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

FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
WITH INDEPENDENT AUDITOR'S REPORT

MORRIS COUNTY IMPROVEMENT AUTHORITY

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MORRIS COUNTY IMPROVEMENT AUTHORITY
(A Component Unit of the County of Morris)
ROSTER OF OFFICIALS
DECEMBER 31, 2010

COMMISSIONERS	POSITION	TERM EXPIRES
John Bonanni	Chairperson	February 1, 2012
Christina Ramirez	Vice Chairperson	February 1, 2013
Ellen Sandman	Secretary	February 1, 2014
Glenn Roe	Treasurer	February 1, 2011
Frank Pinto	Assistant Secretary	February 1, 2015

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

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

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

We have audited the accompanying financial statements of the governmental activities of the Morris County Improvement Authority (the "Authority"), a component unit of the County of Morris, as of December 31, 2010, which collectively comprise the Authority's financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. 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 and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and the audit requirements as prescribed by the Division of Local Government Services, Department of Community Affairs, and State of New Jersey. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the Morris County Improvement Authority as of December 31, 2010, and the respective changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

FWCC

In accordance with *Government Auditing Standards*, we have also issued our report dated April 29, 2011 on our consideration of the Morris County Improvement Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of our audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management Discussion, Analysis, and Supplementary Information on pages 6 through 10 and 28 and 29 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America and the Division of Local Government Services, Department of Community Affairs, State of New Jersey. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Morris County Improvement Authority's basic financial statements. The accompanying introductory section and supplemental information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The fund financial statements listed in the table of contents have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. The introductory section and supplemental information have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

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

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

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

April 27, 2011

FWCC

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

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

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

We have audited the financial statements of the Morris County Improvement Authority (a component unit of the County of Morris), State of New Jersey as of and for the year ended December 31, 2010, which collectively comprise the basic financial statements of the Morris County Improvement Authority (a component unit of the County of Morris), and have issued our report thereon dated April 27, 2011. We conducted our audit 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 *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Morris County Improvement Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Morris County's Improvement Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Morris County Improvement Authority's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency or 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.

FWCC

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

This report is intended solely for the information and use of the management, the Division of Local Government Services, Department of Community Affairs and other state and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

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

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

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

April 27, 2011

FWCC

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2010

As management of the Morris County Improvement Authority, we offer the Authority's financial statements, this narrative overview and analysis of the Authority's financial performance during the fiscal year ended December 31, 2010. Please read this analysis in conjunction with the Authority's financial statements, which follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

REQUIRED FINANCIAL STATEMENTS

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

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

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

FINANCIAL ANALYSIS OF THE AUTHORITY

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

FINANCIAL ANALYSIS OF THE AUTHORITY, CONTINUED

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 other non - financial factors such as changes in economic conditions, development, and new or changed government regulation.

NET ASSETS

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

CONDENSED STATEMENT OF NET ASSETS

		FY 2010
ASSETS		
Current and Other Assets	$	131,107
Total Assets	$	131,107
LIABILITIES		
Accounts Payable	$	15,449
Total Liabilities	$	15,449
NET ASSETS		
Unrestricted	$	115,658
Total Net Assets	$	115,658
Total Liabilities and Net Assets	$	131,107

CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

Operating Revenues	$ 174,666
Non-Operating Revenues	178
Total Revenues	$ 174,844
Operating Expense	$ 132,619
Total Expenses	$ 132,619
Changes in Net Assets	$ 42,225
Beginning Net Assets	$ 73,433
Ending Net Assets	$ 115,658

As can be seen in the above table, net assets increase by $42,225.

BUDGETARY HIGHLIGHTS

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

The following table provides the 2010 budget highlights:

Budget vs. Actual
FY2010

	2010 Budget	2010 Actual
Revenues		
Administrative Fees	$ 82,700	$ 80,567
Participant Contributions for Debt Service	9,727,464	9,727,464
Other Revenues	322,232	94,277
	$ 10,132,396	$ 9,902,308
Appropriations		
Administration Expenses	$ 82,700	$ 39,553
Other Expenses	322,232	93,066
Non-Operating Appropriations:		
Principal Payments on Conduit Debt Service	5,250,000	5,250,000
Interest on Conduit Debt	4,477,464	4,477,464
	$ 10,132,396	$ 9,860,083

DEBT ADMINISTRATION

The Authority has been aggressive in attracting conduit debt issues. At year-end, there is $123,052,000 of Outstanding Conduit Debt.

