect Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC’s records. The ownership interest of each actual purchaser of each Security (a “Beneficial Owner”) is in turn to be recorded on the Direct Participants’ and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct Participant or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Securities are to be accomplished by entries made on the books of Direct Participants and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Securities, except in the event that use of the book-entry system for the Securities is discontinued.

To facilitate subsequent transfers, all Securities deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Securities with DTC and their registration in the name of Cede & Co., or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Securities; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Securities are credited, which may or may not be the Beneficial Owners. The Direct Participants and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to Cede & Co. If less than all of the Securities within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Securities unless authorized by a Direct Participant in accordance with DTC's MMI procedures. Under its usual procedures, DTC mails an omnibus proxy to the City as soon as possible after the record date. The omnibus proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Securities are credited on the record date (identified in a listing attached to the omnibus proxy).

Principal, redemption and interest payments on the Securities will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the Paying Agent, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Direct Participants and Indirect Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Direct Participant or Indirect Participant and not of DTC, the Paying Agent or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, redemption price and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct Participants and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Securities at any time by giving reasonable notice to the City or the Paying Agent. Under such circumstances, in the event that a successor securities depository is not obtained, bond certificates are required to be printed and delivered.

The City may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, bond certificates will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the City believes to be reliable, but the City takes no responsibility for the accuracy thereof.

Discontinuance of Book-Entry System

In the event that DTC determines to discontinue providing its service with respect to the Note or is removed by the City, and if no successor Securities Depository is appointed, the Note which was registered in the name of Cede & Co. shall be registered in the names of the beneficial owners to be provided to the City from the DTC participants. Upon such registration, the beneficial owners will become the registered owners of the Note and the following provisions shall apply: (i) the Note shall be exchanged for an equal aggregate principal amount of notes (in any authorized denomination, and in the same maturity as the Note) (the "Substitute Notes") upon surrender thereof at the office of the City or the Paying Agent, if any; (ii) the transfer of the Note shall be registered on the books maintained by the City or the Paying Agent, if any, for such purposes upon the surrender of the Note to the City or the Paying Agent, if any, together with duly executed assignments in a form satisfactory to the City or the Paying Agent, if any; and (iii) for every exchange or registration of transfer of the Note, the Paying Agent, if any, shall be reimbursed by the City for any charges required to be paid by the Paying Agent, if any, with respect to any such Substitute Notes.

Principal and Interest on the Note, when due, shall be paid to the registered owners of the Note upon surrender thereof to the City or the Paying Agent.

AUTHORIZATION AND PURPOSE

The Note is to be issued pursuant to the Local Bond Law of the State of New Jersey (N.J.S.A. 40A:2-1, et seq.) (the “Local Bond Law”) and is authorized by Bond Ordinance No. 2169-18 finally adopted on September 17, 2018 and in all respects duly approved and published as required by law. The sale of the Note is to fund various capital improvements for the City.

The bond ordinance included in the sale of the Note was published in full or in summary form after adoption, along with the statement required by the Local Bond Law that the 20 day period of limitation within which a suit, action or proceeding questioning the validity of the authorizing bond ordinance can be commenced began to run from the date of the first publication of such statement. The Local Bond Law provides that after issuance, all obligations shall be conclusively presumed to be fully authorized and issued by all laws of the State, and any person shall be estopped from questioning the sale or the execution or the delivery of the Note by the City.

SUMMARY OF CERTAIN STATUTORY PROVISIONS RELATING TO MUNICIPAL AND COUNTY DEBT AND FINANCIAL REGULATION

Set forth below is a summary of various statutory provisions and requirements relevant to the City’s debt and financial regulation and budget process. This summary does not purport to be complete, and reference should be made to the statutes referred to for a complete statement of the provisions thereof.

Legal Framework

The Local Bond Law of the State of New Jersey (N.J.S.A. 40A:2-1, et seq.) (the “Local Bond Law”) governs the issuance of bonds and notes to finance certain general municipal and utility capital expenditures. Among its provisions are requirements that bonds must mature within the statutory period of usefulness of the projects financed and that bonds be retired in serial installments. A 5% cash down payment is generally required toward the financing of such projects. Generally, all bonds and notes issued by a local unit are general full faith and credit obligations.

Debt Limit

The authorized bonded indebtedness of a local unit is limited by statute, subject to the exceptions noted below, to an amount equal to 3.5%, in the case of a municipality, and 2%, in the case of a county, of its average equalized valuation basis. The average equalized valuation basis of a local unit is set by statute as the average for the last 3 years of the equalized value of all taxable real property and improvements and certain Class II railroad property within its boundaries as annually determined by the State Board of Taxation.

Exceptions to Debt Limit - Extensions of Credit

Except for the funding of certain notes, the authorization of certain bonds for municipal utility purposes if the utilities are self-liquidating, and certain formula allowances, the debt limit of a local unit may be exceeded only with the approval of the Local Finance Board, in the Division of Local Government Services of the New Jersey Department of Community Affairs (the “Local Finance Board”), a State regulatory agency. If all or any part of a proposed debt authorization would exceed its debt limit, a local unit must apply to the Local Finance Board for an extension of credit. If the Local Finance Board determines that a proposed debt authorization would not materially impair the credit of a local unit or substantially reduce the ability of a local unit to meet its obligations or to provide essential public improvements or services, or makes other statutory determinations, approval is granted.

Bond Anticipation Notes

Pursuant to the Local Bond Law, a local unit may sell notes to temporarily finance a capital improvement or project in anticipation of the issuance of bonds, if the bond ordinance or subsequent resolution so provides. Any such note is designated a “bond anticipation note”. Bond anticipation notes for capital improvements may be issued in an aggregate amount not exceeding the amount specified in the bond ordinance, as the same may be amended and supplemented, creating such capital expenditure. Bond anticipation notes, which are full faith and credit obligations of the local unit, may be issued for a period not exceeding 1 year and may be renewed from time to time for a period that does not exceed 1 year. Such notes shall mature and be paid not later than the 1st day of the 5th month following the close of the 10th fiscal year following the date of the original note, provided, however, that no such notes shall be renewed beyond the 3d anniversary date of the original notes unless an amount of such notes, at least equal to the 1st legally payable installment of the bonds in anticipation of which these notes are issued, is paid and retired on or before each subsequent anniversary date beyond which such notes are renewed from funds other than the proceeds of obligations.

Assessment Bonds

Assessment bonds may be issued pursuant to the Local Bond Law in annual serial installments with the first principal payment due within 2 years and the final principal payment due within 20 years of an issue’s date. No principal payment may be larger than a prior year’s principal payment.

Refunding Bonds

Refunding bonds may be issued pursuant to the Local Bond Law for the purpose of paying, funding or refunding outstanding bonds, including emergency appropriations, temporary emergency appropriations, advance funding of pension obligations as part of an early retirement program offered by the State, the actuarial liabilities of a non-State administered public employee pension system, amounts owing to others for taxes levied and for paying the cost of issuance of refunding bonds. The Local Finance Board must consent to the authorization for the issuance of refunding bonds and approve the maturity schedule thereof; provided, however, that the issuance of refunding bonds to realize debt service savings on outstanding obligations does not require Local Finance Board approval when authorized by conditions set forth in rules and regulations of the Local Finance Board and upon a resolution adopted by 2/3 vote of the full membership of the governing body of the local unit.

Tax Anticipation Notes

Tax anticipation notes may be issued pursuant to the Local Budget Law (as hereinafter defined). The issuance of tax anticipation notes is limited in amount by law to collectively 30% of the tax levy plus 30% of realized miscellaneous revenues of the next preceding fiscal year. Tax anticipation notes must be paid in full within 120 days of the close of the fiscal year in which they were issued.

School Debt Subject to Voter Approval

State law permits a school district upon approval of the voters, to authorize school district debt, including debt in excess of its independent debt limit, by using the available borrowing capacity of the municipality. If such debt is in excess of school district debt limit and the remaining borrowing capacity of the municipality, the State Commissioner of Education and the Local Finance Board must approve the proposed debt authorization before it is submitted to the voters.

The Local Budget Law

The foundation of the State local finance system is the annual cash basis budget. Under the Local Budget Law of the State of New Jersey (N.J.S.A. 40A:4-1, et seq.) (the “Local Budget Law”),

every local unit must adopt an operating budget in the form required by the Division of Local Government Services of the New Jersey Department of Community Affairs (the “Division”). Certain items of revenue and appropriation are regulated by law and the proposed budget cannot be finally adopted until it is certified by the Director of the Division (the “Director”), or in the case of a local unit’s examination of its own budget, such budget cannot be finally adopted until a local examination certificate has been approved by the chief financial officer and governing body of the local unit. The Local Budget Law requires each local unit to appropriate sufficient funds for the payment of current debt service, and the Director or, in the case of local examination, the local unit may review the adequacy of such appropriations. Among other restrictions, the Director must examine the budget with reference to all estimates of revenue and the following appropriations: (a) payment of interest and debt redemption charges, (b) deferred charges and statutory expenditures, (c) cash deficit of preceding year, (d) reserve for uncollected taxes and (e) other reserves and nondisbursement items. Anticipated tax revenues are limited to the same proportion as actual cash collections or to the total levy in the previous year, and the reserve amount must be factored into the budget to make up for the expected shortfall in actual collections. Anticipated non-tax revenues are limited to the amount actually realized the previous year unless the Director permits higher levels of anticipation should there be sufficient statutory or other evidence to substantiate that such anticipation is reasonable.

The Director has no authority over individual operating appropriations, unless a specific amount is required by law, but the budgetary review functions, focusing on anticipated revenues, serve to protect the solvency of all local units.

The cash basis budgets of local units must be in balance (i.e., the total of anticipated revenues must equal the total of appropriations) (N.J.S.A. 40A:4-22). If in any year a local unit’s expenditures exceed its realized revenues for that year, then such excess (deficit) must be raised in the succeeding year’s budget.

Each municipality is required to forward to the County Board of Taxation (the “County Board”) a certified copy of its operating budget, as adopted, not later than April 10 of the then current fiscal year. In the event that the County Board has not received a copy of the budget resolution or other evidence showing the amount to be raised by taxation for the purposes of a taxing district, the Director shall transmit to the County Board a certificate setting forth the amount required for the operation of the local unit for that fiscal year. The operating budget of the preceding year shall constitute and limit the appropriations for the then current year with suitable adjustments for debt service, other mandatory charges and changes in revenues, but excluding the amount to be raised by taxes for school purposes where required to be included in the municipal budget. The certificate shall be prepared by using the revenues and appropriations appearing in the adopted budget of the preceding year with suitable adjustments to include, without limitation: (a) any amounts required for principal and interest of indebtedness falling due in the fiscal year and (b) any deferred charges, including a deficit, if any, or statutory expenditures required to be raised in the fiscal year. See the subcaption “Tax Assessment and Collection Procedure” below.

Appropriations Not Required for Payments on Debt

It is not necessary to have an appropriation in order to release money for debt service on obligations. N.J.S.A. 40A:4-57 states that “no officer, board, body or commission shall, during any fiscal year, expend money (except to pay notes, bonds or interest thereon), incur any liability, or enter into any contract which by its terms involves the expenditure of money for any purpose for which no appropriation is provided, or in excess of the amount appropriated for such purpose” (emphasis added).

Appropriation Caps

Chapter 89 of the New Jersey Laws of 1990 extended and amended Chapter 203 of the New Jersey Laws of 1986 and Chapter 68 of the New Jersey Laws of 1976 (N.J.S.A. 40A:4-45.3), and is commonly referred to as the “CAP Law”. The CAP Law places limits on county tax levies and municipal expenditures. This limitation is commonly referred to as a “CAP”. The actual calculation of the CAP is somewhat complex and the actual CAP computations are prepared by the Division and distributed to each

municipality. In addition to the CAP increase in expenditures, other increases allowable include increases funded by increased service fees, proceeds from the sale of municipal assets and increased expenditures mandated by State and federal laws. Appropriations for items excluded from the CAP computation, including debt service requirements, may be set at any necessary level and are not subject to the CAP. The CAP may be exceeded if approved by referendum of the voters of the municipality.

In summary, in determining the CAP for each budget year, the prior year's total general appropriations are reduced by certain statutory-type appropriations with the resulting balance multiplied by 2.5% or the cost-of-living adjustment (the rate of annual percentage increase, rounded to the nearest half-percent, in the Implicit Price Deflator for State and Local Government Purchases of Goods and Services, computed and published quarterly by the United States Department of Commerce) (the "Cost-of-Living Adjustment"), whichever is less, thereby producing the basic CAP, which then may be increased by certain known increases in revenues and State or federal expenditures mandated after July 18, 1976. A municipality may, by the adoption of an ordinance, elect to increase its final appropriations by a percentage rate up to, but not to exceed, 3.5%. A municipality may, by referendum, increase its final appropriations by a higher percentage rate.

Property Tax Levy Cap

Chapter 44 of the Pamphlet Laws of 2010 imposed restrictions upon the allowable annual increase in the tax levy. In general, municipalities have their tax levies limited to a 2% increase. The tax levy is subject to certain adjustments, including the sum of new ratables. In addition, the following exclusions are added to the calculation of the adjusted tax levy: increases in amounts required to be raised by taxation for capital expenditures, including debt service as defined by law; increases in pension contributions and accrued liability for pension contributions in excess of 2%; increases in health care costs equal to that portion of the actual increase in total health care costs for the budget year that is in excess of 2% of the total health care costs in the prior year, but is not in excess of the product of the total health care costs in the prior year and the average percentage increase of the State Health Benefits Program, as annually determined by the Division of Pensions and Benefits of the Department of the Treasury; and extraordinary costs incurred by a local unit directly related to a declared emergency, as defined by regulation promulgated by the Commissioner of the New Jersey Department of Community Affairs, in consultation with the Commissioner of the New Jersey Department of Education, as appropriate. The law also authorizes a municipality to submit public questions to the voters for approval (by affirmative vote of at least 50%) to increase the amount to be raised by taxation by more than the allowable adjusted tax levy.

Miscellaneous Revenues

A provision in the Local Budget Law (N.J.S.A. 40A:4-26) provides that: "No miscellaneous revenues from any source shall be included as an anticipated revenue in the budget in an amount in excess of the amount actually realized in cash from the same source during the next preceding fiscal year, unless the [Director] shall determine upon application by the governing body that the facts clearly warrant the expectation that such excess amount will actually be realized in cash during the fiscal year and shall certify such determination, in writing, to the local unit".

In addition, budget amendments must be approved by the Director, except for federal and State categorical grants-in-aid contracts may be realized for their face amount with an offsetting appropriation. The fiscal years for such grants rarely coincide with the municipality's calendar fiscal year. However, grant revenue is generally not realized until received in cash.

Real Estate Taxes

The same general principle that revenue cannot be anticipated in a budget in excess of that realized in the preceding year applies to property taxes. N.J.S.A. 40A:4-29, which governs the anticipation of delinquent tax collections, provides that: "[t]he maximum which may be anticipated is the sum produced

by the multiplication of the amount of delinquent taxes unpaid and owing to the local unit on the first day of the current fiscal year by the percentage of collection of delinquent taxes for the year immediately preceding the current fiscal year”.

N.J.S.A. 40A:4-41 provides, with regard to current taxes, that: “Receipts from the collection of taxes levied or to be levied in the municipality, or in the case of a county for general county purposes and payable in the fiscal year shall be anticipated in an amount which is not in excess of the percentage of taxes levied and payable during the next preceding fiscal year which was received in cash by the last day of the preceding fiscal year”.

This provision and N.J.S.A. 40A:4-40 require that an additional amount, commonly known or referred to as the “reserve for uncollected taxes”, be added to the tax levy required to balance the budget so that when the percentage of the prior year’s tax collection is applied to the combined total, the product will at least be equal to the tax levy required to balance the budget. The reserve requirement is calculated as follows:

The levy required to balance the budget, divided by the prior year’s percentage of current tax collection (or lesser percent) levied, will equal the total taxes to be levied for the current fiscal year.

Chapter 99 of the Pamphlet Laws of 1997 of New Jersey authorizes any municipality to sell its “total property tax levy” to the highest responsible bidder therefor in accordance with the procedures and limitations set forth therein.

Upon the filing of certified adopted budgets by (i) a local governmental unit, (ii) a local and/or a regional school district, (iii) the county in which the local governmental unit is situated and (iv) any special improvement districts within the local governmental unit, the current year’s tax rate is struck by a county’s board of taxation based upon the amount of taxes required in each taxing district to fund the respective budgets.

Emergency Appropriations/Deferral of Current Expenses

Emergency appropriations made under N.J.S.A. 40A:4-46, after the adoption of the budget and the determination of the tax rate, may be authorized by a local unit. However, with minor exceptions set forth below, such appropriations must be included in full in the following year’s budget. When such appropriations exceed 3% of the adopted operating budget, consent of the Director must be obtained.

The exceptions are certain enumerated quasi-capital projects (“special emergencies”) such as (i) the repair and reconstruction of streets, roads or bridges damaged by snow, ice, frost or floods, which may be amortized over 3 years and (ii) the repair and reconstruction of streets, roads, bridges or other public property damaged by flood or hurricane, where such expense was unforeseen at the time of budget adoption, the repair and reconstruction of private property damaged by flood or hurricane, tax map preparation, re-evaluation programs, revision and codification of ordinances, master plan preparations, drainage map preparation for flood control purposes, studies and planning associated with the construction and installation of sanitary sewers, authorized expenses of a consolidated commission, contractually required severance liabilities resulting from the layoff or retirement of employees and the preparation of sanitary and storm system maps, all of which projects set forth in this clause (ii) may be amortized over 5 years. N.J.S.A. 40A:4-53, -54, -55 and -55.1. Emergency appropriations for capital projects may be financed through the adoption of a bond ordinance and amortized over the useful life of the project.

Under the CAP Law, emergency appropriations aggregating less than 3% of the previous year’s final current operating appropriations may be raised in the portion of the local unit’s budget outside the CAP if approved by at least 2/3 of the members of the governing body and the Director. Emergency appropriations that aggregate more than 3% of the previous year’s final current operating appropriations

must be raised within the CAP. Emergency appropriations for debt service, capital improvements, the local unit's share of federal or State grants and other statutorily permitted items are outside the CAP.

Budget Transfers

Budget transfers provide a local unit with a degree of flexibility and afford a control mechanism over expenditure needs. Transfers between major appropriation accounts are prohibited by N.J.S.A. 40A:4-58 until the last 2 months of the fiscal year. Appropriation reserves may also be transferred during the first 3 months of the year to the previous year's budget (N.J.S.A. 40A:4-59). Both types of transfers require a 2/3 vote of the full membership of the governing body. However, no transfers may be made (a) to appropriations for contingent expenses, deferred charges or emergency appropriation or (b) from appropriations for contingent expenses, deferred charges cash deficit of the preceding year, reserve for uncollected taxes, down payments, the capital improvement fund or interest and redemption charges. Although budget transfers among subaccounts (line items) within an appropriation are not subject to the same year-end transfer restriction, they are subject to internal review and approval.

Municipal Public Utilities

Municipal public utilities are supported by the revenues generated by the respective operations of the utilities in addition to the general taxing power upon real property. For each utility, there is established a separate budget. The anticipated revenues and appropriations for each utility are set forth in the separate budget. The budget is required to be balanced and to provide fully for debt service. The regulations regarding anticipation of revenues and deferral of charges apply equally to the budgets of the utilities. Deficits or anticipated deficits in utility operations which cannot be provided for from utility surplus, if any, are required to be raised in the "Current" or operating budget.

Capital Budget

In accordance with the Local Budget Law, each local unit must adopt and may from time to time amend rules and regulations for capital budgets, which rules and regulations must require a statement of capital undertakings underway or projected for a period not greater than the next ensuing 6 years as a general improvement program. The capital budget, when adopted, does not constitute the approval or appropriation of funds, but sets forth a plan of the possible capital expenditures which the local unit may contemplate over the next 3 or 6 years. Expenditures for capital purposes may be made either by ordinances adopted by the governing body setting forth the items and the method of financing or by the annual operating budget if the items were detailed.

State Supervision

State law authorizes State officials to supervise fiscal administration in any municipality which is in default on its obligations; which experiences severe tax collection problems for 2 successive years; which has a deficit greater than 4% of its tax levy for 2 successive years; which has failed to make payments due and owing to the State, county, municipality or special district for 2 consecutive years; which has an appropriation in its annual budget for the liquidation of debt which exceeds 25% of its total operating appropriations (except dedicated revenue appropriations) for the previous budget year; or which has been subject to a judicial determination of gross failure to comply with the Local Bond Law, the Local Budget Law or the Local Fiscal Affairs Law (as hereinafter defined) which substantially jeopardizes its fiscal integrity. State officials are authorized to continue such supervision for as long as any of the conditions exist and until the municipality operates for a fiscal year without incurring a cash deficit.

Fiscal Year Adjustment Law

The City's fiscal year is the calendar year. Chapter 75 of the Pamphlet Laws of 1991 of the State (codified as N.J.S.A. 40A:4-3.1) required municipalities with populations in excess of 35,000 or that received Municipal Revitalization Aid from the State in 1990 or 1991 to change their fiscal year from the calendar year to the State fiscal year (July 1 to June 30), unless an exemption was granted. Municipalities not meeting the criteria for a mandatory change had the option to choose to change to the State fiscal year. N.J.S.A. 40A:4-3.1 was amended by P.L. 2000, c. 126, to eliminate the criteria for mandatory change of the fiscal year, but to continue to grant all municipalities the option to change to the State fiscal year. In addition, P.L. 2008, c. 92, further amended N.J.S.A. 40A:4-3.1 to allow municipalities operating on a fiscal year basis to revert to a calendar year. The City had previously changed from a calendar fiscal year to a State fiscal year. The City reverted to a calendar fiscal year beginning with a 6-month transition year from July 1, 2016 to December 31, 2016.

Tax Assessment and Collection Procedure

A local governmental unit is the entity responsible for the levying and collection of taxes on all taxable property within its borders, including the tax levies for the county and the City. The levying of taxes is for a fiscal year, which starts July 1 and ends June 30. The collection of taxes to support a local governmental unit's current budget requirement is based upon a calendar year, January 1 to December 31.

Property taxes are based on a municipality's assessor's valuation of real property, as confirmed by the tax board of the county in which a municipality is situated. The taxes for municipal, local and regional school districts and a county cover the current calendar year. Turnover of the tax moneys by a municipality to a school district are based on school needs and are generally made on a periodic basis throughout the year with any balance transferred by June 30 (the end of the school district's fiscal year). A municipality remits 100% of the county taxes, payable quarterly on February 15, May 15, August 15 and November 15.

Property valuations (assessments) are determined on true values as arrived at by a cost approach, market data approach and capitalization of net income where appropriate. Current assessments are the result of new assessments on a like basis with established comparable properties for newly assessed or purchased properties. This method assures equitable treatment to like property owners. But it often results in a divergence of the assessment ratio to true value. Because of the changes in property resale values, annual adjustments could not keep pace with the changing values.

Upon the filing of certified adopted budgets by the municipality's local school district and the county, the tax rate is struck by the County Board based on the certified amounts in each of the taxing districts for collection to fund the budgets. The statutory provisions for the assessment of property, the levying of taxes and the collection of taxes are set forth in N.J.S.A. §54:4-1, et seq. Special taxing districts are permitted for various special services rendered to the properties located within the special districts.

Tax bills are sent in June of the current fiscal year. Taxes are payable in 4 quarterly installments on February 1, May 1, August 1 and November 1. The August and November tax bills are determined as the full tax levied for municipal, county and school purposes for the current municipal fiscal year, less the amount charged as the February and May installments for municipal, county and school purposes in the current fiscal year. The amounts due for the February and May installments are determined by the municipal governing body as either 1/4 or 1/2 of the full tax levied for municipal, county and school purposes for the preceding fiscal year.

Tax installments not paid on or before the due date are subject to interest penalties of 8% per annum on the first \$1,500 of the delinquency and 18% per annum on any amount in excess of \$1,500. The governing body may also fix a penalty to be charged to a taxpayer with a delinquency in excess of \$10,000 who fails to pay that delinquency prior to the end of the calendar year. The penalty so fixed shall not exceed 6% of the amount of the delinquency. These penalties and interest are the highest permitted under State

statutes. Delinquent taxes open for 1 year or more are annually included in a tax sale in accordance with State statutes.

Tax Appeals

State statutes provide a taxpayer with remedial procedures for appealing an assessed valuation that the taxpayer deems excessive. Prior to February 1 in each year, a municipality must mail to each property owner a notice of the current assessment and taxes on the property. The taxpayer has a right to petition the County Board on or before April 1 of the current tax year for its review. The County Board has the authority after a hearing to increase, decrease or reject the appeal petition. These adjustments are usually concluded within the current tax year and reductions are shown as canceled or remitted taxes for that year. If the taxpayer believes the petition was unsatisfactorily reviewed by the County Board, appeal of the decision may be made to the Tax Court of New Jersey for further hearing. Tax Court of New Jersey appeals tend to take several years to conclude by settlement or trial and any losses in tax collections from prior years, after an unsuccessful trial or by settlement, are charged directly to operations. The payment of tax appeal judgments may also be provided for through the issuance of refunding bonds or refunding notes pursuant to a maturity schedule approved by the Local Finance Board.

Local Fiscal Affairs Law

The Local Fiscal Affairs Law of the State of New Jersey (N.J.S.A. 40A:5-1, et seq.) (the “Local Fiscal Affairs Law”) regulates the non-budgetary financial activities of local governments. The chief financial officer of every local unit must file annually with the Director a verified statement of the financial condition of the local unit and all constituent boards, agencies and commissions.

An independent examination of the local unit’s accounts must be performed annually by a State licensed registered municipal accountant. The audit, conforming to the Division’s “Requirements of Audit”, includes recommendations for improvements of the local unit’s financial procedures and must be filed with the Director. A synopsis of the audit report, together with all recommendations made, must be published in a local newspaper within 30 days of its completion.

A local unit’s funds are invested strictly in accordance with the provisions of the Local Fiscal Affairs Law, in particular N.J.S.A. 40A:5-15.1.

Basis of Accounting

The accounting policies applicable to local governmental units have been prescribed by the Division. The following is a summary of the significant policies:

Basis of Accounting - A modified accrual basis of accounting is followed, with minor exceptions. Revenues are recorded as received in cash except for certain amounts which may be due from the State. Expenditures are recorded on the accrual basis. Appropriation reserves covering unexpended appropriation balances are automatically created on December 31 of each year and recorded as liabilities, except for amounts which may be cancelled by the governing body. Appropriation reserves are available, until lapsed at the close of the succeeding year, to meet specific claims, commitments or contracts incurred or entered into during the preceding fiscal year. Lapsed appropriation reserves are recorded as income.

Interfunds - Interfund receivables in the Current Fund are recorded with offsetting reserves. Income is recognized in the year the receivables are liquidated. Interfund receivables in the other funds are not offset by reserves.

Fixed Assets - Property and equipment purchased through the Current Fund and the General Capital Fund are recorded as expenditures at the time of purchase and are not capitalized.

A local unit finances its operations primarily through the Current Fund. All tax receipts and most revenues are paid into the Current Fund and substantially all expenditures made by appropriations are paid from the Current Fund.

Expenditures are comprised of those made for general purposes, certain expenditures made from restricted federal, State and private grants, certain federal or State mandated expenditures, deferred charges, debt service and capital improvements. Budgeted expenditures for general purposes include payments made primarily in support of a local unit's various departments.

NOTEHOLDERS' REMEDIES IN THE EVENT OF DEFAULT

Neither the Note nor the proceedings with respect thereto specifically provide any remedies to the noteholders if the City defaults in the payment of principal of or interest on the Note, nor do they contain any provisions for the appointment of a trustee to enforce the interests of the noteholders upon the occurrence of such default. Upon any default in the payment of the principal of or interest on the Note, a noteholder could, among other things, seek to obtain a writ of mandamus from a court of competent jurisdiction requiring the City to levy and collect a tax upon all taxable property within the City, without limitation as to rate or amount, sufficient to pay when due the principal of and interest on the Note as the same shall come due. The mandamus remedy, however, may be impractical and difficult to enforce. Further, the right to enforce payment of the principal of or interest on the Note may be limited by bankruptcy, insolvency, reorganization, moratorium and similar laws and equitable principles, which may limit the specific enforcement of certain remedies. See the caption "Municipal Bankruptcy" herein.

