



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

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 5, 2016
SUBJECT: Fiscal Year 2015 Comprehensive Annual Audit

Attached please find the following:

1. Final copy of the UEZA Fiscal Year 2015 Audit Report;
2. Auditor's Fiscal Year 2015 Report to the Audit Committee
3. Report of Significant Actions – NJ Urban Enterprise Zone Authority FY 2015;
4. Audit Committee Meeting Minutes – September 29, 2016

The Audit combined with the UEZ Report of Significant Actions FY 2015 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, 2015, 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, 2016 at 9:30 am.

At the conclusion of the meeting the Committee accepted the Audit, the Management Report, the Report of Significant Actions, and the Minutes of the September 29, 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 12, 2016 at 2pm to consider acceptance of the Audit Committee's report and 2015 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



2015 AUDIT REPORT

**NEW JERSEY URBAN ENTERPRISE ZONE
ASSISTANCE FUND**

BASIC FINANCIAL STATEMENTS

June 30, 2015

NEW JERSEY URBAN ENTERPRISE ZONE ASSISTANCE FUND

TABLE OF CONTENTS

June 30, 2015

	<u>Page Number</u>
Management's Discussion and Analysis	1
Independent Auditors' Report	4
Basic Financial Statements	
Balance Sheet.....	6
Statement of Revenues, Expenditures and Change in Fund Balance.....	7
Notes to Financial Statements.....	8
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 <i>Government Auditing Standards</i>	11

NEW JERSEY URBAN ENTERPRISE ZONE ASSISTANCE FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended June 30, 2015

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, 2015 and 2014. Please read it in conjunction with the UEZAF's financial statements and accompanying notes.

FINANCIAL HIGHLIGHTS

Assets - decreased	\$ 2,822,983
Liabilities - decreased	\$ 2,822,983

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, 2015 and 2014. Explanations for significant changes are presented below:

	June 30,			Increase/ (Decrease) 2014-2015
	2015	2014	2013	
Cash	\$ 420,837	\$ 598,296	\$ 1,122,322	\$ (177,459)
Investments	9,596,617	9,887,046	15,714,103	(290,429)
Due from State	15,587,426	17,942,521	18,330,698	(2,355,095)
Total assets	\$ 25,604,880	\$ 28,427,863	\$ 35,167,123	\$ (2,822,983)
Due to State	\$ 25,604,880	\$ 28,427,863	\$ 35,167,123	\$ (2,822,983)
Total liabilities	\$ 25,604,880	\$ 28,427,863	\$ 35,167,123	\$ (2,822,983)

NEW JERSEY URBAN ENTERPRISE ZONE ASSISTANCE FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
Year Ended June 30, 2015

Balance Sheet (Continued)

Current Assets - Consist of cash and invested funds held for transfer to the State's General Fund. The \$2,822,983 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 fiscal year end.

Current Liabilities - Represent the liability "Due to State" transferable from the UEZAF to the State's General Fund. Current liabilities show a decrease of \$2,822,983 in transferable funds due to the State's General Fund in fiscal year 2015, for sales tax revenue earned in June 2015 but not deposited with the UEZAF until July 2015.

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/ (Decrease) 2014-2015
	2015	2014	2013	
Sales tax revenues	\$ 89,507,406	\$ 94,887,651	\$ 99,143,158	\$ (5,380,245)
Investment return	9,246	9,224	18,898	22
Total revenues	89,516,652	94,896,875	99,162,056	(5,380,223)
Excess of revenues over (expenditures)	89,516,652	94,896,875	99,162,056	(5,380,223)
Transfers to other funds	(89,516,652)	(94,896,875)	(104,867,807)	5,380,223
Change in fund balance	-	-	(5,705,751)	-
Fund balance, beginning of year	-	-	5,705,751	-
Fund balance, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

NEW JERSEY URBAN ENTERPRISE ZONE ASSISTANCE FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
Year Ended June 30, 2015

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

Revenues - Consists of sales tax revenue. Fiscal year 2015 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. UEZs 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 \$5,380,245 due to a decline in the revenue sharing percentage from 66.7% of the 90% total revenue, to 33.3%, of thirteen (13) of the thirty-seven (37) participating UEZ.

