

**PARKING AUTHORITY OF THE
CITY OF EAST ORANGE
(A Component Unit of the City of East Orange)**

Financial Statements and Schedules

December 31, 2017 and 2016

(With Independent Auditors' Reports Thereon)

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PARKING AUTHORITY OF THE CITY OF EAST ORANGE
(A Component Unit of the City of East Orange)

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INDEPENDENT AUDITOR'S REPORT

Honorable Chairman and Authority Commissioners
Parking Authority of the City of East Orange
60 Evergreen Place, Suite 503
East Orange, New Jersey

Report on the Financial Statements

We have audited the accompanying statement of net position of the Parking Authority of the City of East Orange (a component unit of the City of East Orange) as of December 31, 2017, and the related statements of revenues, expenses, and changes in fund net position and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents. The financial statements of the Parking Authority of the City of East Orange as of December 31, 2016 was audited by other auditors whose report dated April 19, 2017 expressed an unqualified opinion on those statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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



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

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

Basis for Qualified Opinion on United States Generally Accepted Accounting Principles

As described in Note 1 of the financial statements, the Authority is not recording depreciation as an expense in accordance with accounting principles generally accepted in the United States of America.

Opinion

In our opinion, except for the effects of the matter described in the "*Basis for Qualified Opinion on United States Generally Accepted Accounting Principles*" paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Parking Authority of the City of East Orange as of December 31, 2017, and the respective changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Prior Period Adjustment

Beginning net position on the statement of net position has been restated for the year ended December 31, 2016, as discussed in Note 10 of the financial statements.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprises the Parking Authority of the City of East Orange's financial statements. The Supplemental Schedules are presented for purposes of additional analysis and are not a required part of the financial statements.

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

Honorable Chairman and Authority Commissioners
Parking Authority of the City of East Orange
Page 4.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 24, 2018 on our consideration of the Parking Authority of the City of East Orange's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Parking Authority of the City of East Orange's internal control over financial reporting and compliance.

Very truly yours,

Ferraioli, Wielkatz, Cerullo & Cova, P.A.

FERRAIOLI, WIELKOTZ, CERULLO & CUVA, P.A.
Certified Public Accountants
Pompton Lakes, New Jersey

July 24, 2018

Management Discussion and Analysis

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PARKING AUTHORITY OF THE CITY OF EAST ORANGE
(A Component Unit of the City of East Orange)

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the East Orange Parking Authority, we offer the Authority's financial statements this narrative overview and analysis of the Authority's financial performance during the fiscal years ended December 31, 2017 and 2016. Please read this analysis in conjunction with the Authority's financial statements, which follow this section.

Financial Highlights

- The Authority's assets and deferred outflows did not exceed its liabilities and deferred inflows by \$1,017,593 (net position) for the fiscal year reported. This compares to the previous year when assets exceeded liabilities and deferred inflows by \$1,067,053.
- Total net position are comprised of the following:

The undesignated net position of \$1,017,593 represent the portion available to maintain the Authority's continuing obligations.
- Total liabilities of the Authority decreased by \$23,766 to \$251,607 during the fiscal year.

Overview of the Financial Statements

The Authority is a corporate and politic body organized under the laws of the State of New Jersey. The Comprehensive Annual Financial Report is presented in two sections: Financial Statements and Notes, and Supplemental Schedules and Comments. The Financial section includes Management's Discussion and Analysis and Financial Statements with notes that explain in more detail some of the information in the financial statements. The Supplemental Schedules include detailed financial information along with general comments and recommendations. The Authority has adopted the provisions of Governmental Accounting Standards Board (GASB) Statement 34 for the fiscal year ended December 31, 2017.

Required Financial Statements

The financial statements of the Authority report information about the Authority using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information about its activities.

PARKING AUTHORITY OF THE CITY OF EAST ORANGE
(A Component Unit of the City of East Orange)

MANAGEMENT'S DISCUSSION AND ANALYSIS
(continued)

Required Financial Statements, continued

The *Statement of Net Position* includes all of the Authority's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to Authority creditors (liabilities). It also provides the basis for evaluating the capital structure of the Authority and assessing the liquidity and financial flexibility of the Authority.

The *Statement of Revenues, Expenses, and Changes in Fund Net Position* reports how the Authority's net position changed during the current fiscal year. All current revenues and expenses are included regardless of when cash is received or paid. An important purpose of the design of the statement of activities is to show the financial reliance of the Authority's distinct activities or functions on revenues provided by the Authority's customers and other funding sources.

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

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

Notes to the Financial Statements

The accompanying notes to the financial statements provide information essential to a full understanding of the financial statements. The notes to the financial statements begin immediately following the basic financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report presents certain required supplementary information. This supplementary information follows the notes to the financial statements.

**PARKING AUTHORITY OF THE CITY OF EAST ORANGE
(A Component Unit of the City of East Orange)**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
(continued)**

Financial Analysis of the Authority

One of the most important questions asked about the Authority's finances is "Is the Authority as a whole better able to fulfill its mission as a result of this years activities?" The *Statement of Net Position* and the *Statement of Revenues, Expenses and Changes in Fund Net Position* report information about the Authority's activities in a way that will help answer this question. These two statements report net assets of the Authority and the changes in those assets. The reader can think of the Authority's net assets - the difference between assets and liabilities - as one way to measure financial health or financial position. Over time, increases or decreases in the Authority's net assets are one indicator of whether its financial health is improving or deteriorating. However, one will need to consider the non-financial factors such as changes in economic conditions, population growth, development, and new or changed government regulation.

Net Position

As year-to-year financial information is accumulated on a consistent basis, changes in fund net position may be observed and used to discuss the changing financial position of the Authority as a whole.

PARKING AUTHORITY OF THE CITY OF EAST ORANGE
(A Component Unit of the City of East Orange)

MANAGEMENT'S DISCUSSION AND ANALYSIS
(continued)

Net Position, continued

The Authority's net position at fiscal year-end is \$1,017,593. This is a \$49,460 decrease from last year's net position of \$1,067,053. A summary of the Authority's statement of net position is presented in the following table:

Condensed Statement of Net Position at December 31, 2017
With Comparative Prior Year Balances

	<u>2017</u>	<u>2016</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Total Current Assets	\$229,971	\$263,685	(\$33,714)	(12.8)%
Total Noncurrent Assets	<u>1,048,882</u>	<u>1,033,386</u>	<u>15,496</u>	1.5%
Total Assets	<u>1,278,853</u>	<u>1,297,071</u>	<u>(18,218)</u>	(1.4)%
Deferred Outflows	<u>88,405</u>	<u>76,776</u>	<u>11,629</u>	15.1%
Total Deferred Outflows of Resources	<u>88,405</u>	<u>76,776</u>	<u>11,629</u>	15.1%
Total Current Liabilities	47,383	31,180	16,203	52.0%
Non-Current Liabilities	<u>251,607</u>	<u>275,373</u>	<u>(23,766)</u>	(8.6)%
Total Liabilities	<u>298,990</u>	<u>306,553</u>	<u>(7,563)</u>	(2.5)%
Deferred Inflows of Resources	<u>50,675</u>	<u>241</u>	<u>50,434</u>	20927.0%
Total Deferred Inflows of Resources	<u>50,675</u>	<u>241</u>	<u>50,434</u>	20927.0%
Invested in Capital Assets, Net of Related Debt	1,046,382	1,030,886	15,496	1.5%
Unrestricted	<u>(28,789)</u>	<u>36,167</u>	<u>(64,956)</u>	(179.6)%
Total Net Position	<u>\$1,017,593</u>	<u>\$1,067,053</u>	<u>(\$49,460)</u>	(4.6)%

