

SOUTH AMBOY REDEVELOPMENT AGENCY

(A component unit of the City of South Amboy)

REPORT OF AUDIT

FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

SOUTH AMBOY REDEVELOPMENT AGENCY

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FINANCIAL STATEMENTS

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INDEPENDENT AUDITOR'S REPORT

Honorable Commissioners
South Amboy Redevelopment Agency
South Amboy, New Jersey

We have audited the accompanying basic financial statements of the South Amboy Redevelopment Agency, a component unit of the City of South Amboy, as of and for the years ended June 30, 2011 and 2010, 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 audits.

We conducted our audits 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. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the South Amboy Redevelopment Agency's internal control over financial reporting. Accordingly, we express no such opinion. 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 audits provide a reasonable basis for our opinion.

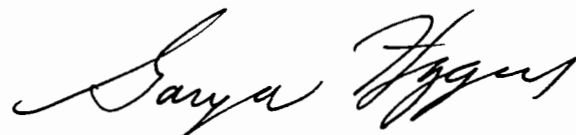
In our opinion, the financial statements referred to previously present fairly, in all material respects, the financial position of the South Amboy Redevelopment Agency as of June 30, 2011 and 2010, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated November 28, 2011 on our consideration of the South Amboy Redevelopment Agency'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 an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the 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.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the South Amboy Redevelopment Agency. The supplementary schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the South Amboy Redevelopment Agency. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.


LERCH, VINCI & HIGGINS, LLP
Certified Public Accountants
Registered Municipal Accountants


Gary W. Higgins
Registered Municipal Accountant
RMA Number CR00405

Fair Lawn, New Jersey
November 28, 2011

SOUTH AMBOY REDEVELOPMENT AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED JUNE 30, 2011

This section of the South Amboy Redevelopment Agency's ("SARA" or "Agency") annual financial report presents our discussion and analysis of the Agency's financial performance during the fiscal year ended on June 30, 2011. Please read it in conjunction with the Agency's basic financial statements and accompanying notes.

The purpose of the Agency is to carryout the redevelopment plans of the City of South Amboy.

FINANCIAL HIGHLIGHTS

- The Agency's total net assets as of June 30, 2011 were \$14,574,245.
- Operating revenues amounted to \$7,634,443. The majority of the operating revenues are from municipal contributions of \$1,044,275, contributions of property held for redevelopment of \$5,833,453 from the City of South Amboy and redeveloper fees and contributions of \$362,001.
- Operating expenses amounted to \$377,222.

OVERVIEW OF FINANCIAL STATEMENTS

This annual financial report consists of two parts: Management's Discussion and Analysis (this section) and the basic financial statements. The Agency is a self-supporting entity and follows enterprise fund reporting; accordingly, the financial statements are presented using the economic resources measurement focus and the accrual basis of accounting.

Enterprise fund financial statements offer short- and long-term financial information about the activities and operations of the Agency. These statements are presented in the Government Accounting Standards Board ("GASB") prescribed manner.

SOUTH AMBOY REDEVELOPMENT AGENCY

***MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2011
(Continued)***

FINANCIAL ANALYSIS OF THE AGENCY

Net Assets – The following is a summary of the Agency's financial position as of June 30, 2011, 2010 and 2009.

<u>Assets:</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Current and Other Assets	\$ 1,338,356	\$ 1,722,254	\$ 5,222,511
Deferred Charges and Capital Assets	<u>19,285,352</u>	<u>12,335,872</u>	<u>3,224,599</u>
Total Assets	<u>20,623,708</u>	<u>14,058,126</u>	<u>8,447,110</u>
<u>Liabilities:</u>			
Liabilities Payable from Unrestricted Assets	756,602	1,060,534	309,691
Liabilities Payable from Restricted Assets	<u>5,292,861</u>	<u>5,472,445</u>	<u>5,790,149</u>
Total Liabilities	<u>6,049,463</u>	<u>6,532,979</u>	<u>6,099,840</u>
<u>Net Assets:</u>			
Invested in Capital Assets	14,375,352	7,368,003	1,770,751
Unrestricted	<u>198,893</u>	<u>157,144</u>	<u>576,519</u>
Total Net Assets	<u>\$ 14,574,245</u>	<u>\$ 7,525,147</u>	<u>\$ 2,347,270</u>

Capital Assets – The following is a summary of capital assets net of depreciation as of June 30, 2011, 2010 and 2009.

<u>Capital Assets</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Buildings	\$ 11,460,436		
Land	290,400		
Property Held for Redevelopment	5,543,053		
Construction in Progress	<u>1,927,720</u>	<u>\$ 12,269,779</u>	<u>\$ 3,156,156</u>
Total Capital Assets, Net	<u>\$ 19,221,609</u>	<u>\$ 12,269,779</u>	<u>\$ 3,156,156</u>

In conjunction with the City of South Amboy, the Agency constructed a recreation and community center. The construction of the building was completed and put in service during the fiscal year ended June 30, 2011. During the fiscal year ended June 30, 2011 the City of South Amboy contributed and transferred certain properties to the Agency which are intended for use in future redevelopment projects.