Transfers to other funds - As of fiscal year 2013 the sales tax revenue generated from the UEZs is appropriated to the State's General Fund.

Fund Balance - 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 UEZAF'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.

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, 2015 and 2014, 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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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, 2015 and 2014, and the change in financial position 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 three 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 audits 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 28, 2016 and September 18, 2015, for the years ended June 30, 2015 and 2014, 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 and 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 control over financial reporting and compliance.

Mercadier, P.C.

Certified Public Accountants

September 28, 2016

NEW JERSEY URBAN ENTERPRISE ZONE ASSISTANCE FUND

BALANCE SHEET

	<u>June 30,</u>	
	<u>2015</u>	<u>2014</u>
ASSETS		
Cash	\$ 420,837	\$ 598,296
Investments	9,596,617	9,887,046
Due from State	<u>15,587,426</u>	<u>17,942,521</u>
Total assets	<u>\$ 25,604,880</u>	<u>\$ 28,427,863</u>
LIABILITIES		
Due to State	<u>\$ 25,604,880</u>	<u>\$ 28,427,863</u>
Total liabilities	<u>\$ 25,604,880</u>	<u>\$ 28,427,863</u>

See notes to financial statements.

NEW JERSEY URBAN ENTERPRISE ZONE ASSISTANCE FUND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE

	<u>Year Ended June 30,</u>	
	<u>2015</u>	<u>2014</u>
Revenues		
Sales tax revenues	\$ 89,507,406	\$ 94,887,651
Investment return	<u>9,246</u>	<u>9,224</u>
Total revenues	<u>89,516,652</u>	<u>94,896,875</u>
Transfers to other funds	<u>(89,516,652)</u>	<u>(94,896,875)</u>
Change in fund balance	-	-
Fund balance, beginning of year	<u>-</u>	<u>-</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

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 the Urban Enterprise Zone ("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 can be designated for reinvestment in improvement projects for each of the respective UEZs. There are currently thirty-two designated UEZs 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 Governmental Accounting Standards Board ("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 generates sales tax revenue collected from each of the designated UEZs, which is recognized when collected by the State from the respective UEZs.

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, 2015 and 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 from 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.

B. CASH

The following is a summary of the UEZAF's cash deposits by financial institution and the amounts exposed to custodial credit risk at June 30, 2015 and 2014. The UEZAF's deposits are insured by the Federal Deposit Insurance Corporation (the "FDIC") up to \$250,000 for the years ended June 30, 2015 and 2014, respectively.

	June 30, 2015		June 30, 2014	
	Bank Balance	Book Balance	Bank Balance	Book Balance
Wells Fargo	\$ 420,837	\$ 420,837	\$ 598,296	\$ 598,296
Total cash balance	420,837	<u>\$ 420,837</u>	598,296	<u>\$ 598,296</u>
Total collateralized deposits	250,000		250,000	
Total deposits exposed to custodial credit risk	<u>\$ 170,837</u>		<u>\$ 348,296</u>	

C. INVESTMENTS

New Jersey statutes permit the deposit of public funds in the 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 ("Division"). 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, 2015 and 2014, are summarized as follows:

	June 30, 2015		June 30, 2014	
	Original Cost	Fair Market Value	Original Cost	Fair Market Value
New Jersey Cash Management Fund	<u>\$ 9,596,617</u>	<u>\$ 9,596,617</u>	<u>\$ 9,887,046</u>	<u>\$ 9,887,046</u>

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 transfer all earnings on investments to the State. Also included in transfers to other funds for the years ended June 30, 2015 and 2014, 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:

	Year Ended June 30,	
	2015	2014
Administrative costs	\$ 716,388	\$ 1,243,301
Investment return	9,246	9,224
Transfer of sales tax revenue to State General Fund	<u>88,791,018</u>	<u>93,644,350</u>
Total transfers to other funds	<u>\$ 89,516,652</u>	<u>\$ 94,896,875</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 UEZ 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 UEZs would instead be appropriated to the State General Fund. The State's fiscal year 2012 budget, as adopted by P.L. 2011, c.85, appropriated the sales tax revenues collected by the UEZs to the State General Fund effective July 1, 2011, as have all subsequent budgets to date including fiscal year 2015.

Transfer of unexpended balances

The State of New Jersey fiscal year 2015 and 2014 budgets, as adopted by the Legislature, require that all revenue credited to each account for each UEZ 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 Program be appropriated as revenue to the State General Fund.

G. SUBSEQUENT EVENTS

On September 8, 2016, Governor Christie issued a Conditional Veto of a Bill A-2576, (the "Bill"), which had passed the Assembly on June 27, 2016, and the Senate on June 30, 2016. The Bill would primarily extend the designation of the UEZs by ten years, including the five zones which otherwise expire on December 31, 2016, (Bridgeton, Camden, Newark, Plainfield and Trenton) and change the revenue sharing formula. The entities in these UEZs will be inactivated on December 31, 2016. Entities in the remaining 27 UEZs, affecting 32 municipalities, may continue to participate in the program.

**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, 2015, 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 28, 2016.

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.

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**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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Mercadieu, P.C.

Certified Public Accountants

September 28, 2016

**2015 REPORT TO THE
AUDIT COMMITTEE**



New Jersey Urban Enterprise Zone Assistance Fund

2015 Audit Results

September 29, 2016

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

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



Executive Summary

Audit Status

- Unmodified opinion



Required Communications

Area	Comments
Our Responsibility with Regard to the Financial Statement Audit	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 June 13, 2016.
Overview of the Planned Scope and Timing	We have issued a separate communication dated June 13, 2016, 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

Preferability

Comments

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.

Adoption or Change in Accounting Policies

Management has the ultimate responsibility for the appropriateness of the accounting policies used by the NJUEZAF.

No significant new accounting policies adopted nor changes in existing significant accounting policies.



Accounting Policies and Practices

Area	Comments
Significant or Unusual Transactions	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.
Management's Judgments and Accounting Estimates	There were no significant estimates included in the financial statements.



Audit Adjustments and Uncorrected Misstatements

- 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
Disagreements with Management	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.
Consultations with Other Accountants	We are not aware of any consultations management had with other accountants about accounting or auditing matters.
Significant Issues Discussed with Management	No significant issues arising from the audit were discussed with or the subject of correspondence with management.
Significant Difficulties Encountered in Performing the Audit	We did not encounter any significant difficulties in dealing with management during the audit.



Other Required Communications

Area	Comments
Letter Communicating Significant Deficiencies and Material Weaknesses in Internal Control over Financial Reporting	No material weaknesses noted.
Certain Written Communications Between Management and Our Firm	The draft client representation letter between our firm and management of the NJUEZAF is attached as Exhibit A.



Reporting Required by GAS

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



Financial Statements

See Financial Statements



GASB Update

- Recently issued standard that might affect the UEZAF
 - GASB Statement No. 72, *Fair Value Measurement and Application*, effective for June 30, 2016 year end.



Our Compass

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**



Exhibit A

- Client Representation Letter



State of New Jersey
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TRENTON, NJ 08625-0822

CHRIS CHRISTIE
Governor

KIM GUADAGNO
Lt. Governor

CHARLES A. RICHMAN
Commissioner

September 28, 2016

Mercadien, P.C. Certified Public Accountants
PO Box 7648
Princeton, NJ 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 "UEZAF") as of and for the years ended June 30, 2015 and 2014, 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 of America ("U.S. GAAP").