**PARKING AUTHORITY OF THE CITY OF EAST ORANGE
(A Component Unit of the City of East Orange)**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
(continued)**

Net Position, continued

While the *Statement of Net Position* shows the change in financial position, the *Statement of Revenues, Expenses and Changes in Fund Net Position* provides answers as to the nature and source of these changes. As can be seen in the following table, net position decreased by \$49,460.

**Condensed Statement of Revenues, Expenses
And Changes in Fund Net Position
For the Year Ending December 31, 2017
With Comparative Prior Year Balances**

	<u>2017</u>	<u>2016</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Operating Revenues	\$472,370	\$493,204	(\$20,834)	(4.2)%
Non-operating Revenues	<u>144</u>	<u>62</u>	<u>82</u>	132.3%
Total Revenues	<u>472,514</u>	<u>493,266</u>	<u>(20,752)</u>	(4.2)%
Other Operating Expense	<u>521,974</u>	<u>390,404</u>	<u>131,570</u>	33.7%
Total Expenses	<u>521,974</u>	<u>390,404</u>	<u>131,570</u>	33.7%
Change in Net Position	(49,460)	102,862	(152,322)	(148.1)%
Beginning Net Position	<u>1,067,053</u>	<u>964,191</u>	<u>102,862</u>	10.7%
Ending Net Position	<u>\$1,017,593</u>	<u>\$1,067,053</u>	<u>(\$49,460)</u>	(4.6)%

The Authority's operating revenues decreased by \$(20,834) to \$472,370 in fiscal year 2017 from \$493,204 in 2016 due to a reduction in parking fee volume. Non-operating revenues increased by \$82 to \$144 due to an increase in interest earnings.

PARKING AUTHORITY OF THE CITY OF EAST ORANGE
(A Component Unit of the City of East Orange)

MANAGEMENT'S DISCUSSION AND ANALYSIS
(continued)

Budgetary Highlights

The State of New Jersey requires local authorities to prepare and adopt annual budgets in accordance with the Local Authorities Fiscal Control Law and regulations adopted by the Local Finance Board pursuant to this statute and codified as N.J.A.C. 5:31-1 et seq. The statutory budget was designed to demonstrate to the Bureau of Authority Regulation of the Division of Local Government Services that the cash flows of the Authority for the coming year will be sufficient to cover operating expenses, interest accruing on bonded indebtedness and cash payments of maturing bond principal.

The following table provides a 2017 budget comparison:

	Budget vs. Actual FY 2017		
	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues:			
Operating	\$504,636	\$472,370	\$32,266
Non-Operating	<u>49</u>	<u>144</u>	<u>(95)</u>
	<u>504,685</u>	<u>472,514</u>	<u>32,171</u>
Expenses:			
Operating	<u>374,300</u>	<u>521,974</u>	<u>(147,674)</u>
	<u>374,300</u>	<u>521,974</u>	<u>(147,674)</u>
Excess of Revenues Over Expenditures	<u>\$130,385</u>	<u>(\$49,460)</u>	<u>(\$115,503)</u>

PARKING AUTHORITY OF THE CITY OF EAST ORANGE
(A Component Unit of the City of East Orange)

MANAGEMENT'S DISCUSSION AND ANALYSIS
(continued)

Budgetary Highlights, (continued)

	Budget vs. Actual FY 2016		
	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues:			
Operating	\$353,521	\$493,204	(\$139,683)
Non-Operating	<u>37</u>	<u>62</u>	<u>(25)</u>
	<u>353,558</u>	<u>493,266</u>	<u>(139,708)</u>
Expenses:			
Operating	<u>342,348</u>	<u>390,404</u>	<u>(48,056)</u>
	<u>342,348</u>	<u>390,404</u>	<u>(48,056)</u>
Excess of Revenues Over Expenditures	<u>\$11,210</u>	<u>\$102,862</u>	<u>(\$187,764)</u>

Supplementary Schedule 1 shows that, on a budgetary basis, the Authority realized an unfavorable variance of \$(147,674) on budgeted expenses of \$521,974 for the period ended December 31, 2017. The Authority realized a favorable variance on the revenue side of \$32,171 resulting in a budgetary basis net variance of \$(115,503). No adjustments are necessary to reconcile the budgetary basis net income to GAAP.

**PARKING AUTHORITY OF THE CITY OF EAST ORANGE
(A Component Unit of the City of East Orange)**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
(continued)**

Capital Assets

At the end of fiscal year 2017, the Authority had invested \$1,046,381 in capital assets. A summary of the Authority's capital assets is presented in the following table:

Capital Assets (Net of Depreciation)			
	<u>2017</u>	<u>2016</u>	<u>Dollar Change</u>
Building and Building Improvements	\$904,464	\$904,464	\$0
Automobiles	63,635	48,205	15,430
Machinery and Equipment	<u>78,282</u>	<u>78,282</u>	<u>0</u>
	<u>\$1,046,381</u>	<u>\$1,030,951</u>	<u>\$15,430</u>

Economic Factors, Future Years' Budgets and Rates

The Commissioners and management of the Authority consider many factors when preparing each year's budget and annual charges. Two of the main factors are growth in the Authority's system and new regulations issued by the State and Federal governments.

The City has resolved to sell unused lot properties which will increase the Authority's cash flow.

Contacting the Authority

This financial report is designed to provide our customers and creditors with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the fees it receives. If you have any questions about this report or need additional information, contact the Parking Authority of the City of East Orange, 60 Evergreen Place, Suite 503, East Orange, New Jersey 07018.

