

KEYPORT BID, INC.

Keyport, New Jersey

Financial Statements
And Supplementary Information
For the Two Years Ended
December 31, 2020 and 2019

KEYPORT BID, INC.

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CERTIFIED PUBLIC ACCOUNTANTS
INDEPENDENT AUDITOR'S REPORT

Board of Directors
Keyport BID, Inc.
Keyport, New Jersey

Report on the Financial Statements

We have audited the accompanying financial statements of Keyport BID, Inc. (a nonprofit organization), which comprise the statements of assets, liabilities, and net assets – modified cash basis as of December 31, 2020, and the related statements of revenues, expenses and changes in net assets and functional expenses – modified cash basis for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting as described in Note 2; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also 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.

Auditor's 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 evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Basis for Qualified Opinion

We did not receive invoices to support a material amount of Keyport BID, Inc.'s. operating expenses because the computer containing electronic copies of the invoices was not functioning. We were unable to obtain sufficient appropriate audit evidence about the fair presentation of operating expenses by other auditing procedures.

Qualified Opinion

In our opinion, except for the possible effect of the matter discussed in the Basis for Qualified Opinion paragraph, the financial statements referred to in the first paragraph present fairly, in all material respects, the assets, liabilities and net assets of Keyport BID, Inc. as of December 31, 2020, and its revenues and expenses and cash flows for the year then ended in accordance with the modified cash basis of accounting as described in Note 2.

Prior Period Financial Statements

The financial statements of Keyport BID, Inc. as of December 31, 2019, were audited by other auditors whose report dated March 6, 2021 expressed an unmodified opinion on those statements.

Basis of Accounting

We draw attention to Note 2 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of budget versus actual revenue and expenses – modified cash basis, which is the responsibility of management is presented for purposes of additional analysis and is not a required part of the financial statements. Such information, except for that portion marked “unaudited”, was derived from, and relates directly to the underlying accounting and other records used to prepare the financial statements. That information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, that information is fairly stated, in all material respects, in relation to the financial statements as a whole. The information marked “unaudited” has not been subjected to the auditing procedures applied in the audits of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2021 on our consideration of Keyport BID, Inc.’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of the Keyport BID, Inc.’s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Keyport BID, Inc.’s internal control over financial reporting and compliance.

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CERTIFIED PUBLIC ACCOUNTANTS

Wayne, New Jersey
December 20, 2021

KEYPORT BID, INC.

Statements of Assets, Liabilities and Net Assets - Modified Cash Basis
December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Assets		
Cash	<u>\$ 141,640</u>	<u>\$ 67,457</u>
Total Assets	<u><u>\$ 141,640</u></u>	<u><u>\$ 67,457</u></u>
Liabilities		
	<u>\$ -</u>	<u>\$ -</u>
Net Assets without Donor Restrictions	<u>\$ 141,640</u>	<u>\$ 67,457</u>
Total Liabilities and Net Assets	<u><u>\$ 141,640</u></u>	<u><u>\$ 67,457</u></u>

KEYPORT BID, INC.

Statements of Revenues, Expenses and Changes in Net Assets - Modified Cash Basis
December 31, 2020 and 2019

	2020	2019
	Without Donor Restrictions	Without Donor Restrictions
Revenue and Support		
Assessment revenue	\$ 171,500	\$ 171,500
Event Revenue	-	17,753
Sponsorships	3,000	5,400
In-kind revenue	6,000	6,000
Total Revenue and Support	180,500	200,653
Expenses		
Program services	71,646	159,161
General and administrative	34,671	28,983
Total Expenses	106,317	188,144
Changes in Net Assets	74,183	12,509
Net Assets - Beginning of Year	67,457	54,948
Net Assets - End of Year	\$ 141,640	\$ 67,457

KEYPORT BID, INC.

