

JERSEY CITY REDEVELOPMENT AGENCY

(A Component Unit of the City of Jersey City)

REPORT OF AUDIT

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

JERSEY CITY REDEVELOPMENT AGENCY
(A Component Unit of the City of Jersey City)

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INDEPENDENT AUDITOR'S REPORT

Honorable Chairman and Members of the Board
of Commissioners
Jersey City Redevelopment Agency
Jersey City, New Jersey

We have audited the accompanying basic financial statements of the Jersey City Redevelopment Agency, a component unit of the City of Jersey City, as of and for the years ended December 31, 2011 and 2010, as listed in the table of contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Jersey City Redevelopment Agency's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

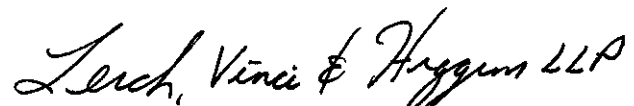
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Jersey City Redevelopment Agency as of December 31, 2011 and 2010, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 8 to the financial statements, the Agency is subject to a material judgment relating to an excess property condemnation award in the amount of \$18,600,000, plus interest. Title to the subject property is held by the designated redeveloper and is secured by a first mortgage in favor of the Agency for any excess condemnation award and costs. The Agency has initiated litigation against the redeveloper to satisfy the terms of the mortgage. The ultimate outcome of the litigation cannot be presently determined, therefore, the financial exposure to the Agency is uncertain.

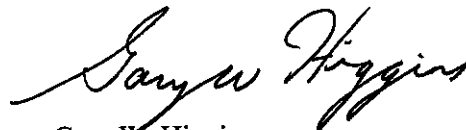
In an accordance with Government Auditing Standards, we have also issued our report dated April 18, 2012 on our consideration of the Jersey City Redevelopment Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the Jersey City Redevelopment Agency as a whole. The supplementary schedules and the schedule of state financial assistance listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the Jersey City Redevelopment Agency. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations" and is also not a required part of the financial statements of the Jersey City Redevelopment Agency. The supplementary schedules and schedule of expenditures of federal awards and state financial assistance are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.



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



Gary W. Higgins
Registered Municipal Accountant
RMA Number CR00405

Fair Lawn, New Jersey
April 18, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

JERSEY CITY REDEVELOPMENT AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED DECEMBER 31, 2011

This section of the Jersey City Redevelopment Agency's ("JCRA" or "Agency") annual financial report presents our discussion and analysis of the Agency's financial performance during the fiscal year ended on December 31, 2011. Please read it in conjunction with the Agency's financial statements and accompanying notes.

The 1949 creation ordinance for the JCRA had two key tasks to be accomplished by the JCRA.

- Undertake certain urban renewal program activities for the City of Jersey City ("the City").
- Carryout redevelopment plans for the City.

FINANCIAL HIGHLIGHTS

- The Agency's total net assets decreased \$2,246,599 or approximately 6.3 percent. The decrease is the result of a decrease in investment in capital assets of \$1,464,221, restricted net assets of \$667,846 and unrestricted net assets of \$114,532.
- Cash and Cash Equivalents increased \$3,554,334 or approximately 33.9 percent. The majority of the increase is the result of funds collected from State and Federal Grants and project deposits which were not expended as of year-end and an increase in intergovernmental payables.
- Operating Revenues decreased \$3,784,519. The majority of the decrease is the result of decreases in miscellaneous revenues of \$868,871 state grants of \$553,783 and City contributions of \$710,295 and contributions of property held for redevelopment of \$1,566,000.
- Non-Operating Expenses decreased \$193,599. The majority of the decrease is the result of a decrease in expenses related to the cooperation agreement with the City of Jersey City of \$243,599.

OVERVIEW OF FINANCIAL STATEMENTS

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

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

JERSEY CITY REDEVELOPMENT AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED DECEMBER 31, 2011 (Continued)

FINANCIAL ANALYSIS OF THE AGENCY

Net Assets – The following table summarizes Net Assets as of December 31, 2011, 2010 and 2009:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Net Assets:			
Invested in Capital Assets	\$ 32,174,704	\$ 33,638,925	\$ 27,815,550
Restricted	933,813	1,601,659	1,554,211
Unrestricted	<u>531,834</u>	<u>646,366</u>	<u>5,318,942</u>
Total Net Assets	<u>\$ 33,640,351</u>	<u>\$ 35,886,950</u>	<u>\$ 34,688,703</u>

The Agency's Net Assets decreased \$2,246,599, or 6.3%, and increased \$1,198,247, or 3.4%, in the years ended December 31, 2011 and 2010, respectively, as a result of the following:

Invested in capital assets decreased \$1,464,221 and increased \$5,823,375 during 2011 and 2010, respectively, mainly as a result of the disposition and acquisition of certain properties, in 2011 and 2010, respectively.

Restricted net assets decreased \$667,846 and increased \$47,448 during 2011 and 2010, respectively. The 2011 decrease was the result of the utilization of renewal and replacement reserve funds in the 2011 budget as well as a decrease in the reserve for cooperation agreement income conditions pertaining to the Community and Educational Recreation Center located in Ward E. The 2010 increase was the result of increasing the renewal and replacement reserve and decreasing the reserve for the cooperation agreement income conditions pertaining to the Center.

Unrestricted net assets decreased \$114,532 and \$4,672,576 during 2011 and 2010, respectively as a result of current year operating results.

The following table summarizes the capital assets as of December 31 2011, 2010 and 2009.

	<u>2011</u>	<u>2010</u>	<u>2009</u>
<u>Invested in Capital Assets:</u>			
Buildings	\$ 9,436,058	\$ 9,436,058	\$ 9,436,058
Property Held for Redevelopment	25,066,207	26,341,707	20,329,611
Vehicles and Equipment	<u>37,855</u>	<u>37,855</u>	<u>37,855</u>
	34,540,120	35,815,620	29,803,524
Less:			
Accumulated Depreciation	<u>(2,365,416)</u>	<u>(2,176,695)</u>	<u>(1,987,974)</u>
	<u>\$ 32,174,704</u>	<u>\$ 33,638,925</u>	<u>\$ 27,815,550</u>

JERSEY CITY REDEVELOPMENT AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2011
(Continued)

OPERATING ACTIVITIES

The following table summarizes the changes in revenues, expenses and net assets for the fiscal years 2011, 2010 and 2009:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
OPERATING REVENUES:			
Federal and State Grants	\$ 977,560	\$ 1,697,491	\$ 5,594,300
Other:			
City Contributions	247,713	958,008	4,348,421
Redeveloper Fees	295,147	531,622	419,000
Redeveloper Reimbursements	676,205	359,152	79,916
Miscellaneous	1,166,976	2,035,847	1,167,437
Contributions of Property Held for Redevelopment	<u>1,000</u>	<u>1,567,000</u>	<u>290,672</u>
Total Operating Revenues	<u>3,364,601</u>	<u>7,149,120</u>	<u>11,899,746</u>
OPERATING EXPENSES			
Grant Related			
Federal and State	554,060	884,118	4,732,050
Nongrant Related			
City Contributions	247,713	638,008	3,128,421
Other	2,975,692	2,984,175	2,831,224
Depreciation	188,721	188,721	188,899
Disposition of Property Held for Redevelopment	<u>1,220,000</u>	<u>618,525</u>	<u>1,061,715</u>
Total Operating Expenses	<u>5,186,186</u>	<u>5,313,547</u>	<u>11,942,309</u>
OPERATING INCOME (LOSS)	<u>(1,821,585)</u>	<u>1,835,573</u>	<u>(42,563)</u>
NONOPERATING REVENUES (EXPENSES):			
Interest Revenue	71,990	103,277	210,056
Cooperation Agreement-City of Jersey City	<u>(497,004)</u>	<u>(740,603)</u>	<u>(740,816)</u>
Total Nonoperating Revenues (Expenses)	<u>(425,014)</u>	<u>(637,326)</u>	<u>(530,760)</u>
Change in Net Assets	(2,246,599)	1,198,247	(573,323)
Total Net Assets, Beginning of Year	<u>35,886,950</u>	<u>34,688,703</u>	<u>35,262,026</u>
Total Net Assets, End of year	<u>\$ 33,640,351</u>	<u>\$ 35,886,950</u>	<u>\$ 34,688,703</u>

**JERSEY CITY REDEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2011
(Continued)**

DEBT ADMINISTRATION

Capital Debt

The Agency has no debt outstanding at December 31, 2011, 2010 and 2009.