Financial Statements

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PARKING AUTHORITY OF THE CITY OF EAST ORANGE
(A Component Unit of the City of East Orange)
Statement of Net Position
December 31,

<u>Assets</u>	<u>2017</u>	<u>Restated 2016</u>
Current assets:		
Cash and cash equivalents	\$ 178,280	215,519
Accounts Receivable	<u>51,691</u>	<u>48,166</u>
Total current assets	<u>229,971</u>	<u>263,685</u>
Noncurrent assets:		
Security Deposit	2,500	2,500
Improvements and Construction Costs	904,464	904,464
Automobiles	63,635	48,205
Equipment	12,758	12,758
New Meter	49,587	49,521
Pay Station	<u>15,938</u>	<u>15,938</u>
Total noncurrent assets	<u>1,048,882</u>	<u>1,033,386</u>
Total assets	<u>\$ 1,278,853</u>	<u>1,297,071</u>
<u>Deferred Outflows of Resources</u>		
Deferred Outflows:		
Deferred Pension-Related Costs	<u>\$ 88,405</u>	<u>76,776</u>
Total Deferred Outflows of Resources	<u>\$ 88,405</u>	<u>76,776</u>

PARKING AUTHORITY OF THE CITY OF EAST ORANGE
(A Component Unit of the City of East Orange)
Statement of Net Position
December 31,

	<u>2017</u>	<u>Restated 2016</u>
<u>Liabilities and Net Position</u>		
Current liabilities:		
Payroll Taxes Payable	\$ 4,399	3,156
Employee Benefits Payable	10,013	8,260
Accounts Payable	9,525	
Insurance Settlement	<u>23,446</u>	<u>19,764</u>
Total current liabilities	<u>47,383</u>	<u>31,180</u>
Non-Current Liabilities		
Net Pension Liability	<u>251,607</u>	<u>275,373</u>
Total non-current liabilities	<u>251,607</u>	<u>275,373</u>
Total liabilities	<u>298,990</u>	<u>306,553</u>
<u>Deferred Inflows of Resources</u>		
Deferred Inflows:		
Deferred Pension-Related Costs	<u>50,675</u>	<u>241</u>
Total Deferred Inflows of Resources	<u>\$ 50,675</u>	<u>241</u>
<u>Net Position</u>		
Net Position:		
Invested in Capital Assets, net of Related Debt	1,046,382	1,030,886
Unrestricted	<u>(28,789)</u>	<u>36,167</u>
Total net position	<u>\$ 1,017,593</u>	<u>1,067,053</u>

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

PARKING AUTHORITY OF THE CITY OF EAST ORANGE
(A Component Unit of the City of East Orange)
Statement of Revenues, Expenses, and Changes in Fund Net Position
December 31,

	<u>2017</u>	<u>2016</u>
Operating revenues:		
Service charges	\$ 94,264	
Parking fees	<u>378,106</u>	<u>493,204</u>
Total operating revenues	<u>472,370</u>	<u>493,204</u>
Operating expenses:		
Salaries and wages	80,901	48,193
Fringe Benefits	8,767	
Administrator Salary	124,034	93,459
Field Expenses	152,157	79,523
Administrative Expenses	<u>156,115</u>	<u>169,229</u>
Total operating expenses	<u>521,974</u>	<u>390,404</u>
Operating Income (Loss)	<u>(49,604)</u>	<u>102,800</u>
Nonoperating income (expenses):		
Interest on investments	<u>144</u>	<u>62</u>
Net nonoperating income	<u>144</u>	<u>62</u>
Change in Net Position	(49,460)	102,862
Net position at beginning of year	<u>1,067,053</u>	<u>964,191</u>
Net position at end of year	<u>\$ 1,017,593</u>	<u>1,067,053</u>

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

PARKING AUTHORITY OF THE CITY OF EAST ORANGE
(A Component Unit of the City of East Orange)
Statement of Cash Flows
December 31,

	<u>2017</u>	<u>2016</u>
Cash flow from operating activities		
Receipts from customers	\$ 468,845	455,204
Payments to employees	(207,550)	(141,742)
Payments to suppliers	<u>(298,678)</u>	<u>(248,752)</u>
Net cash provided by (used for) operating activities	<u>(37,383)</u>	<u>64,710</u>
Cash flows from investing activities		
Interest	<u>144</u>	<u>62</u>
Net cash provided by (used for) investing activities	<u>144</u>	<u>62</u>
Net increase (decrease) in cash and cash equivalents	(37,239)	64,772
Cash and cash equivalents, beginning of year	<u>215,519</u>	<u>150,747</u>
Cash and cash equivalents, end of year	<u>\$ 178,280</u>	<u>215,519</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	\$ (49,604)	106,402
Change in assets and liabilities:		
(Increase)decrease in receivables	(3,525)	(43,218)
Increase(decrease) in employee benefits payable	1,753	(8,260)
Increase(decrease) in wages payable		(836)
Increase(decrease) in current liabilities	13,144	7,466
Increase(decrease) in payroll taxes payable	<u>849</u>	<u>3,156</u>
Net cash provided by (used for) operating activities	<u>\$ (37,383)</u>	<u>64,710</u>

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

Notes to Financial Statements

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PARKING AUTHORITY OF THE CITY OF EAST ORANGE
(A Component Unit of the City of East Orange)

Notes to Financial Statements

December 31, 2017 and 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization

The Parking Authority of the City of East Orange (the Authority) is a public body politic and corporate organized and existing under an act of the New Jersey Legislature N.J.S. 40:11A-1, et seq. It was created by virtue of "Ordinance #14-70, creating the Parking Authority of the City of East Orange" adopted by the Council of the City of East Orange on March 10, 1970. The Parking Authority was organized under date of May 25, 1970 and consists of five members appointed by the City Council of the City of East Orange.

The Parking Authority was created to develop, operate and maintain parking facilities within the City of East Orange. As a public body, under existing statute, the Parking Authority is exempt from federal, state and local taxes.

The Authority's fiscal year is the twelve-month period ending December 31, on any year, or such twelve-month period, which the Authority may establish by Resolution.

B. Component Unit

In evaluating how to define the Authority for financial reporting purposes, management has considered all potential component units. The decision to include any potential component units in the financial reporting entity was made by applying the criteria set forth in GASB Statements No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, and GASB Statement No. 61, *The Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14 and No. 34*. Blended component units, although legally separate entities, are in-substance part of the government's operations. Each discretely presented component unit would be or is reported in a separate column in the financial statements to emphasize that it is legally separate from the government.

The basic-but not the only-criterion for including a potential component unity within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the government and/or its citizens.

PARKING AUTHORITY OF THE CITY OF EAST ORANGE
(A Component Unit of the City of East Orange)

Notes to Financial Statements, Continued

December 31, 2017 and 2016

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

B. Component Unit, (continued)

A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the government is able to exercise oversight responsibilities. Finally, the nature and significance of a potential component unit to the primary government could warrant its inclusion within the reporting entity.

Based upon the application of these criteria, the Authority is a component unit of the City of East Orange.

C. Basis of Presentation

The financial statements of the Parking Authority of the City of East Orange have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to enterprise funds of state and local governmental units. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that the costs (expenses, including depreciation) of providing services to the general public on a continuing basis be financed or recovered primarily through user charges, or where the governing body has decided that periodic determination of revenues earned, expenses incurred, and or net income is appropriate for capital maintenance, public policy, accountability or other purposes.

The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The Authority also applies Financial Accounting Standards Board (FASB) statement and interpretations issued on or before November 30, 1989, to its proprietary activities provided they do not conflict with or contradict GASB pronouncements.

