



*Hymanson, Parnes & Giampaolo*

*Certified Public Accountants*

tele: 732-842-4550

fax: 732-842-4551

467 Middletown-Lincroft Rd.

Lincroft, NJ 07738

June 15, 2015

Mr. Paul F. Dice, Executive Director  
Housing Authority of the City of Salem  
205 Seventh Street  
Salem, New Jersey 08079

Dear Paul,

Thank you for giving our firm the opportunity to serve your Authority by conducting the annual audit for the fiscal year ended September 30, 2014.

Enclose is a draft copy of the Audit Report of Housing Authority of the City of Salem for fiscal year ended September 30, 2014.

We planned our audit not to have any audit findings in the compliance area. We are pleased to report that the report contained no audit findings.

If there are any changes to the audit report please let us know as soon as possible.

We will submit the REAC information as soon as the draft copy has been approved for submission.

Again, thank you for your cooperation in the matter mentioned above. If you have any questions, please do not hesitate to call me.

Respectfully,

*Anthony Giampaolo, C.P.A.*

Hymanson, Parnes & Giampaolo

**Report On Audit**

**HOUSING AUTHORITY OF THE  
CITY OF SALEM**

**For the Year Ended  
September 30, 2014**

**DRAFT COPY  
PRELIMINARY & TENTATIVE  
for DISCUSSION PURPOSES ONLY**

**Housing Authority of the City of Salem**  
Table of Contents

	<u>Page Number</u>
Independent Auditor's Report	1-3
Management's Discussion and Analysis	4-16
<b>Financial Statements</b>	
Statement of Net Position	17-18
Statement of Revenue, Expenses and Changes in Net Position	19
Statement of Cash Flow	20-21
Notes to Financial Statements	22-43
<b>Supplementary Information</b>	
Schedule of Expenditures of Federal Awards	44
Budgetary Comparison Schedule – Low Income Program	45
Budgetary Comparison Schedule – Housing Choice Voucher Program	46
Financial Data Schedule	47-51
<b>Other Reports and Comments</b>	
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 <i>Government Auditing Standards</i>	52-53
Independent Auditors Report on Compliance for each Major Program and on Internal Control over Compliance in Accordance with <i>OMB Circular A-133</i>	54-56
Prior Year Schedule of Findings	57
Schedule of Findings and Questioned Cost	58
Independent Accountant's Report on Applying Agreed-upon Procedures – REAC	59-60

DRAFT COPY  
PRELIMINARY & TENTATIVE  
for DISCUSSION PURPOSES ONLY





# Hymanson, Parnes & Giampaolo

## Certified Public Accountants

tele: 732-842-4550  
fax: 732-842-4551

467 Middletown-Lincroft Rd.  
Lincroft, NJ 07738

### INDEPENDENT AUDITOR'S REPORT

Board of Commissioners  
Housing Authority of the City of Salem  
205 Seventh Street  
Salem, New Jersey 08079

**DRAFT COPY**  
**PRELIMINARY & TENTATIVE**  
**for DISCUSSION PURPOSES ONLY**

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

We have audited the accompanying financial statements of the Housing Authority of the City of Salem (a governmental public corporation) in Salem, New Jersey, hereafter referred to as the Authority, which comprise the statement of net position as of September 30, 2014, and the related statement of revenue, expenses and changes in net position, statement of cash flows for the years 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 accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. 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. 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 Housing Authority of the City of Salem'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 Housing Authority of the City of Salem's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.



