



State of New Jersey  
URBAN ENTERPRISE ZONE AUTHORITY  
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TRENTON, NJ 08625-0822

CHRIS CHRISTIE  
Governor

KIM GUADAGNO  
Lt. Governor

CHARLES A. RICHMAN  
Commissioner

**MEMORANDUM**

TO: Members of the Urban Enterprise Zone Audit Committee & Members of the Urban Enterprise Zone Authority  
FROM: Joseph F. Cirafici, Administrative Analyst   
DATE: October 7, 2015  
SUBJECT: Fiscal Year 2014 Comprehensive Annual Audit

Attached please find the following:

1. Final copy of the UEZA Fiscal Year 2014 Audit Report;
2. Auditor's Fiscal Year 2014 Report to the Audit Committee
3. Report of Significant Actions – NJ Urban Enterprise Zone Authority FY 2014;
4. Audit Committee Meeting Minutes – September 29, 2015

The Audit combined with the UEZ Report of Significant Actions FY 2014 will serve as the comprehensive report of authority operations required pursuant to EO 37 (Corzine). This report includes the audited financial statements for the FY ending June 30, 2014, prepared pursuant to Generally Accepted Accounting Principles for a governmental entity.

Per its procedures, as well as section 9 of Executive Order 122 (McGreevy), the Audit Committee, prior to the Audit's release reviewed the draft annual financial report, considered the relevancy, accuracy, and completeness of the information presented and accepted the report at its Audit Committee Meeting held on Tuesday, September 29, 2015 at 3pm.

At the conclusion of the meeting the Committee accepted the Audit, the Management Report, the Report of Significant Actions, and the Minutes of the February 23, 2015 Audit Committee Meeting for recommendation to the Authority, at its next regular meeting, for acceptance.

The next meeting of the New Jersey Urban Enterprise Zone Authority Board is scheduled for Wednesday, October 14, 2015 at 2pm to consider acceptance of the Audit Committee's report and 2014 audit.

If you have any questions or comments, please feel free to contact Sean Thompson, Audit Committee Chair Designee at 609-292-1716 or me at 609-292-1912.

JFC:lm

c: Commissioner Charles A. Richman, DCA



**NEW JERSEY URBAN ENTERPRISE ZONE  
ASSISTANCE FUND**

**BASIC FINANCIAL STATEMENTS**

June 30, 2014

**NEW JERSEY URBAN ENTERPRISE ZONE ASSISTANCE FUND**

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June 30, 2014

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# NEW JERSEY URBAN ENTERPRISE ZONE ASSISTANCE FUND

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended June 30, 2014

This section of the annual financial report of the New Jersey Urban Enterprise Zone Assistance Fund (the UEZAF), a non-major special revenue fund of the State of New Jersey (the "State"), annual financial report presents management's discussion and analysis of the UEZAF's financial performance during the fiscal years ended June 30, 2014 and 2013. Please read it in conjunction with the UEZAF's financial statements and accompanying notes.

### FINANCIAL HIGHLIGHTS

|                         |              |
|-------------------------|--------------|
| Assets - decreased      | \$ 6,739,260 |
| Liabilities - decreased | 6,739,260    |

### OVERVIEW OF THE FINANCIAL STATEMENTS

This annual financial report consists of two parts: *Management's Discussion and Analysis* (this section) and the basic financial statements. The UEZAF is a non-major special revenue fund that receives funding through the State's reduced retail sales tax program (3.5% sales tax). Currently, there are thirty-two (32) zones in thirty-seven (37) qualifying ("Urban Enterprise Zone"), UEZ municipalities in the State.

### FINANCIAL ANALYSIS OF THE NEW JERSEY URBAN ENTERPRISE ZONE ASSISTANCE FUND

#### Balance Sheet

The table below shows the changes in the balance sheet between the fiscal years ended June 30, 2014 and 2013. Explanations for significant changes are presented below:

|                                    | June 30,      |               |              | Increase/<br>(Decrease)<br>2013-2014 |
|------------------------------------|---------------|---------------|--------------|--------------------------------------|
|                                    | 2014          | 2013          | 2012         |                                      |
| Cash                               | \$ 598,296    | \$ 1,122,322  | \$ 1,826,478 | \$ (524,026)                         |
| Investments                        | 9,887,046     | 15,714,103    | 1,157,290    | (5,827,057)                          |
| Due from State                     | 17,942,521    | 18,330,698    | 2,721,983    | (388,177)                            |
| Total assets                       | \$ 28,427,863 | \$ 35,167,123 | \$ 5,705,751 | \$ (6,739,260)                       |
| Due to State                       | \$ 28,427,863 | \$ 35,167,123 | \$ 5,705,751 | \$ (6,739,260)                       |
| Fund balance                       | -             | -             | -            | -                                    |
| Total liabilities and fund balance | \$ 28,427,863 | \$ 35,167,123 | \$ 5,705,751 | \$ (6,739,260)                       |

**NEW JERSEY URBAN ENTERPRISE ZONE ASSISTANCE FUND**

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
Year Ended June 30, 2014

Balance Sheet (Continued)

Current Assets - Consist of cash and invested funds held for transfer to the State's General Fund. The \$6,739,260 decrease in current assets is the result of less sales taxes collected through the respective zones that have not been transferred to the State by the fiscal year end.