MUNICIPAL BANKRUPTCY

The undertakings of the City should be considered with reference to Chapter IX of the Bankruptcy Act, 11 U.S.C. §401, et seq., as amended by Public Law 94-260, approved April 8, 1976, the Bankruptcy Reform Act of 1978, effective July 15, 1979, Public Law 100-597, effective November 3, 1988, the Bankruptcy Reform Act of 1994, effective October 22, 1994 and other bankruptcy laws affecting creditors' rights and municipalities in general. The amendments of P.L. 94-260 replace former Chapter IX and permit a state or any political subdivision, public agency or instrumentality that is insolvent or unable to meet its debts to file a petition in a court of bankruptcy for the purpose of effecting a plan to adjust its debts provided such entity is authorized by applicable state law; directs such a petitioner to file with the court a list of a petitioner's creditors; provides that a petition filed under this chapter shall operate as a stay of the commencement or continuation of any judicial or other proceeding against the petitioner; grants priority to debt owned for services or material actually provided within three months of the filing of the petition; directs a petitioner to file a plan for the adjustment of its debts; and provides that the plan must be accepted in writing by or on behalf of creditors holding at least 2/3 in amount or more than 1/2 in number of the listed creditors. The amendments were incorporated into the Bankruptcy Reform Act of 1978 with only minor changes.

Reference should also be made to N.J.S.A. 52:27-40, et seq., which provides that a municipality has the power to file a petition in bankruptcy provided the approval of the Municipal Finance Commission of New Jersey has been obtained. The powers of the Municipal Finance Commission of New Jersey have been vested in the Local Finance Board. The Bankruptcy Act specifically provides that Chapter IX does not limit or impair the power of a state to control, by legislation or otherwise, the procedures that a municipality must follow in order to take advantage of the provisions of the Bankruptcy Act.

The above references to the Bankruptcy Act are not to be construed as an indication that the City expects to resort to the provisions of the Bankruptcy Act or that, if it did, such action would be approved by the Local Finance Board, or that any proposed plan would include a dilution of the source of payment of and security for the Note

NO DEFAULT

There is no record of default in the payment of principal of or interest on bonds or notes of the City.

ABSENCE OF MATERIAL LITIGATION

In the opinion of the City Attorney, Florio & Kenny, LLP, Hoboken, New Jersey (the “City Attorney”), no litigation of any nature is now pending or, to his knowledge, threatened restraining or enjoining the issuance or delivery of the Note or the levy or collection of any taxes to pay the interest on or principal of the Note, or in any manner questioning the authority or proceedings for the issuance of the Note or for the levy or collection of said taxes, or relating to the Note or affecting the validity thereof or the levy or collection of said taxes, and neither the corporate existence or boundaries of the City nor the title of any of the present officers thereof to their respective offices is being contested, and no authority or proceedings for the issuance of the Note has or have been repealed, revoked or rescinded. A signed statement to that effect will be supplied upon delivery of the Note. In the opinion of the City Attorney, there is no litigation pending or, to its knowledge, threatened against the City which if adversely decided would have a material adverse effect on the financial condition of the City or which is not otherwise adequately covered by City insurance.

TAX MATTERS

Federal

The City has covenanted to comply with any continuing requirements that may be necessary to preserve the exclusion from gross income for purposes of federal income taxation of interest on the Note under the Internal Revenue Code of 1986, as amended (the “Code”). Failure to comply with certain requirements of the Code could cause interest on the Note to be includable in gross income for federal income tax purposes retroactive to the date of issuance of the Note. In the opinion of Waters, McPherson, McNeill, P.C., Secaucus, New Jersey (“Bond Counsel”) to be delivered at the time of original issuance of the Note, assuming continuing compliance by the City with certain covenants described herein, under current law, interest on the Note is not included in gross income for federal income tax purposes and is not an item of tax preference under Section 57 of the Code when calculating the federal alternative minimum tax on individuals. However, interest on the Note is included in the relevant income computation for purposes of calculating the federal alternative minimum tax on corporations as a result of the inclusion of interest on the Note in “adjusted current earnings” (see discussion below). No opinion is expressed regarding other federal tax consequences or other federal taxes arising with respect to the Note.

The Code imposes certain significant ongoing requirements that must be met after the issuance and delivery of the Note in order to assure that the interest on the Note will be and remain excludable from gross income for federal income tax purposes. These requirements include, but are not limited to, requirements relating to use and expenditure of proceeds, yield and other restrictions on investments of gross proceeds, and the arbitrage rebate requirement that certain excess earnings on investments of gross proceeds of the Note be rebated to the federal government. Noncompliance with such requirements may cause interest on the Note to become subject to federal income taxation retroactive to their date of issuance, regardless of the date on which such noncompliance occurs or is discovered. The City has covenanted that it shall do and perform all acts permitted by law that are necessary or desirable to assure that interest on the Note will be and will remain excluded from gross income for federal income tax purposes. The City will deliver its Arbitrage and Tax Certificate concurrently with the issuance of the Note, which will contain provisions relating to compliance with the requirements of the Code, including certain covenants in that regard by the City. In rendering its opinion, Bond Counsel has relied on certain representations, certifications of fact, and statements of reasonable expectations made by the City in connection with the Note, and Bond Counsel has assumed compliance by the City with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the Note from gross income under Section 103 of the Code. The Note is not a “private activity bond” as defined in the Code.

Alternative Minimum Tax. Section 55 of the Code provides that an alternative minimum tax is imposed on corporations at a rate of 20%. For purposes of the corporate alternative minimum tax, the Code includes an increase adjustment for computation of the alternative minimum tax consisting generally of 75% of the amount by which “adjusted current earnings” exceeds alternative minimum taxable income (computed without regard to this adjustment and the alternative tax net operating loss deduction). Thus, to the extent that interest on the Note is a component of a corporate holder’s “adjusted current earnings”, a portion of that interest may be subject to an alternative minimum tax.

Bank Qualification. The Code denies the interest deduction for indebtedness incurred by banks, thrift institutions and other financial institutions to purchase or to carry tax exempt obligations. The denial to such institutions of 100% of the deduction for interest paid on funds allocable to tax exempt obligations applies to those tax exempt obligations acquired by such institutions after August 7, 1986. For certain issues, which must be so designated by the issuer as qualified under Section 265 of the Code, 80% of such interest may be deducted as a business expense by such institutions.

The Note will be designated as qualified under Section 265 of the Code by the City for an exemption from the denial of deduction for interest paid by financial institutions to purchase or to carry tax exempt obligations.

Branch Profits Tax. Section 884 of the Code imposes on foreign corporations a branch profits tax equal to 30% of the “dividend equivalent amount” for the taxable year, unless modified, reduced or eliminated by income tax treaty in certain instances. Interest on the Note received or accrued by a foreign corporation subject to the branch profits tax may be included in computing the “dividend equivalent amount” of such corporation for purposes of the branch profits tax.

S Corporation Tax. Section 1375 of the Code imposes a tax on the “excess net passive income” of certain S corporations with passive investment income in excess of 25% of gross receipts for a taxable year. The United States Department of Treasury has issued regulations indicating that interest on tax exempt Note, such as the Note, held by an S corporation would be included in the calculation of excess net passive income.

Other Federal Tax Consequences. Owners of the Note should consult their own tax advisors as to the applicability and the effect on their federal income taxes of the alternative minimum tax, the branch profits tax and the tax on S corporations, as well as the applicability and the effect of any other federal income tax consequences.

Possible Government Action. Legislation affecting tax exempt obligations is regularly under consideration by the United States Congress. In addition, the Internal Revenue Service (“IRS”) has established an expanded audit program for tax exempt obligations. There can be no assurance that legislation enacted or proposed or an audit initiated or concluded by the IRS after the issue date of the Note involving either the Note or other tax exempt obligations will not have an adverse effect on the tax exempt status or market price of the Note.

State

In the opinion of Bond Counsel, under current law interest on the Note, and any gain on the sale thereof, is not includable as gross income under the New Jersey Gross Income Tax Act.

ALL POTENTIAL PURCHASERS OF THE OBLIGATIONS SHOULD CONSULT WITH THEIR TAX ADVISORS IN ORDER TO UNDERSTAND THE IMPLICATIONS OF THE CODE.

QUALIFIED TAX-EXEMPT OBLIGATIONS

The Note will be designated as a “qualified tax-exempt obligation” for purposes of Section 265(b)(3) of the Code.

SECONDARY MARKET DISCLOSURE

The City has entered into a written Secondary Market Disclosure Undertaking as related to the Note in order to comply with the secondary market disclosure requirements contemplated by Rule 15c2-12 adopted by the United States Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934 (the “Rule”). A copy of the Secondary market Disclosure Undertaking is set forth in Appendix D hereto. Notices of Material Events shall be provided to the Municipal Securities Rulemaking Board in an electronic format to be filed with the Electronic Municipal Market Access system (“EMMA”, www.emma.msrb.org).

The City has entered into prior undertakings to provide continuing disclosure for certain bonds of the City and certain bonds issued by the North Jersey District Water Supply Commission and the Passaic Parking Authority. The City previously failed to file timely certain of its annual financial information for the fiscal years ended June 30, 2014 and 2016. The City also failed to timely file its 2016, 2017 and 2018 budgets in connection with its obligation related to the Passaic Parking Authority. In addition, the City failed to file notices with respect to such late filings and event notices with respect to certain rating changes. The City has taken steps to ensure timely filings on a going-forward basis and has appointed Acacia Financial Group, Inc. as continuing disclosure agent.

CREDIT RATING

The City will not obtain a credit rating related to the issuance of the Note

UNDERWRITING

The Note has been purchased from the City at a public sale by _____ (the “Underwriter”) at a price of \$ _____. [Such amount represents the principal amount of the Note plus a premium in the amount of _____.]

The Purchaser of the Note may offer and sell the Note to certain dealers (including dealers depositing the Note into investment trusts) at a yield higher than the public offering yield set forth on the front page hereof.

LEGALITY

All legal matters relating to the authorization, the issuance, the sale and the delivery of the Note are subject to the approval of Waters, McPherson, McNeill, P.C., Secaucus, New Jersey (“Bond Counsel”), whose approving opinion will be delivered with the Note substantially in the form set forth in Appendix C hereto. Except to the extent necessary to issue its approving opinion as to the validity of the Note and the exemption of the interest earned on the Note from taxation, Bond Counsel has made no inquiry of any City officials or other persons as to any financial information, documents, statements or materials, and has not independently verified any such financial information, documents, statements or materials that have been or may be furnished in connection with the authorization, issuance or marketing of the Note. Accordingly, Bond Counsel will not express any opinion with respect to the accuracy or completeness of any such financial information, documents, statements or materials.

Bond Counsel has reviewed the statements made in the Official Statement under the captions entitled “Description of the Note” (other than the information pertaining to DTC and Book-Entry System), “Authorization and Purpose”, “Municipal Bankruptcy”, “Tax Matters”, “Secondary Market Disclosure” (first paragraph only) and “Legality”. Bond Counsel has neither reviewed nor made any independent verification of the accuracy or completeness of any other portions of the Official Statement, and will not express any opinion with respect to such portions.

Certain legal matters will be passed upon for the City by the City Attorney. The City Attorney has reviewed the statements made in the Official Statement under the caption entitled “Absence of Material Litigation”. The City Attorney has neither reviewed nor made any independent verification of the accuracy or completeness of any other portions of the Official Statement, and will not express any opinion with respect to such portions.

FINANCIAL STATEMENTS

The financial statements of the City as of December 31, 2018 and 2017 have been audited by Lerch, Vinci & Higgins, LLP, Fair Law, New Jersey, independent certified public accountants, as stated in their Independent Auditors’ Report appearing in Appendix B hereto. Certain information extracted from the audited financial statements of the City is included in Appendix B hereto.

PREPARATION OF OFFICIAL STATEMENT

Lerch, Vinci & Higgins, LLP, assisted in the preparation of this Official Statement with information obtained from the City and other sources, including publicly available sources, considered reliable, but Lerch, Vinci & Higgins, LLP, does not make any warranty or other representation with respect to the accuracy and completeness of such information. Lerch, Vinci & Higgins, LLP, takes responsibility for the audited financial information set forth in Appendix B hereto to the extent specified in their Independent Auditors’ Report set forth in Appendix B hereto.

All other information has been obtained from sources which the City considers to be reliable but the City makes no warranty, guaranty or other representation with respect to the accuracy and completeness of such information.

Waters, McPherson, McNeill, P.C. and the City Attorney have not participated in the preparation of the financial or statistical information contained in this Official Statement, nor have they verified the accuracy, completeness or fairness thereof and, accordingly, express no opinion with respect thereto.

Upon request, the Chief Financial Officer of the City will confirm to the purchasers of the Note, by certificate signed by the Chief Financial Officer, that to the knowledge of the Chief Financial Officer the descriptions and statements relating to the City herein, as of the date of this Official Statement, are true and correct in all material respects and do not contain any untrue statement of a material fact or omit to state a material fact necessary to make such descriptions and statements, in light of the circumstances under which they were made, not misleading.

ADDITIONAL INFORMATION

Inquiries regarding this Official Statement, including information additional to that contained herein, may be directed to Vidya R. Nayak, Chief Financial Officer, Municipal Building, 330 Passaic Street, Passaic, New Jersey (973) 365-5578.

MISCELLANEOUS

All information used in the preparation of this Official Statement and the Appendices hereto has been obtained from sources which the Borough considers to be reliable. However, the City makes no warranty, guaranty or other representation with respect to the accuracy and completeness of any such information.

Upon request, the Chief Financial Officer of the City will confirm to the purchasers of the Note, by certificate signed by the Chief Financial Officer, that to the knowledge of the Chief Financial Officer the descriptions and statements relating to the City herein, as of the date of this Official Statement, are true and correct in all material respects and do not contain any untrue statement of a material fact or omit to state a material fact necessary to make such descriptions and statements, in light of the circumstances under which they were made, not misleading.

All quotations from and summaries and explanations of provisions of laws of the State herein do not purport to be complete and are qualified in their entirety by reference to the official compilation thereof.

So far as any statements made in this Official Statement involve matters of opinion or estimates, whether or not expressly stated, they are set forth as such and not as representations of fact, and no representation is made that any such statements will be realized. Neither this Official Statement nor any statement which may have been made verbally or in writing is to be construed as part of any contract with the holders of the Note.

This Official Statement has been duly executed on behalf of the City by its Chief Financial Officer.

CITY OF PASSAIC

By: /s/

Vidya R. Nayak
Chief Financial Officer

Dated: August __, 2019

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APPENDIX A

CITY OF PASSAIC
FINANCIAL AND GENERAL INFORMATION

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GENERAL INFORMATION REGARDING THE CITY OF PASSAIC

Size and Geographical Location

The City is located in the southeasterly part of Passaic County and encompasses an area of about 3.25 square miles. Neighboring municipalities include the City of Clifton, the City of Garfield, the Borough of Wallington and the Borough of Rutherford.

Governmental Structure

The City was incorporated in 1917 and operates with a Mayor-Council form of government. Under this form of government, the Mayor is elected directly by the voters for a four year term. Seven Council Members serve overlapping four year terms. Council meetings are open to the public, and are held in the City's Council Chambers generally on the first and third Monday evenings of each month.

Transportation

The City is located approximately 12 miles from the Lincoln Tunnel, Holland Tunnel and George Washington Bridge. Residents have access to all parts of New York and State via nearby highways including Routes 3, 46, 80, 21, the Garden State Parkway and the New Jersey Turnpike.

Utilities

Electricity and gas are supplied by Public Service Electric and Gas Company. Water is supplied by the Passaic Valley Water Commission which is owned and operated by the cities of Passaic, Paterson and Clifton.

Public Safety

The City is served by a Police Department consisting of 164 full-time police officers and operates 101 vehicles. Its fire department has 101 paid firefighters and operates pumpers, ladder trucks, chief's vehicles, a rescue truck and several other vehicles. Ambulance service is provided by Prime Health St. Clare's, LLC.

Sanitation

Garbage collection services are provided to the residents twice weekly. Recycling collection services are provided to residents once weekly. Some main streets receive garbage & recycling collection services 3 times weekly. For both of these services the City contracts with a private contractor.

The City is a member of the Passaic Valley Sewerage Commission ("PVSC") and is responsible for payment of the final cost of maintenance, repair and operation, including debt service, based on the City's proportionate share of sewerage delivered and discharged into the system. The City's obligation with respect to the PVSC is provided for in the City's budget.

Educational System

The City's school district, coterminous with the City, is a type II school district, and is an independent legal entity administered by a nine member Board of Education elected by the voters of the school district. The school district is not part of any regional or consolidated school district, and neither receives nor sends students, except for a limited number of special education students. The school district is authorized by law to issue debt for school purposes upon vote of the electorate. The school system is comprised of 12 elementary schools (grades K-6), 1 middle school (grades 7-8) and 1 high school grades (9-12).

Population

<u>Area</u>	<u>1980</u>	<u>1990</u>	<u>2000</u>	<u>2010</u>	<u>2018</u>
City of Passaic	46,474	47,025	54,069	69,781	69,948
County of Passaic	447,685	453,060	489,049	501,226	503,310
State of New Jersey	7,365,011	7,730,188	8,414,350	8,791,894	8,908,520

Source: U.S. Census Reports

Employment and Unemployment Comparisons

According to the State of New Jersey, Department of Labor and Industry, the unemployment percentages were as follows:

	<u>Total Labor Force</u>	<u>Employed Labor Force</u>	<u>Total Unemployed</u>	<u>Unemployment Rate</u>
<u>City of Passaic</u>				
2018	28,660	27,002	1,658	5.8%
2017	29,032	27,069	1,963	6.8%
2016	29,843	27,696	2,147	7.2%
2015	30,004	27,508	2,496	8.3%
2014	30,221	27,377	2,844	9.4%
<u>County of Passaic</u>				
2018	239,206	227,001	12,205	5.1%
2017	241,373	227,565	13,808	5.7%
2016	247,829	232,633	15,196	6.1%
2015	248,697	231,055	17,642	7.1%
2014	248,437	228,264	20,173	8.1%
<u>State of New Jersey</u>				
2018	4,422,900	4,239,600	183,300	4.1%
2017	4,453,500	4,247,500	206,000	4.6%
2016	4,524,300	4,299,900	224,400	5.0%
2015	4,530,500	4,267,900	262,600	5.8%
2014	4,518,700	4,218,400	300,300	6.6%

Source: New Jersey Department of Labor, Division of Planning & Research.

SUMMARY OF THE CITY OF PASSAIC BUDGETS

**Current Fund
(As Adopted)**

	<u>CY 2019</u>	<u>CY 2018</u>	<u>CY 2017</u>	<u>FY 2016</u>	<u>FY 2015</u>
Anticipated Revenues					
Fund Balance Anticipated	\$ 4,260,000	\$ 2,500,000	\$ 2,350,000	\$ 1,520,000	\$ 1,330,000
Miscellaneous Revenues	22,848,952	24,191,837	22,377,896	23,060,779	21,886,426
Receipts from Delinquent Taxes	350,000	414,721	503,167	206,800	40,000
Amount to be Raised by Taxes for Support of Municipal Budget	<u>65,263,089</u>	<u>64,845,815</u>	<u>63,707,940</u>	<u>61,364,676</u>	<u>60,221,165</u>
 Total Anticipated Revenues	 <u>\$ 92,722,041</u>	 <u>\$ 91,952,373</u>	 <u>\$ 88,939,003</u>	 <u>\$ 86,152,255</u>	 <u>\$ 83,477,591</u>
 Appropriations					
Salaries and Wages	\$ 42,857,410	\$ 41,423,794	\$ 40,308,356	\$ 39,345,283	\$ 39,162,509
Other Expenses	33,827,868	35,142,628	34,353,887	31,660,258	30,484,653
Deferred Charges and Statutory Expenditures	11,428,993	10,745,082	10,414,625	11,280,355	10,247,694
Capital Improvement Fund	1,550,000	1,855,600	25,000	200,000	100,000
Municipal Debt Service	1,767,770	1,735,269	2,787,135	2,616,359	2,582,735
Reserve for Uncollected Taxes	<u>1,290,000</u>	<u>1,050,000</u>	<u>1,050,000</u>	<u>1,050,000</u>	<u>900,000</u>
 Total Appropriations	 <u>\$ 92,722,041</u>	 <u>\$ 91,952,373</u>	 <u>\$ 88,939,003</u>	 <u>\$ 86,152,255</u>	 <u>\$ 83,477,591</u>

Source: City of Passaic Annual Budgets

**Comparative Schedule of Fund Balances
Current Fund**

<u>Year</u>	<u>Fund Balance Year End</u>	<u>Utilized in Budg of Succeeding Ye</u>
CY 2018	\$ 11,364,326	\$ 4,260,000
CY 2017	9,724,529	2,500,000
TY 2016	5,527,655	2,350,000
SFY 2016	4,645,518	900,000
SFY 2015	3,532,484	1,520,000

Source: City of Passaic Annual Audit Reports.

TAX INFORMATION OF THE CITY

Current Tax Collections

<u>Year</u>	<u>Tax Levy</u>	<u>Collection During Year of Levy</u>	
		<u>Amount</u>	<u>Percent</u>
CY 2018	\$ 107,963,255	\$ 106,217,991	98.38%
CY 2017	105,697,795	104,699,227	99.05%
SFY 2016	100,554,217	99,615,615	99.07%
SFY 2015	100,241,561	99,212,250	98.97%
SFY 2014	99,020,597	98,298,628	99.27%

Source: City of Passaic Annual Audit Reports.

Delinquent Taxes and Tax Title Liens

<u>Year</u>	<u>Tax Title Liens</u>	<u>Amount of Delinquent Taxes</u>	<u>Total Delinquent</u>	<u>Percentage of Levy</u>
CY 2018	\$ 440,878	\$ 88,327	\$ 529,205	0.49%
CY 2017	525,261	56,216	581,477	0.55%
SFY 2016	510,181	52,065	562,246	0.56%
SFY 2015	436,669	32,253	468,922	0.47%
SFY 2014	411,725	221,475	633,200	0.64%

Source: City of Passaic Annual Audit Reports.

Assessed Valuation of Property Owned by the Township Acquired for Taxes

<u>Year</u>	<u>Amount</u>
CY 2018	\$0
CY 2017	0
SFY 2016	0
SFY 2015	0
SFY 2014	0

Source: City of Passaic Annual Audit Reports.

Ten Largest Taxpayers

The ten largest taxpayers in the City of Passaic and their 2019 assessed valuations are listed below:

<u>Taxpayer</u>	<u>Assessment</u>
Prime Healthcare St. Mary's	\$ 26,500,000
ISLIP U SLIP, LLC/ Home Depot	18,475,000
Passaic Industrial Properties	17,250,000
Barry Gardens Owns Corp.	15,918,500
Verizon - New Jersey	15,213,200
River Drive Realty, Inc	13,841,800
Lester Robbins, Trustee	13,058,200
Kranbro Realty LLC & Et. Als.	11,662,900
Lester Robbins, Trustee	12,000,000
Chestnut Hill	<u>11,753,700</u>
Total	<u>\$ 155,673,300</u>

Source: City of Passaic Tax Assessor.

Assessed Valuation - Land Improvements by Class

<u>Year</u>	<u>Vacant Land</u>	<u>Residential</u>	<u>Commerical</u>	<u>Industrial</u>	<u>Apartment</u>	<u>Total</u>
2019	\$ 10,417,700	\$ 1,723,245,900	\$ 661,025,100	\$ 170,898,200	\$ 378,986,100	\$ 2,944,573,000
2018	10,254,700	1,725,157,500	694,155,900	173,167,000	380,967,100	2,983,702,200
2017	8,071,200	1,731,041,600	702,718,900	185,574,200	383,458,000	3,010,863,900
2016 ⁽¹⁾	8,263,400	1,737,285,600	720,351,700	194,841,300	389,068,500	3,049,810,500
2015	6,160,500	811,919,700	285,190,900	75,519,800	144,027,600	1,322,818,500

(1) The City underwent a revaluation of property effective January 1, 2016.

Source: City of Passaic Tax Assessor.

Assessed Valuations Net Valuation Taxable

<u>Year</u>	<u>Real Property</u>	<u>Business Personal Property</u>	<u>Net Valuation Taxable</u>	<u>Ratio of Assessed Value to True Value of Real Property</u>	<u>Total True Value of Assessed Property</u>
2019	\$ 2,944,573,000	\$ 15,213,200	\$ 2,959,786,200	78.85%	\$ 3,853,023,124
2018	2,983,702,200	15,213,200	2,998,915,400	86.07%	3,582,302,080
2017	3,010,863,900	15,203,200	3,026,067,100	93.55%	3,430,959,275
2016 ⁽¹⁾	3,049,810,500	15,203,200	3,065,013,700	94.47%	3,354,909,672
2015	1,322,818,500	5,814,500	1,328,633,000	43.94%	3,089,652,409

(1) The City underwent a revaluation of property effective January 1, 2016.

Source: Tax Duplicate and Abstract of Ratables and 2019 Equalization Table of Passaic County.

**Apportionment of Tax Levy
Including School and County Purposes**

<u>Year</u>	<u>Total</u>	<u>Municipal</u>	<u>Local School</u>	<u>County</u>
CY 2019	\$ 108,818,830	\$ 65,263,089	\$ 16,818,577	\$ 26,737,164
CY 2018	107,963,255	64,905,325	16,818,577	26,239,353
CY 2017	105,697,795	63,846,840	16,818,577	25,032,378
SFY 2016	100,554,217	60,492,096	16,818,577	23,243,544
SFY 2015	100,241,561	60,210,349	16,818,577	23,212,635

Source: City of Passaic Annual Audit Reports and City of Passaic Tax Collector.

**Components of Real Estate Tax Rate
(per \$100 of Assessment)**

<u>Year</u>	<u>Total</u>	<u>Municipal</u>	<u>Local School</u>	<u>County</u>
2019	\$ 3.677	\$ 2.204	\$ 0.569	\$ 0.904
2018	3.598	2.162	0.561	0.875
2017	3.487	2.105	0.556	0.826
2016 ⁽¹⁾	3.368	2.044	0.549	0.775
2015	7.573	4.569	1.266	1.738

(1) The City underwent a revaluation of property effective January 1, 2016.

Source: City of Passaic Annual Audit Reports and City of Passaic Tax Collector.

DEBT INFORMATION OF THE CITY

**Debt Incurring Capacity
As of December 31, 2018**

Municipal	
Equalized Valuation Basis (last 3 years average)	\$ 3,566,750,326
3 1/2% Borrowing Margin	124,836,261
Net Debt Issued, Outstanding and Authorized	21,810,828
Remaining Municipal Borrowing Capacity	103,025,433
Local School	
4% Borrowing Margin	142,670,013
Debt, Issued, Outstanding and Authorized	-
Remaining School Borrowing Capacity	142,670,013

Source: City of Passaic December 31, 2018 Audit

Gross and Statutory Net Debt

<u>Year</u>	<u>Gross Debt Amount</u>	<u>Statutory Net Debt</u>	
		<u>Amount</u>	<u>Percentage</u>
December 31, 2018	\$ 22,626,479	21810828	0.61%
December 31, 2017	17,885,738	16,811,798	0.49%
December 31, 2016	18,555,562	14,564,173	0.44%
June 30, 2016	19,241,735	14,850,346	0.46%
June 30, 2015	17,239,876	11,655,290	0.37%

Source: City of Passaic Annual Audit Reports.