Statements of Functional Expenses - Modified Cash Basis
December 31, 2020 and 2019

	2020			2019		
	Program Services	General and Administrative	Total	Program Services	General and Administrative	Total
Event expenses	\$ 5,443	\$ -	\$ 5,443	\$ 79,241	\$ -	\$ 79,241
Visual improvements	13,264	-	13,264	15,976	-	15,976
Marketing	18,076	-	18,076	50,652	-	50,652
Personnel costs	34,863	11,621	46,484	13,292	3,894	17,186
Professional and consulting	-	8,837	8,837	-	9,588	9,588
Board elections	-	-	-	-	372	372
Insurance	-	1,122	1,122	-	546	546
Office expenses	-	6,914	6,914	-	6,581	6,581
Other administrative costs	-	177	177	-	2,002	2,002
In-kind expense	-	6,000	6,000	-	6,000	6,000
Total Functional Expenses	\$ 71,646	\$ 34,671	\$ 106,317	\$ 159,161	\$ 28,983	\$ 188,144

KEYPORT BID, INC.

Notes to Financial Statements – Modified Cash Basis December 31, 2020 and 2019

Note 1 – Nature of Activities

Keyport Business Improvement District, Inc. ("Keyport BID") was incorporated in the State of New Jersey on November 11, 2011. The Keyport BID serves as the district management corporation for the business improvement district for the Borough of Keyport. The purpose of Keyport BID is to foster the economic development and revitalization of the business community and strengthen its contributions to the residents and property owners within the Borough of Keyport.

Note 2 – Summary of Significant Accounting Policies

Adoption of New Accounting Standard

The FASB issued ASU 2016-01, Financial Instruments – *Recognition and Measurement of Financial Assets and Liabilities*. The update addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The Organization has adjusted the presentation of these statements accordingly.

The FASB issued ASU 2018-08, Not-for-Profit Entities (Topic 958) – *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The update is designed to assist in the (1) evaluating whether transactions should be accounted for as contributions within the scope of Topic 958, Not-for-Profit Entities, or as exchange transactions subject to other guidance and (2) determining whether a contribution is conditional.

The Organization adopted the requirements of the new guidance as of January 1, 2019, utilizing the modified retrospective method of transition. The adoption of the new guidance did not have a material impact on the Organization's financial statements.

Basis of Accounting

The financial statements of Keyport BID have been prepared on the modified basis of accounting which is a comprehensive basis of accounting other than generally accepted accounting principles. The primary difference between this basis and generally accepted accounting principles is that certain support and revenue is recognized when received rather than when earned and certain expenses are recognized when cash is disbursed rather than when the obligation is incurred. The presentation has been modified to reflect donations in kind.

Net Asset Classifications

The Organization reports information regarding its financial position and activities according to the following net asset classifications:

Net assets without donor restrictions – Net assets that are not imposed to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of the Organization's management.

Net assets with donor restrictions – Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. The Organization considers all unspent net assets to be restricted until spent under an approved budget.

KEYPORT BID, INC.

Notes to Financial Statements – Modified Cash Basis (Continued) **December 31, 2020 and 2019**

Note 2 – Summary of Significant Accounting Policies (Continued)

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of revenue, expenses and changes in net assets – modified cash basis.

Concentration of Credit Risk

Financial instruments that potentially subject Keyport BID to concentrations of credit risk are cash arising from its normal business activities. Keyport BID places its cash with high credit quality financial institutions. The amount on deposit in any one institution that exceeds federally insured limits is subject to credit risk. At December 31, 2020 and 2019, Keyport BID had no deposits in excess of FDIC insured limits.

Assessment Revenue

Commercial properties within the geographic boundaries of the District subject to assessment by the Borough are designated as either Downtown Zone or Highway Zone properties and are assessed by the Borough at the rates based on property locations.

Concentration of Revenue

Commercial assessments provided 85% of total revenue for the years ended December 31, 2020 and 2019.

Use of Estimates

The preparation of financial statements using the modified cash basis of accounting requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Income Taxes

Keyport BID, Inc. is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision or liability for income taxes has been reported in the financial statements.

Advertising

Keyport BID expenses the cost of advertising as paid. For the years ended December 31, 2020 and 2019, the cost of advertising was \$21,800 and \$38,415, respectively.

KEYPORT BID, INC.

Notes to Financial Statements – Modified Cash Basis (Continued) December 31, 2020 and 2019

Note 2 – Summary of Significant Accounting Policies (Continued)

Functional Expenses

The costs of program and supporting service activities have been summarized on a functional basis in the statement of revenue, expenses and changes in net assets – modified cash basis. Accordingly, certain costs have been allocated among the programs and supporting services benefitted.