SOUTH AMBOY REDEVELOPMENT AGENCY

***MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2011
(Continued)***

FINANCIAL ANALYSIS OF THE AGENCY (Continued)

OPERATING ACTIVITIES – The following table summarizes the revenues, expenses and changes in net assets for the fiscal years ended June 30, 2011, 2010 and 2009.

	<u>2011</u>	<u>2010</u>	<u>2009</u>
OPERATING REVENUES			
Municipal Contributions	\$ 1,044,275	\$ 2,455,725	\$ 300,000
Contributions of Property Held for Redevelopment	5,833,453		
Intergovernmental Grants	179,134	3,003,375	12,625
Redeveloper Fees and Contributions	362,001	66,923	201,265
Donations	100,000		
Miscellaneous Fees	920	400	1,400
Rent	<u>114,660</u>	<u>-</u>	<u>-</u>
Total Operating Revenues	<u>7,634,443</u>	<u>5,526,423</u>	<u>515,290</u>
OPERATING EXPENSES			
Contribution to City of South Amboy	100,000		300,000
Salaries and Wages	42,734	46,367	
Other Expenses	89,419	142,942	300,533
Depreciation	<u>145,069</u>	<u>-</u>	<u>-</u>
Total Operating Expenses	<u>377,222</u>	<u>189,309</u>	<u>600,533</u>
OPERATING INCOME (LOSS)	<u>7,257,221</u>	<u>5,337,114</u>	<u>(85,243)</u>
NON-OPERATING INCOME (EXPENSES)			
Interest Income	3,380	29,051	14,393
Interest Expenses	(209,153)	(185,938)	
Amortization of Costs of Issuance	<u>(2,350)</u>	<u>(2,350)</u>	<u>(2,054)</u>
Total Non-Operating Income (Expenses)	<u>(208,123)</u>	<u>(159,237)</u>	<u>12,339</u>
CHANGE IN NET ASSETS	<u>7,049,098</u>	<u>5,177,877</u>	<u>(72,904)</u>
Total Net Assets, Beginning of year	<u>7,525,147</u>	<u>2,347,270</u>	<u>2,420,174</u>
Total Net Assets, End of year	<u>\$ 14,574,245</u>	<u>\$ 7,525,147</u>	<u>\$ 2,347,270</u>

SOUTH AMBOY REDEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2011
(Continued)

DEBT ADMINISTRATION

Capital Debt

The Agency had the following outstanding debt as of June 30, 2011, 2010 and 2009:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
<u>Debt</u>			
Revenue Bonds Payable	\$ 4,910,000	\$ 5,000,000	\$ 5,000,000
Total Debt	<u>\$ 4,910,000</u>	<u>\$ 5,000,000</u>	<u>\$ 5,000,000</u>

OTHER FINANCIAL INFORMATION

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Agency has committed itself to financial excellence for many years. Its system for financial planning, budgeting, and internal financial controls is audited annually and it plans to continue to manage its finances in order to meet the many challenges ahead.

The 2012 budget was approved by the Division of Local Government Services and adopted by the Agency.

CONTACTING THE AGENCY'S FINANCIAL MANAGEMENT

This financial report is designed to provide the City of South Amboy, New Jersey citizens and redevelopers with a general overview of the Agency's finances to demonstrate the SARA's accountability for the revenues it receives. If you have questions about this report or need additional financial information, contact the office of the Executive Director at 140 North Broadway, South Amboy, New Jersey 08879.

FINANCIAL STATEMENTS

**SOUTH AMBOY REDEVELOPMENT AGENCY
STATEMENT OF NET ASSETS
AS OF JUNE 30, 2011 AND 2010**

	<u>2011</u>	<u>2010</u>
ASSETS		
Unrestricted Current Assets		
Cash and Cash Equivalents	\$ 938,503	\$ 247,614
Intergovernmental Receivable		1,049,601
NJEDA Grants Receivable	<u>95,245</u>	<u>-</u>
Total Unrestricted Current Assets	<u>1,033,748</u>	<u>1,297,215</u>
Restricted Current Assets		
Redevelopers Escrow Account		
Cash and Cash Equivalents	304,608	392,757
Project Account		
Cash and Cash Equivalents		1,493
Accrued Interest Receivable		2
Cost of Issuance Account		
Cash and Cash Equivalents		30,638
Accrued Interest Receivable	<u>-</u>	<u>149</u>
Total Restricted Current Assets	<u>304,608</u>	<u>425,039</u>
Total Current Assets	<u>1,338,356</u>	<u>1,722,254</u>
Noncurrent Assets		
Deferred Charges		
Debt Issuance Costs (Net of Amortization)	<u>63,743</u>	<u>66,093</u>
Capital Assets		
Buildings	11,605,505	
Land	290,400	
Property Held for Redevelopment	5,543,053	
Construction In Progress	1,927,720	12,269,779
Accumulated Depreciation	<u>(145,069)</u>	<u>-</u>
Total Capital Assets	<u>19,221,609</u>	<u>12,269,779</u>
Total Noncurrent Assets	<u>19,285,352</u>	<u>12,335,872</u>
Total Assets	<u>20,623,708</u>	<u>14,058,126</u>