**Statement of Indebtedness
As of December 31, 2018**

General Purpose

Bonds	\$ 13,505,000	
Loans	1,129,404	
Authorized But Not Issued	7,347,075	
		\$ 21,981,479

Sewer Utility

Bonds	1,236,000	
Bonds and Notes Authorized But Not Issued	44,000	
		1,280,000

Parking Authority

Bonds Issued and Authorized		365,000
-----------------------------	--	---------

Total Gross Debt 23,626,479

Statutory Deductions

General Debt	170,651	
Parking Authority Debt	365,000	
Utility Debt	1,280,000	
		1,815,651

Total Net Debt \$ 21,810,828

Overlapping Debt (as of June 30, 2016)

County of Passaic (1)	\$ 37,022,141	
Passaic County Utilities Authority (1)	3,636,429	
North Jersey District Water Supply Commission (2)	1,878,740	
Passaic Valley Sewerage Commission (2)	7,758,846	
Passaic Valley Water Commission (3)	32,381,418	

Total Overlapping Debt \$ 82,677,574

Gross Debt

Per Capita (2018 - 69,948)	\$	338
Percent of Net Valuation Taxable (2018 - \$2,998,915,400)		0.79%
Percent of Estimated True Value of Real Property (2018 - \$3,582,302,080)		0.66%

Net Municipal Debt

Per Capita (2018 - 69,948)	\$	312
Percent of Net Valuation Taxable (2018 - \$2,998,915,400)		0.73%
Percent of Estimated True Value of Real Property (2018 - \$3,582,302,080)		0.61%

Overall Debt (Net and Overlapping Debt)

Per Capita (2018 - 69,948)	\$	1,494
Percent of Net Valuation Taxable (2018 - \$2,998,915,400)		3.48%
Percent of Estimated True Value of Real Property (2018 - \$3,582,302,080)		2.92%

Note (1) Overlapping debt was computed based upon the real property ratio of equalized valuations of the municipality to all municipalities within the County as provided in the 2018 Passaic County Board of Taxation.

Note (2) Overlapping Debt was computed based on usage.

Note (3) Overlapping Debt was computed based on ownership.

APPENDIX B

INDEPENDENT AUDITOR'S REPORT AND FINANCIAL STATEMENTS

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LERCH, VINCI & HIGGINS, LLP

CERTIFIED PUBLIC ACCOUNTANTS
REGISTERED MUNICIPAL ACCOUNTANTS

DIETER P. LERCH, CPA, RMA, PSA
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MARK SACO, CPA
SHERYL M. NICOLosi, CPA
ROBERT LERCH, CPA

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and
Members of the City Council
City of Passaic
Passaic, New Jersey

Report on the Financial Statements

We have audited the accompanying balance sheets - regulatory basis of the various funds and account group of the City of Passaic, as of December 31, 2018 and 2017, and the related statements of operations and changes in fund balance - regulatory basis, the related statement of revenues - regulatory basis and statement of expenditures - regulatory basis of the various funds for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial accounting and reporting provisions and practices that demonstrate compliance with the regulatory basis of accounting and budget laws prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey as described in Note 1. Management is also responsible for 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 audits. We conducted our audits 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 and the audit requirements prescribed by the Division of Local Government Services, 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 from material misstatement.

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

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

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 of the financial statements, the financial statements are prepared by the City of Passaic on the basis of the financial accounting and reporting provisions and practices that demonstrate compliance with the regulatory basis of accounting and budget laws prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to meet the financial reporting requirements of the State of New Jersey for municipal government entities.

The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles" paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of each fund of the City of Passaic as of December 31, 2018 and 2017, or changes in financial position, or, where applicable, cash flows for the years then ended.

Unmodified Opinion on Regulatory Basis of Accounting

In our opinion, the financial statements – regulatory basis referred to above present fairly, in all material respects, the financial position – regulatory basis of the various funds and account group of the City of Passaic as of December 31, 2018 and 2017, and the results of operations and changes in fund balance – regulatory basis of such funds. the respective revenues – regulatory basis and expenditures – regulatory basis of the various funds for the years then ended in accordance with the financial accounting and reporting provisions and practices prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey as described in Note 1.

Other Reporting Required by *Government Auditing Standards*

In accordance with Government Auditing Standards, we have also issued our report dated July 25, 2019 on our consideration of the City of Passaic'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 the effectiveness of the City of Passaic's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City of Passaic's internal control over financial reporting and compliance.

By/s/

Dieter P. Lerch
Registered Municipal Accountant
RMA Number CR00398

Fair Lawn, New Jersey
July 25, 2019

CITY OF PASSAIC
COMPARATIVE BALANCE SHEETS - REGULATORY BASIS
CURRENT FUND
AS OF DECEMBER 31, 2018 AND 2017

	December 31, <u>2018</u>	December 31, <u>2017</u>
ASSETS		
REGULAR FUND		
Cash	\$ 36,054,390	\$ 35,305,187
Cash - Change Fund	2,800	2,800
Due From State of New Jersey - Senior Citizens and Veterans	<u>29,846</u>	<u>23,648</u>
	<u>36,087,036</u>	<u>35,331,635</u>
Receivables and Other Assets With Full Reserves		
Delinquent Property Tax Receivable	88,327	56,216
Tax Title Liens Receivable	440,878	525,261
Revenue Accounts Receivable	467,131	446,943
Due from Grant Fund	1,264,597	1,133,534
Due from Animal Control Fund	10,767	18
Due from Community Development Grant Fund	32,565	2,849
Due from Home Investment Program Fund	369,893	323,946
Due from Sewer Utility Operating Fund	177,121	7,391
Due from Sewer Utility Capital Fund	3	3
Due from Passaic Parking Authority	-	37,351
Due from Passaic Redevelopment Authority	<u>115,219</u>	<u>82,719</u>
	<u>2,966,501</u>	<u>2,616,231</u>
Deferred Charges		
Special Emergency Authorizations	<u>-</u>	<u>120,000</u>
Total Regular Fund	<u>39,053,537</u>	<u>38,067,866</u>
GRANT FUND		
Cash	582,035	1,381,145
Grants Receivable	<u>11,520,437</u>	<u>8,896,570</u>
Total Grant Fund	<u>12,102,472</u>	<u>10,277,715</u>
Grand Total	<u>\$ 51,156,009</u>	<u>\$ 48,345,581</u>

CITY OF PASSAIC
COMPARATIVE BALANCE SHEETS - REGULATORY BASIS
CURRENT FUND
AS OF DECEMBER 31, 2018 AND 2017

	December 31, <u>2018</u>	December 31, <u>2017</u>
LIABILITIES, RESERVES AND FUND BALANCE		
REGULAR FUND		
Liabilities and Reserves		
Appropriation Reserves	\$ 6,459,719	\$ 5,093,326
Encumbrances Payable	1,345,228	1,589,334
Accounts Payable	67,709	31,021
Tax Overpayments	262,994	132,537
Prepaid Taxes	595,993	3,025,324
Fees Payable	219,198	193,421
Special Emergency Note Payable		680,000
Due to Other Trust Fund	2,498,455	1,359,819
Due to General Capital Fund	9,548	23,450
Due to Passaic Parking Authority	21,776	
Reserve for Tax Appeals	3,073,099	2,450,046
Reserve for Pension Contributions	1,313,929	1,531,755
Reserve for Revaluation Program	163,082	166,932
Reserve for Deferred State Aid	8,052,778	8,882,778
Miscellaneous Reserves	<u>639,202</u>	<u>567,363</u>
	24,722,710	25,727,106
Reserve for Receivables and Other Assets	2,966,501	2,616,231
Fund Balance	<u>11,364,326</u>	<u>9,724,529</u>
 Total Regular Fund	 <u>39,053,537</u>	 <u>38,067,866</u>
GRANT FUND		
Encumbrances Payable	2,120,509	1,025,555
Due to Current Fund	1,264,597	1,133,534
Due to Other Trust Fund	184,596	74,124
Due to Home Investment Program Fund	167,036	66,926
Appropriated Grant Reserves	7,734,620	7,202,367
Unappropriated Grant Reserves	242,308	286,293
Reserve for Program Income	<u>388,806</u>	<u>488,916</u>
 Total Grant Fund	 <u>12,102,472</u>	 <u>10,277,715</u>
 Grand Total	 <u>\$ 51,156,009</u>	 <u>\$ 48,345,581</u>

CITY OF PASSAIC
COMPARATIVE STATEMENTS OF OPERATIONS AND
CHANGES IN FUND BALANCE - REGULATORY BASIS
CURRENT FUND
AS OF DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
REVENUES AND OTHER INCOME REALIZED:		
Fund Balance Utilized	\$ 2,500,000	\$ 2,350,000
Miscellaneous Revenue Anticipated	29,968,308	28,344,766
Receipts from Delinquent Taxes	554,399	791,338
Receipts from Current Taxes	105,517,991	104,199,227
Non-Budget Revenues	1,099,972	1,486,971
Other Credits to Income:		
Unexpended Balance of Appropriation Reserves	3,709,188	1,089,112
Appropriated Grant Reserves Cancelled		422,085
Statutory Excess in Animal Control Fund	10,331	
Cancelled Accounts Payable	31,021	
Interfunds and Other Receivables Liquidated	<u>37,351</u>	<u>3,670,990</u>
 Total Income	 <u>143,428,561</u>	 <u>142,354,489</u>
 EXPENDITURES		
Budget Appropriations:		
Operations		
Salaries and Wages	41,911,794	40,900,027
Other Expenses	39,403,280	39,117,203
Deferred Charges and Statutory Expenditures	10,745,082	10,414,625
Capital Improvements	1,855,600	25,000
Municipal Debt Service	1,769,256	2,737,690
County Taxes	26,239,353	25,032,378
Local District School Taxes	16,818,577	16,818,577
Prior Year Senior Citizen/Veteran Deductions Disallowed	18,267	21,756
Prior Year Senior Citizen/Veteran Deductions - Reimb.	8,750	
Grant Receivables Cancelled		377,011
Disallowed Grant Costs - Reserve		250,000
Refund of Prior Year Revenue	99,100	80,626
Interfunds and Other Receivables Created	<u>419,705</u>	<u>32,722</u>
 Total Expenditures	 <u>139,288,764</u>	 <u>135,807,615</u>
 Statutory Excess to Fund Balance	 4,139,797	 6,546,874
 Fund Balance, Beginning of Year	 <u>9,724,529</u>	 <u>5,527,655</u>
	13,864,326	12,074,529
Decreased by:		
Utilization as Anticipated Revenue	<u>2,500,000</u>	<u>2,350,000</u>
 Fund Balance, End of Year	 <u>\$ 11,364,326</u>	 <u>\$ 9,724,529</u>

CITY OF PASSAIC
COMPARATIVE STATEMENTS OF REVENUES - STATUTORY BASIS
CURRENT FUND
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>2018</u>		<u>2017</u>	
	<u>Budget After</u> <u>Modification</u>	<u>Realized</u>	<u>Budget After</u> <u>Modification</u>	<u>Realized</u>
Fund Balance Utilized	\$ 2,500,000	\$ 2,500,000	\$ 2,350,000	\$ 2,350,000
Miscellaneous Revenues:				
Licenses:				
Alcoholic Beverages	140,000	140,727	140,000	\$ 143,231
Other	35,000	74,296	35,000	68,650
Fees and Permits:	-			
Uniform Construction Code - Fees	850,000	1,082,551	825,000	1,011,357
Other	45,000	95,523	45,000	91,002
Fines and Costs:	-			
Municipal Court	1,900,000	1,722,833	2,200,000	2,042,534
Energy Receipts Tax	8,945,764	8,945,764	8,567,388	8,567,388
Consolidated Municipal Property Tax Relief Aid	3,599,718	3,599,718	3,978,094	3,978,094
Interest and Costs on Taxes	140,000	283,708	140,000	325,246
Interest on Investments & Deposit	60,000	478,602	20,000	108,399
Downstown Merchant's Association			25,310	50,619
Police Record Bureau	21,000	11,230	20,000	23,819
Board of Education - Security Watch and Resource Officers	3,080,000	3,150,000	2,650,000	2,900,000
Interlocal Agreement - Passaic Parking Authority	653,000	653,000	653,000	653,000
Public and Private Revenues Offset	-			
With Appropriations:	-			
Recycling Tonnage Grant	74,794	74,794	95,963	95,963
Stationhouse Adjustment 2016			12,587	12,587
Stationhouse Adjustment 2017			19,762	19,762
Stationhouse Adjustment 2018	34,762	34,762		
CDBG DR Grant - Passaic			1,672,004	1,672,004
Alcohol Education	12,889	12,889	18,337	18,337
Bill Belichick Foundation Grant	10,000	10,000		
Body Armor	40,887	40,887	13,275	13,275
Byrne Memorial -2017	203,547	203,547		
Byrne Memorial - 2018	191,956	191,956		
Childhood Leadbase Prevention	1,234,211	1,234,211	158,454	158,454
Clean Communities program	73,545	73,545	76,830	76,830
Click It or Ticket	5,500	5,500	5,500	5,500
County Historic Partnership Program	1,591	1,591		
Distracted Driving Statewide Crackdown	6,600	6,600	5,500	5,500
Drive Sober or Get Pulled Over	5,500	5,500	5,500	5,500
Drive Sober or Get Pulled Over - Labor Day Crackdown			5,500	5,500
Drunk Driving Enforcement Fund			38,577	38,577
Drunk Driving Enforcement Fund - 2018	20,564	20,564		
Drunk Driving Enforcement Fund - 2019	17,542	17,542		
Drive Sober - 2018	5,500	5,500		
Fire House Subs Public Safety Foundation, Inc	15,298	15,298		
FEMA - Fire SAFER Program - 2018	1,202,209	1,202,209		
Green Acres - 3rd Ward Memorial Park Improvements			1,000,000	1,000,000
Global Fire Prevention Grant	2,937	2,937		
Hep-B Inoculation	3,235	3,235	8,369	8,369
Housing Opportunity - HOPWA - 2016 Additional			40,000	40,000
Housing Opportunity - HOPWA - 2017			120,000	120,000
Housing Opportunity - HOPWA - 2018	125,000	125,000		
Lacrosse National Diversity Grant	2,000	2,000		
Municipal Alliance on Alcoholism and Drug Abuse	39,478	39,478	39,478	39,478
National Rec & Park Association Grant	20,000	20,000		
NJ Dept of Transportation - Various Road Impvts	805,600	805,600	385,456	385,456
NJ Dept of Transportation - Various Road Safety Impvts	600,000	600,000		
NJDEP Stewardship Award - Tree Management	7,000	7,000		

CITY OF PASSAIC
COMPARATIVE STATEMENTS OF REVENUES - STATUTORY BASIS
CURRENT FUND
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>2018</u>		<u>2017</u>	
	<u>Budget After</u> <u>Modification</u>	<u>Realized</u>	<u>Budget After</u> <u>Modification</u>	<u>Realized</u>
Public and Private Revenues Offset With Appropriations (Cont.):				
Target Grant - Youth Soccer 2019	\$ 1,000	\$ 1,000		
Women Infants & Children (WIC) - 16/17 Additional			\$ 34,100	\$ 34,100
Women Infants & Children (WIC) - 17/18			1,091,091	1,091,091
Women Infants & Children (WIC) - Facility Grant			108,000	108,000
Women Infants & Children (WIC) - 2019	1,091,752	1,091,752		
UEZA Programs - Reserve			139,902	139,902
Passaic County Open Space - Dog Park Improvements			100,000	100,000
Passaic County Open Space - Christopher Columbus Park Impvts			100,000	100,000
Passaic County Open Space - Madison & Hope Plaza	10,000	10,000		
Passaic Co. Open Space - 3rd Ward Park Impvmts	250,000	250,000		
Pedestrian Safety Grant- NJ Highway	43,000	43,000		
Rec. Opportunity For Indv. With Disabilities	20,000	20,000		
Recycling Tonnage Grant - Reserve			195,216	195,216
Ryan White Title I	166,948	166,948	166,931	166,931
Safe & Secure Grant - 2017	90,000	90,000		
Safe & Secure Grant - 2018	90,000	90,000		
Smile Donation			5,000	5,000
Summer Food Program	380,807	380,807	259,759	259,759
Sustainable NJ Grant - Taste of Market Street	10,000	10,000		
Special Items:	-			
Cable Franchise Fee	400,000	431,909	360,000	\$ 442,252
Saint Mary's Reise Corp. - In Lieu of Taxes	125,000	165,598	120,000	125,499
Chestnut Housing Phase I - In Lieu of Taxes	66,000	88,655	66,000	87,924
Jack Parker Association - In Lieu of Taxes	300,000	316,900	300,000	362,990
YMCA - In Lieu of Taxes	22,355	22,500	22,000	22,500
Highview Terrace - In Lieu of Taxes	65,000	83,772	65,000	80,634
Housing Authority Police Program	255,000	303,329	275,000	256,663
County of Passaic - Street Lighting	60,000	60,000	60,000	180,000
Payment in Lieu of Taxes - Housing Authority	130,000	168,340	105,000	159,588
Payment in Lieu of Taxes - Garden Howe	40,000	43,701	40,000	42,286
POD- Vehicle Fee	100,000	100,000		
Reserve for Deferred State Aid	830,000	830,000	400,000	-
Reserve for Health Benefits			300,000	300,000
Reserve for Pension	200,000	200,000	400,000	400,000
	<u>28,978,489</u>	<u>29,968,308</u>	<u>27,732,883</u>	<u>28,344,766</u>
Receipts from Delinquent Taxes	<u>414,721.00</u>	<u>554,399</u>	<u>503,167</u>	<u>791,338</u>
Amount to be Raised by Taxes for Support of Municipal Budget:				
Local Tax for Municipal Purposes	63,674,696	62,338,942	62,579,554	62,269,886
Minimum Library Tax	1,171,119	1,171,119	1,128,386	1,128,386
	<u>64,845,815</u>	<u>63,510,061</u>	<u>63,707,940</u>	<u>63,398,272</u>
Total Amount to be Raised by Taxes for Support of Municipal Budget	<u>64,845,815</u>	<u>63,510,061</u>	<u>63,707,940</u>	<u>63,398,272</u>
Total Budget Revenues	<u>\$ 96,739,025</u>	<u>\$ 96,532,768</u>	<u>\$ 94,293,990</u>	<u>\$ 94,884,376</u>

2018 STATEMENT OF EXPENDITURES
CURRENT FUND

CITY OF PASSAIC
STATEMENT OF EXPENDITURES - REGULATORY BASIS
CURRENT FUND
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2018

	<u>Appropriated</u>		<u>Expended</u>		<u>Canceled</u>
	<u>Budget</u>	<u>Budget After Modification</u>	<u>Paid or Charged</u>	<u>Reserved</u>	
OPERATIONS - WITHIN "CAPS"					
GENERAL GOVERNMENT					
General Administration					
Office of Business Administration					
Salaries & Wages	\$ 754,036	\$ 754,036	\$ 698,546	\$ 55,490	
Other Expenses	270,250	270,250	225,235	45,015	
Human Resources					
Office of Personnel					
Salaries & Wages	168,240	168,240	160,182	8,058	
Other Expenses	17,000	17,000	11,416	5,584	
Mayor and Council					
Office of the Mayor and Council					
Salaries & Wages	319,190	319,190	300,935	18,255	
Other Expenses	109,900	109,900	69,605	40,295	
City Clerk					
Salaries & Wages	396,750	396,750	361,675	35,075	
Other Expenses	143,000	143,000	95,861	47,139	
Financial Administration - Treasurer's Office					
Salaries and Wages	412,626	412,626	404,261	8,365	
Other Expenses	168,600	168,600	84,362	84,238	
Annual Audit					
Other Expenses	83,000	83,000	71,485	11,515	
Revenue Administration - Tax Collector					
Salaries and Wages	278,400	278,400	278,400	-	
Other Expenses	30,600	30,600	25,379	5,221	
Tax Assessment Administration					
Salaries and Wages	242,050	242,050	214,849	27,201	
Other Expenses	51,625	51,625	46,977	4,648	
Legal Services					
Other Expenses	630,000	630,000	611,300	18,700	
Office of Engineer					
Salaries and Wages	116,800	116,800	109,470	7,330	
Other Expenses	97,500	97,500	96,246	1,254	
Economic Development Agencies					
Planning and Economic Development					
Salaries and Wages	197,300	197,300	92,331	104,969	
Other Expenses	14,035	14,035	503	13,532	
Division of Housing					
Salaries and Wages	299,465	334,465	326,114	8,351	
Other Expenses	7,100	7,100	3,370	3,730	
Redevelopment Agency	10,000	10,000	10,000	-	
LAND USE ADMINISTRATION					
Planning Board					
Other Expenses	11,065	13,065	12,151	914	
Board of Adjustment					
Other Expenses	17,650	17,650	16,271	1,379	
CODE ENFORCEMENT AND ADMINISTRATION					
Rent Leveling Board					
Other Expenses	15,200	15,200	15,000	200	
INSURANCE					
Liability Insurance	1,570,000	1,570,000	1,570,000	-	
Workmen's Compensation	1,535,000	1,535,000	1,501,300	33,700	
Employee Group Insurance	17,306,364	17,306,364	15,818,049	1,488,315	
Health Benefit Waiver	60,000	60,000	54,000	6,000	
Unemployment Insurance	400,000	400,000	400,000	-	

CITY OF PASSAIC
STATEMENT OF EXPENDITURES - REGULATORY BASIS
CURRENT FUND
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2018

	<u>Appropriated</u>		<u>Expended</u>		<u>Canceled</u>
	<u>Budget</u>	<u>Budget After Modification</u>	<u>Paid or Charged</u>	<u>Reserved</u>	
OPERATIONS - WITHIN "CAPS" (Cont'd)					
PUBLIC SAFETY FUNCTIONS					
Police Department					
Salaries and Wages	\$ 17,453,000	\$ 17,343,000	\$ 16,224,602	\$ 1,118,398	
Other Expenses	535,500	535,500	497,616	37,884	
BOE Security Watch and Res. Off.-Salaries & Wages	2,867,000	2,867,000	2,790,152	76,848	
Office of Emergency Management					
Salaries & Wages	46,000	46,000	43,201	2,799	
Other Expenses	5,000	5,000	3,180	1,820	
Fire Department					
Salaries and Wages	11,102,822	11,102,822	10,534,080	568,742	
Other Expenses	138,700	138,700	131,422	7,278	
Prosecutor's Office					
Other Expenses	155,000	155,000	124,000	31,000	
Municipal Court					
Salaries and Wages	1,053,000	1,053,000	1,009,034	43,966	
Other Expenses	140,820	140,820	126,794	14,026	
Public Defender (PL 1997 C.256)					
Other Expenses	75,000	75,000	56,000	19,000	
Passaic Parking Authority					
Salaries & Wages	320,000	320,000	193,388	126,612	
Other Expenses	230,000	230,000	45,629	184,371	
PUBLIC WORKS FUNCTIONS					
Streets and Road Maintenance					
Salaries & Wages	2,213,700	2,213,700	1,996,163	217,537	
Other Expenses	370,100	370,100	278,584	91,516	
Solid Waste Collection					
Other Expenses					
Garbage Removal Contractual	2,200,000	2,200,000	2,040,684	159,316	
Buildings and Grounds					
Salaries and Wages	451,415	451,415	437,934	13,481	
Other Expenses	309,550	381,550	375,284	6,266	
Vehicle Maintenance					
Salaries & Wages	537,280	537,280	511,930	25,350	
Other Expenses	413,500	413,500	369,454	44,046	
HEALTH AND HUMAN SERVICES					
Public Health Services					
Division of Health					
Salaries and Wages	803,100	803,100	651,180	151,920	
Other Expenses	186,500	186,500	169,698	16,802	
Animal Regulation					
Salaries and Wages	184,000	184,000	168,881	15,119	
Other Expenses	31,250	31,250	25,174	6,076	

**CITY OF PASSAIC
STATEMENT OF EXPENDITURES - REGULATORY BASIS
CURRENT FUND
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2018**

	<u>Appropriated</u>		<u>Expended</u>		<u>Canceled</u>
	<u>Budget</u>	<u>Budget After Modification</u>	<u>Paid or Charged</u>	<u>Reserved</u>	
OPERATIONS - WITHIN "CAPS" (Cont'd)					
PARK AND RECREATION FUNCTIONS					
Division of Recreation					
Salaries and Wages	\$ 619,000	\$ 619,000	\$ 415,218	\$ 203,782	
Other Expenses	152,700	152,700	131,942	20,758	
Senior Citizens					
Salaries and Wages	217,760	217,760	204,960	12,800	
Other Expenses	7,300	7,300	1,652	5,648	
Handicapped Recreation					
Salaries & Wages	177,360	177,360	142,805	34,555	
Other Expenses	21,200	21,200	12,224	8,976	
Maintenance of Parks					
Salaries & Wages	302,500	302,500	243,526	58,974	
Other Expenses	112,000	112,000	62,498	49,502	
OTHER COMMON OPERATING FUNCTIONS					
Accumulated Leave					
Other Expenses	750,000	750,000	605,686	144,314	
UNIFORM CONSTRUCTION CODE - APPROPRIATIONS OFFSET BY DEDICATED REVENUES (N.J.A.C. 5:23-4.17)					
Division of Code Enforcement					
Salaries and Wages	491,000	454,000	413,922	40,078	
Other Expenses	107,100	107,100	106,518	582	
UNCLASSIFIED:					
Utilities:					
Electricity	550,000	550,000	420,621	129,379	
Street Lighting	720,000	720,000	541,902	178,098	
Telephone and Telegraph	164,000	164,000	162,090	1,910	
Gasoline	420,000	420,000	413,912	6,088	
LANDFILL/SOLID WASTE DISPOSAL COSTS					
Tipping Tax	-	-	-	-	
Tipping Fees	2,135,000	2,135,000	1,978,138	156,862	-
Total Operations Within "CAPS"	<u>74,501,903</u>	<u>74,463,903</u>	<u>68,346,951</u>	<u>6,116,952</u>	<u>-</u>
Detail:					
Salaries & Wages	42,023,794	41,911,794	38,927,739	2,984,055	-
Other Expenses	32,478,109	32,552,109	29,419,212	3,132,897	-
Deferred Charges and Statutory Expenditures - Municipal Within "CAPS"					
STATUTORY CHARGES					
Public Employees Retirement System	1,485,955	1,485,955	1,440,171	45,784	
Social Security System (O.A.S.I.)	1,510,000	1,510,000	1,383,014	126,986	
Public Employees Retirement System - ERIP	190,179	190,179	190,179	-	
Police and Fireman's Retirement System	7,338,648	7,338,648	7,272,729	65,919	

CITY OF PASSAIC
STATEMENT OF EXPENDITURES - REGULATORY BASIS
CURRENT FUND
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2018