OTHER FINANCIAL INFORMATION

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Agency has applied and been approved for Community Development Block Grants from the City to continue existing projects.

The Agency continues to seek redevelopers to undertake redevelopment projects. These redevelopers are responsible to pay administrative fees, as well as passing through to the redeveloper all professional fees for engineering, environmental and legal services. The Agency continues to review options to sell surplus property held for redevelopment.

All of these factors were considered in preparing the JCRA's budget for the 2012 fiscal year.

CONTACTING THE AGENCY'S FINANCIAL MANAGEMENT

This financial report is designed to provide the City of Jersey City, New Jersey citizens and redevelopers with a general overview of the Agency's finances to demonstrate the JCRA's accountability for the revenues it receives. If you have questions about this report or need additional financial information, contact the office of the Executive Director at 30 Montgomery Street, Suite 910, Jersey City, New Jersey 07302.

BASIC FINANCIAL STATEMENTS

JERSEY CITY REDEVELOPMENT AGENCY
COMPARATIVE STATEMENTS OF NET ASSETS
AS OF DECEMBER 31, 2011 AND 2010

ASSETS	<u>2011</u>	<u>2010</u> (Restated)
Unrestricted Current Assets		
Cash and Cash Equivalents	\$ 6,284,423	\$ 3,751,957
Accounts Receivable	249,612	475,160
Intergovernmental Receivables	1,270,930	936,803
Mortgage Loans Receivable	<u>2,921</u>	<u>159,628</u>
Total Unrestricted Current Assets	<u>7,807,886</u>	<u>5,323,548</u>
Restricted Current Assets		
Cash and Cash Equivalents	7,729,597	6,707,729
Mortgage Loan Receivable	<u>20,957,658</u>	<u>22,153,624</u>
Total Restricted Current Assets	<u>28,687,255</u>	<u>28,861,353</u>
Total Current Assets	<u>36,495,141</u>	<u>34,184,901</u>
Noncurrent Assets		
Mortgage Loans Receivable		
Unrestricted	<u>1,181,554</u>	<u>1,184,475</u>
	<u>1,181,554</u>	<u>1,184,475</u>
Capital Assets		
Buildings (Net of Accumulated Depreciation of \$2,327,561 and \$2,138,840)	7,108,497	7,297,218
Property Held for Redevelopment	25,066,207	26,341,707
Vehicles and Equipment (Net of Accumulated Depreciation of \$37,855 and \$37,855)	<u>-</u>	<u>-</u>
Total Capital Assets (Net of Accumulated Depreciation)	<u>32,174,704</u>	<u>33,638,925</u>
Total Noncurrent Assets	<u>33,356,258</u>	<u>34,823,400</u>
Total Assets	<u>69,851,399</u>	<u>69,008,301</u>

The Notes to the Basic Financial Statements are an Integral Part of this Statement.

JERSEY CITY REDEVELOPMENT AGENCY
COMPARATIVE STATEMENTS OF NET ASSETS
AS OF DECEMBER 31, 2011 AND 2010

LIABILITIES	<u>2011</u>	<u>2010</u> (Restated)
Current Liabilities Payable from Unrestricted Assets		
Accounts Payable	\$ 328,198	\$ 551,991
Payroll Taxes Payable	8,464	7,911
Deferred Revenue	6,715,689	4,391,452
Redeveloper Contracts Payable	114,279	114,155
Intergovernmental Payables	916,911	419,907
Compensated Absences Payable	<u>374,065</u>	<u>376,241</u>
Total Current Liabilities Payable from Unrestricted Assets	<u>8,457,606</u>	<u>5,861,657</u>
Current Liabilities Payable from Restricted Assets		
Project Deposits	6,795,784	5,106,070
Judgment Payable	20,957,658	20,853,624
Deferred Revenue	<u>-</u>	<u>1,300,000</u>
Total Current Liabilities Payable from Restricted Assets	<u>27,753,442</u>	<u>27,259,694</u>
Total Current Liabilities	<u>36,211,048</u>	<u>33,121,351</u>
Total Liabilities	<u>36,211,048</u>	<u>33,121,351</u>
NET ASSETS		
Invested in Capital Assets	32,174,704	33,638,925
Restricted for:		
Renewal and Replacement	933,813	1,521,923
Other Purposes	79,736	79,736
Unrestricted	<u>531,834</u>	<u>646,366</u>
Total Net Assets	<u>\$ 33,640,351</u>	<u>\$ 35,886,950</u>

The Notes to the Basic Financial Statements are an Integral Part of this Statement.

JERSEY CITY REDEVELOPMENT AGENCY
COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
OPERATING REVENUES		
Federal Grants		
Jersey City Pass-Through		
Department of Housing and Urban Development	\$ 655,707	\$ 602,101
Environmental Protection Agency	164,444	387,873
Department of Energy	3,675	
State Grants		
UEZA Passed Through JCEDC	73,740	236,255
Department of Environmental Protection	79,994	471,262
Other		
Redeveloper Fees	295,147	531,622
Redeveloper Reimbursements	676,205	359,152
City Contributions	247,713	958,008
Miscellaneous	1,166,976	2,035,847
Contributions of Property Held for Redevelopment	<u>1,000</u>	<u>1,567,000</u>
Total Operating Revenues	<u>3,364,601</u>	<u>7,149,120</u>
OPERATING EXPENSES		
Grant Related		
Federal	400,326	176,601
State	153,734	707,517
Nongrant Related		
City Contributions	247,713	638,008
Other	2,975,692	2,984,175
Depreciation	188,721	188,721
Disposition of Property Held for Redevelopment	<u>1,220,000</u>	<u>618,525</u>
Total Operating Expenses	<u>5,186,186</u>	<u>5,313,547</u>
Operating Income (Loss)	<u>(1,821,585)</u>	<u>1,835,573</u>
NONOPERATING REVENUES (EXPENSES):		
Interest Revenue	71,990	103,277
Cooperation Agreement-City of Jersey City	<u>(497,004)</u>	<u>(740,603)</u>
Total Nonoperating Revenues (Expenses)	<u>(425,014)</u>	<u>(637,326)</u>
Change in Net Assets	(2,246,599)	1,198,247
Total Net Assets, Beginning of Year	<u>35,886,950</u>	<u>34,688,703</u>
Total Net Assets, End of year	<u>\$ 33,640,351</u>	<u>\$ 35,886,950</u>

The Notes to the Basic Financial Statements are an Integral Part of this Statement.

**JERSEY CITY REDEVELOPMENT AGENCY
COMPARATIVE STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010**

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Operating Cash Receipts	\$ 5,739,011	\$ 7,233,033
Operating Cash Payments	(4,002,881)	(5,742,404)
Receipts of Project Deposits	2,294,790	2,166,037
Payments from Project Deposits	(605,076)	(2,454,548)
Receipts from the Sale of Property Held for Redevelopment	300,000	139,379
Payments for the Acquisition of Property Held for Redevelopment	<u>(243,500)</u>	<u>(5,213,000)</u>
Net Cash Provided (Used) by Operating Activities	<u>3,482,344</u>	<u>(3,871,503)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Cooperation Agreement Payments-City of Jersey City	<u>-</u>	<u>(743,363)</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>-</u>	<u>(743,363)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Received	<u>71,990</u>	<u>103,277</u>
Net Cash Provided by Investing Activities	<u>71,990</u>	<u>103,277</u>
Net Increase (Decrease) in Cash and Cash Equivalents	3,554,334	(4,511,589)
Cash and Cash Equivalents at Beginning of Year	<u>10,459,686</u>	<u>14,971,275</u>
Cash and Cash Equivalents at End of Year	<u>\$ 14,014,020</u>	<u>\$ 10,459,686</u>
Analysis of Balance at December 31,		
Unrestricted - Cash and Cash Equivalents	\$ 6,284,423	\$ 3,751,957
Restricted - Cash and Cash Equivalents	<u>7,729,597</u>	<u>6,707,729</u>
	<u>\$ 14,014,020</u>	<u>\$ 10,459,686</u>

The Notes to the Basic Financial Statements are an Integral Part of this Statement.