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

CONTACTING THE AUTHORITY

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

Exhibit A-1

MORRIS COUNTY IMPROVEMENT AUTHORITY
(A Component Unit of the County of Morris)
STATEMENT OF NET ASSETS
DECEMBER 31, 2010

	Governmental Activities
ASSETS	
Current Assets:	
Unrestricted	
Cash and Cash Equivalents	$ 122,607
Accounts Receivable	8,500
Total Current Assets	$ 131,107
TOTAL ASSETS	$ 131,107
LIABILITIES	
Accounts Payable	$ 15,449
Total Liabilities	$ 15,449
NET ASSETS	
Unrestricted	
General Fund	$ 115,658
TOTAL NET ASSETS	$ 115,658

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

Exhibit A-2

MORRIS COUNTY IMPROVEMENT AUTHORITY
(A Component Unit of the County of Morris)
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2010

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets: Governmental Activities
Primary Government					
Governmental Activities:					
General	$ 132,619	174,666			42,047
Total Governmental Activities	$ 132,619	174,666	-	-	42,047
Total Primary Government	$ 132,619	174,666	-	-	42,047

General Revenues:	
Investment Earnings	$ 178
Total General Revenues and Transfers	$ 178
Change in Net Assets	$ 42,225
Net Assets - Beginning	$ 73,433
Net Assets - Ending	$ 115,658

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

Exhibit B-1

MORRIS COUNTY IMPROVEMENT AUTHORITY
(A Component Unit of the County of Morris)
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2010

	General Fund
Assets:	
Current Assets:	
Unrestricted:	
Cash and Cash Equivalents	$ 122,607
Accounts Receivable	8,500
Total Current Assets	$ 131,107
Total Assets	$ 131,107
Liabilites:	
Accounts Payable	$ 15,449
Total Liabilities	$ 15,449
Fund Balance:	
Unrestricted	$ 115,658
Total fund balance	$ 115,658

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

Exhibit B-2

MORRIS COUNTY IMPROVEMENT AUTHORITY
(A Component Unit of the County of Morris)
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2010

	Governmental Activities
	General Fund
Operating Revenues	
Administrative Fees	$ 80,567
Miscellaneous Revenue	94,099
	$ 174,666
Operating Expenses	
Cost of Providing Services	
Administrative	$ 132,619
Total Operating Expenses	$ 132,619
Operating Income (Loss)	$ 42,047
Non-Operating Revenues (Expenses)	
Interest Income	$ 178
Total Non-Operating Revenues (Expenses)	$ 178
Change in Fund Balances	$ 42,225
Fund Balance - Beginning	$ 73,433
Fund Balance - Ending	$ 115,658

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

Exhibit B-3

MORRIS COUNTY IMPROVEMENT AUTHORITY
(A Component Unit of the County of Morris)
STATEMENT OF CASH FLOWS
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2010

		Governmental Activities
		General Fund
Increase (Decrease) in Cash and Cash Equivalents:		
Cash Flows from Operations:		
Operating Income (Loss)	$	42,047
Adjustments to reconcile net income to net cash provided by operating activities:		
Change in current assets and liabilities:		
Decrease in accounts payable	$	(31,854)
Decrease in accounts receivable		15,284
Net Cash Provided by (Used in) Operating Activities	$	25,477
Cash Flows from Investing Activities:		
Interest Income	$	178
Net Cash Provided by (Used in) Investing Activities	$	178
Net Increase (Decrease) in Cash and Cash Equivalents	$	25,655
Cash and Cash Equivalents-Beginning of Year	$	96,952
Cash and Cash Equivalents-End of Year	$	122,607

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

MORRIS COUNTY IMPROVEMENT AUTHORITY
(A Component Unit of the County of Morris)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Authority Description

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

B. Component Unit

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

C. Accounting Principles

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

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

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

D. Budgets and Budgetary Accounting

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

E. Basis of Financial Statements

The financial statements of the Authority have been prepared on the accrual basis and in accordance with accounting principles generally accepted in the United States of America (GAAP) applicable to enterprise funds of state and local governments.

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 the Encumbrance Accounting System.