	<u>Appropriated</u>		<u>Expended</u>		<u>Canceled</u>
	<u>Budget</u>	<u>Budget After Modification</u>	<u>Paid or Charged</u>	<u>Reserved</u>	
Deferred Charges and Statutory Expenditures - Municipal Within "CAPS" (Continued)					
STATUTORY CHARGES (Continued)					
Consolidated Police and Firemen's Pension Fund	\$ 20,300	\$ 20,300	\$ 20,271	\$ 29	
Deferred Compensation Retirement Plan	<u>80,000</u>	<u>80,000</u>	<u>50,132</u>	<u>29,868</u>	-
Total Deferred Charges and Statutory Expenditures - Municipal Within "CAPS"	<u>10,625,082</u>	<u>10,625,082</u>	<u>10,356,496</u>	<u>268,586</u>	-
Total General Appropriations for Municipal Purposes Within "CAPS"	<u>85,126,985</u>	<u>85,088,985</u>	<u>78,703,447</u>	<u>6,385,538</u>	-
OPERATIONS - EXCLUDED FROM "CAPS"					
Maintenance of Free Public Library	1,171,119	1,171,119	1,171,119	-	-
Recycling Tax	<u>130,000</u>	<u>130,000</u>	<u>95,819</u>	<u>34,181</u>	-
Total Other Operations - Excluded From "CAPS"	<u>1,301,119</u>	<u>1,301,119</u>	<u>1,266,938</u>	<u>34,181</u>	-
Public and Private Programs Offset by Revenues					
Recycling Tonnage Grant	74,794	74,794	74,794	-	
Stationhouse Adj	19,593	19,593	19,593	-	
Childhood Leadbase Prevention	417,211	417,211	417,211	-	
Distracted Driving Statewide Crackdown	6,600	6,600	6,600	-	
Drive Sober or Get Pulled Over	5,500	11,000	11,000	-	
Hep-B Inoculation	3,235	3,235	3,235	-	
Ryan White Title I	55,530	55,530	55,530	-	
Matching Funds for Grants	40,000	40,000	-	40,000	
Bill Belichick Foundation Grant	10,000	10,000	10,000	-	
Safe & Secure Grant	90,000	90,000	90,000	-	
Rec. Oppor for Individual w/Disability Grant	20,000	20,000	20,000	-	
Edward Byrne Memorial Justice Assistance Grant (JAG) - 2017		203,547	203,547	-	
Pedestrian Safety, Education & Enforcement Fund		25,000	25,000	-	
Donations - Target		1,000	1,000	-	
FEMA - Fire Safer Grant 2018		1,202,209	1,202,209	-	
Edward Byrne Memorial Justice Assistance Grant (JAG) - 2018		191,956	191,956	-	
LaCrosse National Diversity Grant		2,000	2,000	-	
NJ Department of Children & Families - Childhood Lead Prevention		817,000	817,000	-	
Passaic Open Space Grant 3rd Ward Park-Ice Rink		250,000	250,000	-	
Passaic Open Space Grant-Madison and Hope Plaza		10,000	10,000	-	
Drunk Driving Enforcement Fund		38,106	38,106	-	
Body Armor Fund		40,887	40,887	-	
NJ Department of Law & Public Safety-Safe and Secure		90,000	90,000	-	
NJ Department of Health & Senior Services Women, Infant, Children (WIC)		1,091,752	1,091,752	-	
County of Passaic Historic Partnership Program Grant		1,591	1,591	-	
NJ Department of Environmental Protection Stewardship Grant - Tree Management		7,000	7,000	-	
Municipal Alliance on Alcoholism and Drug Abuse		39,478	39,478	-	
Ryan White Partial A-Minority AIDS Initiative Grant Final		62,353	62,353	-	
Donations - Fire House Subs Public Safety Foundation, Inc.		15,298	15,298	-	
Passaic County Station House Adjustment Grant		15,169	15,169	-	
Sustainable Jersey Small Grants Program		10,000	10,000	-	
NJDEP - Clean Communities Program		73,545	73,545	-	
Municipal Alcohol Education/Rehabilitation Program		12,889	12,889	-	
Ryan White Partial A-Minority AIDS Initiative Grant		49,065	49,065	-	
NJDOA - Summer Food Program		380,807	380,807	-	
Passaic Co: Housing of People with Aids (HOPWA)		125,000	125,000	-	
Click It or Ticket		5,500	5,500	-	
Global Fire Prevention Grant	2,937	2,937	2,937	-	
Pedestrian Safety Grant - NJ Highway	18,000	18,000	18,000	-	
The National Recreation and Park Association (NRPA)	<u>-</u>	<u>20,000</u>	<u>20,000</u>	<u>-</u>	
Total Public and Private Program Offset by Revenues	<u>763,400</u>	<u>5,550,052</u>	<u>5,510,052</u>	<u>40,000</u>	-
Total Operations - Excluded from "CAPS"	<u>2,064,519</u>	<u>6,851,171</u>	<u>6,776,990</u>	<u>74,181</u>	-
Detail:					
Other Expenses	<u>2,064,519</u>	<u>6,851,171</u>	<u>6,776,990</u>	<u>74,181</u>	-

CITY OF PASSAIC
STATEMENT OF EXPENDITURES - REGULATORY BASIS
CURRENT FUND
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2018

	<u>Appropriated</u>		<u>Expended</u>		
	<u>Budget</u>	<u>Budget After Modification</u>	<u>Paid or Charged</u>	<u>Reserved</u>	<u>Canceled</u>
CAPITAL IMPROVEMENTS - EXCLUDED FROM "CAPS"					
Capital Improvement Fund	\$ 450,000	\$ 450,000	\$ 450,000	-	-
NJ Department of Transportation - Various Road Impvts	805,600	805,600	805,600		
NJ Department of Transportation - Various Road Safety Impvts	<u>600,000</u>	<u>600,000</u>	<u>600,000</u>	-	-
Total Capital Improvements - Excluded from "CAPS"	<u>1,855,600</u>	<u>1,855,600</u>	<u>1,855,600</u>	-	-
MUNICIPAL DEBT SERVICE - EXCLUDED FROM "CAPS"					
Payment of Bond Principal	1,225,000	1,225,000	1,225,000		
Interest on Bonds	415,079	453,079	449,075		\$ 4,004
Interest on Notes	11,555	11,555	11,553		2
Payment of Loan Principal and Interest	<u>83,635</u>	<u>83,635</u>	<u>83,628</u>	-	<u>7</u>
Total Municipal Debt Service - Excluded from "CAPS"	<u>1,735,269</u>	<u>1,773,269</u>	<u>1,769,256</u>	-	<u>4,013</u>
DEFERRED CHARGES MUNICIPAL - EXCLUDED FROM "CAPS"					
Special Emergency Authorization - 5 Years	<u>120,000</u>	<u>120,000</u>	<u>120,000</u>	-	-
Total Deferred Charges Municipal - Excluded from "CAPS"	<u>120,000</u>	<u>120,000</u>	<u>120,000</u>	-	-
Total General Appropriations for Municipal Purposes Excluded from "CAPS"	<u>5,775,388</u>	<u>10,600,040</u>	<u>10,521,846</u>	\$ 74,181	<u>4,013</u>
Subtotal General Appropriations	90,902,373	95,689,025	89,225,293	6,459,719	4,013
Reserve for Uncollected Taxes	<u>1,050,000</u>	<u>1,050,000</u>	<u>1,050,000</u>	-	-
Total General Appropriations	<u>\$ 91,952,373</u>	<u>\$ 96,739,025</u>	<u>\$ 90,275,293</u>	<u>\$ 6,459,719</u>	<u>\$ 4,013</u>
Budget		\$ 91,952,373			
Appropriation by 40A:4-87		<u>4,786,652</u>			
		<u>\$ 96,739,025</u>			

2017 STATEMENT OF EXPENDITURES
CURRENT FUND

CITY OF PASSAIC
STATEMENT OF EXPENDITURES - REGULATORY BASIS
CURRENT FUND
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2017

	<u>Appropriated</u>		<u>Expended</u>		<u>Canceled</u>
	<u>Budget</u>	<u>Budget After Modification</u>	<u>Paid or Charged</u>	<u>Reserved</u>	
OPERATIONS - WITHIN "CAPS"					
GENERAL GOVERNMENT					
General Administration					
Office of Business Administration					
Salaries & Wages	\$ 773,316	\$ 714,816	\$ 614,004	\$ 100,812	
Other Expenses	389,900	389,900	295,045	94,855	
Human Resources					
Office of Personnel					
Salaries & Wages	191,261	191,261	173,791	17,470	
Other Expenses	17,000	17,000	9,260	7,740	
Mayor and Council					
Office of the Mayor and Council					
Salaries & Wages	314,402	321,902	318,615	3,287	
Other Expenses	33,600	33,600	20,677	12,923	
City Clerk					
Salaries & Wages	398,052	398,052	355,756	42,296	
Other Expenses	163,860	178,860	173,480	5,380	
Financial Administration - Treasurer's Office					
Salaries and Wages	383,792	383,792	376,936	6,856	
Other Expenses	253,850	253,850	106,514	147,336	
Annual Audit					
Other Expenses	83,000	83,000	64,500	18,500	
Revenue Administration - Tax Collector					
Salaries and Wages	271,779	271,779	263,697	8,082	
Other Expenses	31,600	31,600	26,055	5,545	
Tax Assessment Administration					
Salaries and Wages	259,352	259,352	241,181	18,171	
Other Expenses	44,125	44,125	42,991	1,134	
Legal Services					
Other Expenses	630,000	630,000	613,000	17,000	
Office of Engineer					
Salaries and Wages	199,515	199,515	193,515	6,000	
Other Expenses	23,300	23,300	20,626	2,674	
Economic Development Agencies					
Planning and Economic Development					
Salaries and Wages	111,251	111,251	92,023	19,228	
Other Expenses	15,200	15,200	11,082	4,118	
Division of Housing					
Salaries and Wages	364,505	370,505	365,882	4,623	
Other Expenses	7,100	7,100	4,344	2,756	
Redevelopment Agency	10,000	10,000	10,000	-	
LAND USE ADMINISTRATION					
Planning Board					
Other Expenses	10,850	10,850	8,561	2,289	
Board of Adjustment					
Other Expenses	17,500	17,500	12,385	5,115	
CODE ENFORCEMENT AND ADMINISTRATION					
Rent Leveling Board					
Other Expenses	15,200	15,200	15,000	200	
INSURANCE					
Liability Insurance	1,520,000	1,520,000	1,520,000	-	
Workmen's Compensation	1,415,000	1,415,000	1,415,000	-	
Employee Group Insurance	16,678,327	16,678,327	16,031,023	647,304	
Health Benefit Waiver	60,000	60,000	52,000	8,000	
Unemployment Insurance	400,000	400,000	400,000	-	

CITY OF PASSAIC
STATEMENT OF EXPENDITURES - REGULATORY BASIS
CURRENT FUND
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2017

	<u>Appropriated</u>		<u>Expended</u>		<u>Canceled</u>
	<u>Budget</u>	<u>Budget After Modification</u>	<u>Paid or Charged</u>	<u>Reserved</u>	
OPERATIONS - WITHIN "CAPS" (Cont'd)					
PUBLIC SAFETY FUNCTIONS					
Police Department					
Salaries and Wages	\$ 17,028,394	\$ 17,028,394	\$ 16,095,179	\$ 933,215	
Other Expenses	443,400	453,400	449,750	3,650	
BOE Security Watch and Res. Off.-Salaries & Wages	2,650,000	2,650,000	2,650,000	-	
Office of Emergency Management					
Salaries & Wages	41,200	41,200	33,694	7,506	
Other Expenses	3,000	3,000	1,826	1,174	
Fire Department					
Salaries and Wages	10,733,710	10,733,710	10,682,996	50,714	
Other Expenses	140,250	140,250	95,779	44,471	
Prosecutor's Office					
Other Expenses	155,000	155,000	136,500	18,500	
Municipal Court					
Salaries and Wages	953,851	953,851	899,467	54,384	
Other Expenses	140,800	140,800	118,155	22,645	
Public Defender (PL 1997 C.256)					
Other Expenses	75,000	75,000	69,550	5,450	
Passaic Parking Authority					
Salaries & Wages	350,000	350,000	193,681	156,319	
Other Expenses	303,000	303,000		303,000	
PUBLIC WORKS FUNCTIONS					
Streets and Road Maintenance					
Salaries & Wages	2,197,094	2,197,094	2,046,486	150,608	
Other Expenses	368,960	368,960	240,808	128,152	
Solid Waste Collection					
Other Expenses					
Garbage Removal Contractual	2,060,000	2,060,000	2,001,385	58,615	
Buildings and Grounds					
Salaries and Wages	463,928	463,928	425,513	38,415	
Other Expenses	283,950	323,950	316,985	6,965	
Vehicle Maintenance					
Salaries & Wages	525,000	525,000	514,082	10,918	
Other Expenses	408,500	408,500	359,388	49,112	
HEALTH AND HUMAN SERVICES					
Public Health Services					
Division of Health					
Salaries and Wages	721,092	721,092	680,365	40,727	
Other Expenses	174,104	174,104	158,702	15,402	
Animal Regulation					
Salaries and Wages	196,200	196,200	141,453	54,747	
Other Expenses	28,750	28,750	28,220	530	

CITY OF PASSAIC
STATEMENT OF EXPENDITURES - REGULATORY BASIS
CURRENT FUND
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2017

	<u>Appropriated</u>		<u>Expended</u>		<u>Canceled</u>
	<u>Budget</u>	Budget After <u>Modification</u>	Paid or <u>Charged</u>	<u>Reserved</u>	
OPERATIONS - WITHIN "CAPS" (Cont'd)					
PARK AND RECREATION FUNCTIONS					
Division of Recreation					
Salaries and Wages	\$ 683,697	\$ 631,697	\$ 439,218	\$ 192,479	
Other Expenses	134,000	134,000	131,882	2,118	
Senior Citizens					
Salaries and Wages	203,923	203,923	155,073	48,850	
Other Expenses	7,300	7,300	3,288	4,012	
Handicapped Recreation					
Salaries & Wages	123,600	143,600	139,185	4,415	
Other Expenses	21,200	21,200	11,183	10,017	
Maintenance of Parks					
Salaries & Wages	353,395	353,395	265,635	87,760	
Other Expenses	134,000	134,000	75,899	58,101	
OTHER COMMON OPERATING FUNCTIONS					
Accumulated Leave					
Other Expenses	950,000	950,000	713,173	236,827	
UNIFORM CONSTRUCTION CODE - APPROPRIATIONS OFFSET BY DEDICATED REVENUES (N.J.A.C. 5:23-4.17)					
Division of Code Enforcement					
Salaries and Wages	484,718	484,718	421,018	63,700	
Other Expenses	160,100	160,100	113,971	46,129	
UNCLASSIFIED:					
Utilities:					
Electricity	600,000	600,000	502,192	97,808	
Street Lighting	720,000	720,000	630,351	89,649	
Telephone and Telegraph	150,000	150,000	147,825	2,175	
Gasoline	430,000	430,000	302,504	127,496	
LANDFILL/SOLID WASTE DISPOSAL COSTS					
Tipping Tax	100,000	112,000	109,211	2,789	
Tipping Fees	2,120,000	2,120,000	1,737,832	382,168	-
Total Operations Within "CAPS"	<u>72,907,753</u>	<u>72,907,753</u>	<u>68,086,347</u>	<u>4,821,406</u>	<u>-</u>
Detail:					
Salaries & Wages	40,977,027	40,900,027	38,778,445	2,121,582	-
Other Expenses	31,930,726	32,007,726	29,307,902	2,699,824	-
Deferred Charges and Statutory Expenditures - Municipal Within "CAPS"					
STATUTORY CHARGES					
Public Employees Retirement System	1,424,024	1,424,024	1,376,741	47,283	
Social Security System (O.A.S.I.)	1,430,000	1,430,000	1,361,660	68,340	
Public Employees Retirement System - ERIP	190,179	190,179	190,179	-	
Police and Fireman's Retirement System	6,580,122	6,580,122	6,504,323	75,799	

CITY OF PASSAIC
STATEMENT OF EXPENDITURES - REGULATORY BASIS
CURRENT FUND
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2017

	<u>Appropriated</u>		<u>Expended</u>		
	<u>Budget</u>	<u>Budget After Modification</u>	<u>Paid or Charged</u>	<u>Reserved</u>	<u>Canceled</u>
Deferred Charges and Statutory Expenditures - Municipal Within "CAPS" (Continued)					
STATUTORY CHARGES (Continued)					
Consolidated Police and Firemen's Pension Fund	\$ 20,300	\$ 20,300	\$ 20,300	-	
Deferred Compensation Retirement Plan	70,000	70,000	49,502	\$ 20,498	-
Total Deferred Charges and Statutory Expenditures - Municipal Within "CAPS"	9,714,625	9,714,625	9,502,705	211,920	-
Total General Appropriations for Municipal Purposes Within "CAPS"	82,622,378	82,622,378	77,589,052	5,033,326	-
OPERATIONS - EXCLUDED FROM "CAPS"					
Maintenance of Free Public Library	1,128,386	1,128,386	1,128,386	-	-
Total Other Operations - Excluded From "CAPS"	1,128,386	1,128,386	1,128,386	-	-
Public and Private Programs Offset by Revenues					
Edward Byrne Memorial Justice Assistance Grant (JAG)					
Matching Funds for Grants	60,000	60,000		60,000	
Juvenile Accountability - Station House Adjustment	32,349	32,349	32,349		
UEZA Programs	139,902	139,902	139,902		
Disaster Recovery Grant	297,890	297,890	297,890		
Recycling Tonnage Grant	95,963	95,963	95,963		
Alcohol Education		18,337	18,337		
Body Armor		13,275	13,275		
CDBG DR Grant - Passaic County		1,374,114	1,374,114		
Childhood Leadbase Prevention		158,454	158,454		
Clean Communities program		76,830	76,830		
Click It or Ticket		5,500	5,500		
Distracted Driving Statewide Crackdown		5,500	5,500		
Drive Sober or Get Pulled Over		5,500	5,500		
Drive Sober or Get Pulled Over-Labor Day Crackdown		5,500	5,500		
Drunk Driving Enforcement Fund		38,577	38,577		
Green Acres - 3rd Ward Memorial Park Impvts		1,000,000	1,000,000		
Hep-B Inoculation		8,369	8,369		
Housing Opportunity - HOPWA - 2016 Additional		40,000	40,000		
Housing Opportunity - HOPWA - 2017		120,000	120,000		
Municipal Alliance on Alcoholism and Drug Abuse		39,478	39,478		
NJ Dept of Transportation - Various Road Impvts		385,456	385,456		
Passaic County Open Space - Dog Park Impvts		100,000	100,000		
Passaic County Open Space - Christopher Columbus Park Impvts		100,000	100,000		
Recycling Tonnage Grant - Reserve		195,216	195,216		
Ryan White Title I		166,931	166,931		
Smile Donation		5,000	5,000		
Summer Food Program		259,759	259,759		
Women, Infant & Children (WIC) - 16/17 Additional		34,100	34,100		
Women, Infant & Children (WIC) - 17/18		1,091,091	1,091,091		
Women, Infant & Children (WIC) - Facility Grant	-	108,000	108,000	-	-
Total Public and Private Program Offset by Revenues	626,104	5,981,091	5,921,091	60,000	-
Total Operations - Excluded from "CAPS"	1,754,490	7,109,477	7,049,477	60,000	-
Detail:					
Other Expenses	1,754,490	7,109,477	7,049,477	60,000	-

CITY OF PASSAIC
STATEMENT OF EXPENDITURES - REGULATORY BASIS
CURRENT FUND
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2017

	<u>Appropriated</u>		<u>Expended</u>		
	<u>Budget</u>	<u>Budget After Modification</u>	<u>Paid or Charged</u>	<u>Reserved</u>	<u>Canceled</u>
CAPITAL IMPROVEMENTS - EXCLUDED FROM "CAPS"					
Capital Improvement Fund	\$ 25,000	\$ 25,000	\$ 25,000	-	-
Total Capital Improvements - Excluded from "CAPS"	<u>25,000</u>	<u>25,000</u>	<u>25,000</u>	-	-
MUNICIPAL DEBT SERVICE - EXCLUDED FROM "CAPS"					
Payment of Bond Principal	2,215,000	2,215,000	2,215,000		
Interest on Bonds	402,490	402,490	353,306		\$ 49,184
Interest on Notes	86,010	86,010	85,755		255
Payment of Loan Principal and Interest	<u>83,635</u>	<u>83,635</u>	<u>83,629</u>	-	<u>6</u>
Total Municipal Debt Service - Excluded from "CAPS"	<u>2,787,135</u>	<u>2,787,135</u>	<u>2,737,690</u>	-	<u>49,445</u>
EXCLUDED FROM "CAPS"					
Special Emergency Authorization - 5 Years	<u>700,000</u>	<u>700,000</u>	<u>700,000</u>	-	-
Total Deferred Charges Municipal - Excluded from "CAPS"					
	<u>700,000</u>	<u>700,000</u>	<u>700,000</u>	-	-
Total General Appropriations for Municipal Purposes Excluded from "CAPS"					
	<u>5,266,625</u>	<u>10,621,612</u>	<u>10,512,167</u>	<u>\$ 60,000</u>	<u>49,445</u>
Subtotal General Appropriations	87,889,003	93,243,990	88,101,219	5,093,326	49,445
Reserve for Uncollected Taxes	<u>1,050,000</u>	<u>1,050,000</u>	<u>1,050,000</u>	-	-
Total General Appropriations	<u>\$ 88,939,003</u>	<u>\$ 94,293,990</u>	<u>\$ 89,151,219</u>	<u>\$ 5,093,326</u>	<u>\$ 49,445</u>
Budget					
Appropriation by 40A:4-87		\$ 88,939,003			
		<u>5,354,987</u>			
		<u>\$ 94,293,990</u>			

CITY OF PASSAIC
COMPARATIVE BALANCE SHEETS - REGULATORY BASIS
TRUST FUNDS
AS OF DECEMBER 31, 2018 AND 2017

	December 31, <u>2018</u>	December 31, <u>2017</u>
ASSETS		
ANIMAL CONTROL FUND		
Cash	\$ 51,604	\$ 34,858
	<u>51,604</u>	<u>34,858</u>
OTHER TRUST FUND		
Cash	8,840,389	9,999,262
Cash - Change Fund	200	
Due from Current Fund	2,498,455	1,359,819
Due from Grant Fund	<u>184,596</u>	<u>74,124</u>
	<u>11,523,640</u>	<u>11,433,205</u>
COMMUNITY DEVELOPMENT BLOCK GRANT FUND		
Cash	66,097	22,495
Due from HUD	1,396,992	1,764,732
Other Receivables	<u>155,454</u>	<u>155,454</u>
	<u>1,618,543</u>	<u>1,942,681</u>
HOME INVESTMENT PROGRAM FUND		
Cash	144,647	84,557
Due from HUD	1,150,925	1,339,006
Mortgage Receivable	455,237	455,237
Due from Grant Fund	<u>167,036</u>	<u>66,926</u>
	<u>1,917,845</u>	<u>1,945,726</u>
Total Assets	<u>\$ 15,111,632</u>	<u>\$ 15,356,470</u>

**CITY OF PASSAIC
COMPARATIVE BALANCE SHEETS - REGULATORY BASIS
TRUST FUNDS
AS OF DECEMBER 31, 2018 AND 2017**

	December 31, <u>2018</u>	December 31, <u>2017</u>
LIABILITIES, RESERVES AND FUND BALANCE		
ANIMAL CONTROL FUND		
Encumbrances Payable	\$ 1,377	\$ 4,076
Due State of New Jersey	582	406
Due to Current Fund	10,767	\$ 18
Reserve for Animal Control Expenditures	<u>38,878</u>	<u>30,358</u>
	<u>51,604</u>	<u>34,858</u>
OTHER TRUST FUND		
Miscellaneous Reserves and Deposits	<u>11,523,640</u>	<u>11,433,205</u>
	<u>11,523,640</u>	<u>11,433,205</u>
COMMUNITY DEVELOPMENT BLOCK GRANT FUND		
Due to Current Fund	32,565	2,849
Reserve for Program Expenditures - UDAG	8,122	8,122
Reserve for Program Expenditures - CDBG	<u>1,577,856</u>	<u>1,931,710</u>
	<u>1,618,543</u>	<u>1,942,681</u>
HOME INVESTMENT PROGRAM FUND		
Due to Current Fund	369,893	323,946
Reserve for Mortgage Receivable	455,237	455,237
Reserve for Home Investment Program	<u>1,092,715</u>	<u>1,166,543</u>
	<u>1,917,845</u>	<u>1,945,726</u>
Total Liabilities, Reserves and Fund Balance	<u><u>\$ 15,111,632</u></u>	<u><u>\$ 15,356,470</u></u>

CITY OF PASSAIC
COMPARATIVE BALANCE SHEETS - REGULATORY BASIS
GENERAL CAPITAL FUND
AS OF DECEMBER 31, 2018 AND 2017

	December 31, <u>2018</u>	December 31, <u>2017</u>
ASSETS		
Cash	\$ 1,614,224	\$ 3,345,392
Grants and Loans Receivable		527,064
Due from Current Fund	9,548	23,450
Deferred Charges to Future Taxation		
Funded	14,634,404	15,671,012
Unfunded	<u>7,347,075</u>	<u>94,726</u>
 Total Assets	 <u>\$ 23,605,251</u>	 <u>\$ 19,661,644</u>
 LIABILITIES, RESERVES AND FUND BALANCE		
General Serial Bonds	\$ 13,505,000	\$ 14,730,000
Green Acres Loans Payable	1,129,404	941,012
Improvement Authorizations		
Funded	1,129,605	1,111,020
Unfunded	7,345,000	
Encumbrances Payable	276,785	2,337,044
Capital Improvement Fund	43,806	156,499
Reserve for Curb and Sidewalk Improvements	5,000	5,000
Reserve for Grants and Loans Receivable		263,532
Reserve for Payment of Debt	170,651	
Fund Balance	<u>-</u>	<u>117,537</u>
 Total Liabilities, Reserves and Fund Balance	 <u>\$ 23,605,251</u>	 <u>\$ 19,661,644</u>

There were Bonds and Notes Authorized But Not Issued on December 31, 2018 and December 31, 2017 of \$7,347,075 and \$94,726, respectively.

CITY OF PASSAIC
COMPARATIVE STATEMENTS OF CHANGES IN FUND BALANCE - REGULATORY BASIS
GENERAL CAPITAL FUND
AS OF DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
Balance, January 1,	\$ 117,537	\$ 97,067
Increased by:		
Premium on Sale of Bonds	<u>-</u>	<u>20,470</u>
	117,537	117,537
Decreased by:		
Cancelled Grant Receivable	230	-
Appropriated to Finance Improvement Authorizations	<u>117,307</u>	<u>-</u>
Balance, December 31,	<u>\$ -</u>	<u>\$ 117,537</u>

CITY OF PASSAIC
COMPARATIVE BALANCE SHEETS - REGULATORY BASIS
SEWER UTILITY FUND
AS OF DECEMBER 31, 2018 AND 2017

	December 31, <u>2018</u>	December 31, <u>2017</u>
ASSETS		
OPERATING FUND		
Cash	\$ 931,369	\$ 702,241
Due from PVWC	19,851	19,068
Due from Sewer Utility Capital Fund	<u>5</u>	<u>-</u>
	<u>951,225</u>	<u>721,309</u>
Receivables with Full Reserves:		
Consumer Accounts Receivable	1,001,686	937,055
Other Accounts Receivable	<u>16,839</u>	<u>48,421</u>
	<u>1,018,525</u>	<u>985,476</u>
Total Operating Fund	<u>1,969,750</u>	<u>1,706,785</u>
CAPITAL FUND		
Cash	6,568	6,560
Due from Sewer Utility Operating Fund		3
Fixed Capital	5,887,974	5,887,974
Fixed Capital Authorized and Uncompleted	<u>35,766</u>	<u>35,766</u>
Total Capital Fund	<u>5,930,308</u>	<u>5,930,303</u>
	<u>\$ 7,900,058</u>	<u>\$ 7,637,088</u>
LIABILITIES, RESERVES AND FUND BALANCE		
OPERATING FUND		
Liabilities		
Appropriation Reserves	\$ 259,013	\$ 106,779
Encumbrances Payable	176,175	65,928
Accounts Payable	1,165	1,165
Accrued Interest on Bonds	9,701	10,938
Due to Current Fund	177,121	7,391
Due to Sewer Utility Capital Fund	<u>-</u>	<u>3</u>
	623,175	192,204
Reserve for Receivables	1,018,525	985,476
Fund Balance	<u>328,050</u>	<u>529,105</u>
Total Operating Fund	<u>1,969,750</u>	<u>1,706,785</u>
CAPITAL FUND		
Serial Bonds	1,236,000	1,366,000
Due to Current Fund	3	3
Due to Sewer Utility Operating Fund	5	
Improvement Authorizations		
Funded	35,766	35,766
Reserve for Amortization	4,607,974	4,477,974
Reserve for Deferred Amortization	35,766	35,766
Reserve for Payment of Debt	<u>14,794</u>	<u>14,794</u>
Total Capital Fund	<u>5,930,308</u>	<u>5,930,303</u>
	<u>\$ 7,900,058</u>	<u>\$ 7,637,088</u>

There were Bonds and Notes Authorized But Not Issued on December 31, 2018 and December 31, 2017 of \$44,000 and \$44,000, respectively.