Current Liabilities - Represent the liability "Due to State" transferable from the UEZAF to the State General Fund. Current liabilities show a decrease of 19.16%, or \$6,739,260 in transferable funds due to the State's General Fund in fiscal year 2014, for sales tax revenue earned in June 2014 but not deposited with the UEZAF until July 2014.

Fund Balance - is zero since all funds collected are transferred to the State General Fund instead of the UEZ's for projects.

Statement of Revenues, Expenditures and Change in Fund Balance

The report below provides the program activities and change in fund balance of the UEZAF. See below for explanation of significant changes.

|   | Year Ended June 30, |               |                | Increase/<br>(Decrease)<br>2013-2014 |
|---|---------------------|---------------|----------------|--------------------------------------|
|   | 2014                | 2013          | 2012           |                                      |
| Sales tax revenues                                  | \$ 94,887,651       | \$ 99,143,158 | \$ 101,322,267 | \$ (4,255,507)                       |
| Investment return                                   | 9,224               | 18,898        | 112,012        | (9,674)                              |
| Total revenues                                      | 94,896,875          | 99,162,056    | 101,434,279    | (4,265,181)                          |
| Community development and<br>environment management | -                   | -             | 16,013,341     | -                                    |
| Economic planning, development and<br>security      | -                   | -             | 146,559,800    | -                                    |
| Total expenditures                                  | -                   | -             | 162,573,141    | -                                    |
| Excess of revenues over<br>(expenditures)           | 94,896,875          | 99,162,056    | (61,138,862)   | (4,265,181)                          |
| Transfers to other funds                            | (94,896,875)        | (104,867,807) | (100,426,242)  | 9,970,932                            |
| Change in fund balance                              | -                   | (5,705,751)   | (161,565,104)  | 5,705,751                            |
| Fund balance, beginning of year                     | -                   | 5,705,751     | 167,270,855    | (5,705,751)                          |
| Fund balance, end of year                           | \$ -                | \$ -          | \$ 5,705,751   | \$ -                                 |

## NEW JERSEY URBAN ENTERPRISE ZONE ASSISTANCE FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
Year Ended June 30, 2014

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### Statement of Revenues, Expenditures and Change in Fund Balance (Continued)

Revenues - Consists of sales tax revenue. Fiscal year 2014 budget language directed that all reduced rate sales tax revenue (except the portion dedicated to the Property Tax Relief Fund ("PTRF")) be redirected to the General Fund. UEZ's designated pursuant to the UEZ Act (N.J.S.A. 52:27H-60 et seq.) would otherwise have been allocated a portion of the net reduced rate sales taxes collected, after first transferring funds to the PTRF and UEZAF, in accordance with their 5-year intervals in their respective initial 20-year life cycles (100%; 67%; 33%, 0%), or 16-year extension if applicable (100%; 67%; 33%, 0% in year-16) beginning after year-15 of the original designation. Sales tax revenues decreased 4.29% due to a slight decrease in the amount of sales tax collected by the UEZ's during fiscal year 2014.

Expenses - Consists of economic development projects and administrative expenses on both the State and municipal levels. Program expenses vary directly with sales tax revenue, the more sales tax revenue collected, the more funds available for program expenditures. At the end of fiscal year 2012 program expenses related to economic development were terminated as a result of a program assessment by an independent consultant that concluded the project expenses produced a negative return on the State's investment. As of fiscal year 2013 the sales tax revenue generated from the UEZ's will be appropriated to the State's General Fund.

Fund Balance - This amount at the beginning and end of the year represents the fund balance, consisting of cash (cash on hand) and investments (deposits in the New Jersey Cash Management Fund), including any increases (decreases) in such balance resulting from program income (loss) and return on investments (interest). As of fiscal year 2013 all funds are transferred to the State General Fund, leaving the UEZAF fund balance at zero.

### *Contacting the UEZAF's Financial Management*

This financial report is designed to provide New Jersey citizens, taxpayers and legislators with a general overview of the UEZAF's finances and to demonstrate the Fund's accountability for the appropriations that it receives. If you have questions about this report or need additional information, contact the New Jersey Urban Enterprise Zone Program at 101 South Broad Street, P.O. Box 822, Trenton, New Jersey 08625-0822 or visit its website at [www.state.nj.us/dca/affiliates/uez](http://www.state.nj.us/dca/affiliates/uez).