On January 1, 2004, the Authority adopted the provision of Governmental Accounting Standards Board Statement No. 34, "Basic Financial Statements - and Management Discussion and Analysis - for State and Local Governments" Statement No. 34 established standards for external financial reporting for all state and local governmental entities, which includes a statement of net assets, a statement of activities and changes in net assets, and a statement of cash flows. It requires the classification of net assets into three components-invested in capital assets, net of related debt: restricted: and unrestricted. These classifications are defined as follows:

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

On January 1, 2004, the Authority also adopted the provisions of Governmental Accounting Standards Board Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions.* This statement requires that capital contributions to the Authority be presented as a change in net assets.

The adoption of Statement No. 34 and Statement No. 33 affected the classification of net assets in accordance with the statements and the presentation of capital contributions as a change in net assets.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

E. Basis of Financial Statements, (continued)

The Authority's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

Government-wide Financial Statements:

The statement of net assets and the statement of activities display information about the Authority as a whole. These statements include the financial activities of the overall Authority.

The statement of net assets presents the financial condition of the governmental activities of the Authority at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the governmental activities of the Authority. Direct expenses are those that are specifically associated with a service, program, or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants, and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues, which are not classified as program revenues, are presented as general revenues of the Authority, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the Authority.

F. Fund Accounting

The accounts of the Authority are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounting records that comprise its assets, liabilities, net assets, revenues and expenses. Government resources are allocated and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped into one generic fund type and one broad fund category, as follows:

Governmental Funds

Governmental funds are those through which most governmental functions of the MCIA are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the MCIA's governmental funds:

9. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

F. Fund Accounting (continued)

General Fund - The General Fund is the general operating fund of the MCIA. It is used to account for all financial resources except those required to be accounted for in another fund.

G. Measurement Focus

Government-wide Financial Statements

The government-wide statements (i.e., the statement of net assets and the statement of activities) are prepared using the economic resources measurements focus and the accrual basis of accounting. All assets and liabilities associated with the operation of the Authority are included on the statement of net assets, except for fiduciary funds.

Fund Financial Statements

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures, and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the Government-wide financial statements are prepared.

H. Property, Plant, and Equipment

At December 31, 2010, the Authority did not own any property, plant, or equipment.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

I. Cash and Cash Equivalents and Investments

Cash

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Authority's policy is based on New Jersey Statutes requiring cash be deposited only in New Jersey based banking institutions that participate in New Jersey Governmental Depository Protection Act (GUDPA) or in qualified investments established in New Jersey Statutes that are treated as cash equivalents. As of December 31, 2010, $-0- of the Authority's bank balance of $143,443.37 was exposed to custodial credit risk.

Investments

Investment Rate Risk

The Authority does have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. A formal investment policy has been adopted on January 20, 2010.

Credit Risk

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

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

Concentration of Credit Risk

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

J. Use of Estimates

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

K. Scope of Audit

The audit covered the financial transactions of the Authority, the activities of the Commissioners, and the records of the General Fund.

L. Net Assets

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

2. CONDUIT DEBT OBLIGATIONS

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

The aggregate principal amounts outstanding on this debt at December 31, 2010 are as follows:

2. CONDUIT DEBT OBLIGATIONS, (continued)

		2010
Pooled Program Bonds	Series 2003 (Note 2A)	$2,745,000
Loan Revenue Bonds	Series 2003 (Note 2B)	10,010,000
School District Revenue Bonds	Series 2004 (Note 2C)	36,057,000
Lease Revenue Bonds	Series 2004 (Note 2D)	2,760,000
Pooled Program Bonds	Series 2005 (Note 2E)	12,645,000
Lincoln Park	Series 2009 (Note 2F)	20,930,000
Newton	Series 2009 (Note 2G)	4,045,000
Renewable Energy 2009A	Series 2009A(Note 2H)	21,600,000
Refunding Bonds	Series 2010 (Note 2I)	12,260,000
		$123,052,000

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

On July 15, 2003, The MCIA issued bonds in the amount of $20,870,000.00, with a final maturity date of August 15, 2023, at an interest rate ranging from 2.00% to 5.00%. On August 11, 2010 $11,705,000 of these bonds were refunded through issuance of County of Morris Guaranteed Authority Refunding Pooled Program Bonds. The remaining bonds of $2,745,000 have a final maturity date of August 15, 2013, at an interest rate ranging from 3.50% to 4.00%. The program consisted of two components. The proceeds of the Series 2003 Pooled Bonds were used to acquire the various series of the Authority's Lease Revenue Bonds Series 2003, and a bond issued by the Board of Education of the Township of Washington. The proceeds of the Lease Revenue Bonds were used by the Authority to acquire and install certain equipment to be leased to the local units. These proceeds have been depleted. The proceeds of the Washington Board of Education Bond will be used to construct a new elementary school.