D. Basis of Accounting

The Parking Authority of the City of East Orange prepares its financial statements on the accrual basis of accounting in accordance with generally accepted accounting principles. Under the accrual basis of accounting, revenues are recognized when they are earned and expenses are recognized when the liability is incurred.

PARKING AUTHORITY OF THE CITY OF EAST ORANGE
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Notes to Financial Statements, Continued

December 31, 2017 and 2016

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

E. Cash and Cash Equivalents

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

The Authority's investment practices are governed by New Jersey State Statute 40A:5-15. Statutes authorize the Authority to invest in certificates of deposit, repurchase agreements, passbooks, and other available bank investments provided that approved securities are pledged to secure those funds on deposit in an amount equal to the amount of those funds and a maturity date not greater than 12 months from the date of purchase. In addition, the Authority can invest in direct debt securities of the United States or obligations guaranteed by the United States, bonds and other obligations of the local municipality or bonds or obligations of school districts of which the Authority is a part or within which the Authority is located unless such investments are expressly prohibited by law.

F. Plant and Equipment

Plant and Equipment are stated at cost, which includes direct acquisition costs and other expenditures related to acquisition or construction. Acquisitions that do not provide both current and future benefits are charged to current operating results.

Depreciation is not being recorded by the Parking Authority.

G. Budgetary Procedures

The budget amounts included in the statement of budget revenues and statement of budget expenditures were approved in accordance with the requirements of the "Local Finance Board" of the State of New Jersey, and were adopted by the Commissioners after legal advertisement and public hearing.

H. Use of Estimates

The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

PARKING AUTHORITY OF THE CITY OF EAST ORANGE
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Notes to Financial Statements, Continued

December 31, 2017 and 2016

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

I. Comparative Data

Comparative data for the prior year have been presented in order to provide an understanding of changes in the Authority's financial position and operations.

J. Accumulated Unpaid Vacation and Sick Pay

The Authority's employees are granted vacation and sick leave in varying amounts. In the event of termination or retirement, an employee is reimbursed for accumulated vacation days up to 120 days. Employees are reimbursed for 50% of accumulated sick leave only upon retirement or termination. Accumulated unpaid vacation and sick leave is accrued when earned.

K. Recent Accounting Pronouncements

In June 2015, the Government Accounting Standards Board issued GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. This Statement applies to government employers who provided OPEB plans to their employees and basically parallels GASB Statement 68 and replaces GASB Statement 45. The Statement is effective for periods beginning after June 15, 2017. The Authority does not believe this Statement will have any effect on future financial statements.

In June 2015, the Government Accounting Standards Board issued GASB Statement No. 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments, which reduces the GAAP hierarchy to two categories of authoritative GAAP from the four categories under GASB Statement No. 55, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments. The first category of authoritative GAAP consists of GASB Statements of Governmental Accounting Standards. The second category comprises GASB Technical Bulletins and Implementation Guides, as well as guidance from the American Institute of Certified Public Accountants that is cleared by the GASB. This Statement is effective for periods beginning after June 15, 2015. The Authority does not believe this Statement will have any effect on future financial statements.

In December 2015, the Government Accounting Standards Board issued GASB Statement No. 78, Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans. The objective of this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68, Accounting and Financial Reporting for Pensions. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. This Statement is effective for reporting periods beginning after December 15, 2015. The Authority does not believe this Statement will have any effect on future financial statements.

PARKING AUTHORITY OF THE CITY OF EAST ORANGE
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Notes to Financial Statements, Continued

December 31, 2017 and 2016

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

K. Recent Accounting Pronouncements, (continued)

In March 2016, the Government Accounting Standards Board issued GASB Statement No. 82, Pension Issues - an Amendment of GASB Statements No. 67, No. 68 and No. 73. The objective of this Statement is to address certain issues that have been raised with respect to Statement No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. This Statement is effective for reporting periods beginning after June 15, 2016. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice.

In November 2016, the Government Accounting Standards Board issued GASB Statement No. 83, Certain Asset Retirement Obligations. This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflows of resources for asset retirement obligations (AROs). The Authority does not believe this Statement will have any effect on future financial statements.

In January 2017, the Government Accounting Standards Board issued GASB Statement No. 84, Fiduciary Activities. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus on the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify component units and postemployment benefit arrangements that are fiduciary activities. The Authority is currently evaluating the effects, if any, this Statement may have on future financial statements.

In March 2017, the Government Accounting Standards Board issued GASB Statement No. 85, Omnibus 2017, which addresses practice issues that have been identified during the implementation and application of certain GASB statements. This Statement addresses a variety of topics including issues relating to blending component units, goodwill, fair value measurement and application, and postemployment benefits. The Authority is currently reviewing what effect, if any, this Statement might have on future financial statements.

In May 2017, the Governmental Accounting Standards Board issued GASB Statement No. 86, Certain Debt Extinguishment Issues, which improves consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of

PARKING AUTHORITY OF THE CITY OF EAST ORANGE
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Notes to Financial Statements, Continued

December 31, 2017 and 2016

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

K. Recent Accounting Pronouncements, (continued)

extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. The Authority is currently reviewing what effect, if any, this Statement might have on future financial statements.

In June 2017, the Governmental Accounting Standards Board issued GASB Statement No. 87, Leases, which is intended to increase the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, as a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about the government's leasing activities. The Authority is currently reviewing what effect, if any, this Statement might have on future financial statements.

The Government Accounting Standards Board issued GASB Statement No. 88, Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placement. The objective of this Statement is to improve consistency in the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements, and to provide financial statement users with additional essential information about debt. This Statement is effective for reporting periods beginning after June 15, 2018. The Authority believes this may impact the disclosures relating to debt in the notes to the financial statements.

The Government Accounting Standards Board issued GASB Statement No. 89, Accounting for Interest Cost Incurred Before the end of a Construction. The objectives of this Statement is to (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The Authority believes this may impact the disclosures relating to interest costs incurred before the end of a construction period in the notes to the financial statements.

PARKING AUTHORITY OF THE CITY OF EAST ORANGE
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Notes to Financial Statements, Continued

December 31, 2017 and 2016

NOTE 2. CASH AND CASH EQUIVALENTS

General Authorization

The City of East Orange Parking Authority's deposit and investment practices are governed by New Jersey State Statute 40A:5-15.

GASB Statement No. 3, amended by GASB Statement No. 40, requires disclosure of the level of custodial credit risk assumed by the Authority in its cash, cash equivalents and investments.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of the failure of a depository financial institution, the Authority will not be able to recover its deposits. The Authority does not have a policy for custodial credit risk; however, the State of New Jersey imposes certain collateral requirements for governmental units that have been adopted in the Authority's cash management plan. These requirements are disclosed in detail in Note 1E.

Deposits

The Authority's deposits are insured through either the Federal Deposit Insurance Corporation (FDIC) or New Jersey's Governmental Unit Deposit Protection Act (GUDPA). GUDPA requires all banks doing business in the State of New Jersey to maintain additional collateral in the amount of 5% of the average public deposits and to deposit these amounts with the Federal Reserve Bank for all deposits not covered by FDIC.