CITY OF PASSAIC
COMPARATIVE STATEMENTS OF OPERATIONS AND CHANGES IN OPERATING FUND BALANCE
REGULATORY BASIS
SEWER UTILITY OPERATING FUND
AS OF DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
REVENUES AND OTHER INCOME REALIZED		
Fund Balance Anticipated	\$ 434,000	\$ 84,159
Sewer Rents	5,762,811	5,631,636
Non-Budget Revenues	27,976	5,741
Other Credits to Income:		
Unexpended Balances of Appropriation Reserves	<u>73,335</u>	<u>93,399</u>
 Total Income	 <u>6,298,122</u>	 <u>5,814,935</u>
 EXPENDITURES		
Operating	5,896,684	5,646,378
Debt Service	<u>168,493</u>	<u>127,461</u>
 Total Expenditures	 <u>6,065,177</u>	 <u>5,773,839</u>
 Excess in Revenues	 232,945	 41,096
 Fund Balance, Beginning of Year,	 <u>529,105</u>	 <u>572,168</u>
	762,050	613,264
Decreased by:		
Utilized as Anticipated Revenue	<u>434,000</u>	<u>84,159</u>
 Fund Balance, End of Year,	 <u>\$ 328,050</u>	 <u>\$ 529,105</u>

CITY OF PASSAIC
COMPARATIVE STATEMENTS OF REVENUES - REGULATORY BASIS
SEWER UTILITY OPERATING FUND
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>2018</u>		<u>2017</u>	
	<u>Anticipated</u>	<u>Realized</u>	<u>Anticipated</u>	<u>Realized</u>
Fund Balance Anticipated	\$ 434,000	\$ 434,000	\$ 84,159	\$ 84,159
Sewer Rents and Charges	<u>5,631,184</u>	<u>5,762,811</u>	<u>5,700,000</u>	<u>5,631,636</u>
Total Budget Revenues	<u>\$ 6,065,184</u>	<u>\$ 6,196,811</u>	<u>\$ 5,784,159</u>	<u>\$ 5,715,795</u>

CITY OF PASSAIC
STATEMENT OF EXPENDITURES - REGULATORY BASIS
SEWER UTILITY OPERATING FUND
FOR THE YEAR ENDED DECEMBER 31, 2018

	<u>Appropriated</u>		<u>Expended</u>		
	<u>Budget</u>	<u>Budget After Modification</u>	<u>Paid or Charged</u>	<u>Reserved</u>	<u>Cancelled</u>
OPERATING					
Other Expenses	\$ 374,000	\$ 374,000	\$ 170,082	\$ 203,918	
Sewer Treatment Expenses	4,877,490	4,877,490	4,877,488	2	
Sewer Maintenance Fee - Contractual	<u>645,194</u>	<u>645,194</u>	<u>590,101</u>	<u>55,093</u>	<u>-</u>
Total Operating	<u>5,896,684</u>	<u>5,896,684</u>	<u>5,637,671</u>	<u>259,013</u>	<u>-</u>
DEBT SERVICE					
Payment of Bond Principal	130,000	130,000	130,000		
Interest on Bonds	<u>38,500</u>	<u>38,500</u>	<u>38,493</u>	<u>-</u>	<u>\$ 7</u>
Total Debt Service	<u>168,500</u>	<u>168,500</u>	<u>168,493</u>	<u>-</u>	<u>7</u>
	<u>\$ 6,065,184</u>	<u>\$ 6,065,184</u>	<u>\$ 5,806,164</u>	<u>\$ 259,013</u>	<u>\$ 7</u>

CITY OF PASSAIC
STATEMENT OF EXPENDITURES - REGULATORY BASIS
SEWER UTILITY OPERATING FUND
FOR THE YEAR ENDED DECEMBER 31, 2017

	<u>Appropriated</u>		<u>Expended</u>		
	<u>Budget</u>	Budget After <u>Modification</u>	Paid or <u>Charged</u>	<u>Reserved</u>	<u>Cancelled</u>
OPERATING					
Other Expenses	\$ 283,000	\$ 283,000	\$ 184,636	\$ 98,364	
Sewer Treatment Expenses	4,743,000	4,743,000	4,742,990	10	
Sewer Maintenance Fee - Contractual	<u>620,378</u>	<u>620,378</u>	<u>611,973</u>	<u>8,405</u>	<u>-</u>
 Total Operating	 <u>5,646,378</u>	 <u>5,646,378</u>	 <u>5,539,599</u>	 <u>106,779</u>	 <u>-</u>
DEBT SERVICE					
Payment of Bond Principal	90,000	90,000	90,000		
Interest on Bonds	40,675	40,675	32,847		\$ 7,828
Interest on Notes	<u>7,106</u>	<u>7,106</u>	<u>4,614</u>	<u>-</u>	<u>2,492</u>
 Total Debt Service	 <u>137,781</u>	 <u>137,781</u>	 <u>127,461</u>	 <u>-</u>	 <u>10,320</u>
	 <u>\$ 5,784,159</u>	 <u>\$ 5,784,159</u>	 <u>\$ 5,667,060</u>	 <u>\$ 106,779</u>	 <u>\$ 10,320</u>

CITY OF PASSAIC
COMPARATIVE BALANCE SHEETS - REGULATORY BASIS
GENERAL FIXED ASSETS ACCOUNT GROUP
AS OF DECEMBER 31, 2018 AND 2017

	December 31, <u>2018</u>	December 31, <u>2017</u> (Restated)
ASSETS		
Land	\$ 46,110,504	\$ 46,110,504
Buildings and Building Improvements	13,027,457	12,768,457
Machinery and Equipment	2,988,008	2,952,608
Vehicles	<u>2,830,960</u>	<u>2,621,540</u>
	<u>\$ 64,956,929</u>	<u>\$ 64,453,109</u>
LIABILITIES		
Investments in General Fixed Assets	<u>\$ 64,956,929</u>	<u>\$ 64,453,109</u>

NOTES TO FINANCIAL STATEMENTS

**CITY OF PASSAIC
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Passaic (the "City") was incorporated in 1917 and operates under an elected Mayor and Council form of government. The City's major operations include public safety, road repair and maintenance, sanitation, fire protection, recreation and parks, health services, and general administrative services.

GASB requires the financial reporting entity to include both the primary government and component units. Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization's governing board and (1) the City is able to significantly influence the programs or services performed or provided by the organization; or (2) the City is legally entitled to or can otherwise access the organization's resources; the City is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the City is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the City in that the City approves the budget, the issuance of debt or the levying of taxes. The City is not includable in any other reporting entity as a component unit.

The financial statements contained herein include only those boards, bodies, officers or commissions as required by NJS 40A:5-5. Accordingly, the financial statements of the City do not include the Passaic Public library, Passaic Redevelopment Agency, Passaic Enterprise Zone Development Corporation and Passaic Parking Authority, which are considered component units under GAAP. Complete financial statements of the above component units can be obtained by contacting the Treasurer of the respective entity.

B. Description of Regulatory Basis of Accounting

The financial statements of the City of Passaic have been prepared on a basis of accounting in conformity with accounting principles and practices prescribed or permitted by the Division of Local Government Services, Department of Community Affairs, State of New Jersey (the "Division") which is a regulatory basis of accounting other than accounting principles generally accepted in the United States of America (GAAP). Such principles and practices are designed primarily for determining compliance with legal provisions and budgetary restrictions and as a means of reporting on the stewardship of public officials with respect to public funds. Under this method of accounting, the City accounts for its financial transactions through separate funds, which differ from the fund structure required by GAAP.

The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. GASB has adopted accounting statements to be used by governmental units when reporting financial position and results of operations in accordance with accounting principles generally accepted in the United States of America. (GAAP). The municipalities in the State of New Jersey do not prepare financial statements in accordance with GAAP and thus do not comply with all of the GASB pronouncements.

**CITY OF PASSAIC
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Presentation – Financial Statements

The City uses funds, as required by the Division, to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial administration by segregating transactions related to certain City functions or activities. The City also uses an account group, which is designed to provide accountability for certain assets that are not recorded in those Funds.

The City has the following funds and account group:

Current Fund – This fund is used to account for the revenues and expenditures for governmental operations of a general nature and the assets and liabilities related to such activities, including Federal and State grants not accounted for in another fund.

Trust Funds - These funds are used to account for assets held by the government in a trustee capacity. Funds held by the City as an agent for individuals, private organizations, or other governments are recorded in the Trust Funds.

Animal Control Fund - This fund is used to account for fees collected from dog and cat licenses and expenditures which are regulated by NJS 4:19-15.11.

Other Trust Fund - This fund is established to account for the assets and resources, which are held by the City as a trustee or agent for individuals, private organizations, other governments and/or other funds. These funds include dedicated fees/proceeds collected, developer deposits, payroll related deposits and funds deposited with the City as collateral.

Community Development Block Grant Fund - This fund is used to account for grant proceeds, program income and related expenditures for Federal Block grant entitlements.

Home Investment Program Fund - This fund is used to account for grant proceeds, program income and related expenditures for the Federal Home Investment Partnership Act Program.

General Capital Fund – This fund is used to account for the receipt and disbursement of funds used and related financial transactions related to the acquisition or improvement of general capital facilities and other capital assets, other than those acquired in the Current Fund.

Sewer Utility Fund - This fund is used to account for the revenues and expenditures for the operation of the City's sanitary sewerage system and the assets and liabilities relative to such activities. Acquisition or improvement of capital facilities and other capital assets for the sewer utility is accounted for in the capital section of the fund.

General Fixed Assets Account Group - This account group is used to account for all general fixed assets of the City, other than those accounted for in the sewer utility fund. The City's infrastructure is not reported in the account group.

CITY OF PASSAIC
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. **Basis of Presentation – Financial Statements (Continued)**

Comparative Data - Comparative data for the prior year has been presented in the accompanying financial statements in order to provide an understanding of changes in the City's financial position and operations. However, comparative data have not been presented in all statements because their inclusion would make certain statements unduly complex and difficult to understand.

Reclassifications - Certain reclassifications may have been made to the December 31, 2017 balances to conform to the December 31, 2018 presentation.

Financial Statements – Regulatory Basis

The GASB Codification also requires the financial statements of a governmental unit to be presented in the basic financial statements in accordance with GAAP. The City presents the regulatory basis financial statements listed in the table of contents which are required by the Division and which differ from the basic financial statements required by GAAP. In addition, the Division requires the regulatory basis financial statements listed in the table of contents to be referenced to the supplementary schedules. This practice differs from reporting requirements under GAAP.

D. **Measurement Focus and Basis of Accounting**

The accounting and financial reporting treatment is determined by the accounting principles and practices prescribed by the Division in accordance with the regulatory basis of accounting. Measurement focus indicates the type of resources being measured. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The City of Passaic follows a modified accrual basis of accounting. Under this method of accounting, revenues, except State/Federal Aid, are recognized when received and expenditures are recorded when incurred. The accounting principles and practices prescribed or permitted for municipalities by the Division (“regulatory basis of accounting”) differ in certain respects from accounting principles generally accepted in the United States of America (GAAP) applicable to local government units. The more significant differences are as follows:

Cash and Investments - Cash includes amounts in demand deposits as well as short-term investments with a maturity date within three months of the date acquired by the government. Investments are reported at cost and are limited by N.J.S.A. 40A:5-15.1 et seq. GAAP requires that all investments be reported at fair value.

Inventories - The costs of inventories of supplies for all funds are recorded as expenditures at the time individual items are purchased. The costs of inventories are not included on the various balance sheets. GAAP requires inventories to be recorded as assets in proprietary-type funds.

CITY OF PASSAIC
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Measurement Focus and Basis of Accounting (Continued)

Property Tax Revenues/Receivables - Real property taxes are assessed locally, based upon the assessed value of the property. The tax bill includes a levy for Municipal, County, and School purposes. The bills are mailed annually in June for that calendar year's levy. Taxes are payable in four quarterly installments on February 1, May 1, August 1, and November 1. The amounts of the first and second installments are determined as one-quarter of the total tax levied against the property for the preceding year. The installment due the third and fourth quarters is determined by taking the current year levy less the amount previously charged for the first and second installments, with the remainder being divided equally. If unpaid on these dates, the amount due becomes delinquent and subject to interest at 8% per annum, or 18% on any delinquency amount in excess of \$1,500. A penalty of up to 6% of the delinquency may be imposed on a taxpayer with a delinquency in excess of \$10,000 who fails to pay that delinquency prior to the end of the fiscal year in which the charges become delinquent. The school levy is turned over to the Board of Education as expenditures are incurred, and the balance, if any, must be transferred as of December 31, of each fiscal year. County taxes are paid quarterly on February 15, May 15, August 15 and November 15, to the County by the City. When unpaid taxes or any municipal lien, or part thereof, on real property, remains in arrears on April first in the year following the calendar year levy when the same became in arrears, the collector in the municipality shall, subject to the provisions of the New Jersey Statutes, enforce the lien by placing the property on a standard tax sale. The City also has the option when unpaid taxes or any municipal lien, or part thereof, on real property remains in arrears on the 11th day of the eleventh month in the fiscal year when the taxes or lien became in arrears, the collector in the municipality shall, subject to the provisions of the New Jersey Statutes, enforce the lien by placing property on an accelerated tax sale, provided that the sale is conducted and completed no earlier than in the last month of the fiscal year. The City may institute annual in rem tax foreclosure proceedings to enforce the tax collection or acquisition of title to the property. In accordance with the accounting principles prescribed by the State of New Jersey, current and delinquent taxes are realized as revenue when collected. Since delinquent taxes and liens are fully reserved, no provision has been made to estimate that portion of the tax receivable and tax title liens that are uncollectible. GAAP requires property tax revenues to be recognized in the accounting period when they become susceptible to accrual (i.e., when they are both levied and available), reduced by an allowance for doubtful accounts.

Miscellaneous Revenues/Receivables - Miscellaneous revenues are recognized on a cash basis. Receivables for the miscellaneous items that are susceptible to accrual are recorded with offsetting reserves on the balance sheet of the City's Current Fund. GAAP requires such revenues to be recognized in the accounting period when they become susceptible to accrual (i.e., when they are both measurable and available).

Sewer Utility Revenues/Receivables - Utility charges are levied quarterly based upon a flat service charge and if applicable, an excess consumption or usage charge. Revenues from these sources are recognized on a cash basis. Receivables that are susceptible to accrual are recorded with offsetting reserves on the balance sheet of the City's sewer utility operating fund. GAAP requires such revenues to be recognized in the accounting period when they become susceptible to accrual, reduced by an allowance for doubtful accounts.

Grant and Similar Award Revenues/Receivables - Federal and State grants, entitlements or shared revenues received for purposes normally financed through the Current Fund are recognized when anticipated in the City's budget. GAAP requires such revenues to be recognized as soon as all eligibility requirements imposed by the grantor or provider have been met.

Interfunds - Interfund receivables in the Current Fund are recorded with offsetting reserves, which are created by charges to operations. Income is recognized in the year the receivables are liquidated. Interfund receivables in the other funds are not offset by reserves. GAAP does not require the establishment of an offsetting reserve for interfunds and, therefore, does not recognize income in the year liquidated.

CITY OF PASSAIC
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Measurement Focus and Basis of Accounting (Continued)

Deferred Charges – Certain expenditures, operating deficits and other items are required to be deferred to budgets of succeeding years. GAAP requires expenditures, operating deficits and certain other items generally to be recognized when incurred, if measurable.

Funded and unfunded debt authorizations for general capital projects are also recorded as deferred charges and represent permanent long-term debt issues outstanding (funded) and temporary debt issues outstanding or unissued debt authorizations (unfunded), respectively. GAAP does not permit the recording of deferred charges for funded and unfunded debt authorizations.

Appropriation Reserves – Appropriation reserves are recorded as liabilities and are available, until lapsed at the close of the succeeding year, to meet specific claims, commitments or contracts incurred during the preceding year. Lapsed appropriation reserves are recorded as additions to income. Appropriation reserves do not exist under GAAP.

Expenditures – Expenditures are recorded on the "budgetary" basis of accounting. Generally, expenditures are recorded when an amount is encumbered for goods or services through the issuance of a purchase order in conjunction with an encumbrance accounting system. Outstanding encumbrances at December 31, are reported as a cash liability in the financial statements. Unexpended or uncommitted appropriations, at December 31, are reported as expenditures through the establishment of appropriation reserves unless cancelled by the governing body. GAAP requires expenditures to be recognized in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on general long-term debt, as well as expenditures related to compensated absences and claims and judgements, which are recognized when due.

Encumbrances - Contractual orders outstanding at December 31, are reported as expenditures and liabilities through the establishment of an encumbrance payable. Encumbrances do not constitute expenditures or liabilities under GAAP.

Compensated Absences - Expenditures relating to obligations for unused vested accumulated vacation and sick leave are not recorded until paid; however, municipalities may establish and budget reserve funds subject to NJSA 40A:4-39 for the future payment of compensated absences. GAAP requires that the amount that would normally be liquidated with expendable available financial resources be recorded as an expenditure in the operating funds and the remaining obligations are recorded as a long-term obligation in the government-wide financial statements.

Incurred But Not Reported (IBNR) Reserves and Claims Payable - The City has not created a reserve for any potential unreported self-insurance losses which have taken place but in which the City has not received notices or report of losses (i.e. IBNR). Additionally, the City has not recorded a liability for those claims filed, but which have not been paid (i.e. claims payable). GAAP requires that the amount that would normally be liquidated with expendable available financial resources be recorded as an expenditure in the operating funds and the remaining potential claims are recorded as a long-term obligation in the government-wide financial statements.

Tax Appeals and Other Contingent Losses - Losses arising from tax appeals and other contingent losses are recognized at the time a decision is rendered by an administrative or judicial body; however, municipalities may establish reserves transferred from tax collections or by budget appropriation for future payments of tax appeal losses. GAAP requires such amounts to be recorded when it is probable that a loss has been incurred and the amount of such loss can be reasonably estimated.

**CITY OF PASSAIC
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Measurement Focus and Basis of Accounting (Continued)

General Fixed Assets - In accordance with NJAC 5:30-5.6, Accounting for Governmental Fixed Assets, the City of Passaic has developed a fixed assets accounting and reporting system. Fixed assets are defined by the City as assets with an initial, individual cost of \$5,000 and an estimated useful life in excess of two years.

Fixed assets used in governmental operations (general fixed assets) are accounted for in the General Fixed Assets Account Group. Public domain ("infrastructure") general fixed assets consisting of certain improvements other than buildings, such as roads, bridges, curbs and gutters, streets and sidewalks and sewerage and drainage systems are not capitalized.

No depreciation has been provided for in the financial statements.

Expenditures for construction in progress are recorded in the General Capital Fund until such time as the construction is completed and put into operation for general fixed assets.

Accounting for utility fund "fixed capital" remains unchanged under NJAC 5:30-5.6.

Property and equipment purchased by the sewer utility fund is recorded in the capital account at cost and are adjusted for disposition and abandonment. The amounts shown do not purport to represent reproduction costs or current value. Contributions in aid of construction are not capitalized. The balance in the Reserve for Amortization and Deferred Reserve for Amortization accounts in the Utility Capital Fund represents charges to operations for the costs of acquisitions of property, equipment and improvements. The utility does not record depreciation on fixed assets.

GAAP requires that capital assets be recorded in proprietary-type funds as well as the government-wide financial statement at historical or estimated historical cost if actual historical cost is not available. In addition, GAAP requires depreciation on capital assets to be recorded in proprietary-type funds as well as in the government-wide financial statements.

Use of Estimates - The preparation of financial statements requires management of the City to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of accrued revenues and expenditures during the reporting period. Accordingly, actual results could differ from those estimates.

NOTE 2 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. 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 City and approved by the State Division of Local Government Services as per N.J.S.A. 40A:4 et seq.

The City is not required to adopt budgets for the following funds:

Trust Funds
General Capital Fund
Sewer Utility Capital Fund

**CITY OF PASSAIC
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017**

NOTE 2 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

A. Budgets and Budgetary Accounting (Continued)

The governing body is required to introduce and approve the annual budget no later than February 10, of the fiscal year. The budget is required to be adopted no later than March 20, and prior to adoption must be certified by the Division of Local Government Services, Department of Community Affairs, State of New Jersey. The Director of the Division of Local Government Services, with the approval of the Local Finance Board may extend the introduction and approval and adoption dates of the municipal budget. The budget is prepared by fund, function, activity and line item (salary or other expense) and includes information on the previous year. The legal level of control for appropriations is exercised at the individual line item level for all operating budgets adopted. The governing body of the municipality may authorize emergency appropriations and the inclusion of certain special items of revenue to the budget after its adoption and determination of the tax rate. During the last two months of the fiscal year, the governing body may, by a 2/3 vote; amend the budget through line item transfers. Management has no authority to amend the budget without the approval of the governing body. Expenditures may not legally exceed budgeted appropriations at the line item level. During 2018 and 2017 the City Council increased the original budget by \$4,786,652 and \$5,354,987. The increases were funded by additional aid allotted to the City. In addition, the governing body approved several budget transfers during 2018 and 2017.

NOTE 3 CASH DEPOSITS AND INVESTMENTS

The City considers petty cash, change funds, cash in banks, certificates of deposit and deposits with the New Jersey Cash Management Fund as cash and cash equivalents.

A. Cash Deposits

The City’s deposits are insured through either the Federal Deposit Insurance Corporation (FDIC), National Credit Union Share Insurance Fund (NCUSIF), Securities Investor Protection Corporation (SIPC) or New Jersey’s Governmental Unit Deposit Protection Act (GUDPA). The City is required to deposit their funds in a depository which is protecting such funds pursuant to GUDPA. The New Jersey Governmental Unit Deposit Protection Act requires all banks doing business in the State of New Jersey to pledge collateral equal to at least 5% of the average amount of its public deposits and 100% of the average amount of its public funds in excess of the lesser of 75% of its capital funds or \$200 million for all deposits not covered by the FDIC or NCUSIF.

Bank balances are insured up to \$250,000 in the aggregate by the FDIC for each bank. NCUSIF insures credit union accounts up to \$250,000 in the aggregate for each financial institution. SIPC replaces cash claims up to a maximum of \$250,000 for each failed brokerage firm. At December 31, 2018 and 2017, the book value of the City's deposits were \$48,294,323 and \$50,834,497 and bank and brokerage firm balances of the City's deposits amounted to \$49,087,786 and \$51,236,249, respectively. The City's deposits which are displayed on the various fund balance sheets as "cash" are categorized as:

<u>Depository Account</u>	<u>Bank Balance</u>	
	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Insured	\$ <u>49,087,786</u>	\$ <u>51,236,249</u>

Custodial Credit Risk – Deposits – Custodial credit risk is the risk that in the event of a bank failure, the government’s deposits may not be returned to it. The City does not have a formal policy for custodial credit risk. As of December 31, 2018 and 2017, the City’s bank balances were not exposed to custodial credit risk

**CITY OF PASSAIC
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017**

NOTE 3 CASH DEPOSITS AND INVESTMENTS (Continued)

B. Investments

The City is permitted to invest public funds in accordance with the types of securities authorized by N.J.S.A. 40A:5-15.1. Investments include bonds or other obligations of the United States or obligations guaranteed by the United States of America, Government Money Market Mutual Funds, 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 that such obligations bear a fixed rate of interest not dependent on any index or other external factor; bonds or other obligations of the City or bonds or other obligations of the school districts which are a part of the City or school districts located within the City, Bonds or other obligations, having a maturity date of not more than 397 days from the date of purchase, issued by New Jersey school district, municipalities, counties, and entities subject to the “Local Authorities Fiscal Control Law, “ (C.40A:5A-1 et seq.); Other bonds or obligations having a maturity date not more than 397 days from the date of purchase may be approved by the Division of Investments in the Department of the Treasury for investment by local units; Local Government investment pools, deposits with the State of New Jersey Cash Management Fund established pursuant to section 1 of P.L. 1977, c.281 (C.52:18A-90.4); and agreements for the repurchase of fully collateralized securities, if transacted in accordance with NJSA 40A:5-15.1 (8a-8e).

As of December 31, 2018 and 2017 the City had no outstanding investments.

Interest earned in the General Capital Fund, Animal Control Fund and certain Other Trust Funds are assigned to the Current Fund in accordance with the regulatory basis of accounting. Interest earned in the Sewer Utility Capital Fund is assigned to the Sewer Utility Operating Fund in accordance with the regulatory basis of accounting.

NOTE 4 TAXES AND UTILITY CHARGES AND FEES RECEIVABLE

Receivables at December 31, 2018 consisted of the following:

	<u>Current</u>	<u>Sewer Utility</u>	<u>Total</u>
<u>2018</u>			
Property Taxes	\$ 88,327		\$ 88,327
Tax Title Liens	440,878		440,878
Utility Rents and Fees	<u>-</u>	<u>\$ 1,018,525</u>	<u>1,018,525</u>
	<u>\$ 529,205</u>	<u>\$ 1,018,525</u>	<u>\$ 1,547,730</u>

In the year ended December 31, 2018, the City collected \$554,399 and \$985,476 from delinquent taxes and sewer utility rents, which represented 95% and 100% of the delinquent tax and sewer charges receivable at December 31, 2017.

**CITY OF PASSAIC
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017**

NOTE 4 TAXES AND UTILITY CHARGES AND FEES RECEIVABLE (Continued)

Receivables at December 31, 2017 consisted of the following:

	<u>Current</u>	<u>Sewer Utility</u>	<u>Total</u>
<u>2017</u>			
Property Taxes	\$ 56,216		\$ 56,216
Tax Title Liens	525,261		525,261
Utility Rents and Fees	<u>-</u>	<u>\$ 985,476</u>	<u>985,476</u>
	<u>\$ 581,477</u>	<u>\$ 985,476</u>	<u>\$ 1,566,953</u>

In the year ended December 31, 2017, the City collected \$791,338 and \$959,324 from delinquent taxes and sewer utility rents, which represented 71% and 100% of the delinquent tax and sewer charges receivable at December 31, 2016.

NOTE 5 DUE TO/FROM OTHER FUNDS

As of December 31, interfund receivables and payables that resulted from various interfund transactions were as follows:

	December 31, <u>2018</u>		December 31, <u>2017</u>	
	<u>Due from Other Funds</u>	<u>Due to Other Funds</u>	<u>Due from Other Funds</u>	<u>Due to Other Funds</u>
Current Fund				
Regular	\$ 1,854,946	\$ 2,508,003	\$ 1,467,741	\$ 1,383,269
Grant		1,616,229		1,274,584
Trust Funds				
Animal Control		10,767		18
Other Trust	2,683,051		1,433,943	
Community Development		32,565		2,849
Home Investment Program	167,036	369,893	66,926	323,946
General Capital Fund	9,548		23,450	
Sewer Utility Fund				
Operating	5	177,121		7,394
Capital	<u>-</u>	<u>8</u>	<u>3</u>	<u>3</u>
Total	<u>\$ 4,714,586</u>	<u>\$ 4,714,586</u>	<u>\$ 2,992,063</u>	<u>\$ 2,992,063</u>

The above balances are the result of expenditures being paid by one fund on behalf of another.

The City expects all interfund balances to be liquidated within one year.

**CITY OF PASSAIC
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017**

NOTE 6 DEFERRED CHARGES TO BE RAISED IN SUCCEEDING BUDGETS

Under the regulatory basis of accounting, certain expenditures are required to be deferred to budgets of succeeding years. At December 31, the following deferred charges are reported on the balance sheets of the following funds:

	<u>Balance December 31,</u>	<u>Subsequent Year Budget Appropriation</u>	<u>Balance to Succeeding Budgets</u>
<u>2017</u>			
Current Fund			
Regular Fund			
Special Emergency Authorizations	\$ 120,000	\$ 120,000	

NOTE 7 FUND BALANCES APPROPRIATED

Under the regulatory basis of accounting, fund balances in the Current Fund and Sewer Utility Operating Fund are comprised of cash surplus (fund balance) and non-cash surplus (fund balance). All or part of cash surplus as of December 31 may be anticipated in the subsequent year's budget. The non-cash surplus portion of fund balance may be utilized in the subsequent year's budget with the prior written consent of the Director of the Division of Local Government Services if certain guidelines are met as to its availability. Fund balances at December 31, which were appropriated and included as anticipated revenue in their own respective fund's budget for the succeeding year were as follows:

	<u>2018</u>		<u>2017</u>	
	<u>Fund Balance December 31,</u>	<u>Utilized in Subsequent Year's Budget</u>	<u>Fund Balance December 31,</u>	<u>Utilized in Subsequent Year's Budget</u>
Current Fund				
Cash Surplus	\$ 11,334,480	\$ 4,260,000	\$ 9,700,881	\$ 2,500,000
Non-Cash Surplus	<u>29,846</u>	<u>-</u>	<u>23,648</u>	<u>-</u>
	<u>\$ 11,364,326</u>	<u>\$ 4,260,000</u>	<u>\$ 9,724,529</u>	<u>\$ 2,500,000</u>
Sewer Utility Operating Fund				
Cash Surplus	\$ 328,050	\$ 327,730	\$ 529,105	\$ 434,000
Non-Cash Surplus	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 328,050</u>	<u>\$ 327,730</u>	<u>\$ 529,105</u>	<u>\$ 434,000</u>

**CITY OF PASSAIC
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017**

NOTE 8 FIXED ASSETS

A. General Fixed Assets

The following is a summary of changes in the general fixed assets account group for the years ended December 31, 2018 and 2017.