## **INDEPENDENT AUDITORS' REPORT**

To the New Jersey Urban Enterprise Zone Authority regarding the  
New Jersey Urban Enterprise Zone Assistance Fund

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities of the New Jersey Urban Enterprise Zone Assistance Fund (the "UEZAF"), as of and for the years ended June 30, 2014 and 2013, and the related notes to financial statements, which collectively comprise the UEZAF's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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 from material misstatement.

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

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

## INDEPENDENT AUDITORS' REPORT (CONTINUED)

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities of the UEZAF, as of June 30, 2014 and 2013, and the change in its fund balance for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### Other Matters

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis* on pages one through four 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.

#### *Other Reporting by Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our reports dated September 18, 2015 and July 14, 2014, for the years ended June 30, 2014 and 2013, respectively, on our consideration of the UEZAF's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of those reports 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. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the UEZAF's internal controls over financial reporting and compliance.

*Mercadion, P.C.*

*Certified Public Accountants*

September 18, 2015

NEW JERSEY URBAN ENTERPRISE ZONE ASSISTANCE FUND

BALANCE SHEET

|                                     | June 30,             |                      |
|-------------------------------------|----------------------|----------------------|
|                                     | 2014                 | 2013                 |
| <b>ASSETS</b>                       |                      |                      |
| Cash                                | \$ 598,296           | \$ 1,122,322         |
| Investments                         | 9,887,046            | 15,714,103           |
| Due from State                      | <u>17,942,521</u>    | <u>18,330,698</u>    |
| Total assets                        | <u>\$ 28,427,863</u> | <u>\$ 35,167,123</u> |
| <b>LIABILITIES AND FUND BALANCE</b> |                      |                      |
| Due to State                        | \$ 28,427,863        | \$ 35,167,123        |
| Fund balance                        | <u>-</u>             | <u>-</u>             |
| Total liabilities and fund balance  | <u>\$ 28,427,863</u> | <u>\$ 35,167,123</u> |

See notes to financial statements.

**NEW JERSEY URBAN ENTERPRISE ZONE ASSISTANCE FUND**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**

|                                 | <u>Year Ended June 30,</u> |                      |
|---------------------------------|----------------------------|----------------------|
|                                 | <u>2014</u>                | <u>2013</u>          |
| Revenues                        |                            |                      |
| Sales tax revenues              | \$ 94,887,651              | \$ 99,143,158        |
| Investment return               | <u>9,224</u>               | <u>18,898</u>        |
| Total revenues                  | <u>94,896,875</u>          | <u>99,162,056</u>    |
| Transfers to other funds        | <u>(94,896,875)</u>        | <u>(104,867,807)</u> |
| Change in fund balance          | -                          | (5,705,751)          |
| Fund balance, beginning of year | <u>-</u>                   | <u>5,705,751</u>     |
| Fund balance, end of year       | <u>\$ -</u>                | <u>\$ -</u>          |

See notes to financial statements.

# NEW JERSEY URBAN ENTERPRISE ZONE ASSISTANCE FUND

## NOTES TO FINANCIAL STATEMENTS

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### A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### **Nature of Organization**

New Jersey Urban Enterprise Zone Assistance Fund (the "UEZAF"), is a non-major special revenue fund of the State of New Jersey (the "State"), in accordance with P.L. 1983, c.303, the purpose of the UEZAF is to concentrate the benefits of UEZ designation and to provide gradual and geographically balanced introduction of such UEZs. The law is aimed at encouraging the revitalization of some of the State's most distressed urban areas with regards to incidence of poverty and unemployment. The revenues of the UEZAF are generated from a portion of the sales tax revenues of each UEZ, which are designated for reinvestment in improvement projects for each of the respective UEZs. There are currently thirty-two designated UEZ located within thirty-seven municipalities throughout the State.

#### **Basis of Accounting**

The UEZAF is a non-major special revenue fund of the State. The UEZAF's financial statements are included in the State of New Jersey's Comprehensive Annual Financial Report (the "CAFR").

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the GASB.

#### **Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

#### **Revenue Recognition**

The UEZAF is generated by sales tax revenue collected from each of the designated UEZs. Sales tax revenue is recognized when collected by the State from the respective UEZs. License and fee revenue is recognized when earned.

#### **Cash and Cash Equivalents**

Cash equivalents include certificates of deposit and highly liquid debt instruments with original maturities of ninety days or less.

#### **Investments**

The UEZAF carries all investments at fair value. Investments consist of deposits with the State of New Jersey Cash Management Fund ("NJCMF").

#### **Fund Balance - Committed**

The fund balance is committed for the purposes outlined in P.L. 1983, c.303 (the act that created the Urban Enterprise Zone Program), which include the undertaking of public improvements for and payment to qualifying UEZs for capital projects and/or projects that promote economic activity. There was no committed fund balance at June 30, 2014.

#### **Income Taxes**

The UEZAF is exempt from all federal and state income taxes.