The expenses that are allocated include the flowing:

<u>Expense</u>	<u>Method of Allocation</u>
Event expense	Budgeted allocation
Visual improvements	Budgeted allocation
Personnel	Budgeted allocation
Consultant	Budgeted allocation
Marketing	Budgeted allocation
Board elections	Budgeted allocation
Professional and consulting	Budgeted allocation
Insurance	Budgeted allocation
Office expense	Budgeted allocation
Other administrative costs	Budgeted allocation
In-kind expense	Budgeted allocation

Note 3 – Donated Services and Use of Facilities

Keyport BID receives the use of office space from the Borough of Keyport and reports this as a donation in kind. The value of the use of office space for the years ended December 31, 2020 and 2019 was \$6,000 per year.

Note 4 – Liquidity

The Organization strives to maintain liquid financial assets sufficient to cover six months of general expenditures. The following table reflects the Organization's financial assets as of December 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Financial assets at year-end		
Cash	<u>\$141,640</u>	<u>\$67,457</u>
TOTAL FINANCIAL ASSETS	<u>\$141,640</u>	<u>\$67,457</u>

KEYPORT BID, INC.

Notes to Financial Statements – Modified Cash Basis (Continued)
December 31, 2020 and 2019

Note 5 – Subsequent Events

The Organization evaluated subsequent events through December 20, 2021, the date which the financial statements were available to be issued, and concluded that no subsequent events have occurred that would require recognition or disclosure in the financial statements or notes, except as described below.

On January 30, 2020, the World Health Organization ("WHO") announced a global health emergency because of a new strain of coronavirus originating in Wuhan, China (the "COVID-19 outbreak") and the risks to the international community as the virus spread globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally. The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. As such, it is uncertain as to the full magnitude that the pandemic will have on the Organization's financial condition, liquidity and future results of operations. Management is actively monitoring the global situation on its financial condition, liquidity, operations, suppliers, industry, and workforce.

Given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, the Organization is not able to estimate the effects of the COVID-19 outbreak on its results of operations, financial condition, or liquidity for fiscal year 2021.

SUPPLEMENTARY INFORMATION

KEYPORT BID, INC.

Schedule of Budget Versus Actual Revenue and Expenses - Modified Cash Basis
December 31, 2020 and 2019

	2020			2019		
	(Unaudited) Budget	Actual	Variance	(Unaudited) Budget	Actual	Variance
Revenue						
Commercial property assessments	\$ 171,500	\$ 171,500	\$ -	\$ 171,500	\$ 171,500	\$ -
Program revenue	-	-	-	18,500	17,753	(747)
Sponsorships	15,000	3,000	(12,000)	12,000	5,400	(6,600)
Grants	19,000	-	(19,000)	5,000	-	(5,000)
In kind contribution	-	6,000	6,000	-	6,000	6,000
Carryforward from prior years	34,500	-	(34,500)	29,500	-	(29,500)
Total Revenue	240,000	180,500	(59,500)	236,500	200,653	(35,847)
Expenses						
Program Expenses						
Visual improvements	43,000	13,264	(29,736)	43,000	15,976	(27,024)
Marketing	70,500	18,076	(52,424)	63,500	50,652	(12,848)
Events	62,000	5,443	(56,557)	66,500	79,241	12,741
Personnel costs	-	34,863	34,863	36,000	13,292	(22,708)
Administrative Expenses						
Professional services	8,300	8,837	537	7,300	9,588	2,288
Insurance	1,200	1,122	(78)	1,200	546	(654)
Stakeholder meetings	1,000	-	(1,000)	2,500	372	(2,128)
Office operations	4,500	6,914	2,414	2,000	6,581	4,581
Other administrative costs	1,500	177	(1,323)	2,500	2,002	(498)
Personnel costs	48,000	11,621	(36,379)	12,000	3,894	(8,106)
In kind contribution	-	6,000	6,000	-	6,000	6,000
Total Expenses	240,000	106,317	(133,683)	236,500	188,144	(48,356)
Net Revenue and Expenses	\$ -	\$ 74,183	\$ 74,183	\$ -	\$ 12,509	\$ 12,509