Bank balances are insured up to \$250,000.00 in the aggregate by the FDIC for each bank. Operating cash, in the form of various checking, savings and NOW Accounts, are held in the Authority's name by commercial banking institutions. At December 31, 2017, the carrying amount of the Authority's deposits was \$178,280 and the bank balance was \$193,583. Of the bank balance, up to \$250,000 is insured with Federal Deposit Insurance and \$-0- was covered by GUDPA.

Pursuant to GASB Statement No. 40, "Deposit and Investment Risk Disclosures" ("GASB 40"), the Authority's bank accounts are profiled in order to determine exposure, if any, to Custodial Credit Risk (risk that in the event of failure of the counterparty, the Authority would not be able to recover the value of its deposits or investment). Deposits are considered to be exposed to Custodial Credit Risk if they are uncollateralized (securities not pledged by the depositor), collateralized with securities held by the pledging institution or collateralized with securities held by the financial institution's trust department or agent but not in the government's name. At December 31, 2017, all of the Authority's deposits were insured with Federal Deposit Insurance or under the provisions of the Governmental Unit Deposit Protection Act (GUDPA) and not exposed to custodial credit risk.

**PARKING AUTHORITY OF THE CITY OF EAST ORANGE
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Notes to Financial Statements, Continued

December 31, 2017 and 2016

NOTE 2. CASH AND CASH EQUIVALENTS, (continued)

Concentration of Credit Risk

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

NOTE 3. BUDGETARY PROCEDURES

The Authority follows the following procedures in establishing the budget.

At least 60 days prior to January 1, the Authority submits its proposed budget to the Division of Local Government Services for approval. The operating budget includes proposed appropriations and the estimated revenues to finance them.

Public hearings are conducted to obtain citizen comments on the proposed budget.

Appropriations lapse at the close of the fiscal year to the extent that they have not been expended.

The Authority's budget is prepared in accordance with generally accepted accounting principles. Revenues are recorded when they became earned and measurable, and expenditures are recorded when they are incurred.

The level at which expenditures cannot exceed budget is at the total budget level.

NOTE 4. CAPITAL ASSETS

The following is a summary of capital asset activity for the years ended December 31, 2017 and 2016:

<u>2017</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Ending Balance</u>
Noncurrent Assets:			
Improvements and Construction Costs	\$904,464	\$	904,464
Automobiles	48,205	15,430	63,635
Machinery and Equipment	<u>78,282</u>		<u>78,282</u>
Totals at Historical Cost of Noncurrent Assets	<u>\$1,030,951</u>	<u>\$15,430</u>	<u>\$1,046,381</u>
<u>2016</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Ending Balance</u>
Noncurrent Assets:			
Improvements and Construction Costs	\$904,464	\$	904,464
Automobiles	48,205		48,205
Machinery and Equipment	<u>62,477</u>	<u>15,805</u>	<u>78,282</u>
Totals at Historical Cost of Noncurrent Assets	<u>\$1,015,146</u>	<u>\$15,805</u>	<u>\$1,030,951</u>

PARKING AUTHORITY OF THE CITY OF EAST ORANGE
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Notes to Financial Statements, Continued

December 31, 2017 and 2016

NOTE 4. CAPITAL ASSETS, (continued)

Depreciation is not being calculated or recorded as expense in the financial statements.

NOTE 5. PENSION PLAN

Description of Plan - All required employees of the Authority are covered by the Public Employees' Retirement System which has been established by state statute and is administered by the New Jersey Division of Pension and Benefits (Division). According to the State of New Jersey Administrative Code, all obligations of the System will be assumed by the State of New Jersey should the System terminate.

Public Employees' Retirement System (PERS) - The Public Employees' Retirement System (PERS) was established as of January 1, 1955 under the provisions of N.J.S.A. 43:15A to provide retirement, death, disability and medicals benefits to certain qualified members. The Public Employees' Retirement System is a cost-sharing multiple-employer plan. Membership is mandatory for substantially all full-time employees of the State of New Jersey or any county, municipality, school district, or public agency, provided the employee is not required to be a member of another state-administered retirement system or other state or local jurisdiction.

Defined Contribution Retirement Program (DCRP) - The Defined Contribution Retirement Program (DCRP) was established as of July 1, 2008 under the provisions of Chapter 92, P.L. 2008 and Chapter 103, P.L. 2008 (NJSA 43:15C-1 et seq). The DCRP is a cost-sharing multiple-employer defined contribution pension fund. The DCRP provides eligible members, and their beneficiaries with a tax-sheltered, defined contribution retirement benefit, along with life insurance and disability coverage. Vesting and benefit provisions are established by NJSA 43:15C-1 et seq.

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 government employers do not appropriate funds to SACT.

The cost of living increase for PERS is funded directly by the respective system and are considered in the annual actuarial calculation of the required State contribution for the system.

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.

PARKING AUTHORITY OF THE CITY OF EAST ORANGE
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Notes to Financial Statements, Continued

December 31, 2017 and 2016

NOTE 5. PENSION PLAN, (continued)

The State of New Jersey, Department of the Treasury, Division of Pensions and Benefits, issued publicly available financial reports that include the financial statements and required supplementary information of each of the above systems. The financial reports may be accessed via the New Jersey, Division of Pensions and Benefits, website at www.state.nj.us/treasurey/pensions. Prudential Financial jointly administers the DCRP investments with the New Jersey Division of Pensions and Benefits. As a general rule, all full-time employees are eligible to join the PERS. However, if an employee is ineligible to enroll in the PERS, the employee may be eligible to enroll in DCRP.

Basis of Accounting

The financial statements of the retirement systems are prepared on the accrual basis of accounting. Employer contributions are recognized when payable to the retirement systems. Benefits or refunds are recognized when due and payable in accordance with the terms of the retirement systems.

Investment Valuation

Investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. The fair value of real estate investments is based on independent appraisals. Investments that do not have an established market are reported at estimated fair values.

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, Common Pension Fund A, Common Pension Fund B, Common Pension Fund D and Common Pension Fund E. The financial reports may be obtained in writing to the State of New Jersey, Department of the Treasury, Division of Investment, P.O. Box 290, Trenton, New Jersey 08625-0290.

Funding Status and Funding Progress

The funded status and funding progress of the retirement system is based on actuarial valuations which involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. These amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the probability of future events.

**PARKING AUTHORITY OF THE CITY OF EAST ORANGE
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Notes to Financial Statements, Continued

December 31, 2017 and 2016

NOTE 5. PENSION PLAN, (continued)

Actuarial calculations reflect a long-term perspective and are based on the benefits provided under the terms of the retirement systems in effect at the time of each valuation and also consider the pattern of the sharing of costs between the employer and members at that point in time. The projection of benefits for financing reporting purposes does not explicitly incorporate the potential effects of legal or contractual limitations on the pattern of cost sharing between the employer and members in the future.