NEW JERSEY URBAN ENTERPRISE ZONE ASSISTANCE FUND

NOTES TO FINANCIAL STATEMENTS

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Due from/to State**

The UEZAF collects sales tax revenues by each respective UEZ, net of State administrative expenses, from the Division of Taxation, these amounts are Due from State. The UEZAF is also required to reimburse various State agencies for administrative expenses incurred for the coordination and administration of the UEZAF's programs. At the end of each fiscal year the UEZAF records a Due to State for transfers that need to be made to each respective agency.

**Reclassification**

Certain amounts have been reclassified to conform to current year presentation.

B. CASH

Following is a summary of the UEZAF's cash deposits by financial institution and the amounts exposed to custodial credit risk at June 30, 2014 and 2013. The UEZAF's deposits at its bank are insured by the Federal Deposit Insurance Corporation (the "FDIC") up to \$250,000 for the years ended June 30, 2014 and 2013, respectively.

|  | June 30, 2014   |                 | June 30, 2013   |                 |
|--|-----------------|-----------------|-----------------|-----------------|
|  | Bank<br>Balance | Book<br>Balance | Bank<br>Balance | Book<br>Balance |
| Wells Fargo  | \$ 598,296      | \$ 598,296      | \$ 1,122,322    | \$ 1,122,322    |
| Total cash balance                                 | 598,296         | \$ 598,296      | 1,122,322       | \$ 1,122,322    |
| Total collateralized deposits                      | 250,000         |                 | 250,000         |                 |
| Total deposits exposed to<br>custodial credit risk | \$ 348,296      |                 | \$ 872,322      |                 |

C. INVESTMENTS

New Jersey statutes permit the deposit of public funds in the State of NJCMF or in institutions located in New Jersey that are insured by the FDIC or by any other agencies of the United States that insure deposits. The NJCMF is a common trust fund administered by the New Jersey Department of the Treasury, Division of Investment. Securities in the NJCMF are insured, registered or held by the Division or its agent in the NJCMF's name.

Investments are stated at fair market value and consist of deposits in the NJCMF. Original cost basis and fair market value at June 30, 2014 and 2013, are summarized as follows:

|                                 | June 30, 2014 |                      | June 30, 2013 |                      |
|---------------------------------|---------------|----------------------|---------------|----------------------|
|                                 | Original Cost | Fair<br>Market Value | Original Cost | Fair<br>Market Value |
| New Jersey Cash Management Fund | \$ 9,887,046  | \$ 9,887,046         | \$ 15,714,103 | \$ 15,714,103        |

**Credit Risk and Custodial Credit Risk**

The UEZAF does not have a formal policy to limit credit risk or custodial credit risk but is restricted by the investment policies of the State. For an investment, custodial credit risk is the risk that, in the event of a bank failure, the UEZAF will not be able to recover the value of its investments that are in the possession of the bank. The UEZAF's investment in the NJCMF is excluded from credit risk and custodial credit risk as a pooled investment.

D. CONCENTRATION OF RISK

The UEZAF maintains cash and pooled investment balances which may exceed federally insured limits. The UEZAF historically has not experienced any credit-related losses.

**NEW JERSEY URBAN ENTERPRISE ZONE ASSISTANCE FUND**

**NOTES TO FINANCIAL STATEMENTS**

**E. TRANSFERS TO OTHER FUNDS**

The UEZAF's administrative activities are conducted by various departments and agencies of the State. The UEZAF reimburses the State for the costs associated with the administration of the UEZAF's operations. Pursuant to P.L. 1983, c.303 and subsequent amendments, the UEZAF must also transfer all earnings on investments to the State. Also included in transfers to other funds for the years ended June 30, 2014 and 2013, are sales tax revenues appropriated to the State General Fund, net of State administrative costs. This transfer of sales tax revenues to the State General Fund was made in accordance with P.L. 2010, c.19.

Transfers to other funds in the statement of revenues, expenditures and change in fund balance consists of the following:

|   | <u>Year Ended June 30,</u> |                       |
|---|----------------------------|-----------------------|
|   | <u>2014</u>                | <u>2013</u>           |
| Administrative costs                                | \$ 1,243,301               | \$ 1,098,302          |
| Investment return                                   | 9,224                      | 18,898                |
| Transfer of sales tax revenue to State General Fund | <u>93,644,350</u>          | <u>103,750,607</u>    |
| Total transfers to other funds                      | <u>\$ 94,896,875</u>       | <u>\$ 104,867,807</u> |

**F. CHANGE IN ZONE MANAGEMENT**

**Program Assessment by Independent Consultants**

During fiscal year 2011, an assessment of the UEZ Program (the "Program") was performed by an independent consultant to measure the Program's performance through the creation of jobs and return on public investment during the period 2002 through 2008. The two significant conclusions reached by the consultant were that the Program delivered a limited economic impact on the zone economies and that the Program produced a negative return on the State's investment. As a result of the consultant's report, on February 15, 2011, the Chairperson of the New Jersey Urban Enterprise Zone Authority, along with the Commissioner of the New Jersey Department of Community Affairs issued a memorandum to the State Treasurer recommending that the Program be terminated effective July 1, 2011. The sales tax revenue generated from the participating zones would instead be appropriated to the State General Fund. In accordance with the consultant's assessment, the State's fiscal year 2012 budget, as adopted by P.L. 2011, c.85, terminated the Program and appropriated the sales tax revenues collected by the zones to the State General Fund effective July 1, 2011.