**SOUTH AMBOY REDEVELOPMENT AGENCY
STATEMENT OF NET ASSETS
AS OF JUNE 30, 2011 AND 2010**

	<u>2011</u>	<u>2010</u>
LIABILITIES		
Current Liabilities Payable from Unrestricted Assets		
Accounts Payable	\$ 28,421	\$ 1,060,534
Unearned Revenue	<u>728,181</u>	<u>-</u>
Total Current Liabilities Payable from Unrestricted Assets	<u>756,602</u>	<u>1,060,534</u>
Current Liabilities Payable from Restricted Assets		
Revenue Bonds Payable	4,910,000	5,000,000
Accrued Interest on Bonds and Notes	78,253	79,688
Escrow Deposits Payable	<u>304,608</u>	<u>392,757</u>
Total Current Liabilities Payable from Restricted Assets	<u>5,292,861</u>	<u>5,472,445</u>
Total Current Liabilities	<u>6,049,463</u>	<u>6,532,979</u>
Contingencies	<u>-</u>	<u>-</u>
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	14,375,352	7,368,003
Unrestricted	<u>198,893</u>	<u>157,144</u>
Total Net Assets	<u>\$ 14,574,245</u>	<u>\$ 7,525,147</u>

**SOUTH AMBOY REDEVELOPMENT AGENCY
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010**

	<u>2011</u>	<u>2010</u>
OPERATING REVENUES		
Municipal Contributions	\$ 1,044,275	\$ 2,455,725
Contributions of Property Held for Redevelopment	5,833,453	
Intergovernmental Grants		
County of Middlesex		3,000,000
New Jersey Economic Development Authority (NJEDA)	19,834	3,375
Community Development Block Grant (CDBG)	159,300	
Redeveloper Fees and Contributions	362,001	66,923
Donations	100,000	
Rent	114,660	
Miscellaneous Fees	<u>920</u>	<u>400</u>
Total Operating Revenues	<u>7,634,443</u>	<u>5,526,423</u>
OPERATING EXPENSES		
Operating Expenses	132,153	189,309
Contribution to City of South Amboy	100,000	
Depreciation	<u>145,069</u>	<u>-</u>
Total Operating Expenses	<u>377,222</u>	<u>189,309</u>
OPERATING INCOME	<u>7,257,221</u>	<u>5,337,114</u>
NON-OPERATING INCOME (EXPENSES)		
Interest Income	3,380	29,051
Interest Expenses	(209,153)	(185,938)
Amortization of Costs of Issuance	<u>(2,350)</u>	<u>(2,350)</u>
Total Non-Operating Income (Expenses)	<u>(208,123)</u>	<u>(159,237)</u>
CHANGE IN NET ASSETS	7,049,098	5,177,877
Total Net Assets, Beginning of year	<u>7,525,147</u>	<u>2,347,270</u>
Total Net Assets, End of year	<u><u>\$ 14,574,245</u></u>	<u><u>\$ 7,525,147</u></u>

**SOUTH AMBOY REDEVELOPMENT AGENCY
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010**

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash Received from City of South Amboy	\$ 2,093,876	\$ 1,406,124
Cash Received from County of Middlesex Grant		3,000,000
Cash Received from NJEDA Grant	652,770	-
Cash Received from CDBG Grant	159,300	-
Cash Received from Redevelopers	372,250	49,691
Cash Received from Donations	100,000	-
Cash Received from Rent	114,660	
Cash Received from Miscellaneous Fees	920	400
Cash Payments to City of South Amboy		(283,680)
Cash Payments to City of South Amboy - Interlocal	(100,000)	(46,367)
Cash Payments to Suppliers for Goods and Services	(102,664)	(123,372)
Cash Payments to Suppliers for Escrow Projects	(12,001)	(31,273)
Cash Refund to Developers	(98,398)	(1,759)
	<u>3,180,713</u>	<u>3,969,764</u>
Net Cash Provided by Operating Activities		
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Principal Paid on Bonds	(90,000)	
Interest Paid on Bonds	(210,588)	(185,938)
Acquisition and Construction of Capital Assets	(2,313,047)	(8,362,735)
	<u>(2,613,635)</u>	<u>(8,548,673)</u>
Net Cash Used by Capital and Related Financing Activities		
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest Received	3,531	49,543
	<u>3,531</u>	<u>49,543</u>
Net Cash Provided by Investing Activities		
Net Increase/(Decrease) in Cash and Cash Equivalents	570,609	(4,529,366)
Cash and Cash Equivalents, Beginning of Year	672,502	5,201,868
Cash and Cash Equivalents, End of Year	<u>\$ 1,243,111</u>	<u>\$ 672,502</u>
ANALYSIS OF BALANCE AT JUNE 30,		
Unrestricted - Cash and Cash Equivalents	\$ 938,503	\$ 247,614
Restricted - Cash and Cash Equivalents	304,608	424,888
	<u>\$ 1,243,111</u>	<u>\$ 672,502</u>