Employer and Employee Pension Contributions

The contribution policy is set by laws of the State of New Jersey and, in most retirement systems, contributions are required by active members and contributing employers. Plan member and employer contributions may be amended by State of New Jersey legislation. The pension funds provide for employee contributions based on 5.5% for PERS of the employee's annual compensation. Pursuant to the provisions of Chapter 78, P.L. 2011, this amount will increase to 6.5% plus an additional 1% phased in over 7 years beginning in the first year. For fiscal year 2012, the member rate will increase in October 2011. Employers are required to contribute at an actuarially determined rate in all Funds except the SACT. The actuarially determined employer contribution includes funding for cost-of-living adjustments and noncontributory death benefits in the PERS. In the PERS, the employer contribution includes funding for post-retirement medical premiums. Employee contributions for DCRP are based on 5.50% of employee's annual compensation and are matched by a 3% employer contribution.

During the year ended June 30, 2012 for PERS, which is a cost sharing multi-employer defined benefit pension plan, the annual pension cost differs from the annual required contribution due to the enactment of Chapter 114, P.L. 1997. PERS employer contributions are made annually by the Authority to the pension system in accordance with Chapter 114, P.L. 1997.

Annual Pension Costs (APC)

Three Year Trend Information for PERS

<u>Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>
12/31/17	\$8,260	100%
12/31/16	7,842	100%
12/31/15	7,438	100%

The Authority did not make any contributions to the DCRP for the years ended December 31, 2017, 2016 or 2015.

PARKING AUTHORITY OF THE CITY OF EAST ORANGE
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Notes to Financial Statements, Continued

December 31, 2017 and 2016

NOTE 5. PENSION PLAN, (continued)

ACCOUNTING AND FINANCIAL REPORTING FOR PENSION IN THE FINANCIAL STATEMENTS PER - GASB NO. 68

Public Employees Retirement System (PERS)

At December 31, 2017, the Authority had a liability of \$251,607 for its, proportionate share of the PERS net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Authority's proportion of the net pension liability was based on a projection of the Authority's long-term share of contributions to the pension plan relative to the projected contributions of all participating governmental entities, actuarially determined. At June 30, 2017, the Authority's proportion was 0.00108085085 percent, which was an increase/(decrease) of 0.0001510822 percent from its proportion measured as of June 30, 2016.

For the year ended December 31, 2017, the Authority recognized pension expense of \$25,051. At December 31, 2017, the Authority reported deferred outflows of resources and deferred inflows of resources related to PERS from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference in actual and expected expense	\$5,924	\$
Changes of assumptions	50,690	50,504
Net difference between projected and actual earnings on pension plan investments	1,713	
Changes in proportion and differences between Authority contributions and proportionate share of contributions	<u>30,078</u>	<u>171</u>
Total	<u>\$88,405</u>	<u>\$50,675</u>

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Notes to Financial Statements, Continued

December 31, 2017 and 2016

NOTE 5. PENSION PLAN, (continued)

ACCOUNTING AND FINANCIAL REPORTING FOR PENSION IN THE FINANCIAL STATEMENTS PER - GASB NO. 68, (continued)

Public Employees Retirement System (PERS), (continued)

Amounts reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date (June 30, 2017) will be recognized as a reduction of the net pension liability in the subsequent year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions (excluding changes in proportion) will be recognized in pension expense as follows:

Year ended December 31:	
2018	\$5,923
2019	8,938
2020	5,416
2021	(7,203)
2022	(5,250)

Changes in Proportion

The previous amounts do not include employer specific deferred outflows of resources and deferred inflows of resources related to changes in proportion. These amounts should be recognized (amortized) by each employer over the average of the expected remaining service lives of all plan members, which is 5.48, 5.57, 5.72 and 6.44 years for 2017, 2016, 2015 and 2014 amounts, respectively.

Additional Information

Local Group Collective balances at June 30, 2017 and 2016 are as follows:

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Collective deferred outflows of resources	\$6,424,455,842	\$8,685,338,380
Collective deferred inflows of resources	5,700,625,981	870,133,595
Collective net pension liability	23,278,401,588	29,617,131,759
Authority's Proportion	0.0010808585%	0.0009297763%

PARKING AUTHORITY OF THE CITY OF EAST ORANGE
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Notes to Financial Statements, Continued

December 31, 2017 and 2016

NOTE 5. PENSION PLAN, (continued)

ACCOUNTING AND FINANCIAL REPORTING FOR PENSION IN THE FINANCIAL STATEMENTS PER - GASB NO. 68, (continued)

Public Employees Retirement System (PERS), (continued)

Actuarial Assumptions

The total pension liability for the June 30, 2017 measurement date was determined by an actuarial valuation as of July 1, 2016, which rolled forward to June 30, 2017. This actuarial valuation used the following assumptions, applied to all periods in the measurement.

Inflation	2.25 Percent
Salary Increases:	
Through 2026	1.65-4.15 Percent (based on age)
Thereafter	2.65-5.15 Percent (based on age)
Investment Rate of Return	7.00 Percent

Mortality Rates

Pre-retirement mortality rates were based on the RP-2000 Employee Pre-retirement Mortality Table for male and female active participants. For State employees, mortality tables are set back 4 years for males and females. For local employees, mortality tables are set back 2 years for males and 7 years for females. In addition, the tables provide for future improvements in mortality from the base year of 2013 using a generational approach based on the plans actuary's modified MP-2014 projection scale. Post-retirement mortality rates were based on the RP-2000 Combined Healthy Male and Female Mortality Tables (setback 1 year for males and females) for service retirements and beneficiaries of former members and a one year static projection based on mortality improvement Scale AA. In addition, the tables for service retirements and beneficiaries of former members provide for future improvements in mortality from the base year of 2013 using a generational approach based on the plan actuary's modified MP-2014 projection scale. Disability retirement rates used to value disabled retirees were based on the RP-2000 Disabled Mortality Table (set back 3 years for males and set forward 1 year for females).

The actuarial assumptions used in the July 1, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2011 to June 30, 2014. It is likely that future experience will not exactly conform to these assumptions. To the extent that actual experience deviates from these assumptions, the emerging liabilities may be higher or lower than anticipated. The more the experience deviates, the larger the impact on future financial statements.