Independent Auditor's 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

Board of Directors
Keyport BID, Inc.
Keyport, New Jersey

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 Keyport BID, Inc. (a nonprofit organization) (the Organization), which comprise the statement of assets, liabilities and net assets – modified cash basis as of December 31, 2020, and the related statements of revenues, expenses and changes in net assets and functional expenses – modified cash basis for the year then ended and the related notes to the financial statements, and have issued our report thereon dated December 20, 2021.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Keyport BID, Inc.'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Keyport BID, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain significant deficiencies in internal control, described in the accompanying Schedule of Audit Findings as items 2020-001, 2020-002, 2020-003 2020-004 and 2020-005.

Independent Auditor's 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 Keyport BID, Inc.'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 instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and questioned costs as items 2020-002, and 2020-003.

Auditee's Response to Findings

The Auditee's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Authority's response was not subjected to the auditing procedures app

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



POLCARI & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS

Wayne, New Jersey
December 20, 2021

KEYPORT BID, INC.

Schedule of Findings December 31, 2020 and 2019

PRIOR AUDIT FINDINGS

The prior audit for the year ended December 31, 2019 contained no findings.

CURRENT AUDIT FINDINGS

Finding 2020-001

Criteria: Management of the Corporation by its Board of Directors under N.J.S.A. 15A:6-1. As prescribed by this statute, "the activities of corporation shall be managed by its board".

Condition: Based on our review of Board of Director minutes for all meetings taking place in 2020, there is no evidence that the Corporation's bills were presented to the Board of Directors for review and approval.

Context: Although the minutes sometimes made reference to specific bills that were being discussed, a formal bill list was never presented to the entire Board.

Cause: As noted in the minutes of the November 2020 Board of Directors meeting, it was the former Executive Director's opinion that "individual expenses do not to be motioned and approved as long as they are within the approved budget".

Effect: Without the ability to review the organization's bills on a monthly basis, the Board of Directors was unable to effectively meet its responsibility to manage the activities of the Corporation as prescribed by N.J.S.A. 15A:6-1.

Recommendation: We recommend that the organization establish procedures requiring the presentation of bills to the Board of Directors monthly for review and approval. Such a procedure would significantly improve internal control over Keyport BID's accounts payable and cash disbursements transactions.

Management's Response: We have established procedures requiring the presentation of bills to the Board of Directors monthly for its review and formal approval.

Finding 2020-002

Criteria: New Jersey Local Public Contracts applies to all contracting units as defined in statute N.J.S.A. 40A:11-2(1). The law requires all contracts exceeding the bid threshold of \$17,500 (N.J.S.A. 40A:11-3) be awarded only by resolution of the governing body after publicly advertising the procurement. Contracts awarded below the bid threshold must also be approved by the Board, unless the Board has appointed a contracting agent or otherwise delegated the authority to award the contract. As per N.J.S.A. 40A:11-6.1, for all contracts that in the aggregate are less than the bid threshold but greater than \$2,625, the contracting agent shall award the contract after soliciting at least two competitive quotations, if practicable. The award shall be made to a vendor whose response is most advantageous, price and other factors considered.

Condition: Based on our review of Board of Director minutes for all meetings taking place in 2020, we found no evidence that the Corporation's contract awards were approved by the Board of

KEYPORT BID, INC.

Schedule of Findings December 31, 2020 and 2019

Finding 2020-002 (Continued)

Directors, nor did we see evidence that the Board appointed a contracting agent or otherwise delegated the authority to award these contracts.

Context: No contracts over the bid threshold were awarded during the audit period; however, procurement transactions above the small purchase limit of \$2,625 were not supported by evidence that competitive quotations were received and evaluated as required by New Jersey Local Public Contracts law. The office of the New Jersey Deputy Attorney General (DAG) has not rendered an opinion on the question of whether or not all or some District Management Corporations, such as Keyport BID, Inc., should be considered public or private. Absent that determination, the New Jersey Department of Community Affairs recommends that Keyport BID, Inc. "seek to meet the spirit of public entity policies such as the Open Public Records Act (OPRA) and Open Public Meetings Act (OPMA). In other words, the DMC should expect that others will seek to hold it accountable as a public entity and prepare accordingly" (https://www.nj.gov/dca/divisions/dhcr/faq/idp_faq.html#16).