**JERSEY CITY REDEVELOPMENT AGENCY
COMPARATIVE STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010**

	<u>2011</u>	<u>2010</u> (Restated)
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating Income (Loss)	\$ (1,821,585)	\$ 1,835,573
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:		
Depreciation	188,721	188,721
Change in Assets and Liabilities:		
(Increase)/Decrease in Accounts Receivable	225,548	167,114
(Increase)/Decrease in Intergovernmental Receivables	(334,127)	567,061
(Increase)/Decrease in Mortgage Loans Receivable	1,355,594	(300,408)
Increase/(Decrease) in Accounts Payable	(223,793)	(1,242,335)
Increase/(Decrease) in Payroll Taxes Payable	553	7,911
Increase/(Decrease) in Uudgment Payable	104,034	306,483
Increase/(Decrease) in Deferred Revenue	1,024,237	900,374
Increase/(Decrease) in Redeveloper Contracts Payable	124	289
Increase/(Decrease) in Compensated Absences Payable	(2,176)	(1,679)
Increase/(Decrease) in Project Deposits	1,689,714	(288,511)
(Increase)/Decrease in Property Held for Redevelopment	<u>1,275,500</u>	<u>(6,012,096)</u>
Total Adjustments	<u>5,303,929</u>	<u>(5,707,076)</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 3,482,344</u>	<u>\$ (3,871,503)</u>

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NOTES TO BASIC FINANCIAL STATEMENTS

**JERSEY CITY REDEVELOPMENT AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2011 AND 2010**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Jersey City Redevelopment Agency (the "Agency") is a public body corporate and politic of the State of New Jersey. The Agency was created by municipal ordinance on August 16, 1949 pursuant to the provisions of Chapter 306 of the New Jersey Sessions Law of 1949, N.J.S.A. 40:55C-1, for the purpose of carrying out certain urban renewal program activities for City of Jersey City (the "City"). The Agency is empowered to exercise public and essential government functions, including acquisition, condemnation, clearance, renovation and redevelopment of property in designated blighted areas and to carry out redevelopment plans for the City.

The agency is governed by a Board of Commissioners (the "Board") consisting of seven members, who are appointed by the Governing Body of the City of Jersey City. The Board of Commissioners determines policy actions, approves resolutions and selects an executive director to be responsible for the overall operation of the Agency.

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

On August 5, 1992, the Legislature of the State of New Jersey adopted the Local Redevelopment and Housing Law (NJSA 40A:12A-1 et. seq.) which became effective on a retroactive basis to January 1, 1992. This law requires all redevelopment agencies to be subject to the provisions of the "Local Authorities Fiscal Control Law". As a result of this change, the Jersey City Redevelopment Agency is subject to the laws, rules and regulations promulgated for Authorities in the State of New Jersey and must report to the Bureau of Authority Regulation, Division of Local Government Services, Department of Community Affairs, State of New Jersey.

In June of 1992 the City of Jersey City created by City Ordinance #92-066, a Division of Redevelopment. The purpose of said Division was to assume many of the programmatic duties of the Agency on a day-to-day basis. In addition thereto, a Cooperation Agreement was entered into between the Agency and the City of Jersey City whereby the Redevelopment Agency transferred a substantial portion of its personnel to this Division of Redevelopment.

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

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

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

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

**JERSEY CITY REDEVELOPMENT AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2011 AND 2010**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

The Agency's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. All assets and all liabilities associated with these operations are included on the Statement of Net Assets. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Private-sector standards of accounting and financial reporting issued by the Financial Accounting Standards Board (FASB) prior to December 1, 1989, generally are followed in proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board (GASB). Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Authority has elected not to follow FASB guidance issued subsequent to December 1, 1989.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for enterprise funds include the cost of operations and services, administrative expenses and depreciation on capital assets. The Agency considers transactions pertaining to property held for redevelopment to be operating revenues and expenses since these transactions are connected with its principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

C. Assets, Liabilities and Net Assets

Deposits and Investments

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

Investments held by the Agency approximate fair value, which is defined as the amount at which a financial instrument could be exchanged in a current transaction between willing parties.

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

Intergovernmental Receivables and Payables

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

Amounts owed to the City of Jersey City and other City and State agencies at the end of the year as a result of contractual arrangements are reported as intergovernmental payables.

Mortgage Loans Receivable

The Agency has issued mortgage loans to secure a portion of the project costs on certain renovation and rehabilitation projects within the City.

Restricted Assets

Certain assets are restricted as the result of certain agreements entered into between the Agency and third parties.

**JERSEY CITY REDEVELOPMENT AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2011 AND 2010**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Assets, Liabilities and Net Assets (Continued)

Capital Assets

Buildings, property held for redevelopment and vehicles and equipment are recorded at cost or, if donated or contributed, are stated at their estimated fair market value on the date of receipt by the Agency.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of an asset are expensed.

Major outlays for capital assets are capitalized as projects are constructed by the Agency. All other costs to place the assets in the intended location and condition for use are capitalized in the value of the asset constructed.

Buildings and equipment are depreciated using the straight-line method over the following estimated useful lives:

<u>Asset</u>	<u>Year</u>
Buildings	50
Vehicles	5
Equipment	3-6

Project Deposits

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

Deferred Revenue

Unrestricted

Grant funds and related program income, City capital contributions and redeveloper reimbursements received, but not earned at year-end, are reported as deferred revenue.

Restricted

The Agency has received certain funding for the purpose of acquiring property for redevelopment. These properties were sold to redevelopers and a mortgage was issued by the Agency. The mortgage will be released without remuneration as the project is completed. Deferred revenues will be realized equal to the amount of the mortgage reduction as the project continues.

Net Assets

Restricted net assets are limited to outside third-party restrictions either by law or by other organizations or persons external to the Authority. Unrestricted net assets represent the net assets neither restricted nor invested in capital assets.

D. Grant Programs/Revenues

Community Development Block Grant Program: The Agency as a subgrantee to the City of Jersey City receives entitlement funds under the Community Development Block Grant (CDBG) Program from the U.S. Department of Housing and Urban Development (HUD). Annually, the Agency enters into a grant agreement with the City to administer and implement specific project activities for the City's CDBG Program.

**JERSEY CITY REDEVELOPMENT AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2011 AND 2010**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Grant Programs/Revenues (Continued)

UEZA Program: The Agency receives funds from the New Jersey Urban Enterprise Zone Authority. The Agency as a subgrantee entered into a project agreement with the Jersey City Economic Development Corporation (JCEDC), the City's zone program administrator, to administer and implement redevelopment projects.

Grants received are recognized as revenue when the resources are expended for the purpose specified in the grant agreement. Grant funds received and not yet expended are reported as deferred revenue.

E. Other

Reclassifications

Certain reclassifications may have been made to the December 31, 2010 balances to conform to the December 31, 2011 presentations.