**SOUTH AMBOY REDEVELOPMENT AGENCY
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010**

	<u>2011</u>	<u>2010</u>
Operating Income (Loss)	\$ 7,257,221	\$ 5,337,114
Adjustments to Reconcile Operating Income to Net Cash		
Provided by Operating Activities:		
Depreciation	145,069	
Contributions of Property Held for Redevelopment	(5,833,453)	
(Increase) Decrease in Intergovernmental Receivable	1,049,601	(1,049,601)
(Increase) in NJEDA Grants Receivable	(95,245)	-
(Decrease) in Escrow Deposits Payable	(88,149)	(18,991)
Increase (Decrease) in Unearned Revenue	728,181	(3,375)
Increase (Decrease) in Accounts Payable	17,488	(11,703)
(Decrease) in Due to City	-	(283,680)
Total Adjustments	<u>(4,076,508)</u>	<u>(1,367,350)</u>
Net Cash Provided by Operating Activities	<u>\$ 3,180,713</u>	<u>\$ 3,969,764</u>
Noncash Investing, Capital and Financing Activities		
Purchase of Capital Assets on Account	\$ -	\$ 1,049,601

NOTES TO THE BASIC FINANCIAL STATEMENTS

**SOUTH AMBOY REDEVELOPMENT AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The South Amboy Redevelopment Agency was established by an Ordinance enacted by the governing body of the City of South Amboy to improve and redevelop areas in the City of South Amboy, Middlesex County, New Jersey.

The Agency has been vested with all powers and privileges conferred upon Redevelopment Agencies by the Laws of the State of New Jersey and by the United States of America, including the power and authority to participate in any state or federal program for the clearance, replanning, development and redevelopment of a blighted area after same has been determined as such and a Redevelopment Plan is approved by ordinances of the City of South Amboy. Such powers shall include the ability to enter into all rights and duties necessary or appropriate to accomplish its established objectives and to participate in any relevant program available to it under applicable laws.

The agency is governed by a Board of Commissioners consisting of seven members, who are appointed by the Governing Body of the City of South Amboy. The Board of Commissioners determines policy actions, approves resolutions and is responsible for the overall operation of the Agency.

The South Amboy Redevelopment Agency includes in its financial statements the primary government and those component units for which the primary government is financially accountable. Financial accountability is defined as appointment of a voting majority of the component unit's board, and either a) the ability to impose its will on the component unit, or b) the possibility that the component unit will provide a financial benefit or to impose a financial burden on the primary government. There were no component units with a positive response to any of these reporting criteria. Furthermore, the Agency would be includable as a component unit of the City of South Amboy on the basis of such criteria.

B. Measurement Focus, Basis of Accounting and Basis of Presentation

The accounts of the Agency are organized and operated on the basis of funds. The agency maintains an enterprise fund to account for its operations. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. A description of the Agency's fund type it maintains to account for its financial transactions is as follows:

Proprietary Fund Types – This fund type accounts for operations that are organized to be self-supporting and includes Enterprise Funds.

An enterprise fund is used to account for those operations that are financed and operated in a manner similar to a private business or where the board has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability purposes.

**SOUTH AMBOY REDEVELOPMENT AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus, Basis of Accounting and Basis of Presentation (Continued)

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Fund equity (i.e., net total assets) is reported as net assets. Proprietary fund-type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The Agency has elected to follow all Financial Accounting Standards Board (FASB) standards issued prior to November 30, 1989. Subsequent to this date, the Agency accounts for its proprietary funds as presented by GASB.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary fund's principal ongoing operations.

The accrual basis of accounting is utilized by proprietary fund types. Under this method revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

C. Assets, Liabilities and Equity

Deposits and Investments

The Agency's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the Agency to invest in certain types of investments. These investment vehicles are summarized in Note 3.

Intergovernmental Receivable and Payables

Transactions between the Agency and the County of Middlesex, the City and State of New Jersey (the "State") agencies that are representative of capital allotment/grant award arrangements outstanding at the end of the fiscal year are referred to as intergovernmental receivables and payables.

Restricted Assets

Certain assets are restricted on the statement of net assets because they are maintained in separate bank accounts and their use is limited by certain agreements entered into between the Agency and third parties.

**SOUTH AMBOY REDEVELOPMENT AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Assets, Liabilities and Equity (Continued)

Capital Assets

Property held for redevelopment is recorded at cost when acquired or if contributed, at the estimated fair market value on the date of receipt by the Agency.