Additionally, per N.J.S.A. 40:56-86 "a municipality may by ordinance, delegate to the district management corporation the contracting of work to be done on any street or streets, or other municipal property, or on other municipal property included in the special improvement district. The corporation shall be a "contracting unit" within the meaning of "Local Public Contracts Law".

Cause: Discussions with Board of Director members and the former Executive Director disclosed that the Board and former Executive Director believed Keyport BID, Inc. was a not-for-profit organization and not a public entity. Therefore, they believed the organization was not subject to New Jersey Local Public Contracts Law.

Effect: Keyport BID, Inc. was not in compliance with New Jersey Local Public Contracts Law with regard to its procurement activities. Further, contracts were awarded and procurement transactions significant to the Organization's activities were consummated without supporting evidence that competitive quotations were received for the goods and services procured. Coupled with the lack of a formal bill approval process as discussed in Finding 2020-001, this condition represents a significant deficiency in internal control over the procurement, accounts payable and cash disbursement transactions.

Recommendation: We recommend that the organization establish policies and procedures requiring compliance with New Jersey Local Public Contracts Law as recommended by the State of New Jersey Department of Community Affairs.

Management's Response: Although prior management and some prior Directors did not follow New Jersey DCA's recommendation to meet the spirit of public entity policies, the current Board agrees that the Corporation should hold itself accountable as a public entity. Therefore, we will adopt a Financial Policy which states "All purchases of goods and/or services shall be made in compliance with the New Jersey Local Public Contracts Law and any regulations and/or Local Finance Notices implemented pursuant thereto"..

KEYPORT BID, INC.

Schedule of Findings December 31, 2020 and 2019

Finding 2020-003

Criteria: Use of Debit and Credit Cards

New Jersey Local Public Contracts Law prohibits the use of debit or credit cards (N.J.A.C. 5:30-9A.2). This prohibition is specifically addressed in New Jersey Local Finance Notice AU-98-1. Also, N.J.S.A. 40A:5-16.5 prohibits a local government agency from making payments by electronic means without a policy adopted by its Board of Directors.

Condition: Based on our review of cash disbursement transactions the organization regularly used a debit card to purchase goods and services and made numerous payments to vendors via ACH.

Context: During the year ended December 31, 2020 Keyport BID, Inc.'s former Executive Director made purchases using a debit card totaling approximately \$8,600 and made payments to vendors by ACH transfers totaling approximately \$5,200. The office of the New Jersey Deputy Attorney General (DAG) has not rendered an opinion on the question of whether or not all or some District Management Corporations, such as Keyport BID, Inc., should be considered public or private. Absent that determination, the New Jersey Department of Community Affairs recommends that Keyport BID, Inc. "seek to meet the spirit of public entity polices such as the Open Public Records Act (OPRA) and Open Public Meetings Act (OPMA). In other words, the DMC should expect that others will seek to hold it accountable as a public entity and prepare accordingly" (https://www.nj.gov/dca/divisions/dhcr/faq/idp_faq.html#16).

Additionally, per N.J.S.A. 40:56-86 "a municipality may by ordinance, delegate to the district management corporation the contracting of work to be done on any street or streets, or other municipal property, or on other municipal property included in the special improvement district. The corporation shall be a "contracting unit" within the meaning of "Local Public Contracts Law".

Cause: Discussions with Board of Director members and the former Executive Director disclosed that the Board and former Executive Director believed Keyport BID, Inc. was a not-for-profit organization and not a public entity. Therefore, they believed the organization was not subject to New Jersey Local Public Contracts Law.

Effect: Keyport BID, Inc. was not in compliance with New Jersey Local Public Contracts Law with regard to its procurement activities. Further, goods and services acquired and paid for using debit cards or ACH transfers do not allow the full Board of Directors to review and approve these transactions prior to consummation.