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

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Housing Authority of the City of Salem as of September 30, 2014, and the respective changes in financial position, and, where applicable, cash flows thereof for the year's then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and budgetary comparison information on pages 4 through 17 and pages 45-46 be presented to supplement the basic financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the 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 accepted in the United States of America, which consisted of inquiries of management about the method 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 financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the financial statements. Lastly, the supplemental information on the accompanying Financial Data Schedule is presented for the purpose of additional analysis and is not a required part of the financial statements. The Schedule of Federal Awards and the Financial Data Schedule are the responsibility of management and was derived from and relates 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 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, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The other financial and statistical information have not been subjected to the auditing procedures in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

The financial statement of the Housing Authority of the City of Salem, as of September 30, 2013, was audited by other auditors whose report dated June 27, 2014 expressed an unmodified opinion on those statements.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued reports dated June 12, 2015 on our consideration of the Housing Authority of the City of Salem'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 reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

**Hymanson, Parnes & Giampaolo**

Lincroft, New Jersey

Date: June 12, 2015

DRAFT COPY  
PRELIMINARY & TENTATIVE  
for DISCUSSION PURPOSES ONLY



**HOUSING AUTHORITY OF THE CITY OF SALEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
AT SEPTEMBER 30, 2014**

As Management of the Housing Authority of the City of Salem (the Authority), present the following discussion and analysis which is supplementary information required by the Governmental Accounting Standards Board (GASB), and is intended to provide an easily readable explanation of the information provided in the attached financial statements. Management Discussion and Analysis is designed to focus on the current year activities, resulting changes, and current known facts. It is by necessity highly summarized, and in order to gain a thorough understanding of the Authority's financial position, the financial statements and footnotes should be viewed in their entirety beginning on page 17 of this report. New standards issued by GASB have significantly changed the format of the financial statements. We encourage readers to consider the information presented here in conjunction with the Authority's financial statements as presented elsewhere in this report.

**FINANCIAL HIGHLIGHTS**

Net position of the Authority's enterprise fund was \$3,253,250 greater than the liabilities, a decrease in the financial position of \$108,218 or 3% percent.

As noted above, the net position of the Authority exceeded its liabilities by \$3,253,250 as of September 30, 2014. Of this amount, the unrestricted net position is \$244,840 representing an increase of \$141,095 or 136% percent from the previous year. The restricted net position increased \$10,050 or 6% percent from the prior year for and ending balance of \$192,591. The net investment in capital assets decreased \$259,363 or 8% percent for an ending balance of \$2,815,819. Additional information on the Authority's restricted and unrestricted net position can be found in Notes 17 and 18 to the financial statements, which is included in this report.

The Authority's unrestricted cash, and cash equivalent at September 30, 2014 is \$318,108 representing an increase of \$107,257 or 51% percent from the prior fiscal year. Total restricted cash increased \$12,293 or 5% percent for an ending balance of \$236,429. The full detail of this amount can be found in the Statement of Cash Flow on pages 20-21 of this report.

The Authority's total assets are \$4,738,998 of which capital assets net book value is \$4,115,819 leaving total current assets at \$623,179. Total current assets increased from the previous year by \$136,599 or 28% percent. Unrestricted cash and cash equivalents increased by \$107,257, restricted cash and cash equivalents increased \$12,293, accounts receivables increased by \$9,672, and prepaid expenses increased by \$7,377.

Capital assets reported a decrease in the net book value of the capital assets in the amount of \$344,363 or 8% percent. The major factors that contributed for the decrease was the purchase of fixed assets in the amount of \$41,060, less the recording of depreciation expense in the amount of \$385,423. A full detail of capital outlays can be found in the Notes to the Financial Statements section Note - 8 Fixed Assets.



**HOUSING AUTHORITY OF THE CITY OF SALEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
AT SEPTEMBER 30, 2014**

**FINANCIAL HIGHLIGHTS - CONTINUED**

The Authority's total liabilities are reported at \$1,485,748, of which noncurrent liabilities are stated at \$1,232,822. Total liabilities decreased during the year as compared to the prior year in the amount of \$99,546 or 6% percent. Total current liabilities increased during the year by \$18,217, leaving non-current liabilities for a decrease of \$117,763 as compared to the previous fiscal year.