	December 31, <u>2017</u> (Restated)	<u>Increases</u>	<u>Decreases</u>	December 31, <u>2018</u>
<u>2018</u>				
Land	\$ 46,110,504			\$ 46,110,504
Buildings and Building Improvements	12,768,457	\$ 259,000		13,027,457
Machinery and Equipment	2,952,608	35,400		2,988,008
Vehicles	<u>2,621,540</u>	<u>209,420</u>	<u>-</u>	<u>2,830,960</u>
	<u>\$ 64,453,109</u>	<u>\$ 503,820</u>	<u>\$ -</u>	<u>\$ 64,956,929</u>

The City had a fixed assets inventory report prepared as of December 31, 2018. The report was prepared by an independent consultant.

Restatement- The General Fixed Asset Account Group for December 31, 2017 has been restated based upon the inventory of the City’s fixed assets inventory report. The effect of this restatement results in a net decrease of \$26,988,365 in General Fixed Assets with a corresponding decrease in the Investment in Fixed Assets at December 31, 2017.

**CITY OF PASSAIC
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017**

NOTE 8 FIXED ASSETS (Continued)

B. Sewer Utility Fund Fixed Assets

The following is a summary of changes in the sewer utility fund fixed assets for the years ended December 31, 2018 and 2017.

Sewer Utility Fund

	Balance December 31, <u>2017</u>	<u>Increases</u>	<u>Decreases</u>	Balance, December 31, <u>2018</u>
<u>2018</u>				
Fixed Capital				
System and System Improvements	\$ 5,577,974			\$ 5,577,974
Vehicles and Equipment	<u>310,000</u>	<u>-</u>	<u>-</u>	<u>310,000</u>
	<u>\$ 5,887,974</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,887,974</u>
	Balance December 31, <u>2016</u>	<u>Increases</u>	<u>Decreases</u>	Balance, December 31, <u>2017</u>
<u>2017</u>				
Fixed Capital				
System and System Improvements	\$ 5,577,974			\$ 5,577,974
Vehicles and Equipment	<u>310,000</u>	<u>-</u>	<u>-</u>	<u>310,000</u>
	<u>\$ 5,887,974</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,887,974</u>

**CITY OF PASSAIC
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017**

NOTE 9 MUNICIPAL DEBT

The Local Bond Law governs the issuance of bonds and notes used to finance capital expenditures. General obligation bonds have been issued for both general capital and sewer utility capital fund projects. All bonds are retired in serial installments within the statutory period of usefulness. Bonds issued by the City are general obligation bonds, backed by the full faith and credit of the City. Bond anticipation notes, which are issued to temporarily finance capital projects, must be paid off within ten years and four months or retired by the issuance of bonds.

The City's debt is summarized as follows:

	December 31, <u>2018</u>	December 31, <u>2017</u>
Issued		
General		
Bonds, Notes and Loans	\$ 14,634,404	\$ 15,671,012
Sewer Utility		
Bonds and Notes	<u>1,236,000</u>	<u>1,366,000</u>
	15,870,404	17,037,012
Less Funds Temporarily Held to Pay Bonds and Notes	<u>(185,445)</u>	<u>(14,794)</u>
Net Debt Issued	15,684,959	17,022,218
Authorized But Not Issued		
General		
Bonds and Notes	7,347,075	94,726
Sewer Utility		
Bonds and Notes	<u>44,000</u>	<u>44,000</u>
Net Bonds and Notes Issued and Authorized But Not Issued	<u>\$ 23,076,034</u>	<u>\$ 17,160,944</u>

**CITY OF PASSAIC
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017**

NOTE 9 MUNICIPAL DEBT (Continued)

Statutory Net Debt

The statement of debt condition that follows is extracted from the City's Annual Debt Statement and indicates a statutory net debt of .61% and .49% at December 31, 2018 and 2017, respectively.

	<u>Gross Debt</u>	<u>Deductions</u>	<u>Net Debt</u>
<u>2018</u>			
General Debt	\$ 21,981,479	\$ 170,651	\$ 21,810,828
Sewer Utility Debt	1,280,000	1,280,000	-
Parking Authority Debt	<u>365,000</u>	<u>365,000</u>	<u>-</u>
Total	<u>\$ 23,626,479</u>	<u>\$ 1,815,651</u>	<u>\$ 21,810,828</u>

	<u>Gross Debt</u>	<u>Deductions</u>	<u>Net Debt</u>
<u>2017</u>			
General Debt	\$ 15,765,738		\$ 15,765,738
Sewer Utility Debt	1,410,000	\$ 363,940	1,046,060
Parking Authority Debt	<u>710,000</u>	<u>710,000</u>	<u>-</u>
Total	<u>\$ 17,885,738</u>	<u>\$ 1,073,940</u>	<u>\$ 16,811,798</u>

Statutory Borrowing Power

The City's remaining borrowing power under N.J.S. 40A:2-6, as amended, at December 31, was as follows:

	<u>2018</u>	<u>2017</u>
3-1/2% of Equalized Valuation Basis (Municipal)	\$ 124,836,261	\$ 120,507,067
Net Debt	<u>21,810,828</u>	<u>16,811,798</u>
Remaining Borrowing Power	<u>\$ 103,025,433</u>	<u>\$ 103,695,269</u>

**CITY OF PASSAIC
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017**

NOTE 9 MUNICIPAL DEBT (Continued)

A. Long-Term Debt

The City’s long-term debt consisted of the following at December 31:

General Obligation Bonds

The City levies ad valorem taxes to pay debt service on general obligation bonds. General obligation bonds outstanding at December 31 are as follows:

	<u>2018</u>	<u>2017</u>
\$7,249,000, 2010 General Obligation Bonds, due in annual installments of \$675,000 to \$700,000 through August 1, 2026, interest at 3.25% to 4.00%	\$ 5,474,000	\$ 6,149,000
\$8,581,000 2017 General Obligation Bonds, due in annual installments of \$575,000 to \$1,100,000 through June 15, 2029, interest at 2.00% to 3.00%	<u>8,031,000</u>	<u>8,581,000</u>
	<u>\$ 13,505,000</u>	<u>\$ 14,730,000</u>

General Intergovernmental Loans Payable

The City has entered into a loan agreements with the State of New Jersey Green Acres Program for the financing relating to the Dundee Island field rehabilitation, Third Ward Park improvements, Hughes Lake improvements, Pulaski Park renovations and Roberto Clemente Field improvements. The City levies ad valorem taxes to pay debt service on general intergovernmental loans issued. General intergovernmental loans outstanding at December 31 are as follows:

	<u>2018</u>	<u>2017</u>
\$200,000, 2006 Loan, due in semi-annual installments of \$5,356 to \$6,157 through March, 2026, interest at 2%	\$ 86,217	\$ 96,771
\$500,000, 2008 Loan, due in semi-annual installments of \$19,599 to \$21,013 through July, 2022, interest at 2%	162,390	201,007
\$100,000, 2008 Loan, due in semi-annual installments of \$2,625 to \$3,078 through June, 2027, interest at 2%	48,386	53,558

**CITY OF PASSAIC
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017**

NOTE 9 MUNICIPAL DEBT (Continued)

A. Long-Term Debt (Continued)

General Intergovernmental Loans Payable (Continued)

	<u>2018</u>	<u>2017</u>
\$250,000, 2009 Loan, due in semi-annual installments of \$9,897 to \$10,506 through April, 2022, interest at 2%	71,393	90,895
\$21,000, 2009 Loan, due in semi-annual installments of \$540 to \$646 through June, 2028, interest at 2%	11,248	12,313
\$250,000, 2018 Loan, due in semi-annual installments of \$6,210 to \$8,624 through September, 2035, interest at 2%	250,000	157,460
\$499,770, 2018 Loan, due in semi-annual installments of \$12,414 to \$17,240 through September, 2035, interest at 2%	499,770	329,008
	<u>\$ 1,129,404</u>	<u>\$ 941,012</u>

Sewer Utility Bonds

The City pledges revenue from operations to pay debt service on utility bonds issued. The sewer utility bonds outstanding at December 31 are as follows:

Sewer Utility

	<u>2018</u>	<u>2017</u>
\$1,266,000, 2010 Sewer Bonds, due in annual installments of \$90,000 through August 1, 2025, interest at 3.25% to 3.75%	\$ 630,000	\$ 720,000
\$646,000, 2017 Sewer Bonds, due in annual installments of \$40,000 to 80,000 through June 15, 2029, interest at 2.00% to 3.00%	606,000	646,000
	<u>\$ 1,236,000</u>	<u>\$ 1,366,000</u>

**CITY OF PASSAIC
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017**

NOTE 9 MUNICIPAL DEBT (Continued)

A. Long-Term Debt (Continued)

The City's principal and interest for long-term debt issued and outstanding as of December 31, 2018 is as follows:

Calendar Year	General						Total
	Bonds		Loans		Sewer Utility		
	Principal	Interest	Principal	Interest	Principal	Interest	
2019	\$ 1,250,000	\$ 381,890	\$ 113,851	\$ 22,022	\$ 130,000	\$ 36,005	\$ 1,933,768
2020	1,250,000	348,453	116,140	19,733	130,000	32,280	1,896,606
2021	1,275,000	314,765	118,474	17,399	130,000	28,555	1,884,193
2022	1,275,000	279,140	110,244	15,018	130,000	24,605	1,834,007
2023	1,275,000	243,515	59,085	13,120	130,000	20,655	1,741,375
2024-2028	6,099,000	642,905	271,929	48,023	510,000	46,550	7,618,407
2029-2033	1,081,000	16,215	237,755	23,464	76,000	1,140	1,435,574
2034-2035	-	-	101,926	2,561	-	-	104,487
	<u>\$ 13,505,000</u>	<u>\$ 2,226,883</u>	<u>\$ 1,129,404</u>	<u>\$ 161,340</u>	<u>\$ 1,236,000</u>	<u>\$ 189,790</u>	<u>\$ 18,448,417</u>

Changes in Long-Term Municipal Debt

The City's long-term capital debt activity for the years ended December 31, 2018 and 2017 were as follows:

	Balance, June 30, <u>2017</u>	<u>Additions</u>	<u>Reductions</u>	Balance, December 31, <u>2018</u>	Due Within <u>One year</u>
<u>2018</u>					
General Capital					
Serial Bonds	\$ 14,730,000		\$ 1,225,000	\$ 13,505,000	\$ 1,250,000
Green Acres Loan Payable	<u>941,012</u>	<u>\$ 263,302</u>	<u>74,910</u>	<u>1,129,404</u>	<u>113,851</u>
General Capital Fund					
Long Term Liabilities	<u>\$ 15,671,012</u>	<u>\$ 263,302</u>	<u>\$ 1,299,910</u>	<u>\$ 14,634,404</u>	<u>\$ 1,363,851</u>
Sewer Utility Capital					
Serial Bonds	\$ 1,366,000	\$ -	\$ 130,000	\$ 1,236,000	\$ 130,000
Sewer Utility Capital Fund					
Long Term Liabilities	<u>\$ 1,366,000</u>	<u>\$ -</u>	<u>\$ 130,000</u>	<u>\$ 1,236,000</u>	<u>\$ 130,000</u>

**CITY OF PASSAIC
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017**

NOTE 9 MUNICIPAL DEBT (Continued)

A. Long-Term Debt (Continued)

Changes in Long-Term Municipal Debt (Continued)

	Balance, June 30, <u>2016</u>	<u>Additions</u>	<u>Reductions</u>	Balance, December 31, <u>2017</u>	Due Within <u>One year</u>
<u>2017</u>					
<u>General Capital</u>					
Serial Bonds	\$ 7,249,000	\$ 8,581,000	\$ 1,100,000	\$ 14,730,000	\$ 1,225,000
Pension Refunding Bonds	1,115,000		1,115,000	-	
Green Acres Loan Payable	<u>1,014,447</u>	<u>-</u>	<u>73,435</u>	<u>941,012</u>	<u>74,912</u>
General Capital Fund					
Long Term Liabilities	<u>\$ 9,378,447</u>	<u>\$ 8,581,000</u>	<u>\$ 2,288,435</u>	<u>\$ 15,671,012</u>	<u>\$ 1,299,912</u>
<u>Sewer Utility Capital</u>					
Serial Bonds	<u>\$ 810,000</u>	<u>\$ 646,000</u>	<u>\$ 90,000</u>	<u>\$ 1,366,000</u>	<u>\$ 130,000</u>
Sewer Utility Capital Fund					
Long Term Liabilities	<u>\$ 810,000</u>	<u>\$ 646,000</u>	<u>\$ 90,000</u>	<u>\$ 1,366,000</u>	<u>\$ 130,000</u>

B. Short-Term Debt

The City's short-term debt activity for the years ended December 31, 2018 and 2017 was as follows:

Bond Anticipation Notes

<u>Purpose</u>	<u>Rate</u> (%)	<u>Maturity</u> <u>Date</u>	Balance, December 31, <u>2016</u>	<u>Additions</u>	<u>Reductions</u>	Balance, December 31, <u>2017</u>
<u>2017</u>						
<u>General Capital Fund</u>						
Improvements to Pulaski Park	1.10%	6/23/2017	\$ 500,000		\$ 500,000	
Acquisition of Ambulance	1.10%	6/23/2017	118,750		118,750	
Replacement of City's Telephone System	1.10%	6/23/2017	237,500		237,500	
Acquisition of Fire Apparatus	1.10%	6/23/2017	166,250		166,250	
Various Capital Improvements	1.10%	6/23/2017	<u>5,520,000</u>	<u>-</u>	<u>5,520,000</u>	<u>-</u>
Total General Capital Fund			<u>\$ 6,542,500</u>	<u>\$ -</u>	<u>\$ 6,542,500</u>	<u>\$ -</u>
<u>Sewer Utility Capital Fund</u>						
Various Sewer Improvements	1.10%	6/23/2017	<u>\$ 646,000</u>	<u>-</u>	<u>\$ 646,000</u>	<u>-</u>
Total Sewer Utility Capital Fund			<u>\$ 646,000</u>	<u>\$ -</u>	<u>\$ 646,000</u>	<u>\$ -</u>

**CITY OF PASSAIC
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017**

NOTE 9 MUNICIPAL DEBT (Continued)

B. Short-Term Debt (Continued)

Bond Anticipation Notes (Continued)

The purpose of these short-term borrowings was to provide resources for capital construction, acquisitions or improvement projects and other purposes permitted by State Local Bond Law NJSA 40A:2 et. seq. The amounts issued for governmental activities are accounted for in the General Capital Fund. The amounts issued for the sewer utility activities are accounted for in the Sewer Utility Capital Fund.

State law requires that notes are to be issued for a period not exceeding one year and may be renewed from time to time for additional periods, none of which shall exceed one year. All bond anticipation notes, including renewals, shall mature and be paid not later than the first day of the fifth month following the close of the tenth fiscal year following the date of the original notes. In addition any note renewed beyond the third anniversary date of the original note, requires one legally payable installment to be paid.

In addition to the debt shown in the above schedule, municipalities may issue debt to finance emergency or special emergency appropriations or to meet cash flow needs (Tax Anticipation Notes) to temporarily finance operating expenditures. This debt which is not included in the City’s statutory debt limit calculation is reported in the Current Fund for the years 2018 and 2017 as follows:

Special Emergency Notes

Following the adoption of an ordinance or resolution for special emergency appropriations, the City may borrow money and issue special emergency notes which may be renewed from time to time, but at least 1/5 of all such notes and the renewal thereof, shall mature and be paid in each year so that all notes have been paid by the end of the fifth year following the date of the special emergency resolution.

<u>Purpose</u>	Rate (%)	Maturity Date	Balance, December 31, <u>2017</u>	<u>Additions</u>	<u>Reductions</u>	Balance, December 31, <u>2018</u>
<u>2018</u>						
<u>Current Fund</u>						
Preparation of Tax Map	1.70%	6/1/2018	\$ 120,000		\$ 120,000	
Revaluation of Real Property	1.70%	6/1/2018	<u>560,000</u>	-	<u>560,000</u>	-
Total Special Emergency Notes			<u>\$ 680,000</u>	<u>\$ -</u>	<u>\$ 680,000</u>	<u>\$ -</u>

<u>Purpose</u>	Rate (%)	Maturity Date	Balance, December 31, <u>2016</u>	<u>Additions</u>	<u>Reductions</u>	Balance, December 31, <u>2017</u>
<u>2017</u>						
<u>Current Fund</u>						
Sick/Vacation - Terminal Pay			\$ 300,000		\$ 300,000	
Preparation of Tax Map	1.70%	6/1/2018	240,000		120,000	\$ 120,000
Revaluation of Real Property	1.70%	6/1/2018	<u>840,000</u>	-	<u>280,000</u>	<u>560,000</u>
Total Special Emergency Notes			<u>\$ 1,380,000</u>	<u>\$ -</u>	<u>\$ 700,000</u>	<u>\$ 680,000</u>

**CITY OF PASSAIC
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017**

NOTE 10 CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS

As of December 31, the City had the following commitments with respect to unfinished capital projects:

<u>Capital Project/Purpose</u>	<u>Construction / Other Commitment</u>	<u>Estimated Date of Acquisition/ Completion</u>
<u>2018</u>		
McDonald Brook Flood Control - Phase IV	\$ 386,059	2019
Third Ward Park Memorial Park Improvements	710,366	2019
McDonald Brook Storm System	138,740	2019
Ice Rink Platform	117,095	2019
<u>2017</u>		
McDonald Brook Flood Control	\$ 105,726	2018
Acquisition of Mid Mount Aerial Platform	1,106,070	2018
Acquisition of Heavy Duty Engine/Pumper	484,852	2018
Fuel Dispensing System	284,343	2018
Howe Avenue Sewer Improvements - Phase I	180,203	2018
Purchase of Two (2) Dump Trucks	170,148	2018
Terhune Ave and Spring Street Improvements	317,536	2018
Howe Avenue Sewer Improvements - Phase II	253,925	2018

NOTE 11 OTHER LONG-TERM LIABILITIES

A. Compensated Absences

Under the existing policies and labor agreements of the City, employees are allowed to accumulate (with certain restrictions) unused vacation benefits and sick leave over the life of their working careers and to redeem such unused leave time in cash (with certain limitations) upon death, retirement or by extended absence immediately preceding retirement.

It is estimated that the current cost of such unpaid compensation and salary related payments would approximate \$6,213,743 and \$5,968,281 at December 31, 2018 and 2017, respectively. These amounts which is are considered material to the financial statements, are not reported either as an expenditure or liability.

As of December 31, 2018 and 2017, the City has reserved in the Other Trust Fund \$2,286,314 and \$1,236,314, respectively to fund compensated absences in accordance with NJSA 40A:4-39.

**CITY OF PASSAIC
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017**

NOTE 11 OTHER LONG-TERM LIABILITIES (Continued)

F. Deferred Pension Obligation

During the year ended December 31, 2009 the City elected to contribute 50% of its normal and accrued liability components of the PFRS and PERS obligations and deferred the remaining 50% in accordance with P.L. 2009, c.19. The deferred amount totaled \$3,644,176 and will be paid back with interest over 15 years beginning in the 2012 year. The City is permitted to payoff the deferred PFRS and PERS pension obligations at any time. It is estimated that the total deferred liability including accrued interest (7.00% effective July 1, 2017 and 7.65% effective July 1, 2016 through June 30, 2017 at December 31, 2018 and 2017 is \$3,027,589 and \$3,304,862, respectively.

During the years ended December 31, 2018, 2017 and 2016 the City was required to contribute for the deferred pension obligation the following amounts which equaled the required contribution for each year.

<u>Year Ended</u> <u>December 31,</u>	<u>PERS</u>	<u>PFRS</u>
2018	\$ 66,544	\$ 442,069
2017	65,710	437,635
2016	64,993	433,417

Changes in Other Long-Term Liabilities

Under the regulatory basis of accounting, certain other long-term liabilities which may be considered material to the financial statements are not reported either as an expenditure or a liability. However, under the regulatory basis of accounting, these other long-term liabilities and related information are required to be disclosed in the notes to the financial statements in conformity with the disclosure requirements of the Governmental Accounting Standards Board.

The City's changes in other long-term liabilities for the years ended December 31, 2018 and 2017 were as follows:

	Balance, December 31, <u>2017</u>	<u>Additions</u>	<u>Reductions</u>	Balance, December 31, <u>2018</u>	Due Within <u>One year</u>
<u>2018</u>					
Compensated Absences	\$ 5,968,281	\$ 245,463		\$ 6,213,744	
Deferred Pension Obligation	3,304,862	231,340	\$ 508,613	3,027,589	\$ 510,971
ERIP Pension Liability	372,863	26,100	190,179	208,784	189,852
Net Pension Liability - PERS	35,218,741		4,753,049	30,465,692	
Net Pension Liability - PFRS	120,302,403		17,210,683	103,091,720	
Net OPEB Liability	<u>125,316,194</u>	<u>-</u>	<u>26,532,997</u>	<u>98,783,197</u>	<u>-</u>
Other Long-Term Liabilities	<u>\$ 290,483,344</u>	<u>\$ 502,904</u>	<u>\$ 49,195,521</u>	<u>\$ 241,790,727</u>	<u>\$ 700,823</u>

**CITY OF PASSAIC
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017**

NOTE 11 OTHER LONG-TERM LIABILITIES (Continued)

Changes in Other Long-Term Liabilities (Continued)

	Balance, December 31, <u>2016</u>	<u>Additions</u>	<u>Reductions</u>	Prior Period <u>Adjustment (A)</u>	Balance, December 31, <u>2017</u>	Due Within <u>One year</u>
<u>2017</u>						
Compensated Absences	\$ 6,596,397		\$ 628,116		\$ 5,968,281	
Deferred Pension Obligation	3,529,386	\$ 278,821	503,345		3,304,862	\$ 508,613
ERIP Pension Liability	521,818	41,224	190,179		372,863	190,179
Net Pension Liability - PERS	45,094,042		9,875,301		35,218,741	
Net Pension Liability - PFRS	148,965,896		28,663,493		120,302,403	
Net OPEB Liability	-	-	22,228,568	\$ 147,544,762	125,316,194	-
Other Long-Term Liabilities	<u>\$ 204,707,539</u>	<u>\$ 320,045</u>	<u>\$ 62,089,002</u>	<u>\$ 147,544,762</u>	<u>\$ 290,483,344</u>	<u>\$ 698,792</u>

(A) The prior period adjustment reflects the opening balance of the Net OPEB Liability as of December 31, 2016 resulting from the implementation of GASB Statement No. 75 “Accounting and Financial Reporting for Postemployment Benefit Other Than Pension” during the year ended December 31, 2018.

NOTE 12 EMPLOYEE RETIREMENT SYSTEMS

The State of New Jersey sponsors and administers the following contributory defined benefit public employee retirement systems (retirement systems) covering substantially all state and local government employees which includes those City employees who are eligible for pension coverage.

Consolidated Police and Firemen’s Pension Fund (CPFPPF) – established in January 1952, under the provisions of N.J.S.A. 43:16 to provide coverage to municipal police and firemen who were appointed prior to July 1, 1944. The fund is a closed system with no active members. Additionally, based on recent actuarial valuation there was no normal cost or accrued liability contributions required for the fiscal year ended June 30, 2017. CPFPPF is a single-employer defined benefit plan. For additional information about CPFPPF, please refer to the State Division of Pension and Benefits (Division’s) Comprehensive Annual Financial Report (CAFR) which can be found at www.state.nj.us/treasury/pensions.

Police and Firemen’s Retirement System (PFRS) – established in July 1944, under the provisions of N.J.S.A. 43:16A to provide coverage to substantially all full time county and municipal police or firemen and State firemen appointed after December 31, 1944. Membership is mandatory for such employees. PFRS is a cost-sharing multi-employer defined benefit pension plan with a special funding situation. For additional information about PFRS, please refer to the State Division of Pension and Benefits (Division’s) Comprehensive Annual Financial Report (CAFR) which can be found at www.state.nj.us/treasury/pensions.

The vesting and benefit provisions are set by N.J.S.A. 43:16A. PFRS provides retirement benefits as well as death and disability benefits. All benefits vest after ten years of service, except disability benefits which vest after four years of service.

The following represents the membership tiers for PFRS:

<u>Tier</u>	<u>Definition</u>
1	Members who were enrolled prior to May 22, 2010
2	Members who were eligible to enroll on or after May 22, 2010 and prior to June 28, 2011
3	Members who were eligible to enroll on or after June 28, 2011

**CITY OF PASSAIC
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017**

NOTE 12 EMPLOYEE RETIREMENT SYSTEMS (Continued)

Service retirement benefits are available at age 55 and are generally determined to be 2% of final compensation for each year of creditable service, as defined, up to 30 years plus 1% for each year of service in excess of 30 years. Members may seek special retirement after achieving 25 years of creditable service, in which benefits would equal 65% (tier 1 and 2 members) and 60% (tier 3 members) of final compensation plus 1% for each year of creditable service over 25 years, but not to exceed 30 years. Members may elect deferred retirement benefits after achieving ten years of service, in which case, benefits would begin at age 55 equal to 2% of final compensation for each year of service.

Public Employees’ Retirement System (PERS) – established in January 1955, under the provisions of N.J.S.A. 43:15A to provide coverage, to substantially all full-time employees of the State or any county, municipality, school district, or public agency provided the employee is not a member of another State-administered retirement system. Membership is mandatory for such employees. PERS is a cost-sharing multi-employer defined benefit pension plan. For additional information about PERS, please refer to the State Division of Pension and Benefits (Division’s) Comprehensive Annual Financial Report (CAFR) which can be found at www.state.nj.us/treasury/pensions.

The vesting and benefit provisions are set by N.J.S.A. 43:15A. PERS provides retirement, death, and disability benefits. All benefits vest after ten years of service, except for medical benefits, which, if applicable, vest after 25 years of service or under the disability provisions of PERS.

The following represents the membership tiers for PERS:

Tier	Definition
1	Members who were enrolled prior to July 1, 2007
2	Members who were eligible to enroll on or after July 1, 2007 and prior to November 2, 2008
3	Members who were eligible to enroll on or after November 2, 2008 and prior to May 22, 2010
4	Members who were eligible to enroll on or after May 22, 2010 and prior to June 28, 2011
5	Members who were eligible to enroll on or after June 28, 2011

Service retirement benefits of 1/55th of final average salary for each year of service credit is available to tier 1 and 2 members upon reaching age 60 and to tier 3 members upon reaching age 62. Service retirement benefits of 1/60th of final average salary for each year of service credit is available to tier 4 members upon reaching age 62 and tier 5 members upon reaching age 65. Early retirement benefits are available to tier 1 and 2 members before reaching age 60, tier 3 and 4 members with 25 or more years of service credit before age 62, and tier 5 members with 30 or more years of service credit before age 65. Benefits are reduced by a fraction of a percent for each month that a member retires prior to the age at which member can receive full early retirement benefits in accordance with their respective tier. Tier 1 members can receive an unreduced benefit from age 55 to age 60 if they have a least 25 years of service. Deferred retirement is available to members who have at least ten years of service credit and have not reached the service retirement age for the respective tier.

The State of New Jersey sponsors and administers the following defined contribution public employee retirement program covering certain state and local government employees which include those City employees who are eligible for pension coverage.

Defined Contribution Retirement Program (DCRP) – established under the provisions of Chapter 92, P.L. 2007 and Chapter 103, P.L. 2008 to provide coverage to elected and certain appointed officials, effective July 1, 2007 and employees enrolled in PERS on or after July 1, 2007 who earn in excess of established annual maximum compensation limits (equivalent to annual maximum wage for social security deductions). This provision was extended by Chapter 1, P.L. 2010, effective May 21, 2010, to new employees (Tier 2) of the PERS and new employees who would otherwise be eligible to participate in PERS and do not earn the minimum salary required or do not work the minimum required hours but earn a base salary of at least \$5,000 are eligible for participation in the DCRP. Membership is mandatory for such individuals with vesting occurring after one (1) year of membership. DCRP is a defined contribution pension plan.