Use of Estimates

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

Supplementary Schedules

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

NOTE 2 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Accounting

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

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

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

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

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

**JERSEY CITY REDEVELOPMENT AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2011 AND 2010**

NOTE 3 DEPOSITS AND INVESTMENTS

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

Deposits

The Agency's deposits are insured through either the Federal Deposit Insurance Corporation (FDIC), Securities Investor Protection Corporation (SIPC) or New Jersey's Governmental Unit Deposit Protection Act (GUDPA). The New Jersey Governmental Unit Deposit Protection Act requires all banks doing business in the State of New Jersey to pledge collateral equal to at least 5% of the average amount of its public deposits and 100% of the average amount of its public funds in excess of the lesser of 75% of its capital funds or \$200 million for all deposits not covered by the FDIC.

Bank balances are insured up to \$250,000 in the aggregate by the FDIC for each bank. SIPC replaces cash claims up to a maximum of \$250,000 for each failed brokerage firm. At December 31, 2011 and 2010, the book value of the Agency's deposits were \$14,014,020 and \$10,459,686, respectively, and bank balances of the Agency's cash and deposits amounted to \$14,173,078 and \$10,579,234, respectively. The Agency's deposits which are displayed on the statement of net assets as "cash and cash equivalents" are categorized as:

<u>Depository Account</u>	<u>Bank Balance</u>	
	<u>2011</u>	<u>2010</u>
Insured	\$ 8,260,353	\$ 6,279,381
Uninsured and Collateralized	<u>5,912,725</u>	<u>4,299,853</u>
	<u>\$14,173,078</u>	<u>\$10,579,234</u>

Custodial Credit Risk – Deposits – Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Agency does not have a formal policy for custodial credit risk. As of December 31, 2011 and 2010, the Agency's bank balances of \$5,912,725 and \$4,299,853 were exposed to custodial credit risk as follows:

	<u>2011</u>	<u>2010</u>
Uninsured and collateral held by pledging bank's trust department, not in the Agency's name	<u>\$5,912,725</u>	<u>\$4,299,853</u>

Investments

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

As of December 31, 2011 and 2010, the Agency had no outstanding investments.

**JERSEY CITY REDEVELOPMENT AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2011 AND 2010**

NOTE 4 MORTGAGE LOANS RECEIVABLE

The mortgage loan receivable balances at December 31, 2011 and 2010 consists of mortgage loans on various properties in certain redevelopment areas.

Location Description

Loan Terms

- Ocean/Bayview Issued to New Community Ocean/Bayview Housing Associates, L.P. on December 28, 1989 as a balloon mortgage for \$274,000 at an interest rate of 9% and subsequently rolled over in 1991 at an interest rate of 1% for a term of 20 years. The term of this mortgage has been extended to 30 years, maturing on June 10, 2021.
- Grove Street Issued to Exeter Property Services Corp. on September 21, 2001 for \$275,000 at a 3% interest rate. Principal and interest shall be paid monthly based upon a thirty year payout, however, all sums owed under the mortgage were originally due no later than October 5, 2011. The Agency has agreed to extend the due date for an additional thirty-six (36) months, with a maturity date of March 1, 2015.
- Journal Square Issued to Kennedy, LLC on June 2, 2003 for \$700,000 as a balloon mortgage payable on June 2, 2033 at interest rates of 1% for years one through five, 3% for years six through fifteen, and 5% for years fifteen through thirty.
- Harriet Tubman Estates Issued to Eagle Rock Development, LLC on October 23, 2007 for \$153,000, at a 9.75% interest rate for three years, payable on October 23, 2010. This mortgage was partially written off during 2011. The remaining balance was paid during 2011.
- Summit Heights Issued to City Lines Properties, LLC on December 15, 2008 for \$2,500,000, interest free, maturing on January 31, 2012. This mortgage will be released from the mortgagee without remuneration to the Agency as the affordable housing redevelopment project continues. During 2010, the Agency released \$1,200,000 of this mortgage without remuneration. During 2011, the remaining \$1,300,000 was released by the Agency without remuneration.
- Liberty Harbor Issued to Liberty Harbor North II Urban Renewal Company, LLC on October 29, 2004. The mortgage provides an amount equal to any excess condemnation award determined by the Court related to the property for which the mortgage is secured. On February 6, 2009, the Superior Court of New Jersey determined the excess condemnation award to be \$17,350,000, plus interest.

**JERSEY CITY REDEVELOPMENT AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2011 AND 2010**

NOTE 4 MORTGAGE LOANS RECEIVABLE (Continued)

	<u>December 31,</u>	
	<u>2011</u>	<u>2010</u>
Ocean/Bayview	\$ 274,000	\$ 274,000
Grove Street	210,475	217,103
Journal Square	700,000	700,000
Harriet Tubman Estates		153,000
Summit Heights		1,300,000
Liberty Harbor	<u>20,957,658</u>	<u>20,853,624</u>
	<u>\$ 22,142,133</u>	<u>\$ 23,497,727</u>
Restricted	\$ 20,957,658	\$ 22,153,624
Unrestricted	<u>1,184,475</u>	<u>1,344,103</u>
	<u>\$ 22,142,133</u>	<u>\$ 23,497,727</u>

NOTE 5 EMPLOYEE RETIREMENT SYSTEM

The State of New Jersey sponsors and administers the following contributory defined benefit public employee retirement system (retirement system) covering substantially all state and local government employees which includes those Agency employees who are eligible for pension coverage.

Public Employees' Retirement System (PERS) – established in January 1955, under the provisions of N.J.S.A. 43:15A to provide coverage, including post-retirement health care, to substantially all full-time employees of the State or any county, municipality, school district, or public agency provided the employee is not a member of another State-administered retirement system. Membership is mandatory for such employees and vesting occurs after 10 years of service for pension benefits and 25 years for post-retirement health care coverage.

Other Pension Funds

The state established and administers a Supplemental Annuity Collective Trust Fund (SACT) which is available to active members of the State-administered retirement system to purchase annuities to supplement the guaranteed benefits provided by their retirement system. The state or local governmental employers do not appropriate funds to SACT.

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

According to state law, all obligations of the retirement system will be assumed by the State of New Jersey should any retirement system be terminated.

The State of New Jersey, Department of the Treasury, Division of Pensions and Benefits, issues publicly available financial reports that include the financial statements and required supplementary information of the above system. The financial reports may be accessed via the New Jersey, Division of Pensions and Benefits, website at www.state.nj.us/treasury/pensions.

**JERSEY CITY REDEVELOPMENT AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2011 AND 2010**

NOTE 5 EMPLOYEE RETIREMENT SYSTEM (Continued)

Basis of Accounting

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

Investment Valuation

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

The State of New Jersey, Department of the Treasury, Division of Investment, issues publicly available financial reports that include the financial statements of the State of New Jersey Cash Management fund, Common Pension Fund A, Common Pension Fund B, and Common Pension Fund D. The financial reports may be obtained by writing to the State of New Jersey, Department of the Treasury, Division of Investment, P.O. Box 290, Trenton, New Jersey 08625-0290.

Significant Legislation

P.L. 2011, c.78, effective June 28, 2011, made various changes to the manner in which PERS operates and to the benefit provisions of the system.

This new legislation's provisions impacting employee pension and health benefits include:

- New members of PERS hired on or after June 28, 2011 (Tier 5 members), will need 30 years of creditable service and to attain age 65 for receipt of the early retirement benefit without a reduction of $\frac{1}{4}$ of 1 percent for each month that the member is under age 65.
- The eligibility age to qualify for a service retirement in the PERS is increased from age 62 to 65 for Tier 5 members.
- Active member contribution rates will increase. PERS active member rates increase from 5.5 percent of annual compensation to 6.5 percent plus an additional 1 percent phased-in over 7 years. For Fiscal Year 2012, the member contribution rates increase in October 2011. The phase-in of the additional incremental member contributions for PERS members will take place in July of each subsequent fiscal year.
- The payment of automatic cost-of-living adjustment (COLA) additional increases to current and future retirees and beneficiaries is suspended until reactivated as permitted by this law.

In addition, this new legislation changes the method for amortizing the pension systems' unfunded accrued liability (from a level percent of pay method to a level dollar of pay).