Construction costs are charged to construction in progress until such time as they are completed and certified by the Agency's consulting engineers, at which time they are transferred to their respective asset category and are then depreciated over their useful lives. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets construction. The total interest expense incurred by the Agency during the years ended June 30, 2011 and 2010 was \$210,588 and \$212,500, respectively. Of these amounts \$-0- and \$26,562 were included as part of the cost of capital assets under construction for those years. Interest earned in the years ended June 30, 2011 and 2010 in the amounts of \$-0- and \$10,170, respectively were offset against the capitalized interest expense.

All capital assets are depreciated on the straight-line method based on their asset class and estimated useful lives as follows:

<u>Class</u>	<u>Life</u>
Buildings and Building Improvements	20-40 Years

Deferred Charges

Debt Issuance Costs

In connection with the Agency's issuance of debt, the Agency incurred certain professional fees. These expenses are deferred and amortized over the life of the debt.

Escrow Deposits Payable

Certain monies held by the Agency or third parties on behalf of the Agency in conjunction with a specific project or purpose are reported as project deposits.

Unearned Revenue

Grant funds and related program income, redeveloper and developer fees received, but not earned at year end, are reported as unearned revenue. Additionally, deposits received from purchases of Agency or City assets whereby contract requirements are not satisfied as of the date of audit are considered unearned revenue.

Net Assets

Unrestricted net assets represent the net assets neither restricted nor invested in capital assets.

**SOUTH AMBOY REDEVELOPMENT AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Assets, Liabilities and Equity (Continued)

Reclassifications

Certain reclassifications may have been made to the June 30, 2010 balances to conform to the June 30, 2011 presentation.

D. Establishment of Funds

Under the original Bond Resolution pertaining to the 2008 Lease Revenue Bonds, the following funds are required to be created and held by the Agency's Trustee:

- A) Construction Fund (Restricted)
- B) Revenue Fund (Restricted)
- C) Operating Fund (Unrestricted)
- D) Bond Service Fund (Restricted)
- E) Sinking Fund (Restricted)
- F) Bond Reserve Fund (Restricted)
- G) Operating Reserve Fund (Restricted)
- H) Rebate Fund (Restricted)
- I) Renewal and Replacement Fund (Restricted)
- J) General Fund (Restricted)

Each of the above funds represents separate accounts held by a trustee, except for the Operating Accounts which are held by the Agency.

Only those funds and accounts that are presently required by the Trustee are described herein.

Construction Fund - To account for all financial resources received by the Agency for the payment of costs related to the construction, acquisition or restoration of the systems. All moneys that are on deposit in the Construction Account are pledged to secure the payment of the principal of, redemption premium, if any, and the interest on the Bonds.

Revenue Fund - To account for all revenues and deficiency advances received by the Agency. All revenues and deficiency advances deposited into the Revenue Fund are transferred by the Trustee on the transfer dates as defined by the Bond Resolution to the following funds described below.

Operating Fund - To account for the payment of all operating costs of the Agency.

Bond Service Fund - To account for the accumulation of resources for the payment of principal and interest due during the current fiscal year on outstanding bonds.

**SOUTH AMBOY REDEVELOPMENT AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Establishment of Funds (Continued)

Sinking Fund - To account for the accumulation of resources required to pay principal on all term bonds in accordance with the Sinking Fund requirements. This fund is included in the Revenue Bond Service Accounts on the statement of net assets.

Bond Reserve Fund - To account for funds held in accordance with the Bond Resolution to meet the Bond Reserve requirement, an amount which is equal to the maximum annual debt service on outstanding bonds.

Operating Reserve Fund - To account for funds needed if the Bond Service Fund has a deficiency.

Rebate Fund - To account for rebatable arbitrage relating to the Agency's bonds.

Renewal and Replacement Fund - To account for the accumulation of resources to meet the renewal and replacement reserve requirement, as certified by the Agency's consulting engineers, in accordance with the Bond Resolution. The Trustee can withdraw from this fund, upon a certification of the consulting engineers, for the use of reasonable and necessary expenses of the Agency with respect to major repairs, renewals, replacements, maintenance items, equipment or operating expenses.

General Fund - To account for the accumulation of resources resulting from excess monies which are not required to be maintained in any of the above funds. Withdrawals from this Fund are permitted for the funding of any deficit which may occur in the above funds, payments to the City under the revenue sharing percentage or to the Agency for any lawful purpose.

E. Other

Supplementary Schedules

The supplementary schedules presented are required by the "New Jersey Authority Accounting Principles and Auditing Standards Manual".

Use of Estimates

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

**SOUTH AMBOY REDEVELOPMENT AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010**

NOTE 2 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Accounting

The Agency annually prepares an operating budget. The budget is prepared in accordance with the Budget Manual for Local Public Authorities as promulgated by the Division of Local Government Services, which differs in certain respects from accounting principles generally accepted in the United States of America. The budget serves as a plan for expenses and the proposed means for financing them. Budgetary control is exercised within the respective system. Unexpended appropriations lapse at year end.

The annual budget is required to be approved at least sixty days prior to the beginning of the fiscal year. The budget must be approved by the Agency and submitted to the Division of Local Government Services, Bureau of Authority regulation for approval prior to adoption. The budget adoption and amendments are recorded in the Agency's minutes.