**PARKING AUTHORITY OF THE CITY OF EAST ORANGE
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Notes to Financial Statements, Continued

December 31, 2017 and 2016

NOTE 5. PENSION PLAN, (continued)

ACCOUNTING AND FINANCIAL REPORTING FOR PENSION IN THE FINANCIAL STATEMENTS PER - GASB NO. 68, (continued)

Public Employees Retirement System (PERS), (continued)

Long-Term Rate of Return

In accordance with State statute, the long-term expected rate of return on plan investments (7.00% at June 30, 2017) is determined by the State Treasurer, after consultation with the Directors of the Division of Investments and Division of Pensions and Benefits, the board of trustees and the actuaries. The long-term expected rate of return was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in PERS's target asset allocation as of June 30, 2017 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Absolute return/risk mitigation	5.00%	5.51%
Cash equivalents	5.50%	1.00%
U.S. Treasuries	3.00%	1.87%
Investment grade credit	10.00%	3.78%
Public high yield	2.50%	6.82%
Global diversified credit	5.00%	7.10%
Credit oriented hedge funds	1.00%	6.60%
Debt related private equity	2.00%	10.63%
Debt related real estate	1.00%	6.61%
Private real asset	2.50%	11.83%
Equity related real estate	6.25%	9.23%
U.S. equity	30.00%	8.19%
Non-U.S. developed markets equity	11.50%	9.00%
Emerging markets equity	6.50%	11.64%
Buyouts/venture capital	8.25%	13.08%

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Notes to Financial Statements, Continued

December 31, 2017 and 2016

NOTE 5. PENSION PLAN, (continued)

ACCOUNTING AND FINANCIAL REPORTING FOR PENSION IN THE FINANCIAL STATEMENTS PER - GASB NO. 68, (continued)

Public Employees Retirement System (PERS), (continued)

Discount Rate

The discount rate used to measure the total pension liability was 5.00% as of June 30, 2017. This single blended discount rate was based on the long-term expected rate of return on pension plan investments of 7.00% and a municipal bond rate of 3.58% as of June 30, 2017 based on the Bond Buyer GO 20-Bond Municipal Bond Index, which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made based on the contribution rate in the most recent fiscal year. The State employer contributed 40% of the actuarially determined contributions and the local employers contributed 100% of their actuarially determined contributions. Based on those assumptions, the plan's fiduciary net position was projected to be available to make projected future benefit payments of current plan members through 2040. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2040 and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liability.

Sensitivity of the Collective Net Pension Liability to Changes in the Discount Rate

The following presents the collective net pension liability of the participating employers as of June 30, 2017 respectively, calculated using the discount rate as disclosed above as well as what the collective net pension liability would be if it was calculated using a discount rate that is 1-percentage point lower or 1- percentage-point higher than the current rate:

	June 30, 2017		
	1% Decrease	At Current Discount Rate	1% Increase
	<u>4.00%</u>	<u>5.00%</u>	<u>6.00%</u>
Authority's proportionate share of the pension liability	\$312,135	\$251,607	\$201,179

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued Financial Report for the State of New Jersey Public Employees Retirement System (PERS). The financial report may be accessed at www.state.nj.us/treasury/pensions.

PARKING AUTHORITY OF THE CITY OF EAST ORANGE
(A Component Unit of the City of East Orange)

Notes to Financial Statements, Continued

December 31, 2017 and 2016

NOTE 6. RISK MANAGEMENT

The Authority has chosen traditional insurance coverage and contracted with private insurance carriers for risk of loss related to general liability, workmen's compensation, property damage and public officials' liability. The coverage is subject to certain policy limits and deductible amounts. The coverage is designed to minimize the impact of any potential losses to the Authority for matters which may have been caused or related to the Authority or its employees.

NOTE 7. INTERLOCAL SERVICE AGREEMENT

The Authority entered into a Memorandum of Understanding (MOU) with the City of East Orange on July 15, 2015. The agreement stated that the City agrees to pay fine sharing in the amount of \$10.00 per paid ticket written by EOPA officers to the Authority every month.

NOTE 8. LITIGATION

The Authority is a defendant in various legal proceedings. These cases, if decided against the Authority, would be funded by insurance. The Authority expects such amounts, if any, to be immaterial.

NOTE 9. SUBSEQUENT EVENTS

The Authority has evaluated subsequent events through July 24, 2018, the date which the financial statements were available to be issued. Based on the evaluation, the Authority has determined that an agreement has been brokered for the sale of two of five parking lots the Authority authorized to sell. The Authority passed a resolution to execute the sale of Lot 5A and 5E for \$82,500 and \$90,000, respectively.

NOTE 10. PRIOR PERIOD ADJUSTMENT

During 2017, adjustments were made to the December 31, 2016 audit balances to reflect net investment in capital assets as required by generally accepted accounting principles of the United States.

NOTE 11. UNRESTRICTED NET POSITION

	<u>2017</u>	<u>2016</u>
Pension Related	\$ (213,877)	\$ (198,838)
Available for Use in Future Budgets	<u>185,088</u>	<u>235,005</u>
Total	<u>(\$28,789)</u>	<u>\$36,167</u>

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Required Supplementary Information

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PARKING AUTHORITY OF THE CITY OF EAST ORANGE
Schedules of Required Supplementary Information
Schedule of Authority's Share of Net Pension Liability - PERS
*Last 10 Fiscal Years**

	2017	2016	2015
Authority's proportion of the net pension liability (asset)	0.0010808585%	0.0009297763%	0.0009121449%
Authority's proportionate share of the net pension liability (asset)	\$ 251,607	\$ 275,373	\$ 204,758
Authority's covered payroll - PERS	\$ 106,207	\$ 72,500	\$ 64,094
Authority's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	236.90%	379.82%	319.47%

* GASB requires that ten years of information be presented. However, since 2015 was the first year of GASB 68 implementation ten years is not presented. Each year thereafter, an additional year will be included until ten years of data is presented.

PARKING AUTHORITY OF THE CITY OF EAST ORANGE
Schedules of Required Supplementary Information
Schedule of Authority's Contributions - PERS
*Last 10 Fiscal Years**

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	10,013	8,260	7,842
Contributions in relation to the contractually required contribution	<u>(10,013)</u>	<u>(8,260)</u>	<u>(7,842)</u>
Contribution deficiency (excess)	<u>-</u>	<u>-</u>	<u>-</u>
Authority's covered payroll - PERS	\$ 106,207	\$ 72,500	\$ 64,094
Contributions as a percentage of covered payroll	9.43%	11.39%	12.24%

* GASB requires that ten years of information be presented. However, since 2015 was the first year of GASB 68 implementation ten years is not presented. Each year thereafter, an additional year will be included until ten years of data is presented.

PARKING AUTHORITY OF THE CITY OF EAST ORANGE
Note to Required Schedules of Supplementary Information - Part III
For the Year Ended June 30, 2017

PUBLIC EMPLOYEES RETIREMENT SYSTEM (PERS)

Change in benefit terms

None

Change in assumptions

The calculation of the discount rate used to measure the total pension liability is dependent upon the long-term expected rate of return, and the municipal bond index rate. There was a change in the municipal bond index rate from the prior measurement date (3.29%) to the current measurement date (3.58%), resulting in a change in the discount rate from 3.98% to 5.00%. This change in the discount rate is considered to be a change in actuarial assumptions under GASBS No. 68.