**JERSEY CITY REDEVELOPMENT AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2011 AND 2010**

NOTE 5 EMPLOYEE RETIREMENT SYSTEM (Continued)

Funded Status and Funding Progress

As of July 1, 2010, the most recent actuarial valuation date, the aggregate funded ratio for all the State administered retirement systems, including PERS, is 70.5 percent with an unfunded actuarial accrued liability of \$36.3 billion. The aggregate funded ratio and unfunded accrued liability for the State-funded system is 65.2 percent and \$25.6 billion, and the aggregate funded ratio and unfunded accrued liability for local PERS and Police and Fireman's Retirement System is 78.5 percent and \$10.7 billion, respectively.

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

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

Actuarial Methods and Assumptions

In the July 1, 2010 actuarial valuation, the projected unit credit was used as the actuarial cost method, and the five year average of market value was used as the asset valuation method for the retirement system. The actuarial assumptions included (1) 8.25 percent for investment rate of return for the retirement system; and (2) 5.45 percent for projected salary increases for the retirement system.

Employer and Employee Pension Contributions

The contribution policy is set by laws of the State of New Jersey and contributions are required by active members and participating employers. Plan members and employer contributions may be amended by State of New Jersey legislation, with the amount of contributions by the State of New Jersey contingent upon the annual Appropriations Act. As defined, the retirement system requires employee contributions based on 6.5% of employees' annual compensation.

Annual Pension Cost (APC)

Per the requirements of GASB Statement No. 27 for the year ended June 30, 2011 for PERS, which is a cost sharing multi-employer defined benefit pension plan, annual pension cost equals contributions made.

During the years ended December 31, 2011, 2010 and 2009, the Agency was required to contribute for normal cost pension contributions, accrued liability pension contributions and non-contributory life insurance premiums the following amounts which equaled the required contributions for each year:

<u>Year Ended</u> <u>December 31</u>	<u>PERS</u>
2011	\$ 90,624
2010	83,949
2009	75,391

JERSEY CITY REDEVELOPMENT AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2011 AND 2010

NOTE 6 CAPITAL ASSETS

The following is a summary of the Agency's capital assets activity for the years ended at December 31, 2011 and 2010:

	2011		
	Balance, January 1, 2011	Increases	Decreases
Capital Assets, Not Being Depreciated:			
Property Held for Redevelopment	\$ 26,341,707	\$ 244,500	\$ (1,520,000)
Total Capital Assets, Not Being Depreciated	<u>26,341,707</u>	<u>244,500</u>	<u>(1,520,000)</u>
Capital Assets, Being Depreciated:			
Buildings	9,436,058		
Vehicles and Equipment	37,855	-	-
Total Capital Assets Being Depreciated	<u>9,473,913</u>	<u>-</u>	<u>-</u>
Less Accumulated Depreciation for:			
Buildings	(2,138,840)	(188,721)	
Vehicles and Equipment	(37,855)	-	-
Total Accumulated Depreciation	<u>(2,176,695)</u>	<u>(188,721)</u>	<u>-</u>
Total Capital Assets, Being Depreciated, Net	<u>7,297,218</u>	<u>(188,721)</u>	<u>-</u>
Capital Assets, Net	<u>\$ 33,638,925</u>	<u>\$ 55,779</u>	<u>\$ (1,520,000)</u>

	2010		
	Balance, January 1, 2010	Increases	Decreases
Capital Assets, Not Being Depreciated:			
Property Held for Redevelopment	\$ 20,329,611	\$ 7,095,000	\$ (1,082,904)
Total Capital Assets, Not Being Depreciated	<u>20,329,611</u>	<u>7,095,000</u>	<u>(1,082,904)</u>
Capital Assets, Being Depreciated:			
Buildings	9,436,058		
Vehicles and Equipment	37,855	-	-
Total Capital Assets Being Depreciated	<u>9,473,913</u>	<u>-</u>	<u>-</u>
Less Accumulated Depreciation for:			
Buildings	(1,950,119)	(188,721)	
Vehicles and Equipment	(37,855)	-	-
Total Accumulated Depreciation	<u>(1,987,974)</u>	<u>(188,721)</u>	<u>-</u>
Total Capital Assets, Being Depreciated, Net	<u>7,485,939</u>	<u>(188,721)</u>	<u>-</u>
Capital Assets, Net	<u>\$ 27,815,550</u>	<u>\$ 6,906,279</u>	<u>\$ (1,082,904)</u>

**JERSEY CITY REDEVELOPMENT AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2011 AND 2010**

NOTE 6 CAPITAL ASSETS (Continued)

On March 27, 1998 the Agency and the City of Jersey City entered into a cooperation agreement for the construction of a community/educational center on property owned by the Agency in Ward E. Under the agreement, the City agreed to issue bonds in the amount of \$9,500,000 and provide a grant of that amount solely to finance the construction of the project. The City has permanently financed the project through the issuance of general serial bonds, which have since been refinanced on multiple occasions. The facility was completed during 1999 and the Agency entered into a lease with a charter school for the entire facility. Pursuant to the cooperation agreement, the Agency will, to the extent reasonably possible, fully reimburse the City the annual amount needed by the City to pay principal and interest due on the bonds issued by the City to construct the facility from any revenue the agency receives under its lease of the facility. The Agency has complied with all financial provisions of the cooperation agreement from inception through December 31, 2011. Although the City has refinanced the original bonds, the Agency continues to reimburse the City based on the amortization schedule of the original bonds.

NOTE 7 RESTRICTED NET ASSETS

Pursuant to a cooperation agreement with the City, the Agency has reserved any excess revenue received from the use of the community/educational center its owns to fund (1) the capital reserve requirement determined by its consulting engineer to fund the future replacement of common element components and (2) to repay the City of Jersey City the principal and interest due on the debt issued to finance the facility and/or future operating costs of the facility. Excess revenue is defined as revenue in excess of operating expenses and current year debt service due to the City of Jersey City.

As of December 31, 2011 and 2010 the restricted net assets is comprised of the following:

	<u>2011</u>	<u>2010</u>
Restricted for:		
Renewal and Replacement	\$ 933,813	\$ 1,521,923
Other Purposes - Cooperation Agreement		
City of Jersey City	<u>-</u>	<u>79,736</u>
Total Restricted Net Assets	<u>\$ 933,813</u>	<u>\$ 1,601,659</u>

NOTE 8 COMMITMENTS AND CONTINGENCIES

State and Federal Grants: The Agency receives grants from the State of New Jersey, the U.S. Government and the City of Jersey City that are generally conditional upon compliance with terms and conditions of the grant agreements and applicable regulations, including the expenditure of the funds for eligible purposes. Substantially all grants, entitlements and cost reimbursements are subject to financial and compliance audits by the grantors. In addition, these audits could result in the disallowance of costs previously reimbursed and require repayment to the grantor agency. The Agency estimates that no material liabilities will result from these audits.

Redeveloper Agreements: The Agency has entered into certain redeveloper agreements whereby the redeveloper is responsible for the payment of any awards of just compensation and any relocation claim awards resulting from the condemnation of real property. The Agency is however primarily liable for these payments if the redeveloper defaults on any payments. At the present time the financial terms of all redeveloper agreements have been met, except for the redeveloper agreement related to the litigation set forth below identified as JCRA vs. Kerrigan.

**JERSEY CITY REDEVELOPMENT AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2011 AND 2010**

NOTE 8 COMMITMENTS AND CONTINGENCIES (Continued)

Environmental Remediation Liability: Certain of the Agency's redevelopment properties are in the process of being cleared of identified environmental contamination. Costs associated with the clean-up of these sites will be reimbursed by the prior property owners, project redevelopers and State or City agencies. Management believes the Agency's liability, if any, will not be material.