Total current liabilities increased from the previous year by \$18,217 or 8% percent. Accounts payables increased by \$13,475, accrued liabilities decreased by \$2,556, tenant security deposit payable increased by \$2,243, unearned revenue increased \$55, and bonds payable current portion increased by \$5,000.

Total noncurrent liabilities decreased by \$117,763 or 9% percent. Bonds payable – noncurrent decreased in the amount of \$90,000, long-term obligations for compensated absences decreased in the amount of \$27,763 for an ending balance of \$11,646, and accrued post-employment benefits (OPEB) liabilities remained the same from the prior year. Additional information on the Authority's accrued OPEB liability at September 30, 2014 can be found in Note 16 to the financial statements, which is included in this report.

The Authority had total operating revenue of \$1,836,293 as compared to \$1,769,016 from the prior year for an increase of \$67,277 or 4% percent. The Authority had total operating expenses of \$2,067,048 as compared to \$2,245,232 from the previous year for a decrease of \$178,184 or 8% percent, resulting in a deficiency of revenue from operations in the amount of \$230,755 for the current year as compared to a deficiency of revenue from operations in the amount of \$476,216 for a decrease in deficit of \$245,461 from the previous year. This was after consideration of depreciation expense.

Total capital improvements contributions from HUD were in the amount of \$121,989 as compared to \$111,513 from the previous year for an increase of \$10,476 or 9% percent. The Authority's had capital outlays in the amount of \$41,060 as well as payments for capital bond principal which amounted to \$85,000 for the fiscal year. These expenditures were funded by grants received during the year from the U.S. Department of Housing and Urban Development and the excess of those amounts were funded from management's reserves. A full detail of capital outlays can be found in the Notes to the Financial Statements section Note – 8 Fixed Assets.

The Authority's Expenditures of Federal Awards amounted to \$1,412,488 for the fiscal year 2014 as compared to \$1,333,138 for the previous fiscal year 2013 for an increase of \$79,350 or 6% percent.

**DRAFT COPY  
PRELIMINARY & TENTATIVE  
for DISCUSSION PURPOSES ONLY**



**HOUSING AUTHORITY OF THE CITY OF SALEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
AT SEPTEMBER 30, 2014**

**USING THIS ANNUAL REPORT**

The Housing Authority's annual report consists of financial statements that show combined information about the Housing Authority's most significant programs:

1. Low Rent Public Housing
2. Housing Choice Vouchers
3. Public Housing Capital Fund Program

The Housing Authority's auditors provided assurance in their independent auditors' report with which this MD&A is included, that the basic financial statements are fairly stated. The auditors provide varying degrees of assurance regarding the other information included in this report. A user of this report should read the independent auditors' report carefully to determine the level of assurance provided for each of the other parts of this report.

**OVERVIEW OF THE FINANCIAL STATEMENT PRESENTATION**

This discussion and analysis are intended to serve as an introduction to the Housing Authority's basic financial statements. The basic financial statements are prepared on an entity wide basis and consist of:

- 1) Statement of Net Position
- 2) Statement of Revenue, Expenses, and Changes in Net Position
- 3) Statement of Cash Flow
- 4) Notes to the Financial Statements

The Authority's financial statements and notes to financial statements included in this Report were prepared in accordance with generally accepted accounting principles (GAAP) applicable to governmental entities in the United States of America for the Enterprise Fund types. The Authority's activities are primarily supported by HUD subsidies and grants. The Authority's function is to provide decent, safe, and sanitary housing to low income and special needs populations. The financial statements can be found on pages 17 through 21.

Statement of Net Position – This statement presents information on the Authority's total of assets and deferred outflow of resources, and total of liabilities and deferred inflows of resources, with the difference between the two reported as net position. Over time, increases or decreases in net position will serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

Statement of Revenue, Expenses and Changes in Net Position – This statement presents information showing how the Authority's net position increased or decreased during the current fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash inflows and cash outflows in the future periods.