**Transfer of unexpended balances**

The State of New Jersey fiscal year 2014 and 2013 budgets, as adopted by the Legislature, require that all revenue credited to each account for each enterprise zone in the UEZAF attributable to local projects and local costs for administering the UEZ Program be appropriated as revenue to the State General Fund. Further, the budget language stipulates that the unexpended balances in the portion of the Fund designated for the State costs of administering the UEZ Program be appropriated as revenue to the State General Fund.

**INDEPENDENT AUDITORS' 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**

To the New Jersey Urban Enterprise Zone Authority regarding the  
New Jersey Urban Enterprise Zone Assistance Fund

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities of New Jersey Urban Enterprise Zone Assistance Fund (the "UEZAF"), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the UEZAF's basic financial statements, and have issued our report thereon dated September 18, 2015.

**Internal Control Over Financial Reporting**

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

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

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

**INDEPENDENT AUDITORS' 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  
(CONTINUED)**

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the UEZAF's financial statements are free from 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*.

**Purpose of this Report**

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

*Mercedien, P.C.*

*Certified Public Accountants*

September 18, 2015

**FY 2014 UEZ  
REPORT TO THE  
AUDIT COMMITTEE**



# New Jersey Urban Enterprise Zone Assistance Fund

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## 2014 Audit Results

September 18, 2015

**This report is intended solely for the information and use of the Audit Committee and management and is not intended to be and should not be used by anyone other than these specified parties.**



# Contents

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- Executive Summary
- Required Communications
- Financial Statements
- GASB Update
- Exhibits



# Executive Summary

---

## Audit Status

- Unmodified opinion



# Required Communications

| Area   | Comments   |
|--|--|
| <b>Our Responsibility with Regard to the Financial Statement Audit</b> | Our responsibilities under auditing standards generally accepted in the United States of America, and the standards applicable to <i>Government Auditing Standards</i> , issued by the Comptroller General of the United States, have been described in arrangement letter dated May 26, 2015. |
| <b>Overview of the Planned Scope and Timing</b>                        | We have issued a separate communication dated May 26, 2015 regarding the planned scope and timing of our audit and have discussed with you our identification of, and planned audit response to, significant risks of material misstatement.   |



# Accounting Policies and Practices

| Area   | Comments  |
|--|---|
| <b>Preferability</b>                             | Under generally accepted accounting principles, in certain circumstances, management may select among alternative accounting practices. We did not discuss with management any alternative treatments within generally accepted accounting principles for accounting policies and practices related to material items during the current audit. |
| <b>Adoption or Change in Accounting Policies</b> | Management has the ultimate responsibility for the appropriateness of the accounting policies used by the Fund.<br><br>No significant new accounting policies adopted nor changes in existing significant accounting policies.  |



# Accounting Policies and Practices

| Area   | Comments   |
|--|--|
| <b>Significant or Unusual Transactions</b>             | No significant or unusual transactions or significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus. |
| <b>Management's Judgments and Accounting Estimates</b> | There were no significant estimates included in the financial statements.  |



# Audit Adjustments and Uncorrected Misstatements

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- There were no audit adjustments made to the original trial balance presented to us to begin our audit.
- There were no uncorrected misstatements.



# Other Required Communications

| Area  | Comments   |
|---|--|
| <b>Disagreements with Management</b>                                | We encountered no disagreements with management over the application of significant accounting principles, the basis for management's judgments on any significant matters, the scope of the audit, or significant disclosures to be included in the financial statements. |
| <b>Consultations with Other Accountants</b>                         | We are not aware of any consultations management had with other accountants about accounting or auditing matters.  |
| <b>Significant Issues Discussed with Management</b>                 | No significant issues arising from the audit were discussed with or the subject of correspondence with management.   |
| <b>Significant Difficulties Encountered in Performing the Audit</b> | We did not encounter any significant difficulties in dealing with management during the audit.   |



# Other Required Communications

| Area  | Comments  |
|---|---|
| <b>Letter Communicating Significant Deficiencies and Material Weaknesses in Internal Control over Financial Reporting</b> | No material weaknesses noted.   |
| <b>Certain Written Communications Between Management and Our Firm</b>   | The client representation letter between our firm and management of the Fund provided to us by management is attached as Exhibit A. |



# Reporting Required by GAS

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- No findings
  - Internal control over financial reporting
  - Noncompliance with laws, regulations, contracts and grant agreements