Journal Square Commercial Property Reinvestment Project – The Agency has been named as the developer for the acquisition of real property located within the geographic area of the City designated by the Journal Square Redevelopment Plan as District 6. The Agency will be receiving \$2,975,000 of New Jersey Urban Enterprise Zone Authority (UEZA) proceeds from the Jersey City Economic Development Corporation, the City's zone program administrator, to purchase the property within District 6. The Agency is required to repay all revenues generated to the extent realized from the sale or lease of properties acquired with the UEZA funds. As of December 31, 2011 the Agency has expended \$2,278,075 from the UEZA for expenditures relating to the project. Additionally, no revenue has been received by the Agency relating to the sale or lease of properties to be acquired with the proceeds.

Litigation: The Agency is a defendant in several lawsuits which arose out of the normal course of business and which the Agency's management believes will not have a material impact on the financial statements, except as for the litigation set forth below. These liabilities, if any, not covered by insurance, should not be material in amount.

Jersey City Redevelopment Agency v. Kerrigan

The Jersey City Redevelopment Agency, (the "Agency"), is currently subject to a judgment in the principal amount of \$18,600,000 (the "Condemnation Judgment"). The Agency commenced a condemnation action in its name pursuant to the Eminent Domain Act on property owned by Ronald, Kathy and Lynn Kerrigan (the "Property Owners"), located on the tax maps of the City of Jersey as Lot 26BW in Block 60 in the Liberty Harbor North Redevelopment Area, (the "Property"), at the request of Liberty Harbor North II Urban Renewal Company, LLC (the "Redeveloper") in August of 2004 under docket number HUD-L-4528-04, under the terms of the existing Redevelopment Agreement with the Redeveloper. The initial deposit for payment of just compensation by Redeveloper was \$1,250,000, and the matter proceeded through initial litigation with the State of New Jersey and the property owner to address a title dispute regarding the State's riparian claim which was resolved November 17, 2005. Further proceedings including a commissioners' hearing, and an appeal of that determination filed by both the Agency and the Property Owners, to contest the value of \$7,000,000, which resulted in a trial and judgment entered on February 6, 2009, setting the value of the property at \$18,600,000, plus interest. The judgment was appealed to the Appellate Division of the Superior Court. Argument was heard in that court in January, 2011, and a decision affirming the judgment below was entered on June 17, 2011. A timely Petition for Certification was filed in July, 2011, by the Agency with the Supreme Court of the State of New Jersey, which the Court denied on October 4, 2011. The Condemnation Judgment is final, and no further appeals are available.

Title to the subject property is held by the Redeveloper and is secured by a first mortgage in favor of the Agency for any excess condemnation award and costs. Additionally, the Redeveloper and Peter Mocco, an individual who is also responsible for the payment of any excess condemnation award to the Agency, signed a note in favor of the Agency. Mocco and his spouse were also required to provide an unconditional written guaranty of payment and performance, and not of collection in favor of the Agency (the "Loan Documents"). In addition to the Moccas, other entities controlled by the Moccas are also potentially responsible for payment of the Condemnation Judgment under the Redevelopment Agreement as guarantors. Counsel to the Agency has reviewed these documents and has opined that they are enforceable in accordance with their terms. As of December 31, 2011, principal and interest due to the Kerrigans as an excess of the deposit condemnation award was \$20,957,658. Interest currently accrues at a rate of 0.5% per year, and the current per diem cost is \$284.18, subject to annual compounding each August 26 and further interest rate changes each January, in accordance with court rule 4:42-11.

**JERSEY CITY REDEVELOPMENT AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2011 AND 2010**

NOTE 8 COMMITMENTS AND CONTINGENCIES (Continued)

Jersey City Redevelopment Agency v. Kerrigan (Continued)

The Agency has served formal notices and demands for payment upon the Redeveloper and guarantors and has declared them in default due to non payment. Additional litigation has now ensued, as discussed below.

On November 18, 2011, counsel for the Kerrigans, the former Property Owners, filed an eight (8) count complaint in Superior Court, Hudson County, naming the City of Jersey City, the Agency, the Redeveloper, and the guarantors as defendants, (the "Kerrigan Complaint"). The two (2) counts against the Agency seek payment of the Condemnation Judgment, interest and attorney fees.

The Agency filed a three (3) count complaint against the Redeveloper and guarantors on the note and guarantee on December 13, 2011. In its answer to the Kerrigan Complaint on January 9, 2012, the Agency also filed a four (4) count cross claim against the Redeveloper and guarantors, seeking , in addition to indemnification and breach of contract, a count seeking reversion of the title to the Property, divesting it from the Redeveloper and revesting it, with all rights of ownership, in the Agency .

The two (2) counts of the Kerrigan Complaint against the Agency are based on an equitable cause of action termed mandamus and alleged violations of the Kerrigans' constitutional rights to due process and denial of just compensation under 42 U.S.C.A. Section 1983. Responsive pleadings were delayed due to protracted settlement negotiations, and accordingly, no formal discovery or depositions have been conducted by the Agency, although financial information has been obtained from the guarantors.

As of April, 2012, the Kerrigan Complaint and the Agency's complaint have been consolidated for discovery and trial.

The property of the Agency is exempt, by statute, N.J.S.A. 40A:12A-34, from levy to collect any judgment, as well as from the attachment or lien of any judgment. Accordingly, the Agency can purchase and convey real property without being impacted by the Kerrigan Judgment.

Counsel for the Agency has submitted comprehensive affirmative defenses on behalf of the Agency to the Kerrigan Complaint whereby it has been asserted that the condemnation action and resultant Condemnation Judgment have satisfied all constitutional claims, and an action in mandamus is not warranted, or not appropriate to direct the payment of the Condemnation Judgment by the Agency.

On April 17, 2012, the Redeveloper and companion entities Liberty Harbor Holding, LLC and Liberty Harbor North, Inc. filed separate petitions in bankruptcy seeking to reorganize under Chapter 11 of the United States Bankruptcy Code. The prosecution of the pending state court claims against the Redeveloper have been stayed as a result of the bankruptcy filing, however, the Agency is pursuing its actions against the guarantors, Peter Mocco and Lorraine Mocco, who are principals of the Redeveloper, and are personal signatories to the unconditional guaranty of the Redeveloper's obligations to the Agency with respect to the Condemnation Judgment. The Agency is also retaining special counsel to represent its interests in the bankruptcy proceedings.

**JERSEY CITY REDEVELOPMENT AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2011 AND 2010**

NOTE 9 RISK MANAGEMENT

The Agency is exposed to various risks of loss related to general liability, automobile coverage, damage and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Agency has obtained insurance coverage to guard against these events which will provide minimum exposure to the Agency should they occur.

There has been no significant reduction in insurance coverage from the previous year nor have there been any settlements in excess of insurance coverage in any of the prior three years.

NOTE 10 ACCRUED COMPENSATED ABSENCES

Under the existing policies of the Agency, employees are allowed to accumulate (with certain restrictions) unused sick leave, compensatory time and vacation benefits over the life of their working careers and to redeem such unused leave time in cash (with certain limitations) upon retirement, termination in good standing or by extended absence immediately preceding retirement. Additionally, employees who meet certain minimum accruals are allowed to receive payments for compensatory and annual leave time in March and October for compensatory time and May for annual leave. It is estimated that the current cost of such unpaid compensation would approximate \$374,065 and \$376,241 at December 31, 2011 and 2010, respectively. These amounts are accrued as a current liability at December 31, 2011 and 2010.

NOTE 11 RESTATEMENT

The December 31, 2010 Statement of Net Assets has been restated as follows to reflect a mortgage receivable and an offsetting judgment payable which were previously unrecorded by the Agency (see Note 8 to the financial statements).