Recommendation: We recommend that the organization discontinue the use of its debit card immediately and adopt a policy consistent with 40A:5-16.5 if it deems that the payment of invoices by the ACH electronic payment system is appropriate. Such a policy must specify which electronic means of payment will be used and designate the chief financial officer as being responsible for the oversight of the policy. In addition, the chief financial officer must "document and implement internal controls sufficient to ensure safe and proper use of the system and mitigate the potential for fraud and abuse.

KEYPORT BID, INC.

Schedule of Findings December 31, 2020 and 2019

Finding 2020-003 (Continued)

Management's Response: Although prior management and some prior Directors did not follow New Jersey DCA's recommendation to meet the spirit of public entity policies, the current Board agrees that the Corporation should hold itself accountable as a public entity. Therefore, we will adopt a Financial Policy which states prohibits the use of debit cards and imposes rules for ACH transactions.

Finding 2020-004

Criteria: The corporation's bylaws (Article V, Section 1(A)) requires that "all checks, drafts and orders for the payment of money, notes and other evidence of indebtedness, issued in the name of the corporation, shall be signed by two officers". Article III, Section 2 defines the officers of the organization to be: it's President, Vice President, Secretary and Treasurer.

Condition: None of the checks returned with the Corporation's 2020 bank statements were signed in accordance with the requirements of its bylaws.

Context: A review of the cancelled check copies returned with the Corporation's Valley Bank account statements for the twelve months of 2020 revealed that none of the checks were signed by two officer of the Corporation. Of the 122 canceled check copies examined, 71 were signed by the Corporation's former Executive Director and 51 were signed by both the former Executive and the former Board President, who used the letter "Z" as her signature. The Executive Director was not an officer of the Corporation. Thus, none of the 122 checks examined were executed in accordance with the Corporation's bylaws.

Cause: Board members were not aware of this requirement and the Corporation's Executive Director did not act according to its bylaws while processing payments.

Effect: Failing to follow the corporation's bylaws puts the board and Keyport BID, Inc., at legal risk. It may also put the Executive Director and each director at individual at legal risk, which Directors' and Officers' insurance will not cover.

Recommendation: We recommend that the organization establish procedures requiring checks to be signed in accordance with the organization's bylaws.

Management's Response: We will change authorized check signers for our valley Bank account to abide by Keyport BID, Inc.'s bylaws.

Finding 2020-005

Criteria: Management is responsible for the design, implementation and maintenance of internal control relevant to the fair presentation of financial statements

KEYPORT BID, INC.

**Schedule of Findings
December 31, 2020 and 2019**

Finding 2020-005 (Continued)

Condition: Sufficient evidence to support a material amount of the Corporation's operating expenses was not available. Thus, we were unable to ascertain whether operating expenses as presented in the Organization's financial statements for the year ended December 31, 2020 were fairly presented

Context: A sample of forty-four (44) cash disbursement transactions selected for testing revealed that invoices or other documentation supporting twenty-three (23) of the transactions selected could not be located. The total dollar amount of these unsupported expenditures was \$23,434. When management was informed that these documents were unavailable, the Corporation's former Executive Director stated that electronic copies of the invoices were available on the organization's laptop computer that he used while an employee. The former Executive Director gave that computer to one of Keyport BID, Inc's. Board members upon his termination of employment, and that Board member ultimately returned the computer to the Organization's attorney. It was determined that the computer was not functional when it was received by the Organization's attorney and the Corporation no longer has access to the cloud storage facility to retrieve copies of the missing documents.

Cause: The internal control system in place did not provide for the maintenance of invoices and other accounts payable documentation in a central location at the organization's office where it could be reviewed by the members of the Board of Directors, auditors and other interested parties. Hard copies of invoices and other documents to support expenses were not maintained in an organized filing system, nor were they maintained at the Organization's principal place of business.

Effect: This deficiency coupled with the lack of a formal system of monthly Board approval of invoices and failure to have checks signed by two officers as required by the organization's bylaws results in situation where all aspects of disbursements were controlled by the former Executive Director.

Recommendation: We recommend that the organization establish procedures requiring that all vendor invoices and other documentation supporting disbursement transactions be maintained in a locked file at its office.

Management's Response: We will implement a system of internal control that requires all documentation supporting disbursement transactions to be maintained in an appropriate locked file at the Organization's office.