**CITY OF PASSAIC
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017**

NOTE 12 EMPLOYEE RETIREMENT SYSTEMS (Continued)

Other Pension Funds

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

The State also administers the Pensions Adjustment Fund (PAF). Prior to the adoption of pension reform legislation, P.L. 2011, C.78, it provided cost of living increases equal to 60 percent of the change in the average consumer price index, to eligible retirees in some State-sponsored pension systems which includes the CPFPPF. Cost-of-living increases provided under the State's pension adjustment program are currently suspended as a result of the reform legislation. This benefit is funded by the State as benefit allowances become payable.

The cost of living increase for PFRS and PERS are funded directly by each of the respective systems, but are currently suspended as a result of reform legislation.

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

The State of New Jersey, Department of the Treasury, Division of Pensions and Benefits, issues publicly available financial reports that include the financial statements and required supplementary information of each of the above systems, funds, and trust. The financial reports may be accessed via the New Jersey, Division of Pensions and Benefits website at www.state.nj.us/treasury/pensions.

Measurement Focus and Basis of Accounting

The financial statements of the retirement systems are prepared in accordance with U.S. generally accepted accounting principles as applicable to governmental organizations. In doing so, the Division adheres to reporting requirements established by the Governmental Accounting Standards Board (GASB).

The accrual basis of accounting is used for measuring financial position and changes in net position of the pension trust funds. Under this method, contributions are recorded in the accounting period in which they are legally due from the employer or plan member, and deductions are recorded at the time the liabilities are due and payable in accordance with the terms of each plan. The accounts of the Division are organized and operated on the basis of funds. All funds are accounted for using an economic resources measurement focus.

Investment Valuation

The Division of Investment, Department of the Treasury, State of New Jersey (Division of Investment) manages and invests certain assets of the retirement systems. Prudential retirement is the third-party administrator for the DCRP and provides record keeping, administrative services and investment options. Investment transactions are accounted for on a trade or investment date basis. Interest and dividend income is recorded on the accrual basis, with dividends accruing on the ex-dividend date. The net increase or decrease in the fair value of investments includes the net realized and unrealized gains or losses on investments.

The State of New Jersey, Department of the Treasury, Division of Investment, issues publicly available financial reports that include the financial statements of the State of New Jersey Cash Management Fund. The financial report may be obtained by writing to the State of New Jersey, Department of the Treasury, Division of Investment, P.O. Box 290, Trenton, New Jersey 08625-0290, or at www.state.nj.us/treasury/doinvest.

**CITY OF PASSAIC
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017**

NOTE 12 EMPLOYEE RETIREMENT SYSTEMS (Continued)

Collective Net Pension Liability

The collective net pension liability of the participating employers for PERS at June 30, 2018 and 2017 is \$43.4 billion and \$48.9 billion, respectively, and the plan fiduciary net position as a percentage of the total pension liability is 40.45% and 36.78%, respectively. The collective net pension liability of the participating employers for PFRS at June 30, 2018 and 2017 is \$19.7 billion and \$21.6 billion, respectively and the plan fiduciary net position as a percentage of total pension liability is 57.91% and 54.52%, respectively.

The total pension liabilities were determined based on actuarial valuations as of July 1, 2017 and 2016 which were rolled forward to June 30, 2018 and 2017, respectively.

Actuarial Methods and Assumptions

In the July 1, 2017 and 2016 PERS and PFRS actuarial valuations, the actuarial assumptions and methods used in these valuations were described in the Actuarial Assumptions and Methods section of the Actuary’s report and are included here in this note to the financial statements. The pension systems selected economic and demographic assumptions and prescribed them for use for purposes of compliance with GASB Statement No. 68. The Actuary provided guidance with respect to these assumptions, and it is their belief that the assumptions represent reasonable expectations of anticipated plan experience.

Employer and Employee Pension Contributions

The contribution policy is set by laws of the State of New Jersey and contributions are required by active members and participating employers. Plan members and employer contributions may be amended by State of New Jersey legislation, with the amount of contributions by the State of New Jersey contingent upon the annual Appropriations Act. As defined, the various retirement systems require employee contributions for 2018 and 2017 based on 10.0% for PFRS, 7.50% (effective July 1, 2018) and 7.34% (effective July 1, 2017) for PERS and 5.50% for DCRP of employee’s annual compensation.

For the years ended December 31, 2018 and 2017 for CPFPPF, which is a single-employer defined benefit plan the annual pension cost differs from the annual required contribution. For PFRS and PERS, which are cost sharing multi-employer defined benefit pension plans, employers’ contributions are based on an actuarially determined amount, which includes the normal cost and unfunded accrued liability. In the DCRP, which is a defined contribution plan, member contributions are matched by a 3% employer contribution. All contributions made by the City for 2018, 2017 and 2016 were equal to the required contributions.

During the years ended December 31, 2018, 2017 and 2016, the City, was required to contribute for normal cost pension contributions, accrued liability pension contributions and non-contributory life insurance premiums the following amounts which equaled the required contributions for each respective year:

<u>Year Ended</u>	<u>CPFPPF</u>	<u>PFRS</u>	<u>PERS</u>	<u>DCRP</u>
2018	\$ 20,271	\$ 6,896,579	\$ 1,401,574	\$ 50,132
2017	20,300	6,795,838	1,352,626	49,502
TY 2016				8,105

In addition for the years ended December 31, 2018 and 2017 the City contributed for long-term disability insurance premiums (LTDI) \$17,837 and \$5,688 respectively for PERS.

In addition for the years ended December 31, 2018 and 2017 the City contributed for early retirement incentive program contributions \$190,179 and \$190,179, respectively for PERS.

**CITY OF PASSAIC
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017**

NOTE 12 EMPLOYEE RETIREMENT SYSTEMS (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

The regulatory basis of accounting requires participating employers in PERS and PFRS to disclose in accordance with GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, (GASB No.68) their proportionate share of the collective net pension liability, collective deferred outflows of resources, collective deferred inflows of resources and collective pension expense excluding that attributable to employer-paid member contributions. The employer allocation percentages presented are based on the ratio of the contributions as an individual employer to total contributions to the PERS and PFRS during the fiscal years ended June 30, 2018 and 2017. Employer allocation percentages have been rounded for presentation purposes.

Public Employees Retirement System (PERS)

At December 31, 2018 and 2017, the City reported a liability of \$30,465,692 and \$35,218,741, respectively, for its proportionate share of the PERS net pension liability. The net pension liability was measured as of June 30, 2018 and 2017, respectively, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2017 and 2016, respectively. The City’s proportionate share of the net pension liability was based on a projection of the City’s long-term share of contributions to the pension plan relative to the projected contributions of all participating governmental entities, actuarially determined. As of the measurement date of June 30, 2018, the City’s proportionate share was .15473 percent, which was an increase of .00344 percent from its proportionate share measured as of June 30, 2017 of .15129 percent.

For the years ended December 31, 2018 and 2017, the pension system has determined the City’s pension expense to be \$1,420,357 and \$2,161,603, respectively, for PERS based on the actuarial valuations which are more than the actual contributions reported in the City’s financial statements of \$1,401,574 and \$1,352,626, respectively. At December 31, 2018 and 2017, the City’s deferred outflows of resources and deferred inflows of resources related to PERS pension which are not reported on the City’s financial statements are from the following sources:

	2018		2017	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference Between Expected and Actual Experience	\$ 580,985	\$ 157,091	\$ 829,280	
Changes of Assumptions	5,020,241	9,741,308	7,095,363	\$ 7,069,350
Net Difference Between Projected and Actual Earnings on Pension Plan Investments		285,769	239,816	1,403,425
Changes in Proportion and Differences Between City Contributions and Proportionate Share of Contributions	<u>650,486</u>	<u>988,210</u>	<u>21,987</u>	<u>-</u>
Total	<u>\$ 6,251,712</u>	<u>\$ 11,172,378</u>	<u>\$ 8,186,446</u>	<u>\$ 8,472,775</u>

**CITY OF PASSAIC
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017**

NOTE 12 EMPLOYEE RETIREMENT SYSTEMS (Continued)

Public Employees Retirement System (PERS) (Continued)

At December 31, 2018 the amounts reported as deferred outflows of resources and deferred inflows of resources related to PERS pension will be recognized in pension expense as follows:

Year Ending <u>December 31,</u>	<u>Total</u>
2019	\$ (60,705)
2020	(556,213)
2021	(2,152,701)
2022	(1,508,770)
2023	<u>(642,277)</u>
	<u>\$ (4,920,666)</u>

Actuarial Assumptions

The City’s total pension liability reported for the year ended December 31, 2018 was based on the June 30, 2018 measurement date as determined by an actuarial valuation as of July 1, 2017, which was rolled forward to June 30, 2018. The total pension liability reported for the year ended December 31, 2017 was based on the June 30, 2017 measurement date as determined by an actuarial valuation as of July 1, 2016, which was rolled forward to June 30, 2017. This actuarial valuation used the following actuarial assumptions, applied to all periods in the measurement date:

<u>PERS</u>	<u>2018</u>	<u>2017</u>
Inflation Rate	2.25%	2.25%
Salary Increases:		
Through 2026	1.65-4.15% Based on Age	1.65-4.15% Based on Age
Thereafter	2.65%-5.15% Based on Age	2.65-5.15% Based on Age
Investment Rate of Return	7.00%	7.00%
Mortality Rate Table	RP-2000	RP-2000

Assumptions for mortality improvements are based on Society of Actuaries Scale AA.

The actuarial assumptions used in the July 1, 2017 and 2016 valuations were based on the results of an actuarial experience study for the period July 1, 2011 to June 30, 2014, respectively.

**CITY OF PASSAIC
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017**

NOTE 12 EMPLOYEE RETIREMENT SYSTEMS (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

Public Employees Retirement System (PERS) (Continued)

Long-Term Expected Rate of Return

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rate of return (expected returns, net of pension plans investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plans' target asset allocation as of June 30, 2018 and 2017, as reported for the years ended December 31, 2018 and 2017, respectively, are summarized in the following table:

<u>Asset Class</u>	<u>2018</u>		<u>2017</u>	
	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Risk Mitigation Strategies	5.00%	5.51%	5.00%	5.51%
Cash Equivalents	5.50%	1.00%	5.50%	1.00%
U.S. Treasuries	3.00%	1.87%	3.00%	1.87%
Investment Grade Credit	10.00%	3.78%	10.00%	3.78%
US Equity	30.00%	8.19%	30.00%	8.19%
Non-US Developed Markets Equity	11.50%	9.00%	11.50%	9.00%
Emerging Markets Equity	6.50%	11.64%	6.50%	11.64%
High Yield	2.50%	6.82%	2.50%	6.82%
Global Diversified Credit	5.00%	7.10%	5.00%	7.10%
Credit Oriented Hedge Funds	1.00%	6.60%	1.00%	6.60%
Debt Related Private Equity	2.00%	10.63%	2.00%	10.63%
Debt Related Real Estate	1.00%	6.61%	1.00%	6.61%
Private Real Asset	2.50%	11.83%	2.50%	11.83%
Equity Related Real Estate	6.25%	9.23%	6.25%	9.23%
Buyouts/Venture Capital	8.25%	13.08%	8.25%	13.08%

Discount Rate

The discount rate used to measure the total pension liabilities of the PERS plan was as follows:

<u>Calendar Year</u>	<u>Measurement Date</u>	<u>Discount Rate</u>
2018	June 30, 2018	5.66%
2017	June 30, 2017	5.00%

**CITY OF PASSAIC
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017**

NOTE 12 EMPLOYEE RETIREMENT SYSTEMS (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

Public Employees Retirement System (PERS) (Continued)

Discount Rate (Continued)

The following table represents the crossover period, if applicable, for the PERS defined benefit plan:

	<u>2018</u>	<u>2017</u>
Period of Projected Benefit		
Payments for which the Following Rates were Applied:		
Long-Term Expected Rate of Return	Through June 30, 2046	Through June 30, 2040
Municipal Bond Rate *	From July 1, 2046 and Thereafter	From July 1, 2040 and Thereafter

* The municipal bond return rate used is 3.87% and 3.58% as of the measurement dates of June 30, 2018 and 2017, respectively. The source is the Bond Buyer Go 20-Bond Municipal Bond Index, which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher.

Sensitivity of Net Pension Liability

The following presents the City's proportionate share of the PERS net pension liability as of December 31, 2018 and 2017 calculated using the discount rate of 5.66% and 5.00%, respectively, as well as what the City's proportionate share of the PERS net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower 4.66% and 4.00%, respectively or 1-percentage-point higher 6.66% and 6.00%, respectively than the current rate:

	1% Decrease (4.66%)	Current Discount Rate (5.66%)	1% Increase (6.66%)
<u>2018</u>			
City's Proportionate Share of the PERS Net Pension Liability	<u>\$ 38,307,097</u>	<u>\$ 30,465,692</u>	<u>\$ 23,887,254</u>
	1% Decrease (4.00%)	Current Discount Rate (5.00%)	1% Increase (6.00%)
<u>2017</u>			
City's Proportionate Share of the PERS Net Pension Liability	<u>\$ 43,691,238</u>	<u>\$ 35,218,741</u>	<u>\$ 28,160,101</u>

The sensitivity analysis was based on the proportionate share of the City's net pension liability at December 31, 2018 and 2017. A sensitivity analysis specific to the City's net pension liability was not provided by the pension system.

**CITY OF PASSAIC
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017**

NOTE 12 EMPLOYEE RETIREMENT SYSTEMS (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Public Employees Retirement System (PERS) (Continued)

Pension Plan Fiduciary Net Position

Detailed information about the PERS pension plan’s fiduciary net position is available in the separately issued financial report from the State of New Jersey, Department of the Treasury, Division of Pension and Benefits. The financial report may be accessed via the New Jersey, Division of Pensions and Benefits, website at www.state.nj.us/treasury/pensions.

Police and Firemen’s Retirement System (PFRS)

At December 31, 2018 and 2017, the City reported a liability of \$103,091,720 and \$120,302,403, respectively, for its proportionate share of the PFRS net pension liability. The net pension liability was measured as of June 30, 2018 and 2017, respectively, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2017 and 2016, respectively. The City’s proportionate share of the net pension liability was based on a projection of the City’s long-term share of contributions to the pension plan relative to the projected contributions of all participating governmental entities, actuarially determined. As of the measurement date of June 30, 2018, the City’s proportionate share was .76185 percent, which was a decrease of .01740 percent from its proportionate share measured as of June 30, 2017 of .77925 percent.

For the years ended December 31, 2018 and 2017, the pension system has determined the City pension expense to be \$7,615,052 and \$10,950,391, respectively, for PFRS based on the actuarial valuations which are more than the actual contributions reported in the City’s financial statements of \$6,896,579 and \$6,795,838, respectively. At December 31, 2018 and 2017, the City’s deferred outflows of resources and deferred inflows of resources related to PFRS pension which are not reported on the City’s financial statements are from the following sources:

	<u>2018</u>		<u>2017</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference Between Expected and Actual Experience	\$ 1,048,824	\$ 426,618	\$ 780,451	\$ 706,075
Changes of Assumptions	8,849,037	26,420,628	14,834,626	19,702,016
Net Difference Between Projected and Actual Earnings on Pension Plan Investments		564,005	2,295,652	
Changes in Proportion and Differences Between City Contributions and Proportionate Share of Contributions	<u>1,671,634</u>	<u>3,727,207</u>	<u>2,532,364</u>	<u>2,319,233</u>
Total	<u>\$ 11,569,495</u>	<u>\$ 31,138,458</u>	<u>\$ 20,443,093</u>	<u>\$ 22,727,324</u>

**CITY OF PASSAIC
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017**

NOTE 12 EMPLOYEE RETIREMENT SYSTEMS (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

Police and Firemen’s Retirement System (PFRS) (Continued)

At December 31, 2018 the amounts reported as deferred outflows of resources and deferred inflows of resources related to PFRS pension will be recognized in pension expense as follows:

Year Ending <u>December 31,</u>	<u>Total</u>
2019	\$ 496,824
2020	(3,310,593)
2021	(8,847,604)
2022	(5,895,106)
2023	<u>(2,012,484)</u>
	<u>\$ (19,568,963)</u>

Actuarial Assumptions

The City’s total pension liability reported for the year ended December 31, 2018 was based on the June 30, 2018 measurement date as determined by an actuarial valuation as of July 1, 2017, which was rolled forward to June 30, 2018. The total pension liability reported for the year ended December 31, 2017 was based on the June 30, 2017 measurement date as determined by an actuarial valuation as of July 1, 2016, which was rolled forward to June 30, 2017. This actuarial valuation used the following actuarial assumptions, applied to all periods in the measurement date:

<u>PFRS</u>	<u>2018</u>	<u>2017</u>
Inflation Rate	2.25%	2.25%
Salary Increases:		
Through 2026	2.10%-8.98% Based on Age	2.10-8.98% Based on Age
Thereafter	3.10%-9.98% Based on Age	3.10-9.98% Based on Age
Investment Rate of Return	7.00%	7.00%
Mortality Rate Table	RP-2000	RP-2000

Assumptions for mortality improvements are based on Society of Actuaries Scale AA and one year using Scale BB.

The actuarial assumptions used in the July 1, 2017 and July 1, 2016 valuations were based on the results of an actuarial experience study for the period July 1, 2010 to June 30, 2013.

**CITY OF PASSAIC
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017**

NOTE 12 EMPLOYEE RETIREMENT SYSTEMS (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

Police and Firemen’s Retirement System (PFRS) (Continued)

Long-Term Expected Rate of Return

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rate of return (expected returns, net of pension plans investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plans’ target asset allocation as of June 30, 2018 and 2017, as reported for the years ended December 31, 2018 and 2017, respectively, are summarized in the following table:

<u>Asset Class</u>	<u>2018</u>		<u>2017</u>	
	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Risk Mitigation Strategies	5.00%	5.51%	5.00%	5.51%
Cash	5.50%	1.00%	5.50%	1.00%
U.S. Treasuries	3.00%	1.87%	3.00%	1.87%
Investment Grade Credit	10.00%	3.87%	10.00%	3.78%
US Equity	30.00%	8.19%	30.00%	8.19%
Non-US Developed Markets Equity	11.50%	9.00%	11.50%	9.00%
Emerging Markets Equity	6.50%	11.64%	6.50%	11.64%
High Yield	2.50%	6.82%	2.50%	6.82%
Global Diversified Credit	5.00%	7.10%	5.00%	7.10%
Credit Oriented Hedge Funds	1.00%	6.60%	1.00%	6.60%
Debt Related Private Equity	2.00%	10.63%	2.00%	10.63%
Debt Related Real Estate	1.00%	6.61%	1.00%	6.61%
Private Real Asset	2.50%	11.83%	2.50%	11.83%
Equity Related Real Estate	6.25%	9.23%	6.25%	9.23%
Buyouts/Venture Capital	8.25%	13.08%	8.25%	13.08%

Discount Rate

The discount rate used to measure the total pension liabilities of the PFRS plan was as follows:

<u>Calendar Year</u>	<u>Measurement Date</u>	<u>Discount Rate</u>
2018	June 30, 2018	6.51%
2017	June 30, 2017	6.14%

**CITY OF PASSAIC
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017**

NOTE 12 EMPLOYEE RETIREMENT SYSTEMS (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

Police and Firemen’s Retirement System (PFRS) (Continued)

Discount Rate (Continued)

The following table represents the crossover period, if applicable, for the PFRS defined benefit plan:

	<u>2018</u>	<u>2017</u>
Period of Projected Benefit		
Payments for which the Following		
Rates were Applied:		
Long-Term Expected Rate of Return	Through June 30, 2062	Through June 30, 2057
Municipal Bond Rate *	From July 1, 2062 and Thereafter	From July 1, 2057 and Thereafter

* The municipal bond return rate used is 3.87% and 3.58% as of the measurement dates of June 30, 2018 and 2017, respectively. The source is the Bond Buyer Go 20-Bond Municipal Bond Index, which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher.

Sensitivity of Net Pension Liability

The following presents the City’s proportionate share of the PFRS net pension liability as of December 31, 2018 and 2017 calculated using the discount rate of 6.51% and 6.14%, respectively, as well as what the City’s proportionate share of the PFRS net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower 5.51% and 5.14%, respectively or 1-percentage-point higher 7.51% and 7.14%, respectively than the current rate:

	1% Decrease <u>(5.51%)</u>	Current Discount Rate <u>(6.51%)</u>	1% Increase <u>(7.51%)</u>
<u>2018</u>			
City's Proportionate Share of the PFRS Net Pension Liability	<u>\$ 137,975,474</u>	<u>\$ 103,091,720</u>	<u>\$ 74,318,977</u>
	1% Decrease <u>(5.14%)</u>	Current Discount Rate <u>(6.14%)</u>	1% Increase <u>(7.14%)</u>
<u>2017</u>			
City's Proportionate Share of the PFRS Net Pension Liability	<u>\$ 158,508,323</u>	<u>\$ 120,302,403</u>	<u>\$ 88,911,895</u>

The sensitivity analysis was based on the proportionate share of the City’s net pension liability at December 31, 2018 and 2017. A sensitivity analysis specific to the City’s net pension liability was not provided by the pension system.

**CITY OF PASSAIC
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017**

NOTE 12 EMPLOYEE RETIREMENT SYSTEMS (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

Police and Firemen's Retirement System (PFRS) (Continued)

Special Funding Situation – PFRS

Under N.J.S.A. 43:16A-15, the City is responsible for their own PFRS contributions based on actuarially determined amounts, except where legislation was passed which legally obligated the State to make contributions if certain circumstances occurred. The legislation which legally obligates the State is as follows: Chapter 8, P.L. 2000, Chapter 318, P.L. 2001, Chapter 86, P.L. 2001, Chapter 511, P.L. 1991, Chapter 109, P.L. 1979, Chapter 247, P.L. 1993 and Chapter 201, P.L. 2001. The amounts contributed on behalf of the City by the State under this legislation is considered to be a special funding situation as defined by GASB Statement No. 68 and the State is treated as a nonemployer contributing entity. Accordingly, the City's proportionate share percentage of the net pension liability, deferred outflows and inflows determined under GASB Statement No. 68 is zero percent and the State's proportionate share is 100% for PFRS under this legislation.

At December 31, 2018 and 2017, the State's proportionate share of the net pension liability attributable to the City for the PFRS special funding situation is \$14,003,306 and \$13,474,882, respectively. For the years ended December 31, 2018 and 2017, the pension system has determined the State's proportionate share of the pension expense attributable to the City for the PFRS special funding situation is \$1,658,670 and \$1,648,287, respectively, which are more than the actual contributions the State made on behalf of the City of \$829,334 and \$673,801, respectively. At December 31, 2018 (measurement date June 30, 2018) the State's share of the PFRS net pension liability attributable to the City was .76185 percent, which was an/a increase/decrease of .0174 percent from its proportionate share measured as of December 31, 2017 (measurement date June 30, 2017) of .77925 percent. The State's proportionate share attributable to the City was developed based on actual contributions made to PFRS allocated to employers based upon covered payroll. These on-behalf contributions have not been reported on the City's financial statements.

Pension Plan Fiduciary Net Position

Detailed information about the PFRS pension plan's fiduciary net position is available in the separately issued financial report from the State of New Jersey, Department of the Treasury, Division of Pension and Benefits. The financial reports may be accessed via the New Jersey, Division of Pensions and Benefits, website at www.state.nj.us/treasury/pensions.

**CITY OF PASSAIC
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017**

NOTE 13 POST-RETIREMENT MEDICAL BENEFITS

The State of New Jersey sponsors and administers the post-retirement health benefit program plan for participating municipalities including the City.

Plan Description and Benefits Provided

The State of New Jersey sponsors and administers the following post-retirement health benefit program covering substantially all eligible local government employees from local participating employers.

State Health Benefit Program Fund – Local Government Retired (the Plan) (including Prescription Drug Program Fund) – The Plan is a cost-sharing multiple-employer defined benefit other postemployment benefit (OPEB) plan with a special funding situation. It covers employees of local government employers that have adopted a resolution to participate in the Plan. The plan meets the definition of an equivalent arrangement as defined in paragraph 4 of GASB Statement No. 75, *Accounting and Financial Reporting for the Postemployment Benefits Other Than Pensions* (GASB Statement No. 75); therefore, assets are accumulated to pay associated benefits. For additional information about the Plan, please refer to the State of New Jersey (the State), Division of Pensions and Benefits' (the Division) Comprehensive Annual Financial Report (CAFR), which can be found at <https://www.state.nj.us/treasury/pensions/financial-reports.shtml>.

The Plan provides medical and prescription drug to retirees and their covered dependents of the employers. Under the provisions of Chapter 88, P.L. 1974 and Chapter 48, P.L. 1999, local government employers electing to provide postretirement medical coverage to their employees must file a resolution with the Division. Under Chapter 88, local employers elect to provide benefit coverage based on the eligibility rules and regulations promulgated by the State Health Benefits Commission. Chapter 48 allows local employers to establish their own age and service eligibility for employer paid health benefits coverage for retired employees. Under Chapter 48, the employer may assume the cost of postretirement medical coverage for employees and their dependents who: 1) retired on a disability pension; or 2) retires with 25 or more years of service credit in a State or locally administered retirement system and a period of service of up to 25 years with the employer at the time of retirement as established by the employer; or 3) retired and reached the age of 65 with 25 or more years of service credit in a State or locally administered retirement system and a period of service of up to 25 years with the employer at the time of retirement as established by the employer; or 4) retires and reached age 62 with at least 15 years of service with the employer. Further, the law provides that the employer paid obligations for retiree coverage may be determined by means of a collective negotiations agreement.

In accordance with Chapter 330, P.L. 1997, which is codified in N.J.S.A. 52:14-17.32i, the State provides medical and prescription coverage to local police officers and firefighters, who retire with 25 years of service or on a disability from an employer who does not provide postretirement medical coverage. Local employers were required to file a resolution with the Division in order for their employees to qualify for State-paid retiree health benefits coverage under Chapter 330. The State also provides funding for retiree health benefits to survivors of local police officers and firefighters who die in the line of duty under Chapter 271, P.L. 1989.

Pursuant to Chapter 78, P.L. 2011, future retirees eligible for postretirement medical coverage who have less than 20 years of creditable service on June 28, 2011 will be required to pay a percentage of the cost of their health care coverage in retirement provided they retire with 25 or more years of pension service credit. The percentage of the premium for which the retiree will be responsible will be determined based on the retiree's annual retirement benefit and level coverage.

The State of New Jersey, Department of the Treasury, Division of Pensions and Benefits, issues publicly available financial reports that include the financial statements and required supplementary information of the above Fund. The financial reports may be assessed via, the New Jersey, Division of Pensions and Benefits website at www.state.nj.us/treasury/pensions.

**CITY OF PASSAIC
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017**

NOTE 13 POST-RETIREMENT MEDICAL BENEFITS (Continued)

Measurement Focus and Basis of Accounting

The financial statements of the OPEB plan are prepared in accordance with U.S. generally accepted accounting principles as applicable to government organizations. In doing so, the Division adheres to reporting requirements established by the Governmental Accounting Standards Board (GASB).

The accrual basis of accounting is used for measuring financial position and changes in net position of the other postemployment benefit plan. Under this method, contributions are recorded in the accounting period in which they are legally due from the employer or plan member, and deductions are recorded at the time the liabilities are due and payable in accordance with the terms of each plan. The accounts of the Division are organized and operated on the basis of funds. All funds are accounted for using an economic resources measurement focus.

Investment Valuation

Investments are reported at fair value. Investments that do not have an established market are reported at estimated fair values.

Collective Net OPEB Liability

The collective net OPEB liability of the participating employers and the State, as the non-employer contributing entity, of the Plan at June 30, 2018 and 2017 is \$15.7 billion and \$20.4 billion, respectively, and the plan fiduciary net position as a percentage of the total OPEB liability is 1.97% and 1.03%, respectively.

The total OPEB liabilities were determined based on actuarial valuations as of June 30, 2017 and 2016 which were rolled forward to June 30, 2018 and 2017.

Actuarial Methods and Assumptions

In the June 30, 2017 and 2016 OPEB actuarial valuations, the actuarial assumptions and methods used in these valuations were described in the Actuarial Assumptions and Methods section of the Actuary's report and are included here in this note to the financial statements. The Plan selected economic and demographic assumptions and prescribed them for use for purposes of compliance with GASB Statement No. 75. The Actuary provided guidance with respect to these assumptions, and it is their belief that the assumptions represent reasonable expectations of anticipated plan experience.