	Balance Prior to <u>Restatement</u>	<u>Adjustment</u>	Balance Subsequent to <u>Restatement</u>
Assets			
Restricted Current Assets			
Mortgage Loan Receivable	\$ 1,300,000	\$ 20,853,624	\$ 22,153,624
Total Restricted Current Assets	<u>8,007,729</u>	<u>20,853,624</u>	<u>28,861,353</u>
Total Current Assets	<u>13,331,277</u>	<u>20,853,624</u>	<u>34,184,901</u>
Total Assets	<u>\$ 48,154,677</u>	<u>\$ 20,853,624</u>	<u>\$ 69,008,301</u>
Liabilities			
Current Liabilities Payable from Restricted Assets			
Judgment Payable	<u>-</u>	<u>\$ 20,853,624</u>	<u>\$ 20,853,624</u>
Total Current Liabilities Payable from Restricted Assets	<u>\$ 6,406,070</u>	<u>20,853,624</u>	<u>27,259,694</u>
Total Current Liabilities	<u>12,267,727</u>	<u>20,853,624</u>	<u>33,121,351</u>
Total Liabilities	<u>\$ 12,267,727</u>	<u>\$ 20,853,624</u>	<u>\$ 33,121,351</u>

SUPPLEMENTARY SCHEDULES

JERSEY CITY REDEVELOPMENT AGENCY
SCHEDULE OF REVENUES AND APPROPRIATIONS
BUDGET TO ACTUAL
YEAR ENDED DECEMBER 31, 2011

(With Comparative Actual Amounts for the Year Ended December 31, 2010)

REVENUES	<u>2011 Budget</u>	<u>2011 Actual</u>	<u>2010 Actual</u>
<u>Operating Revenues</u>			
Other - Rents	\$ 1,004,000	657,845	1,003,944
Other - Redeveloper Fees/Reimbursements	400,000	971,352	890,774
Federal Grants			
Community Development Block Grant			
Development	2,466,640	655,707	452,101
Administration	325,850		150,000
HUD-EDI	400,000		387,873
Other		168,119	
State Grants		153,734	707,517
City of Jersey City - Capital Funds		247,713	958,008
Miscellaneous		380,787	1,031,903
<u>Non-Operating Revenues</u>			
Other Reimbursements - Golden Door	205,500	128,344	187,903
Renewal and Replacement Reserve	750,000	750,000	
Other - Interest on Investments and Deposits	100,000	71,990	103,277
 Total Revenues	 <u>\$ 5,651,990</u>	 <u>4,185,591</u>	 <u>\$ 5,873,300</u>
 APPROPRIATIONS			
<u>Operating Appropriations</u>			
Administration:			
Salaries, Wages and Fringe Benefits	\$ 1,054,460	1,274,681	1,313,314
Other Expenses	492,602	1,642,015	1,571,966
Cost of Providing Service:			
Other Expenses	4,023,250	860,769	1,808,924

JERSEY CITY REDEVELOPMENT AGENCY
SCHEDULE OF REVENUES AND APPROPRIATIONS
BUDGET TO ACTUAL

YEAR ENDED DECEMBER 31, 2011

(With Comparative Actual Amounts for the Year Ended December 31, 2010)

	<u>2011 Budget</u>	<u>2011 Actual</u>	<u>2010 Actual</u>
<u>Non-Operating Appropriations</u>			
Renewal and Replacement Reserve	\$ 160,573	\$ 160,573	\$ 158,970
Other Charges:			
Depreciation		188,721	188,721
Cooperation Agreement-City of Jersey City - Ward E	<u>-</u>	<u>497,004</u>	<u>740,603</u>
 Total Appropriations	 <u>\$ 5,730,885</u>	 <u>4,623,763</u>	 <u>\$ 5,782,498</u>
 Budgetary Income (Loss)		 (438,172)	
 Reconciliation to GAAP Basis:			
Contribution of Property Held for Redevelopment		1,000	
Disposition of Property Held for Redevelopment		(1,220,000)	
Decrease in Renewal and Replacement Reserve		<u>(589,427)</u>	
 Change in Net Assets - GAAP Basis		 <u>\$ (2,246,599)</u>	

JERSEY CITY REDEVELOPMENT AGENCY
SCHEDULE OF GRANT REVENUES
PERIOD FROM JANUARY 1, 2011 AND DECEMBER 31, 2011

<u>Operating Revenues</u>	<u>Amount</u>
Federal Grants:	
City Pass-Through:	
Department of Housing and Urban Development	\$ 655,707
Environmental Protection Agency	164,444
Department of Energy	<u>3,675</u>
Total Federal Grants	<u>\$ 823,826</u>
State Grants:	
Department of Environmental Protection	
Hazardous Discharge Site Remediation	\$ 79,994
Urban Enterprise Zone Authority	
(Passed Through Jersey City Economic Development Corporation)	
Powerhouse Stabilization	<u>73,740</u>
Total State Grants	<u>\$ 153,734</u>

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GOVERNMENT AUDITING STANDARDS

AND

SINGLE AUDIT

LERCH, VINCI & HIGGINS, LLP

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

Honorable Chairman and Members of the Board
Jersey City Redevelopment Agency
Jersey City, New Jersey

We have audited the basic financial statements of the Jersey City Redevelopment Agency as of and for the year ended December 31, 2011, and have issued our report thereon dated April 18, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Jersey City Redevelopment Agency is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Agency's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over financial reporting.

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

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

Compliance and Other Matters

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

This report is intended solely for the information and use of management, the Jersey City Redevelopment Agency board members, others within the Agency, New Jersey State Department of Community Affairs and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Leitch, Vinci & Higgins LLP

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

Gary W. Higgins

Gary W. Higgins
Registered Municipal Accountant
RMA Number CR00405

Fair Lawn, New Jersey
April 18, 2012

LERCH, VINCI & HIGGINS, LLP

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 AND NEW JERSEY OMB CIRCULAR 04-04

Honorable Chairman and Members of the Board
of Commissioners
Jersey City Redevelopment Agency
Jersey City, New Jersey

Compliance

We have audited the Jersey City Redevelopment Agency's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended December 31, 2011. The Agency's major federal programs are identified in the "Summary of Auditors' Results Section" of the accompanying schedule of findings and questioned costs. Compliance with the requirement of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Agency's management. Our responsibility is to express an opinion on the Agency's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations. Those standards and circulars require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Agency's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Agency's compliance with those requirements.

In our opinion, the Jersey City Redevelopment Agency complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2011.

Internal Control Over Compliance

Management of the Jersey City Redevelopment Agency is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Jersey City Redevelopment Agency's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over compliance.

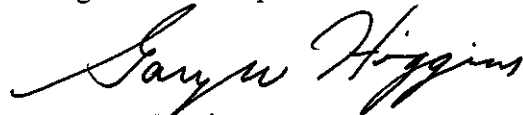
A deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis.

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

This report is intended solely for the information and use of management, the Jersey City Redevelopment Agency Board of Commissioners, others within the Agency, the City of Jersey City, the New Jersey Department of Community Affairs, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.



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



Gary W. Higgins
Registered Municipal Accountant
RMA Number CR00405

Fair Lawn, New Jersey
April 18, 2012

JERSEY CITY REDEVELOPMENT AGENCY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2011

<u>Federal Grantor/Pass-Through Grantor Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
U.S. Department of Housing and Urban Development - Passed Through City of Jersey City - Community Development Block Grant Program	14.218 14.218 14.218	B-11-MC-38-0108 B-10-MC-37-0108 B-09-MC-36-0108	\$ 8,217 322,673 (781)
ARRA - CDBG-R	14.253		95,060
HOME Program	14.239 14.239	2011 2010	139,697 <u>90,841</u>
Total U.S. Department of Housing and Urban Development			<u>655,707</u>
U.S. Environmental Protection Agency Passed Through City of Jersey City			
2006 Hazardous Assessment	66.818	BF97258806	(2,110)
2008 Hazardous Assessment	66.818	BF97242708	1,866
2008 Petroleum Assessment	66.818	BF97242808	16,928
2009 Petroleum Assessment	66.818	Not Available	23,620
2009 Hazardous Assessment	66.818	BF97215211	33,578
2009 Hazardous Assessment	66.818	BF97215111	42,631
2009 Hazardous Assessment	66.818	BF97215311	18,311
2011 Hazardous Assessment	66.818	BF97203712	1,008
American Recovery and Reinvestment Act (ARRA)			
Brownfields Cleanup Program	66.818		
75 Woodward St.	66.818	2B972307090	6,616
Garfield Junkyard Site	66.818	2B972306090	9,024
JR Transportation Site	66.818	2B972310090	<u>12,972</u>
Total U.S. Environmental Protection Agency			<u>164,444</u>
U.S. Department of Energy Passed Through City of Jersey City			
EECBG - Revolving Loan Fund		Not Available	<u>3,675</u>
Total Federal Awards Expenditures			<u>\$ 823,826</u>

Note: Negative expenditures are the result of accounts payable cancellations exceeding current year amounts expended.