# Balance Sheet

|                                     | June 30,             |                      |
|-------------------------------------|----------------------|----------------------|
|                                     | 2014                 | 2013                 |
| <b>ASSETS</b>                       |                      |                      |
| Cash                                | \$ 598,296           | \$ 1,122,322         |
| Investments                         | 9,887,046            | 15,714,103           |
| Due from State                      | <u>17,942,521</u>    | <u>18,330,698</u>    |
| Total assets                        | <u>\$ 28,427,863</u> | <u>\$ 35,167,123</u> |
| <b>LIABILITIES AND FUND BALANCE</b> |                      |                      |
| Due to State                        | \$ 28,427,863        | \$ 35,167,123        |
| Fund balance                        | <u>-</u>             | <u>-</u>             |
| Total liabilities and fund balance  | <u>\$ 28,427,863</u> | <u>\$ 35,167,123</u> |

## Statement of Revenues, Expenditures and Changes in Fund Balance

|                                 | Year Ended June 30, |                      |
|---------------------------------|---------------------|----------------------|
|                                 | 2014                | 2013                 |
| Revenues                        |                     |                      |
| Sales tax revenues              | \$ 94,887,651       | \$ 99,143,158        |
| Investment return               | 9,224               | 18,898               |
| Total revenues                  | <u>94,896,875</u>   | <u>99,162,056</u>    |
| Transfers to other funds        | <u>(94,896,875)</u> | <u>(104,867,807)</u> |
| Change in fund balance          | -                   | (5,705,751)          |
| Fund balance, beginning of year | -                   | <u>5,705,751</u>     |
| Fund balance, end of year       | <u>\$ -</u>         | <u>\$ -</u>          |



# GASB Update

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- Recently issued standard that might affect the Fund
  - GASB Statement No. 72, *Fair Value Measurement and Application*



# Our Compass

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## Core Values

Mercadien pledges to be accountable and guided by these core values that we use as our compass. Core values are the essential and enduring principles that are integral to our success. These values form the foundation of our work, how we interact with one another, and which strategies we employ to accomplish our efforts. We define leadership as embracing these core values and having the courage to act on them on behalf of our families, our firm, ourselves, our clients, colleagues and community.

- **Integrity** – conducting our affairs honestly and ethically and doing what's right, regardless of the cost or consequence.
- **Excellence** – striving to be the best in everything we do, being a part of something special, and enabling ourselves and others to reach the highest potential.
- **Responsibility** – being accountable for the success, development, and improvement of our families, our firm, ourselves, our clients, colleagues and community.
- **Creativity** – embracing change and continually seeking out and developing innovative ways to serve our families, our firm, ourselves, our clients, colleagues and community, recognizing that failure is an integral part of success.
- **Respect** – appreciating, understanding, and supporting ourselves and others, our colleagues, our clients and community.



# Contact Information

**MERCADIEN, P.C., CERTIFIED PUBLIC ACCOUNTANTS  
P.O. BOX 7648  
PRINCETON, NJ 08543-7648**

**Warren A. Broudy, CPA, CGFM, PSA, RMA  
PRINCIPAL  
(609) 689-2326 / [wbroudy@mercadien.com](mailto:wbroudy@mercadien.com)**



# Exhibit A

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- Client Representation Letter



**State of New Jersey**  
URBAN ENTERPRISE ZONE AUTHORITY  
101 SOUTH BROAD STREET  
PO Box 822  
1ST FLOOR  
TRENTON, NJ 08625-0822

**CHRIS CHRISTIE**  
*Governor*

**KIM GUADAGNO**  
*Lt. Governor*

**CHARLES A. RICHMAN**  
*Commissioner*

September 18, 2015

Mercadien, P.C. Certified Public Accountants  
P.O. Box 7648  
Princeton, New Jersey 08543-7648

This representation letter is provided in connection with your audits of the basic financial statements of New Jersey Urban Enterprise Zone Assistance Fund (the "Fund") as of and for the years ended June 30, 2014 and 2013 for the purpose of expressing an opinion on whether the financial statements are presented fairly, in all material respects in accordance with accounting principles generally accepted in the United States (U.S. GAAP).

We confirm, to the best of our knowledge and belief, as of September 18, 2015:

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit arrangement letter dated May 26, 2015, for the preparation and fair presentation of the financial statements referred to above in accordance with U.S. GAAP.
2. We acknowledge our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
3. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
4. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable and reflect our judgment based on our knowledge and experience about past and current events and our assumptions about conditions we expect to exist and courses of action we expect to take.
5. Related-party transactions, including those with the State of New Jersey having accountability for the Fund have been recorded in accordance with economic substance of the transaction and appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.
6. All events subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed.
7. The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with U.S. GAAP.



8. There are no unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed in accordance with GASB Statement No.10.
9. We have no direct or indirect, legal or moral obligation for any debt of any organization, public or private that is not disclosed in the financial statement.
10. We have complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance. In connection therewith, we specifically represent that we are responsible for determining that we are not subject to the requirements of the Single Audit Act and OMB Circular No. A-133, because we have not received, expended, or otherwise been the beneficiary of the required amount of federal awards during the period of this audit.
11. We have no knowledge of any uncorrected misstatements in the financial statements.