The funding policy for the OPEB plan is pay-as-you-go; therefore, there is no prefunding of the liability. However, due to premium rates being set prior to each calendar year, there is a minimal amount of net position available to cover benefits in future years. Contributions to pay for the health benefit premiums of participating employees in the OPEB plan are collected from the State of New Jersey, participating local employers, and retired members. The State of New Jersey makes contributions to cover those employees eligible under Chapter 330, P.L. 1967, as disclosed previously. Local employers remit employer contributions on a monthly basis. Retired member contributions are generally received on a monthly basis.

The employers participating in the OPEB plan made contributions of \$421.2 million and \$381.8 million and the State of New Jersey, as the non-employer contributing entity, contributed \$53.5 million and \$53.1 million for fiscal years 2018 and 2017, respectively.

The State sets the employer contribution rate based on a pay-as-you-go basis rather than the actuarial determined contribution, an amount actuarially determined in accordance with the parameters of GASB Statement No. 75. The actuarial determined contribution represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and any unfunded actuarial liabilities (or funding excess) of the plan—using a systematic and rational method over a closed period equal to the average of the expected remaining service lives of all employees that are provided with OPEB through the Plan. The City's contributions to the State Health Benefits Program Fund-Local Government Retired Plan for post-retirement benefits for the years ended December 31, 2018, 2017 and period ended 2016 were \$7,928,183, \$7,927,830 and \$3,643,456, respectively, which equaled the required contributions for each year.

In addition, the City's reimbursements to eligible retired employees for Medicare Part B insurance coverage for the years ended December 31, 2018, 2017 and 2016 were \$555,371, \$497,234 and \$232,883, respectively.

**CITY OF PASSAIC
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017**

NOTE 13 POST-RETIREMENT MEDICAL BENEFITS (Continued)

OPEB Liabilities, OPEB Expenses and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

The regulatory basis of accounting requires participating employers in the State Health Benefit Program Fund – Local Government Retired Plan to disclose in accordance with GASB Statement No. 75, Accounting and *Financial Reporting for Postemployment Benefits other than Pension (GASB No. 75)* their proportionate share of the collective net OPEB liability, collective deferred outflows of resources, collective deferred inflows of resources and collective OPEB expense excluding that attributable to retiree-paid member contributions. The employer allocation percentages presented are based on the ratio of the contributions made as an individual employer toward the actuarially determined contribution amount to total contributions to the plan during the fiscal years ended June 30, 2018 and 2017. Employer allocation percentages have been rounded for presentation purposes.

At December 31, 2018 and 2017, the City reported a liability of \$98,783,197 and \$125,316,194, respectively, for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2018 and 2017, respectively, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2017 and 2016, respectively. The City’s proportionate share of the net OPEB liability was based on the ratio of the City’s proportionate share of the OPEB liability attributable to the City at June 30, 2018 and 2017 to the total OPEB liability for the State Health Benefit Program Fund – Local Government Retired Plan at June 30, 2018 and 2017, respectively. As of the measurement date of June 30, 2018 the City’s proportionate share was .63053 percent, which was an increase of .01671 percent from its proportionate share measured as of June 30, 2017 of .61382 percent.

For the years ended December 31, 2018 and 2017, the Plan has determined the City’s OPEB expense to be \$2,539,255 and \$6,796,004, respectively, based on the actuarial valuations which are less than the actual contributions reported in the City’s financial statements of \$7,928,183 and \$7,927,830, respectively. At December 31, 2018 and 2017, the City’s deferred outflows of resources and deferred inflows of resources related to the OPEB plan which are not reported on the City’s financial statements are from the following sources:

	<u>2018</u>		<u>2017</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference Between Expected and Actual Experience		\$ 20,056,513		
Changes of Assumptions		25,057,652		\$ 13,909,032
Net Difference Between Projected and Actual Earnings on OPEB Plan Investments	\$ 52,203		\$ 21,476	
Changes in Proportion and Differences Between City Contributions and Proportionate Share of Contributions	3,324,590	10,696,675	-	12,467,648
Contributions made Subsequent to the Measurement Date	-	-	-	-
Total	<u>\$ 3,376,793</u>	<u>\$ 55,810,840</u>	<u>\$ 21,476</u>	<u>\$ 26,376,680</u>

**CITY OF PASSAIC
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017**

NOTE 13 POST-RETIREMENT MEDICAL BENEFITS (Continued)

OPEB Liabilities, OPEB Expenses and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (Continued)

At December 31, 2018 the amounts reported as deferred outflows of resources and deferred inflows of resources related to the OPEB plan will be recognized in OPEB expense as follows:

Year Ending <u>December 31,</u>	<u>Total</u>
2019	\$ (7,913,843)
2020	(7,913,843)
2021	(7,913,843)
2022	(7,919,212)
2023	(7,928,236)
Thereafter	<u>(12,845,070)</u>
	<u>\$ (52,434,047)</u>

Actuarial Assumptions

The City’s total OPEB liability reported for the year ended December 31, 2018 was based on the June 30, 2018 measurement date as determined by an actuarial valuation as of June 30, 2017, which was rolled forward to June 30, 2018. The total OPEB liability reported for the year ended December 31, 2017 was based on the June 30, 2017 measurement date as determined by an actuarial valuation as of June 30, 2016, which was rolled forward to June 30, 2017. This actuarial valuation used the following actuarial assumptions, applied to all periods in the measurement date:

	<u>2018</u>	<u>2017</u>
Inflation Rate	2.50%	2.50%
Salary Increases*		
Initial Fiscal Year Applied Through	2026	2026
Rate	1.65% to 8.98%	1.65% to 8.98%
Rate Thereafter	2.65% to 9.98%	2.65% to 9.98%
Mortality	RP-2006 Headcount-Weighted Healthy Employee Male/Female Mortality Table with fully generational mortality improvement projections from the central year using Scale MP-2017.	RP-2006 Headcount-Weighted Healthy Employee Male/Female Mortality Table with fully generational mortality improvement projections from the central year using Scale MP-2017.
Long-Term Rate of Return	1.00%	1.00%

*Salary increases are based on the defined benefit pension plan that the member is enrolled in and his or her age.

**CITY OF PASSAIC
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017**

NOTE 13 POST-RETIREMENT MEDICAL BENEFITS (Continued)

OPEB Liabilities, OPEB Expenses and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (Continued)

For the June 30, 2018 measurement date healthcare cost trend rates for pre-Medicare preferred provider organization (PPO) and health maintenance organization (HMO) medical benefits, the trend rate is initially 5.8% and decreases to a 5.0% long-term trend rate after eight years. For self-insured post-65 PPO and HMO medical benefits, the trend rate is 4.5%. For prescription drug benefits, the initial trend rate is 8.0% decreasing to a 5.0% long-term trend rate after seven years. The Medicare Advantage trend rate is 4.5% and will continue in all future years.

For the June 30, 2017 measurement date healthcare cost trend rates for pre-Medicare Preferred Provider Organization (PPO) medical benefits, this amount initially is 5.9 percent and decreases to a 5.0 percent long-term trend rate after nine year. For self-insured post-65 PPO medical benefits, the trend rate is 4.5 percent. For health maintenance organization (HMO) medical benefit, the trend rate is initially 5.9 percent and decreases to a 5.0 percent long-term trend rate after nine years. For prescription drug benefits, the initial trend rate is 10.5 percent and decreases to a 5.0 percent long-term trend rate after eight years. For the Medicare Part B reimbursement, the trend rate is 5.0 percent. This reflects the known underlying cost of the Part B premium. The Medicare Advantage trend rate is 4.5 percent and will continue in all future years.

The actuarial assumptions used in the June 30, 2017 and 2016 valuation were based on the results of the PFRS and PERS experience studies prepared for July 1, 2010 to June 30, 2013 and July 1, 2011 to June 30, 2014, respectively.

Long-Term Expected Rate of Return

As the OPEB plan only invests in the State of New Jersey Cash Management Fund, the long-term expected rate of return on OPEB investments was based off the best-estimate ranges of future real rates of return (expected returns, net of OPEB plan investment expense and inflation) for cash equivalents, which is 1.00% and 1.00% as of June 30, 2018 and 2017, respectively.

Discount Rate

The discount rate used to measure the total OPEB liabilities of the plan was as follows:

<u>Calendar</u>	<u>Measurement Date</u>	<u>Discount Rate</u>
<u>Year</u>		
2018	June 30, 2018	3.87%
2017	June 30, 2017	3.58%

The discount rate represents the municipal bond return rate as chosen by the Division. The source is the Bond Buyer Go 20-Bond Municipal Bond Index, which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. As the long-term rate of return is less than the municipal bond rate, it is not considered in the calculation of the discount rate, rather the discount rate is set at the municipal bond rate.

**CITY OF PASSAIC
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017**

NOTE 13 POST-RETIREMENT MEDICAL BENEFITS (Continued)

OPEB Liabilities, OPEB Expenses and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (Continued)

Sensitivity of Net OPEB Liability to Changes in the Discounts Rate

The following presents the City’s proportionate share of the OPEB net liability as of December 31, 2018 and 2017 calculated using the discount rate of 3.87% and 3.58%, respectively, as well as what the City’s proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower 2.87% and 2.58%, respectively or 1-percentage-point higher 4.87% and 4.58%, respectively than the current rate:

<u>2018</u>	1% Decrease <u>(2.87%)</u>	Current Discount Rate <u>(3.87%)</u>	1% Increase <u>(4.87%)</u>
City's Proportionate Share of the Net OPEB Liability	<u>\$ 115,898,807</u>	<u>\$ 98,783,197</u>	<u>\$ 85,111,698</u>

<u>2017</u>	1% Decrease <u>(2.58%)</u>	Current Discount Rate <u>(3.58%)</u>	1% Increase <u>(4.58%)</u>
City's Proportionate Share of the Net OPEB Liability	<u>\$ 147,814,187</u>	<u>\$ 125,316,194</u>	<u>\$ 107,464,416</u>

The sensitivity analysis was based on the proportionate share of the City’s net OPEB liability at December 31, 2018 and 2017. A sensitivity analysis specific to the City’s net OPEB liability was not provided by the Plan.

Sensitivity of Net OPEB Liability to Changes in the Healthcare Trend Rate

The following presents the City’s proportionate share of the OPEB net liability as of December 31, 2018 and 2017 calculated using the healthcare trend rates as disclosed above as well as what the City’s proportionate share of the net OPEB liability would be if it were calculated using healthcare trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current rate:

<u>2018</u>	1% Decrease	Healthcare Cost Trend Rates	1% Increase
City's Proportionate Share of the Net OPEB Liability	<u>\$ 82,401,025</u>	<u>\$ 98,783,197</u>	<u>\$ 119,984,162</u>

<u>2017</u>	1% Decrease	Healthcare Cost Trend Rates	1% Increase
City's Proportionate Share of the Net OPEB Liability	<u>\$ 104,141,417</u>	<u>\$ 125,316,194</u>	<u>\$ 152,888,207</u>

**CITY OF PASSAIC
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017**

NOTE 13 POST-RETIREMENT MEDICAL BENEFITS (Continued)

OPEB Liabilities, OPEB Expenses and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (Continued)

The sensitivity analysis was based on the proportionate share of the City's net OPEB liability at December 31, 2018 and 2017. A sensitivity analysis specific to the City's net OPEB liability was not provided by the pension system.

Special Funding Situation

Under N.J.S.A. 43:3C-24 the City is responsible for their own OPEB contributions based on actuarially determined amounts, except where legislation was passed which legally obligated the State to make contributions if certain circumstances occurred. The legislation which legally obligates the State is as follows: Chapter 330, P.L. 1997 and Chapter 271, P.L., 1989. Under Chapter 330, P.L. 1997, the State pays the premiums or periodic charges for the qualified local police and firefighter retirees and dependents equal to 80 percent of the premium or periodic charge for the category of coverage elected by the qualified retiree under the State managed care plan or a health maintenance organization participating in the program providing the lowest premium or periodic charge. The State also provides funding for retiree health benefits to survivors of local police officers and firefighters who die in the line of duty under Chapter 271, P.L. 1989. The amounts contributed on behalf of the City by the State under this legislation is considered to be a special funding situation as defined by GASB Statement No. 75 and the State is treated as a nonemployer contributing entity. Accordingly, the City's proportionate share percentage of the net pension liability, deferred outflows and inflows determined under GASB Statement No. 75 is zero percent and the State's proportionate share is 100% of OPEB under this legislation.

At December 31, 2018 and 2017, the State's proportionate share of the net OPEB liability attributable to the City for the OPEB special funding situation is \$55,543,257 and \$77,785,427, respectively. For the years ended December 31, 2018 and 2017 the plan has determined the State's proportionate share of the OPEB expense attributable to the City for the OPEB special funding situation is \$1,681,359 and \$5,566,799, respectively. At December 31, 2018, (measurement date June 30, 2018), the State's share of the OPEB liability attributable to the City was .89386 percent, which was an increase of .0007 percent from its proportionate share measured as of December 31, 2017 (measurement date June 30, 2017) of .89456 percent. The State's proportionate share attributable to the City was developed based on eligible plan members subject to the special funding situation. This data takes into account active members from both participating and non-participating employer locations and retired members currently receiving OPEB benefits.

OPEB Plan Fiduciary Net Position

Detailed information about the OPEB plan's fiduciary net position is available in the separately issued financial report from the State of New Jersey, Department of the Treasury, Division of Pension and Benefits. The financial reports may be accessed via the New Jersey, Division of Pensions and Benefits, website at www.state.nj.us/treasury/pensions.

**CITY OF PASSAIC
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017**

NOTE 14 RISK MANAGEMENT

The City is exposed to various risks of loss related to general liability, automobile coverage, theft of, damage to and destruction of assets; errors and omissions; injuries to employees; termination of employees and natural disasters. The City has obtained commercial insurance coverage to guard against these events to minimize the exposure to the City should they occur.

The City has established a workman's compensation benefit plan for its employees and a general liability plan of the City. Transactions related to the plans are accounted for in the Other Trust Fund. The City contributes to fund the entire cost of the plan. Claims are paid directly by the plan with any excess benefit being reimbursed through a Re-Insurance Agreement with Specialty Claims Management, LLC and D&H Alternative Risk Solutions. The City has not created a liability for loss reserves for claims incurred which were unpaid at December 31, 2018 and 2017. In addition, the City has not created a liability for reserves for any potential unreported losses which have taken place but in which the City has not received notices or report of losses. The effect on the financial statements from these omissions could not be determined, but is probably material. A contingent liability exists with respect to reinsurance, which would become an actual liability in the event the reinsuring company might be unable to meet their obligations to the City under existing reinsurance agreements. As of December 31, 2018 and 2017 the City has available in the Other Trust Fund \$1,931,518 and \$2,217,067, respectively for the payment of self-insurance claims.

NOTE 15 CONTINGENT LIABILITIES

The City is a party defendant in some lawsuits, none of a kind unusual for a municipality of its size and scope of operation. In the opinion of the City's Attorney, the potential claims against the City not covered by insurance policies would not materially affect the financial condition of the City.

Pending Tax Appeals - Various tax appeal cases were pending in the New Jersey Tax Court at December 31, 2018 and 2017. Amounts claimed have not yet been determined. The City is vigorously defending its assessments in each case. Under the accounting principles prescribed by the Division of Local Government Services, Department of community Affairs, State of New Jersey, the City does not recognize a liability, if any, until these cases have been adjudicated. The City expects such amounts, if any, could be material. As of December 31, 2018 and 2017, the City reserved \$3,073,099 and \$2,450,046, respectively in the Current Fund for tax appeals pending in the New Jersey Tax Court. Funding of any ultimate liability would be provided for in succeeding years' budget or from fund balance.

Federal and State Awards - The City participates in a number of federal and state programs that are fully or partially funded by grants received from other governmental units. Expenditures financed by grants are subject to audit by the appropriate grantor government. If expenditures are disallowed due to noncompliance with grant program regulations, the City may be required to reimburse the grantor government. As of December 31, 2018 and 2017, significant amounts of grant expenditure have not been audited by the various grantor agencies but the City believes that disallowed expenditures, if any, based on subsequent audits will not have a material effect on the overall financial position of the City.

Overlapping Debt

1. City is a contracting municipality with the North Jersey District Water Supply Commission – Wanaque North Project (NJDWSC - North). As such, it is entitled to 11% of the water supplied by the NJDWSC - North, and is liable for 11% of the annual operating charges, including debt service, of the NJDWSC - North. The total debt of NJDWSC - North as of December 31, 2018 and 2017 was \$17,079,459 and \$19,375,442, respectively, of which the City the Passaic's share was \$1,878,740 and \$2,131,299, respectively. The operating charges from NJDWSC – North are defrayed by water rates established by the Passaic Valley Water Commission.

**CITY OF PASSAIC
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017**

NOTE 15 CONTINGENT LIABILITIES (Continued)

Overlapping Debt (Continued)

2. The City owns a portion of the Passaic Valley Water Commission (PVWC). The bonds of the PVWC are secured by water revenues derived from water rate charges by the PVWC. In the event the PVWC funds are inadequate to make principal and interest payments on the bonds, the PVWC is required to adjust its rates to produce amounts sufficient to cover debt service. PVWC had \$113,340,630 and \$124,711,887 of debt outstanding as of December 31, 2018 and 2017, respectively, of which the City of Passaic's share was \$32,381,418 and \$35,630,186, respectively.
3. The City's obligations with respect to debt issued for facilities of PVWC and NJDWSC are not joint and are several with the contracting municipalities. Therefore, the City's contingent liability cannot increase as a result of nonpayment by any other contracting party.
4. The City may also be responsible for its share of County debt, Passaic County Utilities Authority debt and the PVSC debt. The County is repaid through taxes and the PVSC debt is repaid through sewer service charges.

NOTE 16 FEDERAL ARBITRAGE REGULATIONS

The City is subject to Section 148 of the Internal Revenue Code as it pertains to the arbitrage rebate on all tax-exempt obligations, both long and short-term debt. Under the 1986 Tax Reform Act, the Internal Revenue Service (IRS) required that all excess earnings from investment proceeds be rebated to the IRS. Arbitrage, for purposes of these regulations, is defined as the difference between the yield on the investment and the yield on the obligations issued. If there are excess earnings, this amount may be required to be rebated to the IRS. At December 31, 2018 and 2017, the City has not estimated its estimated arbitrage earnings due to the IRS, if any.

NOTE 17 TAX ABATEMENTS

For the years ended December 31, 2018 and 2017, the City provided property tax abatements through certain programs authorized under State statutes. These programs include the Long Term Tax Exemption Law (the "LTTE Law"), the Five-Year Exemption and Abatement Law (the "FYEA) and the New Jersey Housing and Mortgage Financing Act (NJHMFA).

- The Long Term Tax Exemption Law (NJSA 40A:20 et.seq.) is focused on broad areas of redevelopment. It allows for a longer abatement term to carry out a larger development plan through declaring an area as being "in need of redevelopment". These long-term property abatements may last up to 30 years from completion of a project or 35 years from execution of the financial agreement. The process is initiated when the municipality passes a resolution calling for the municipal planning board to study the need for designating an area "in need of redevelopment". Upon adopting the planning board's recommendations and formalizing the redevelopment area designation, a municipality adopts a redevelopment plan, engages redevelopment entities to carry out the plan, and may authorize long-term tax abatements in the process. Developers submit abatement applications to the governing body for review. The financial agreement is approved through adoption of a local ordinance. The agreement exempts a project from taxation, but requires a payment in lieu of taxes (PILOTs) in an amount based generally on a percentage of project costs or revenue generated by the project, depending on the type of project. For the years ended December 31, 2018 and 2017 the City abated property taxes totaling \$2,452,314 and \$2,678,158, respectively under the LTTE program. The City received \$889,466 and \$881,421 in PILOT payments under this program for the years ended December 31, 2018 and 2017, respectively.

**CITY OF PASSAIC
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017**

NOTE 17 TAX ABATEMENTS (Continued)

- The Five-Year Exemption and Abatement Law (NJSA 40:21et.seq.) generally concerns rehabilitation of particular buildings and structures, with an abatement period that lasts no more than five years. These “short-term” property tax abatements can be structured as reduced property tax bills that exclude all or part of improvement value or as payments in lieu of taxes (PILOTs). Procedurally, a municipality must first adopt an ordinance invoking its five-year abatement authority and setting forth application procedures. This ordinance, referred to as the general ordinance, defines the eligibility criteria, which may include types of structures, types of permissible improvements, as well as qualifying geographic zones or similar designations. An applicant must satisfy all of the criteria stipulated in the statute and general ordinance to be entitled to approval. Applications for individual short-term abatements are presented to the local governing body and must include a general description of the project, plans demonstrating the structure of the project, a statement of reasons for seeking the abatement, claimed benefits to be realized by the applicant if the application is approved, and a statement of taxes currently being assessed and taxes to be paid during the period of the abatement. The application is approved by an ordinance authorizing execution of a tax agreement. If during any tax year prior to the termination of the tax agreement, the property owner ceases to operate or disposes of the property, or fails to meet the conditions for qualifying, then the property tax which would have otherwise been payable for each year shall become due and payable from the property owner as if no exemption and abatement had been granted. For the years ended December 31, 2018 and 2017 the City abated property taxes totaling \$185,819 and \$202,263, respectively under the FYEA program.

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APPENDIX C

FORM OF OPINION OF BOND COUNSEL

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WATERS, McPHERSON, McNEILL

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[FORM OF APPROVING OPINION]

August __, 2019

City Council of the
City of Passaic, New Jersey

Ladies and Gentlemen:

We have examined a record of proceedings relating to the issuance of a \$4,500,000 Bond Anticipation Note (the “Note”) of the City of Passaic, a municipal corporation of the State of New Jersey (the “City”). The Note is dated August __, 2019; matures on August __, 2020; is numbered 2019-1; and bears interest at the rate of ___% per annum (computed on the basis of a 360-day year) payable at maturity. The Note is issued pursuant to the Local Bond Law of the State of New Jersey. The Note is authorized by Bond Ordinance No. 2169-18 of the City finally adopted on September 17, 2018 and in all respects duly approved and published as required by law (the “Authorization Proceedings”).

The Note is registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York. The Note is a temporary obligation issued in anticipation of the issuance of bonds.

In our opinion, the Authorization Proceedings have been validly adopted, executed and delivered, and are in full force and effect. The Note is a valid and legally binding general obligation of the City, enforceable in accordance with its terms and the Authorization Proceedings, except insofar as the enforcement thereof may be limited by any applicable bankruptcy, moratorium or similar laws relating to the enforcement of creditors’ rights. The City has the power and is obligated to levy *ad valorem* taxes upon all the taxable real property within the City for the payment of the Note and the interest thereon without limitation as to rate or amount.

The City has covenanted to comply with any continuing requirements that may be necessary to preserve the tax exempt status of the Note under the Internal Revenue Code of 1986, as amended (the “Code”). In the event that the City continuously complies with its covenant, it is our opinion that interest on the Note is not includable in gross income for federal income tax purposes under the current law. It is also our opinion that interest on the Note is also not an item of tax preference under Section 57 of the Code when calculating the federal alternative minimum tax on individuals. The Note is not a “private activity bond” as defined in

the Code. We express no opinion regarding other federal tax consequences other federal taxes arising with respect to the Note.

Further, in our opinion, under current law interest on the Note, and any gain on the sale thereof, is not includable as gross income under the New Jersey Gross Income Tax Act.

Very truly yours,

WATERS, McPHERSON, McNEILL, P.C.

APPENDIX D

FORM OF SECONDARY MARKET DISCLOSURE UNDERTAKING

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FORM OF SECONDARY MARKET DISCLOSURE UNDERTAKING

This UNDERTAKING is made as of August __, 2019 by the City of Passaic, a municipal corporation of the State of New Jersey (the “Issuer”) in order to comply with the secondary market disclosure requirements contemplated by Rule 15c2-12 adopted by the United States Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934 (the “Rule”). Defined terms used in this UNDERTAKING shall have the definitions set forth in the Rule unless the context of this UNDERTAKING clearly indicates otherwise.

Section 1. The obligations of the Issuer with respect to which this UNDERTAKING applies are described as follows:

\$4,500,000 Bond Anticipation Note dated August __, 2019, maturing on August __, 2020, numbered 2019-1 and bearing interest at the rate of ___% per annum payable at maturity (the “Municipal Security”).

Section 2. The term of this UNDERTAKING is from the date of delivery of the Municipal Securities to the date of maturity of the Municipal Security.

Section 3. The Issuer is the only Obligated Person with respect to the Municipal Security.

Section 4. The Issuer undertakes to provide notices to the Municipal Securities Rulemaking Board in an electronic format to be filed with the Electronic Municipal Market Access system (“EMMA”, www.emma.msrb.org), of the occurrence of any of the following events of which it has direct knowledge with respect to the Municipal Security, within 10 days after such occurrence:

- (1) Principal and interest payment delinquencies;
- (2) Non-payment related defaults, if material;
- (3) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (4) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (5) Substitution of credit or liquidity providers, or of their failure to perform;
- (6) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with

respect to the tax status of the Municipal Security, or other material events affecting the tax status of the Municipal Security;

- (7) Modifications to the rights of the holders of the Municipal Security, if material;
- (8) Bond calls, if material, and tender offers;
- (9) Defeasances;
- (10) Release, substitution, or sale of property securing repayment of the Municipal Securities, if material;
- (11) Rating changes of the Issuer, but not of a credit enhancement provider such as a Bond Insurer, if any, for the Municipal Security, unless the Issuer has direct knowledge of such ratings changes;
- (12) Bankruptcy, insolvency, receivership or similar event of the Issuer;
- (13) The consummation of a merger, consolidation, or acquisition involving the Issuer or the sale of all or substantially all of the assets of the Issuer, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material;
- (14) Appointment of a successor or additional trustee, or the change of name of a trustee, if material;
- (15) The incurrence of a financial obligation of the Issuer, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the Issuer, any of which affect security holders, if material; and
- (16) Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the Issuer, any of which reflect financial difficulties.

The Issuer, from time to time, may choose to file notices with EMMA of the occurrence of any event, in addition to those listed above. Nevertheless, the Issuer does not undertake to file any such notice with EMMA of the occurrence of any event except those events set forth and enumerated (1) through (16) above. Notices filed with EMMA pursuant to this UNDERTAKING shall be drafted substantially in the form set forth in Appendix A hereto.

Section 5. This UNDERTAKING is made for the benefit of the holders or beneficial owners of the Municipal Security and may be enforced by any such holder or

beneficial owner. The sole remedy of any such holder or beneficial owner shall be for specific performance of this UNDERTAKING and not for money damages in any amount.

Section 6. The Issuer designates its Chief Financial Officer as the person charged with the responsibility to execute the obligations set forth in this UNDERTAKING. The Issuer, from time to time, may hereafter designate an Agent with such responsibility by resolution of its governing body.

Section 7. The Issuer may amend any provision of this UNDERTAKING if the Issuer's bond counsel issues an opinion supporting a determination that:

- (1) This UNDERTAKING, as amended, would have complied with the requirements of the Rule at the time of the primary offering of the Municipal Security, after taking into account any amendments or interpretations of the Rule; and
- (2) The amendment does not materially impair the interests of the holders or beneficial owners of the Municipal Security.

Notice of any amendment to this UNDERTAKING shall be filed with EMMA in a timely manner.

Section 8. The Issuer may rely on an opinion of its bond counsel when determining questions of materiality relating to any provision of this UNDERTAKING and the Rule.

IN WITNESS WHEREOF, the City of Passaic has caused this UNDERTAKING to be executed in its name by the City Chief Financial Officer, and its official seal to be affixed hereon and attested to by the Clerk, all as of August ____, 2019.

[SEAL]

CITY OF PASSAIC

Amanda Curling
Clerk

By: _____
Vidya R. Nayak
Chief Financial Officer

Appendix A

FORM OF

NOTICE TO MUNICIPAL SECURITIES RULEMAKING BOARD
OF THE OCCURANCE OF A MATERIAL EVENT

Name of Issuer/
Obligated Person: CITY OF PASSAIC

NOTICE IS HEREBY GIVEN of the occurrence of the following Material Event as required pursuant to the Issuer's prior secondary market disclosure undertakings:

(1) _____.

DATED: _____

CITY OF PASSAIC
STATE OF NEW JERSEY