**JERSEY CITY REDEVELOPMENT AGENCY
SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE
FOR THE YEAR ENDED DECEMBER 31, 2011**

<u>State Department and Grant Title</u>	Pass-Through Grantor's <u>Number</u>	<u>Expenditures</u>
<u>Urban Enterprise Zone Authority</u>		
Passed Through Jersey City Economic Development Corporation Powerhouse Stabilization Project	Not Available	\$ 73,740
Total Urban Enterprise Zone Authority		<u>73,740</u>
<u>Department of Environmental Protection</u>		
Hazardous Discharge Site Remediation Grand Jersey Redevelopment Project Berry Lane Park	P28454 Not Available	2,110 <u>77,884</u>
Total Department of Environmental Protection		<u>79,994</u>
Total State Financial Assistance Expenditures		<u>\$ 153,734</u>

This schedule is not subject to a single audit under NJ OMB Circular 04-04.

**NOTES TO THE SCHEDULES OF EXPENDITURES OF FEDERAL AWARDS
AND STATE FINANCIAL ASSISTANCE**

**JERSEY CITY REDEVELOPMENT AGENCY
NOTES TO THE SCHEDULES OF EXPENDITURES OF FEDERAL AWARDS AND
STATE FINANCIAL ASSISTANCE
FOR THE YEAR ENDED DECEMBER 31, 2011**

NOTE 1 GENERAL

The accompanying schedules present the activity of all federal awards and state financial assistance programs of the Jersey City Redevelopment Agency. The Agency is defined in Note 1 to the Agency's financial statements. All federal financial assistance received directly from federal agencies, as well as federal and state financial assistance passed through other government agencies is included on the schedules of expenditures of federal awards and state financial assistance.

NOTE 2 BASIS OF ACCOUNTING

The accompanying schedules are presented using the accrual basis of accounting and in accordance with accounting principles generally accepted in the United States of America applicable to enterprise funds for state and local governments.

NOTE 3 RELATIONSHIP TO FINANCIAL STATEMENTS

Amounts reported in the accompanying schedules agree with amounts reported in the Agency's financial statements. Financial assistance revenues are reported in the Agency's financial statements on a basis of accounting described above as follows:

	<u>Federal</u>	<u>State</u>
U.S. Department of Housing and Urban Development	\$655,707	
U.S. Environmental Protection Agency	164,444	
U.S. Department of Energy	3,675	
NJ Dept. of Environmental Protection		\$ 79,994
UEZA		<u>73,740</u>
	<u>\$823,826</u>	<u>\$153,734</u>

NOTE 4 RELATIONSHIP TO FEDERAL FINANCIAL REPORTS

Amounts reported in the accompanying schedules may not necessarily agree with the amounts reported in the related federal and state financial reports due to timing differences between the Agency's fiscal year and grant program years.

**JERSEY CITY REDEVELOPMENT AGENCY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011**

Part 1 – Summary of Auditors' Results

Financial Statements Section

Type of auditors' report issued on financial statements

Unqualified

Internal control over financial reporting:

1) Material weakness(es) identified?

 yes X no

2) Significant Deficiency(ies) identified that are not considered to be material weakness(es)?

 yes X none reported

Noncompliance material to basic financial statements noted?

 yes X no

Federal Awards Section

Internal Control over major programs:

1) Material weakness(es) identified?

 yes X no

2) Significant Deficiency(ies) identified that are not considered to be material weakness(es)?

 yes X none reported

Type of auditor's report issued on compliance for major programs

Unqualified

Any audit findings disclosed that are required to be reported in accordance with .510(a) of Circular A-133?

 Yes X No

Identification of major federal programs:

CFDA Number(s)

14.218

14.253

Name of Federal Program or Cluster

Community Development Block Grant

Entitlement

ARRA - Community Development Block

Grant Entitlement

Dollar threshold used to distinguish between Type A and Type B programs:

\$ 300,000

Auditee qualified as low-risk auditee?

 Yes X No

**JERSEY CITY REDEVELOPMENT AGENCY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011**

Part 1 – Summary of Auditors' Results (continued)

State Awards Section - NOT APPLICABLE

Internal Control over major programs:

1) Material weakness(es) identified?

_____ yes _____ no

2) Significant Deficiency(ies) identified that are not
considered to be material weakness(es)?

_____ yes _____ none reported

Type of auditor's report issued on compliance for
major programs

Any audit findings disclosed that are required to be reported
in accordance with NJ OMB 04-04?

_____ Yes _____ No

Identification of major state programs:

Identification Number(s)

Name of State Program or Cluster

Dollar threshold used to distinguish between
Type A and Type B programs:

\$ _____

Auditee qualified as low-risk auditee?

_____ Yes _____ No

**JERSEY CITY REDEVELOPMENT AGENCY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011**

Part 2 - Schedule of Financial Statement Findings

This section identifies the significant deficiencies, material weaknesses, and instances of noncompliance related to the basic financial statements that are required to be reported in accordance with Chapter 5.18 of *Government Auditing Standards*.

There are none.

**JERSEY CITY REDEVELOPMENT AGENCY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011**

Part 3 - Schedule of Federal and State Award Findings and Questioned Costs

This section identifies the significant deficiencies, material weaknesses, and instances of noncompliance, including questioned costs, related to the audit of major federal programs, as required by OMB Circular A-133 and NJ OMB 04-04.

CURRENT YEAR FEDERAL AWARDS

There are none.

CURRENT YEAR STATE AWARDS

Not Applicable

**JERSEY CITY REDEVELOPMENT AGENCY
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
AND QUESTIONED COSTS AS PREPARED BY MANAGEMENT
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011**

This section identifies the status of prior-year findings related to the basic financial statements and federal and state awards that are required to be reported in accordance with Chapter 6.12 of *Government Auditing Standards*, U.S. OMB Circular A-133 (section .315(a)(b)).

STATUS OF PRIOR YEAR FINDINGS

There were none.

ROSTER OF OFFICIALS
AND
GENERAL COMMENTS AND RECOMMENDATIONS

ROSTER OF OFFICIALS
AS OF DECEMBER 31, 2011

<u>Name</u>	<u>Title</u>
James K. Morley	Chairman
Michael J. Sottolano	Vice-Chairman
Piyush M. Amin	Commissioner
Rafael Diaz	Commissioner
Evelyn Farmer	Commissioner
John Spinello	Commissioner
Robert P. Antonicello	Executive Director

GENERAL COMMENTS AND RECOMMENDATIONS

There are none.

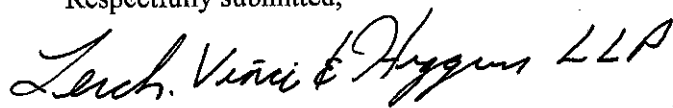
Status of Prior Year's Audit Comments and Recommendations

A review was performed of all prior year comments and recommendations. Corrective action has been taken on all recommendations.

Appreciation

We desire to express our appreciation of the assistance of the Executive Director, the Director of Accounts and Control and the Agency staff during the course of our audit.

Respectfully submitted,



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