Information Provided

12. We have provided you with:
  - a. Access to all information, of which we are aware that is relevant to the preparation and fair presentation of the financial statements such as records, documentation, and other matters.
  - b. Additional information that you have requested from us for the purpose of the audit.
  - c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
  - d. Minutes of the meetings of the governing board and committees, or summaries of actions of recent meetings for which minutes have not yet been prepared.
13. All transactions have been recorded in the accounting records and are reflected in the financial statements.
14. We have no knowledge of allegations of fraud or suspected fraud, affecting the entity's financial statements involving:
  - a. Management.
  - b. Employees who have significant roles in the internal control.
  - c. Others where the fraud could have a material effect on the financial statements.
15. We have no knowledge of any allegations of fraud or suspected fraud affecting the entity's financial statements received in communications from employees, former employees, analysts, regulators, or others.
16. We have no knowledge of noncompliance or suspected noncompliance with laws and regulations whose effects were considered when preparing financial statements.
17. We are not aware of any pending or threatened litigation and claims whose effects should be considered when preparing the financial statements.

18. There were no related-party relationships and transactions for the entity of which we are aware.

19. We are aware of no significant deficiencies, including material weaknesses, in the design or operation of internal controls that could adversely affect the Fund's ability to record, process, summarize, and report financial data.

20. We are aware of no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.

a. We have no plans or intentions that may materially affect the carrying value or classification of assets of the Fund.

#### Supplementary Information

21. With respect to Management's Discussion and Analysis presented as required by Governmental Accounting Standards Board ("GASB") to supplement the basic financial statements:

a. We acknowledge our responsibility for the presentation of such required supplementary information.

b. We believe such required supplementary information is measured and presented in accordance with guidelines prescribed by the GASB.

c. The methods of measurement or presentation have not changed from those used in the prior period.

22. During the course of your audit, you may have accumulated records containing data that should be reflected in our books and records. All such data have been so reflected. Accordingly, copies of such records in your possession are no longer needed by us.

#### Compliance Considerations

In connection with your audit, conducted in accordance with Government Accounting Standards, we confirm:

1. We are responsible for:

a. Compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to the Fund.

b. Establishing and maintaining effective internal control over financial reporting.

2. We have identified and disclosed to you:

a. All laws, regulations, and provisions of contracts and grant agreements that have a direct and material effect on the determinations of financial statement amounts or other financial data significant to audit objectives.

September 18, 2015  
Page 4

b. That there are no violations (or possible violations) of laws, regulations, and provisions of contracts and grant agreements whose effects should be considered for disclosure in the auditor's report on noncompliance.

3. Charles A. Richman, Chair, Urban Enterprise Zone Authority Audit Committee, who has sufficient skills, knowledge, and experience; reviewed and approved, and we take full responsibility for the financial statements and related notes and acknowledge the auditor's role in the preparation of this information.

Very truly yours,

NEW JERSEY URBAN ENTERPRISE ZONE ASSISTANCE FUND

A handwritten signature in black ink, appearing to read 'CARICHMAN', written over a horizontal line.

Charles A. Richman, Chair  
Urban Enterprise Zone Authority Audit Committee

**FY 2014 UEZ  
REPORT OF  
SIGNIFICANT ACTIONS**

**Report of Significant Actions for Fiscal Year 2014:**  
**New Jersey Urban Enterprise Zone Authority**  
In accordance with EO 37

During the Fiscal Year ended June 30, 2014, the New Jersey Urban Enterprise Zone Authority completed the following:

- The UEZ program continues to operate a totally on-line UEZ applications processing system covering all three stages of participation: Initial Certification, Annual Reports and triennial Recertifications, with all related client notification communications by e-mail. The system is supported by a Helpdesk team to respond to client questions by telephone and e-mail, with on-line interface, including an upgrade to Premier Business Services to allow Zone Businesses to process a range of applications, reports and tax payments on-line that became fully operational in November, 2011, as was integrated zone map standardization. This entire process was a significant initiative launched to reduce bureaucracy, cut red tape and substantially reduce the time required to complete Certification for Zone Businesses, consistent with the Administration's initiative to improve the business climate in the State.
- In response to the national economy and its impact on New Jersey businesses, recertifying firms that were not then able to satisfy the employment requirements of the UEZ Program could request and be considered for a 6-month Extension to comply. Firms whose Extensions expire without satisfying the employment requirements are inactivated and advised they may apply for a new Certification after waiting six months from their inactivation date. This action was taken to reinforce the local hire and employment requirements of the program. During FISCAL YEAR 2014, 13 Extensions were granted, 16 were satisfied and 12 were Inactivated, reducing affected firms from an opening balance of 20 to 5 firms at 06/30/2015.
- Responsibility for all Zone Assistance Projects, remaining project funds and local ethics compliance was transferred to the respective municipalities pursuant to the Fiscal Year 2012 State Budget and continues as such. FISCAL YEAR 2014 Budget Language provides that all revenues credited to the Zone Assistance Funds and the unexpended balances designated for the State costs for UEZ Administration "...is appropriated as revenue to the General Fund."
- Granted Certification to 947 new firms into the program, representing 12,182 jobs attracted or retained (jobs data are not audited or verified and are derived from voluntary self-reporting). Annual Reports for 5,300 other firms and Recertifications (triennial) for 460 firms were approved. At the end of FISCAL YEAR 2014, there were 6,804 active firms employing over 142,000 full time and 37,000 part time.