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

On February 1, 2003, the MCIA issued bonds in the amount of $16,890,000.00, with a final maturity date of March 1, 2021, at an interest rate ranging from 1.75% to 5.75%. The bonds are being issued to provide funds to make a loan to each of the local units. The local units will apply the proceeds of the loans to (1) raise funds sufficient to retire the present value of the unit's respective unfunded accrued liability for the early retirement system incentive benefits previously granted by the state to each local unit and (2) pay certain costs of issuance of the series 2003 bonds, and the refunding bonds. The Loan Revenue Bonds are secured by restricted cash and investments, loan agreements with each local unit and an unconditional and irrevocable guarantee of the County. The local units who participated are as follows:

2. CONDUIT DEBT OBLIGATIONS, (continued)

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

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

On March 18, 2004, the MCIA issued bonds in the amount of $43,092,000, with a final maturity date of October 1, 2029, at an interest rate ranging from 3.125% to 4.25%. The School District Bonds are being issued to make a loan to the Board of Education of the Morris Hills Regional District (the "School District") for the purpose of financing (1) the construction and equipping of various renovations and additions to both the Morris Hills High School and the Morris Knolls High School and (2) the payment of certain costs of issuing the School Bonds. To evidence its obligation to repay such loan, the School District will issue and deliver to the Authority $43,092,000 principal amount of its General Obligation Bonds (Morris Hills Regional District), series 2004 (the "School District General Obligation Bonds").

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

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

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

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

Township of Denville
Township of Brick
The Educational Services Commission of Morris County

2. CONDUIT DEBT OBLIGATIONS, (continued)

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

On February 25, 2009 the MCIA issued bonds in the amount of $20,930,000, with a final maturity date of March 15, 2030, at an interest rate ranging from 2.000% to 5.000%. Lincoln Park shall apply the proceeds of Lincoln Park bond to refund it bond anticipation notes dated February 27, 2008 and maturing February 26, 2009 in the aggregate principal amount of $21,078,850 issued for the purpose of temporarily financing the costs of the Lincoln Park Projects and to pay a portion of the interest due on the Series 2009 Bonds on September 15, 2009.
The Lincoln Park Project consists of (i) the construction and renovation of certain municipal buildings and various other capital projects in and by Lincoln Park, and (ii) the payment of any costs associated with the issuance of the Lincoln Park Bond (the "Lincoln Park Projects").

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

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

H. Renewable Energy Program, Series2009A (County Guaranteed)

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

I. Refunding Bonds, Series 2010 (County Guaranteed)

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

2. CONDUIT DEBT OBLIGATIONS, (continued)

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

Year	Principal Amount	Interest Amount	Total
2011	$ 6,150,000.00	$ 5,396,998.24	$ 11,546,998.24
2012	6,335,000.00	4,790,797.02	11,125,797.02
2013	6,240,000.00	4,589,142.06	10,829,142.06
2014	6,650,000.00	4,359,214.91	11,009,214.91
2015	7,545,000.00	4,100,315.61	11,645,315.61
2016-2020	37,330,000.00	15,918,991.76	53,248,991.76
2021-2025	33,685,000.00	7,995,708.83	41,680,708.83
2026-2030	19,117,000.00	2,125,011.88	21,242,011.88
	$123,052,000.00	$49,276,180.31	$172,328,180.31

Long Term Portion	$116,902,000.00
Short Term Portion	$6,150,000.00
Total	$123,052,000.00

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

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

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

2. CONDUIT DEBT OBLIGATIONS, (continued)

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

During the twelve month period ending December 31, 2010 fifteen local units had closed on transactions, they are as follows:

Denville Township Board of Education	$1,026,205.50
Denville Township Board of Education	219,885.96
Denville Township Board of Education	264,355.20
Hanover Township Board of Education	51,734.39
Long Hill Township Board of Education	180,900.00
Mendham Township Board of Education	45,408.65
Montville Township Board of Education	96,448.24
Mt. Olive Board of Education	450,001.82
Parsippany – Troy Hills Board of Education	1,005,000.00
Randolph Township Board of Education	323,507.49
Rockaway Township Board of Education	239,888.48
Rockaway Township Board of Education	31,155.00
Rockaway Township Board of Education	269,324.13
Rockaway Township Board of Education	111,617.31
Rockaway Township Board of Education	2,833,664.84
	$7,149,097.01

As of December 31, 2010, $34,323,846.83 of lease financing had been authorized. Payments totaling $19,208,183.23 had been made leaving a balance of $14,884,336.40 available for future loans.

3. OTHER MATTERS

There are none at this time.

4. SUBSEQUENT EVENTS

On March 1, 2011 a service agreement was entered into between the Morris County Improvement Authority and the County of Sussex, New Jersey for a Renewable Energy Program.

The primary goal of the Renewable Energy Program is to expand the use of renewable energy sources utilized by the Local Units for their Local Unit Facilities, with the goal of reducing the energy related operating costs of the Local Units.

4. SUBSEQUENT EVENTS, (continued)

Sussex County shall provide the appropriations necessary in order to pay the Consultants, which team shall be charged with developing and implementing the Renewable Energy Program for Sussex County in accordance with the terms set forth in the Service Agreement.

Any funds to be so provided by Sussex County are intended to be repaid with funds raised by the Authority through issuance of permanent bonds of the Authority, on behalf of Sussex County, under the Renewable Energy Program.

5. COMMITMENTS AND CONTINGENT LIABILITIES

We are advised by the Authority Counsel that the Authority is not involved in any litigation.

Schedule 1

MORRIS COUNTY IMPROVEMENT AUTHORITY
(A Component Unit of the County of Morris)
SCHEDULE OF OPERATING REVENUES AND COSTS FUNDED BY OPERATING REVENUES COMPARED TO BUDGET
YEAR ENDED DECEMBER 31, 2010

GOVERNMENTAL FUND

	2010 Budget	2010 Actual
REVENUES		
Administrative fees	$ 82,700	$ 80,567
Participant Contributions for Debt Service	9,727,464	9,727,464
Other Revenues	322,232	94,277
	$ 10,132,396	$ 9,902,308
APPROPRIATIONS		
Administration:		
Administration Expenses	$ 82,700	39,553
Other Expenses	322,232	93,066
Non-Operating Appropriations:		
Principal Payments on Conduit Debt Service	5,250,000	5,250,000
Interest on Conduit Debt	4,477,464	4,477,464
	$ 10,132,396	$ 9,860,083

Schedule 2

MORRIS COUNTY IMPROVEMENT AUTHORITY
(A Component Unit of the County of Morris)
SCHEDULE OF CASH RECEIPTS, CASH DISBURSEMENTS
AND CHANGES IN CASH AND CASH EQUIVALENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

		General Fund
Balance, December 31, 2009		
Cash and Cash Equivalents	$	96,952
Increased by Receipts:		
Administrative fees		80,567
Miscellaneous		108,350
Interest Income		178
Total Receipts:	$	189,095
	$	286,047
Decreased by Disbursements:		
Operating Expenses	$	163,440
Total Disbursements:	$	163,440
Balance, December 31, 2010		
Cash and Cash Equivalents	$	122,607

MORRIS COUNTY IMPROVEMENT AUTHORITY

(A Component Unit of the County of Morris)

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COMMENTS AND RECOMMENDATIONS

YEAR ENDED DECEMBER 31, 2010

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

GENERAL COMMENTS

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

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

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

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

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

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

Effective July 1, 2010, the bid threshold in accordance with N.J.S. 40A:11-3 and 40A:11-4 (as amended) is $26,000.00 and with a qualified purchasing agent the threshold may be up to $36,000.00.

GENERAL COMMENTS (CONTINUED)

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

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

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

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

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

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

COMMENTS AND RECOMMENDATIONS
DECEMBER 31, 2010

Comments

None

Recommendations

None

STATUS OF PRIOR YEAR'S AUDIT FINDINGS/RECOMMENDATIONS

There were no prior year audit findings/recommendations.

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

Respectfully submitted,

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

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

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

April 27, 2011