A six year capital budget is also required to be prepared. Included within the budget are individual projects along with their estimated cost, completion date and source of funding.

The encumbrance method of accounting is utilized by the Agency for budgetary purposes. Under this method purchase orders, contracts and other commitments for expenditures of resources are recorded to reserve a portion of the applicable budget appropriation.

In accordance with accounting principles generally accepted in the United States of America, outstanding encumbrances at year-end for which goods or services are received, are classified to expenses and accounts payable. All other encumbrances in the annual budgeted funds are reversed at year-end and are either cancelled or are included as reappropriations of fund equity for the subsequent year. Encumbrances at year-end in funds that are budgeted on a project basis automatically carry forward along with their related appropriations and are not subject to annual cancellations and reappropriations.

NOTE 3 DEPOSITS AND INVESTMENTS

The Agency considers petty cash, change funds, cash in banks and certificates of deposit as cash and cash equivalents.

Deposits

The Agency's deposits are insured through either the Federal Deposit Insurance Corporation (FDIC), Securities Investor Protection Corporation (SIPC) or New Jersey's Governmental Unit Deposit Protection Act (GUDPA). The Agency is required to deposit their funds in a depository which is protecting such funds pursuant to GUDPA. The New Jersey Governmental Unit Deposit Protection Act requires all banks doing business in the State of New Jersey to pledge plus collateral equal to 5% of the average amount of its public deposits and 100% of the average amount of its public funds in excess of 75% of its capital funds for all deposits not covered by the FDIC.

**SOUTH AMBOY REDEVELOPMENT AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010**

NOTE 3 DEPOSITS AND INVESTMENTS (Continued)

Deposits (Continued)

Bank balances are insured up to \$250,000 in the aggregate by the FDIC for each bank. SPIC replaces cash claims up to a maximum of \$250,000 for each failed brokerage firm. At June 30, 2011 and 2010, the book value of the Agency's deposits were \$1,243,111 and \$672,502, respectively and bank balances of the Agency's cash and deposits amounted to \$1,244,733 and \$672,487, respectively. The Agency's deposits which are displayed on the statement of net assets as "cash and cash equivalents" are categorized as:

<u>Depository Account</u>	<u>2011</u>	<u>2010</u>
Insured	<u>\$1,244,733</u>	<u>\$672,487</u>

Custodial Credit Risk – Deposits – Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Agency does have a formal policy for custodial credit risk. As of June 30, 2011 and 2010, none of the Agency's bank balances were exposed to custodial credit risk.

Investments

The Agency is permitted to invest public funds in accordance with the types of securities authorized by N.J.S.A. 40A:5-15.1. Investments include bonds or other obligations of the United States or obligations guaranteed by the United States of America, Government Money Market Mutual Funds, bonds or other obligations of the Agency or bonds or other obligations of the school districts which are a part of the Agency or school districts located within the Agency, Local Government investment pools, and agreements or the repurchase of fully collateralized securities, if transacted in accordance with NJSA 40A:5-15.1 (8a-8e).

As of June 30, 2011 and 2010 there were no investments outstanding.

NOTE 4 RISK MANAGEMENT

The Agency is exposed to various risks of loss related to general liability, damage and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Agency is covered by an insurance policy to guard against these events which are intended to provide minimum exposure to the Agency should they occur.

NOTE 5 RELATED PARTY TRANSACTIONS

On September 20, 2000 the Governing Body of the City of South Amboy adopted a bond ordinance appropriating and authorizing bonds or notes for \$1,500,000 for the South Amboy Regional Intermodal Transportation Improvements as part of the Redevelopment Plan. The purpose of this appropriation is to provide a portion of the cost of Transportation Improvements and meet grant in aid requirements in conjunction with a 'TEA' 21 grant awarded to the City in the approximate amount of \$15,500,000 from the United States Government. As of June 30, 2011, all of the City ordinance proceeds have been transferred to the Agency and expended. These payments have been capitalized by the Agency as construction in progress.

**SOUTH AMBOY REDEVELOPMENT AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010**

NOTE 6 CAPITAL ASSETS

Capital asset activity for the years ended June 30, 2011 and 2010 were as follows:

	Balance July 1, 2010	Increases	Decreases	Balance, June 30, 2011
Capital assets, not being depreciated:				
Property Held for Redevelopment		\$ 5,833,453	\$ (290,400)	\$ 5,543,053
Land		290,400		290,400
Construction in Progress	\$ 12,269,779	1,263,446	(11,605,505)	1,927,720
Total capital assets, not being depreciated	<u>12,269,779</u>	<u>7,387,299</u>	<u>(11,895,905)</u>	<u>7,761,173</u>
Capital assets, being depreciated:				
Buildings	-	11,605,505	-	11,605,505
Total capital assets, being depreciated	<u>-</u>	<u>11,605,505</u>	<u>-</u>	<u>11,605,505</u>
Less accumulated depreciation for:				
Buildings	-	(145,069)	-	(145,069)
Total capital assets, not being depreciated	<u>-</u>	<u>(145,069)</u>	<u>-</u>	<u>(145,069)</u>
Total capital assets, being depreciated, net	<u>-</u>	<u>11,460,436</u>	<u>-</u>	<u>11,460,436</u>
Total capital assets, net	<u>\$ 12,269,779</u>	<u>\$ 18,847,735</u>	<u>\$ (11,895,905)</u>	<u>\$ 19,221,609</u>
	Balance July 1, 2009	Increases	Decreases	Balance, June 30, 2010
Capital assets, not being depreciated:				
Construction in Progress	\$ 3,156,156	\$ 9,113,623	-	\$ 12,269,779
Total capital assets, not being depreciated	<u>3,156,156</u>	<u>9,113,623</u>	<u>-</u>	<u>12,269,779</u>
Total capital assets, net	<u>\$ 3,156,156</u>	<u>\$ 9,113,623</u>	<u>\$ -</u>	<u>\$ 12,269,779</u>

NOTE 7 INTERLOCAL AGREEMENT

The Agency has entered into an interlocal agreement with the City of South Amboy whereby the Agency will reimburse the City of South Amboy for certain costs on an ongoing basis. The Agency made contributions to the City during the years ended June 30, 2011 and 2010, in the amount of \$100,000 and \$-0-, respectively.

**SOUTH AMBOY REDEVELOPMENT AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010**

NOTE 8 LONG-TERM DEBT

On August 15, 2008, the Agency issued \$5,000,000 of Lease Revenue Bonds, Series 2008 ("2008 Revenue Bonds") to: (i) finance the construction of a recreation and community center, (ii) refund the Agency's \$1,000,000 Project Note, Series 2008 maturing September 12, 2008 and (iii) pay certain costs of issuance. The 2008 Revenue Bonds bear an interest rate of 4.25% per annum with principal payments due on August 15th for the years 2010 through 2038.

NOTE 9 CONTINGENT LIABILITIES

The Agency acknowledges that professional fees have been incurred by certain developers pertaining to certain redevelopment projects within the City of South Amboy totaling approximately \$263,000. These liabilities have not been recorded in the financial statements as of and for the periods ended June 30, 2011 and 2010 since management and governance of the Agency have represented that the Agency intends on seeking reimbursement from the respective developers for the payment of said professional fees.

NOTE 10 FEDERAL ARBITRAGE REGULATIONS

The Agency is subject to Section 148 of the Internal Revenue Code as it pertains to the arbitrage rebate on all tax-exempt obligations, both long and short-term debt. Under the 1986 Tax Reform Act, the Internal Revenue Service (IRS) required that all excess earnings from investment proceeds be rebated to the IRS. Arbitrage, for purposes of these regulations, is defined as the difference between the yield on the investment and the yield on the obligations issued. If there are excess earnings, this amount may be required to be rebated to the IRS. At June 30 2011 and 2010, the Agency had no estimated arbitrage earnings due to the IRS.

SUPPLEMENTARY SCHEDULES

SOUTH AMBOY REDEVELOPMENT AGENCY
SCHEDULE OF REVENUES COMPARED TO BUDGET
FOR THE YEAR ENDED JUNE 30, 2011
(BUDGETARY BASIS)
(With Comparative Actual Amounts for the Year Ended June 30, 2010)

	<u>2011 Budget</u>	<u>2011 Actual</u>	<u>Variance Excess (Deficit)</u>	<u>2010 Actual</u>
OPERATING REVENUES				
Municipal Contribution		\$ 1,044,275	\$ 1,044,275	\$ 2,455,725
Contribution of Property held for Redevelopment		5,833,453	5,833,453	
Grants		179,134	179,134	3,003,375
Redeveloper Fees and Contributions		362,001	362,001	66,923
Donations		100,000	100,000	
Miscellaneous Fees	-	115,580	115,580	400
Total Operating Revenues	-	7,634,443	7,634,443	5,526,423
NON-OPERATING REVENUES				
Interest Income	-	3,380	3,380	29,051
Total Non-Operating Revenues	-	3,380	3,380	29,051
Unrestricted Net Assets	\$ 414,588	414,588	-	327,000
Total Revenues	<u>\$ 414,588</u>	<u>\$ 8,052,411</u>	<u>\$ 7,637,823</u>	<u>\$ 5,882,474</u>

**SOUTH AMBOY REDEVELOPMENT AGENCY
SCHEDULE OF EXPENDITURES COMPARED TO BUDGET
FOR THE YEAR ENDED JUNE 30, 2011
(BUDGETARY BASIS)**

(With Comparative Actual Amounts for the Year Ended June 30, 2010)