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Supplementary Schedules

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PARKING AUTHORITY OF THE CITY OF EAST ORANGE
(A Component Unit of the City of East Orange)

Supplemental Schedule of Operating Revenues and Appropriations -
Budget vs. Actual

Year ended December 31, 2017

	<u>Adopted</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance -</u> <u>favorable</u> <u>(unfavor-</u> <u>able)</u>
	<u>Budget</u>	<u>After</u> <u>Modificaiton</u>		
Revenues:				
Operating revenues				
Service charges	\$ 119,270	119,270	94,264	(25,006)
Parking fees:				
Meters	83,098	83,098	102,402	19,304
Permits	242,583	242,583	235,014	(7,569)
Fines/Penalties	59,685	59,685	40,690	(18,995)
Total operating revenues	<u>504,636</u>	<u>504,636</u>	<u>472,370</u>	<u>(32,266)</u>
Non-operating revenues				
Interest on deposits	49	49	144	95
Total non-operating revenues	<u>49</u>	<u>49</u>	<u>144</u>	<u>95</u>
Total Revenues	<u>\$ 504,685</u>	<u>504,685</u>	<u>472,514</u>	<u>(32,171)</u>
Operating expenditures:				
Administration				
Salary and wages	\$ 119,129	119,129	105,535	13,594
Fringe benefits			8,767	(8,767)
Other expenses	48,000	48,000	156,115	(108,115)
Cost of providing service:				
Salary and wages	37,500	37,500	80,901	(43,401)
Fringe benefits	3,605	3,605	18,499	(14,894)
Other expenses	166,066	166,066	152,157	13,909
Total operating expenditures	<u>374,300</u>	<u>374,300</u>	<u>521,974</u>	<u>(147,674)</u>
Change in Net Position	<u>\$ 130,385</u>	<u>130,385</u>	<u>(49,460)</u>	<u>(179,845)</u>

PARKING AUTHORITY OF THE CITY OF EAST ORANGE
(A Component Unit of the City of East Orange)

Roster of Officials

December 31, 2017

Commissioners

Mr. Clarence McKnight – Chairperson	2022
Ms. Taahira Muhammed-Dozier – Vice Chairperson	2022
Mr. Michael Harris – Secretary (1/1/17-3/16/17)	
Mr. Jerome Omar Robinson – Commissioner	2018
Ms. Kandi Ceballos	2019
Ms. Dana P. Owens – Commissioner	2019
Mr. Brian A. Lasure	2022

Other

Ms. Tasha Jackson – Operations Manager

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

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

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

Newton Office
100B Main Street
Newton, N.J. 07860
973-579-3212
Fax 973-579-7128

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

Honorable Chairman and Authority Commissioners
Parking Authority of the City of East Orange
60 Evergreen Place, Suite 503
East Orange, New Jersey

We have audited, in accordance with auditing standards generally accepted in the United States of America; audit requirements as prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey; and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Parking Authority of the City of East Orange, as of and for the year ended December 31, 2017, and the related notes to the financial statements, and have issued our report thereon dated July 24, 2018.

Internal Control Over Financial Reporting

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

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



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

The results of our tests identified a significant deficiency that is required to be reported under Government Auditing Standards which are described in the accompanying schedule of findings and questioned costs as item 2017-01. Also, we did identify certain immaterial deficiencies in internal control that we have reported to management of the Parking Authority of the City of East Orange in the accompany comments and recommendations section of this report.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Parking Authority of the City of East Orange's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests did not disclose any instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Also, we noted certain immaterial instances of noncompliance that we have reported to the management of the Parking Authority of the City of East Orange in a separate letter.

Purpose of this Report

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

Ferraioli, Wielkatz, Cerullo & Cova, P.A.

FERRAIOLI, WIELKOTZ, CERULLO & CUVA, P.A.
Certified Public Accountants
Pompton Lakes, New Jersey

July 24, 2018



General Comments

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PARKING AUTHORITY OF THE CITY OF EAST ORANGE
(A Component Unit of the City of East Orange)

GENERAL COMMENTS

N.J.S.A. 40A:11-2 contains definitions for terms used throughout N.J.S.A. 40A:11-1 et seq. and was amended under P.L. 1999, c.440. It includes as subsection (23) the term 'competitive contracting', which is defined as "the method described in sections 1 through 5 of P.L. 1999, c.440 (C.40:11-4.1 through C.40A:11-4.5) of contracting for specialized goods and services in which formal proposals are solicited from vendors' formal proposals are evaluated by the purchasing agent or counsel; and the governing body awards a contract to a vendor or vendors from among the formal proposals received."

N.J.S.A. 40A:11-3 was amended with P.L. 1999, c.440 to raise the bid threshold and require award by governing body resolution. "When the cost or price of any contract awarded by the purchasing agent in the aggregate does not exceed in a contract year the total sum of \$40,000.00, the contract may be awarded by a purchasing agent when so authorized by ordinance or resolution as appropriate to the contracting unit, of the governing body of the contracting unit without public advertising for bids and bidding therefore, except that the governing body may adopt an ordinance or resolution to set a lower threshold for the receipt of public bids or the solicitation of competitive quotations."

N.J.S.A. 40A:11-15 was amended with P.L. 1999, c.440 to extend the base contract period. "Any contract made pursuant to this section may be awarded for a period of 24 consecutive months, except that contracts for professional services pursuant to paragraph (1) of subsection (a) of N.J.S.A. 40A:11-5 may be awarded for a period not exceeding 12 consecutive months."

The bid thresholds in accordance with N.J.S.A. 40A:11-3 (as amended) is \$40,000.00.

The governing body has the responsibility of determining whether the expenditures in any category will exceed the statutory thresholds within the contract year. Where question arises as to whether any contract or agreement might result in violation of the statute, the opinion of the Authority's attorney should be sought before a commitment is made.

Inasmuch as the system of records did not provide for an accumulation of payments for categories for the performance of any work or the furnishing or hiring of any materials or supplies, the results of such an accumulation could not reasonably be ascertained. Disbursements were reviewed, however, to determine whether any clear-cut violations existed. No violations were discovered.

The results of our examination indicated that no individual payments, contracts, or agreements were made "for the performance of any work or the furnishing or hiring of any materials or supplies," in excess of the statutory thresholds where there had been no advertising for bids in accordance with the provision of N.J.S.A. 40A:11-4.

Resolutions were adopted authorizing the awarding of contract or agreements for "Professional Services" per N.J.S.A. 40A:11-5.

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

**PARKING AUTHORITY OF THE CITY OF EAST ORANGE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2017**

Section I – Financial Statement Findings

This section identifies the significant deficiencies, material weaknesses, fraud, illegal acts, violations of provisions of contracts and grant agreements and abuse related to the financial statements in accordance with Government Auditing Standards.

Finding 2017-01

Condition:

The Authority is not recording depreciation as an operating expense in the financial statements.

Criteria or Specific Requirements:

Governmental entities are required by N.J.A.C. 5:30-5.6 to maintain a fixed assets accounting system including a subsidiary ledger of detailed records of fixed assets and the related depreciation.

Effect:

Assets costs are not being matched to revenue generated throughout the useful life.

Recommendation:

That the Authority implement a capital asset management accounting and reporting system to reflect all fixed assets, equipment purchases and related depreciation.

Management's Response:

Management is investigating possible solutions to correct the finding.

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