- No new legislation concerning the UEZ Program was signed into law.
- A clean audit report of the financial statements for the NJUEZA for the Fiscal Year ending June 30, 2014 completed by Mercadien, P.C. Certified Public Accountants and an exit conference concluded with DCA management on September 29, 2015.

The New Jersey Urban Enterprise Zone certifies that during Fiscal Year 2014, to the best of our knowledge, information and belief, the New Jersey Urban Enterprise Zone Authority has followed all of the authority's standards, procedures, and internal control, except as otherwise presented in the State Auditor's Report of the Department of Community Affairs, Urban Enterprise Zone Program for the period July 1, 2002 to September 16, 2009, and released as of April 15, 2010, available at:

<http://www.njleg.state.nj.us/legislativepub/Auditor/82658.pdf>.

The Board of the Urban Enterprise Zone Authority approved this report at its October 14, 2015 meeting.

A copy of this Report of Significant Actions for Fiscal Year 2014 is being forwarded to the Governor's Authorities Unit with the minutes to the October 14, 2015 meeting, and will be posted on the Urban Enterprise Zone Authority's website.

**SEPTEMBER 29, 2015**

**AUDIT COMMITTEE**

**MEETING MINUTES**

**NJUEZA 2014 AUDIT COMMITTEE MEETING MINUTES**  
**Tuesday, September 29, 2015, 3:00 pm**  
**NJ Department Of Community Affairs**  
**Teleconference**

**ATTENDEES:**

Sean Thompson, Audit Chair Designee, UEZA Audit Committee  
Maureen Hassett, Deputy Chair Designee, UEZA Audit Committee  
Eric Jaso, UEZA Audit Committee Member

Michael Collins, Governor's Authorities Unit  
Elizabeth Renaud, Deputy Attorney General  
Patricia Roach, Deputy Attorney General  
Robert Bartolone, DCA, Office of Auditing  
Joseph Cirafici, UEZA Administrative Analyst  
Flynn Fleming, DCA Accountant  
Warren Broudy, Mercadien  
Jill Ann Murphy, Mercadien  
Lisa Migliaccio, UEZA Staff

Sean Thompson, Chair Designee, called the meeting to order and asked for a motion to approve the Minutes of the February 23, 2015 FY 2014 Audit Committee meeting. First motion made by Maureen Hassett and seconded by Eric Jaso. Sean Thompson noted he was not at the February 23, 2015 meeting but he had read the minutes in their entirety and is comfortable voting on them. The minutes were approved unanimously. Mr. Thompson then asked Mr. Cirafici to conduct the roll call.

Mr. Thompson then asked for a presentation of the Audit report by Mercadien. Mr. Broudy thanked the Committee and Staff for their assistance with the Audit and informed the Committee that Jill Ann Murphy would present the report to the Committee, but first asked if anyone had questions. The Committee had no questions. Ms. Murphy gave a synopsis of the report stating that there were no significant changes, no adjustments to the trial balances, no audit adjustments and no disagreements with management.

Ms. Murphy also reported that the FY 2014 Audit was conducted and prepared in accordance with Government Accounting Standards. Ms. Murphy gave an overview of the Financial Analysis and asked the Committee if they had any questions and there were none. Mr. Thompson asked the Committee if they had any questions and they had none.

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September 29, 2015

Mr. Thompson asked if Management and Staff would step out and/or leave the call so the Committee could meet with the Auditors.

Mr. Thompson asked that the final FY 2014 Audit be issued and forwarded along with the appropriate reports required by EO 37 (Corzine) and EO 122 (McGreevy) to the UEZ Authority for review and adoption. A motion was made by Eric Jaso and seconded by Maureen Hassett to accept the FY 2014 Audit Report and recommend it to the Authority Board at its next regular meeting. The 2014 Audit was approved unanimously.

Mr. Cirafici summarized the Report of Significant Action to the Committee (attached) as required by Executive Order 37 and will be presented to the Board at the next regular meeting for approval. Once they are approved they are required to be posted on the UEZA Website. Mr. Cirafici also noted that the process for the RFQ will start for the 2015 UEZ Audit.

There being no further action, Mr. Thompson asked for a motion to adjourn. First motion was made by Maureen Hassett and seconded by Eric Jaso. Meeting was adjourned at 3:24pm.



Prepared by: Lisa Migliaccio