	<u>2011 Budget</u>	<u>2011 Actual</u>	<u>Variance Excess (Deficit)</u>	<u>2010 Actual</u>
OPERATING APPROPRIATIONS				
Administration				
Other Expenses	\$ 50,000	\$ 40,937	\$ 9,063	\$ 45,201
Cost of Providing Service				
Salaries and Wages	50,000	42,734	7,266	46,367
Other Expenses - Interlocal Agreement		100,000	(100,000)	
Other Expenses	<u>14,000</u>	<u>48,482</u>	<u>(34,482)</u>	<u>97,741</u>
Total Operating Appropriations	<u>114,000</u>	<u>232,153</u>	<u>(118,153)</u>	<u>189,309</u>
NON-OPERATING APPROPRIATIONS				
Principal Payments on Debt	90,000	90,000	-	
Interest Payments on Debt	<u>210,588</u>	<u>209,153</u>	<u>1,435</u>	<u>185,938</u>
Total Non-Operating Appropriations	<u>300,588</u>	<u>299,153</u>	<u>1,435</u>	<u>185,938</u>
Total Appropriations	<u>\$ 414,588</u>	<u>\$ 531,306</u>	<u>\$ (116,718)</u>	<u>\$ 375,247</u>

**SOUTH AMBOY REDEVELOPMENT AGENCY
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN CASH AND CASH EQUIVALENTS
FOR THE YEAR ENDED JUNE 30, 2011**

Cash and Cash Equivalents, Beginning of Year		\$ 672,502
Cash Receipts:		
City of South Amboy	\$ 2,093,876	
NJEDA Grants	652,770	
CDBG Grant	159,300	
Escrow Deposits	19,000	
Redeveloper Fees	350,000	
Donations	100,000	
Rental Income	114,660	
Miscellaneous Fees	920	
Interest Income	<u>6,781</u>	
		<u>3,497,307</u>
		4,169,809
Cash Disbursements:		
City of South Amboy	100,000	
Refund to Developers	98,398	
Principal Paid on Bonds	90,000	
Interest Paid on Bonds	210,588	
Cost of Operations	103,732	
Acquisition and Construction of Capital Assets	1,263,446	
Accounts Payable	<u>1,060,534</u>	
		<u>2,926,698</u>
Cash and Cash Equivalents, End of Year		<u>\$ 1,243,111</u>

OTHER REPORTS AND COMMENTS AND RECOMMENDATIONS

LERCH, VINCI & HIGGINS, LLP

CERTIFIED PUBLIC ACCOUNTANTS
REGISTERED MUNICIPAL ACCOUNTANTS

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EDWARD N. KERE, CPA

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 Members of the Board
South Amboy Redevelopment Agency
South Amboy, New Jersey

We have audited the basic financial statements of the South Amboy Redevelopment Agency as of and for the year ended June 30, 2011, and have issued our report thereon dated November 28, 2011. 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.

Internal Control Over Financial Reporting

Management of the South Amboy Redevelopment Agency is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the South Amboy Redevelopment Agency'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 South Amboy Redevelopment Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the South Amboy Redevelopment Agency's internal control over financial reporting.

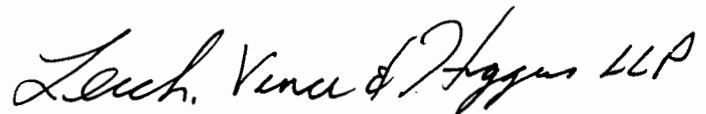
A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Agency's financial statements will not be prevented, or detected and corrected on a timely basis.

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.

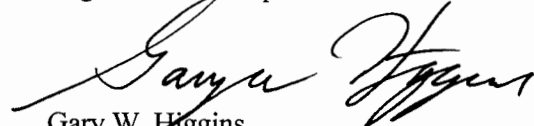
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the South Amboy Redevelopment Agency'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 South Amboy Redevelopment Agency board members, management, New Jersey State Department of Community Affairs and is not intended to be and should not be used by anyone other than these specified parties.



LERCH, VINCI & HIGGINS, LLP
Certified Public Accountants
Registered Municipal Accountants



Gary W. Higgins
Registered Municipal Accountant
RMA Number CR00405

Fair Lawn, New Jersey
November 28, 2011

**SOUTH AMBOY REDEVELOPMENT AGENCY
ROSTER OF OFFICIALS
JUNE 30, 2011**

Commissioners

Kevin F. Meszaros	Chairperson
Benjamin Block	Vice-Chairperson
Melvin Rosado	Member
Camille Tooker	Member
William Schwarick	Member
Zusette Dato	Member
Fred Henry	Mayor

Agency Executive Staff

Eric Chubenko	Executive Director
Terrance O'Neill	Treasurer

GENERAL COMMENTS AND RECOMMENDATIONS

GENERAL COMMENTS

None.

RECOMMENDATIONS

None.

* * * * *

Status of Prior Year's Audit Recommendations

Corrective action was taken on the prior year recommendation.

Should any questions arise as to our comments and recommendations, or should you desire assistance in implementing our recommendation, please do not hesitate to call us.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Lerch, Vinci & Higgins LLP", is written in a cursive style.

LERCH, VINCI & HIGGINS, LLP

Certified Public Accountants

Registered Municipal Accountants