We confirm, to the best of our knowledge and belief, that as of the date of this letter:

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit arrangement letter dated June 13, 2016, for the preparation and fair presentation of the financial statements referred to above in accordance with U.S. GAAP. 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.
2. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
3. 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.
4. Related-party transactions, including those with the State of New Jersey having accountability for the UEZAF have been recorded in accordance with the economic substance of the transaction and appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.
5. 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.
6. The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with U.S. GAAP.



7. There are no unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed in accordance with the Contingencies Topic of the FASB Accounting Standards Codification and/or GASB Statement No.10.
8. 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.
9. 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 State of New Jersey, Policy Circular 15-08-OMB, *Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid* because we have not received, expended or otherwise been the beneficiary of the required amount of federal awards during the period of this audit.
10. We have no knowledge of any uncorrected misstatements in the financial statements.

Information Provided

11. 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.
12. All transactions have been recorded in the accounting records and are reflected in the financial statements.
13. We have disclosed to you the results of our assessment of risk that the financial statements may be materially misstated as a result of fraud.
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 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, short sellers 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. We have disclosed to you the identity of the entity's related parties and all the related-party relationships and transactions 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 UEZAF'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.
 21. We have no plans or intentions that may materially affect the carrying value or classification of assets. In that regard we have no plans or intentions to discontinue the operations of the UEZAF.

Supplementary Information

22. With respect to supplementary information presented in relation to the financial statements as a whole:
 - e. We acknowledge our responsibility for the presentation of such information.
 - f. We believe such information, including its form and content, is fairly presented in accordance with U.S. GAAP.
 - g. The methods of measurement or presentation have not changed from those used in the prior period.
23. 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 Auditing Standards*, we confirm that management:

1. Is responsible for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework.
2. Is responsible for compliance with the laws, regulations and provisions of contracts and grant agreements applicable to the auditee.
3. Has identified and disclosed to the auditor all instances that have occurred, or are likely to have occurred, of fraud and noncompliance with provisions of laws and regulations that have a material effect on the financial statements or other financial data significant to the audit objectives, and any other instances that warrant the attention of those charged with governance.
4. Has identified and disclosed to the auditor all instances that have occurred, or are likely to have occurred, of noncompliance with provisions of contracts and grant agreements that have a material effect on the determination of financial statement amounts.
5. Has identified and disclosed to the auditor all instances that have occurred, or are likely to have occurred, of abuse that could be quantitatively or qualitatively material to the financial statements.
6. Is responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
7. Acknowledges its responsibility for the design, implementation and maintenance of internal controls to prevent and detect fraud.
8. Has taken timely and appropriate steps to remedy fraud; noncompliance with provisions of laws, regulations, contracts and grant agreements, or abuse that the auditor reports.
9. Has a process to track the status of audit findings and recommendations.
10. Has identified for the auditor previous audits, attestation engagements and other studies related to the audit objectives and whether related recommendations have been implemented.
11. Has provided views on the auditors' reported findings, conclusions and recommendations, as well as management's planned corrective actions, for the report.

12. Acknowledges its responsibilities as it relates to non-audit services performed by the auditor, including a statement that it assumes all management responsibilities; that it oversees the services by designating an individual, preferably within senior management, who possesses suitable skill, knowledge or experience; that it evaluates the adequacy and results of the services performed; and that it accepts responsibility for the results of the services.
13. Charles A. Richman, who has sufficient skills, knowledge, and experience; has, 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



Charles A. Richman
Audit Committee Chair

Report of Significant Actions

REPORT OF SIGNIFICANT ACTIONS FOR FISCAL YEAR 2015: NEW JERSEY URBAN ENTERPRISE ZONE AUTHORITY

In accordance with EO 37

During the Fiscal Year ended June 30, 2015, the New Jersey Urban Enterprise Zone Authority completed the following:

- The UEZ program operates 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. The mapping tool is regularly brought up to date with evolving GIS technologies and efforts are being made to improve the accuracy of the maps.
- 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 2015, 41 Extensions were granted, 9 were satisfied and 6 were Inactivated, increasing affected firms from an opening balance of 5 to 31 firms at 06/30/2015. Calendar Year 2015 is a peak Recertification year on the 3-year reporting cycle.
- 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 2015 Budget Language again 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 882 new firms into the program, representing 11,596 full time jobs attracted or retained (jobs data are not audited or verified and are derived from voluntary self-reporting). Annual Reports for 3,530 other firms and Recertifications (triennial) for 2,313 firms were approved. At the end of FISCAL YEAR 2015, there were 6,772 active firms employing over 141,500 full time and 39,000 part time.

- No new legislation concerning the UEZ Program was signed into law during FISCAL YEAR 2015. As a subsequent event, on September 8, 2016, Governor Christie issued a Conditional Veto of Bill A-2576 which had passed the Assembly on June 27, 2016 and the Senate on June 30, 2016. The bill would primarily extend the designation of UEZs by 10 years, including the five zones which otherwise expire on 12/31/2016 (Bridgeton, Camden, Newark, Plainfield and Trenton) and change the revenue sharing formula. The firms in these zones will be inactivated 12/31/2016.
- A clean audit report of the financial statements for the NJUEZA for the Fiscal Year ending June 30, 2015 completed by Mercadien, P.C. Certified Public Accountants and an exit conference concluded with DCA management on September 29, 2016.

The New Jersey Urban Enterprise Zone certifies that during Fiscal Year 2015, 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 12, 2016 meeting.

A copy of this Report of Significant Actions for Fiscal Year 2015 is being forwarded to the Governor's Authorities Unit with the minutes to the October 12, 2016 meeting, and will be posted on the Urban Enterprise Zone Authority's website.

**SEPTEMBER 29, 2016
AUDIT COMMITTEE
MEETING MINUTES**

NJUEZA 2015 AUDIT COMMITTEE MEETING MINUTES
Thursday, September 29, 2016, 9:30 am
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
George Loeser, Deputy Attorney General
Anthony Giordano, DCA, Office of Auditing
Joseph Cirafici, UEZA Administrative Analyst
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 September 29, 2015 FY 2014 Audit Committee meeting. First motion made by Maureen Hassett and seconded by Eric Jaso. 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. Ms. Murphy gave a synopsis of the report stating that there were no significant changes, no new account policies, no adjustments to the trial balances, and no audit adjustments. Ms. Murphy thanked everyone with management and staff for their cooperation.

Ms. Murphy also reported that the FY 2015 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. Ms. Hassett commented that the Audit was pretty much straight forward. Mr. Thompson asked the Committee if they had any questions and they had none.

Ms. Murphy asked if there are any subsequent issues from the attorney that they should be aware of. DAG George Loeser will follow up with Ms. Murphy to add a footnote to the Audit report due to the Governor's conditional veto of Bill A-2576 which had passed the Assembly on June 27, 2016 and Senate on June 30, 2016.

September 29, 2016

On behalf of the Committee Mr. Thompson waived the option to meet with the Auditor's without Management or Staff.

Mr. Thompson asked that the final FY 2015 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 Maureen Hassett and seconded by Eric Jaso to accept the FY 2015 Audit Report and recommend it to the Authority Board at its next regular meeting. The 2015 Audit was approved unanimously. **Mr. Thompson asked for a motion to reconsider the first motion with changes in order to add a footnote regarding Pending Legislation to the Audit Report. First motion made by Maureen Hassett and seconded by Eric Jaso.**

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 2016 UEZ Audit is underway. Mr. Cirafici asked if there were any questions and there were none.

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 9:54 am.



Prepared by: Lisa Migliaccio