**HOUSING AUTHORITY OF THE CITY OF SALEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
AT SEPTEMBER 30, 2014**

**OVERVIEW OF THE FINANCIAL STATEMENT PRESENTATION - CONTINUED**

Statement of Cash Flow— This statement presents information showing the total cash receipts and cash disbursements of the Housing Authority during the current fiscal year. The statement reflects the net changes in cash resulting from operations plus any other cash requirements during the current year (i.e. capital additions, debt payments, prior period obligations, etc.). In addition, the statement reflects the receipt of cash that was obligated to the Housing Authority in prior periods and subsequently received during the current fiscal year (i.e. accounts receivable, notes receivable, etc.).

Notes to the Financial Statements - Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided. These notes give greater understanding on the overall activity of the Housing Authority and how values are assigned to certain assets and liabilities and the longevity of these values. In addition, notes reflect the impact (if any) of any uncertainties the Housing Authority may face. The Notes to Financial Statements can be found in this Report beginning on page 22 through 43.

In addition to the basic financial statements listed above, our report includes supplemental information. This information is to provide more detail on the Housing Authority's various programs and the required information mandated by regulatory bodies that fund the Housing Authority's various programs.

The Schedule of Expenditures of Federal Awards is presented for purpose 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. The schedule of Expenditures of Federal Awards can be found on page 44 of this report.

- 1. Federal Awards** - Pursuant to the Single Audit Act Amendments of 1996 (Public Law 104-156) and OMB Circular A-133, federal award is defined as federal financial assistance and federal cost reimbursement contracts that non-federal agencies receive directly or indirectly from federal agencies or pass-through entities. Federal financial assistance is defined as assistance that nonfederal entities receive or administer in the form of grants, loans, loan guarantees, property, cooperative agreements, interest subsidies, insurance, direct appropriations and other assistance.
- 2. Type A and Type B Programs** - The Single Audit Act Amendments of 1996 and OMB Circular A- 133 establish the levels of expenditures or expenses to be used in defining Type A and Type B Federal financial assistance programs. Type A programs for the Housing Authority of the City of Salem are those which equal or exceeded \$300,000 in expenditures for the fiscal year ended September 30, 2014. Type B programs for the Housing Authority of the City of Salem are those which are less than \$300,000 in expenditures for the fiscal year ended September 30, 2014.



**HOUSING AUTHORITY OF THE CITY OF SALEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
AT SEPTEMBER 30, 2014**

**OVERVIEW OF THE FINANCIAL STATEMENT PRESENTATION - CONTINUED**

The budget comparison of actual results to the Authority's adopted budget for the Low Rent Public Housing Program can be found on page 45 the Section Eight Housing Choice Voucher Program on page 46.

**FINANCIAL ANALYSIS OF THE AUTHORITY (ENTITY WIDE)**

The following summarizes the computation of Net Position between September 30, 2014 and September 30, 2013:

	<u>Year Ended</u>		Increase
	<u>September-14</u>	<u>September-13</u>	<u>(Decrease)</u>
Cash	\$ 554,537	\$ 434,987	\$ 119,550
Other Current Assets	68,642	51,593	17,049
Capital Assets - Net	4,115,819	4,460,182	(344,363)
Total Assets	4,738,998	4,946,762	(207,764)
Less: Current Liabilities	(252,926)	(234,709)	(18,217)
Less: Non Current Liabilities	(1,232,822)	(1,350,585)	117,763
Net Position	<u>\$ 3,253,250</u>	<u>\$ 3,361,468</u>	<u>\$ (108,218)</u>
Net Investment in Capital Assets	\$ 2,815,819	\$ 3,075,182	\$ (259,363)
Restricted Net Position	192,591	182,541	10,050
Unrestricted Net Position	244,840	103,745	141,095
Net Position	<u>\$ 3,253,250</u>	<u>\$ 3,361,468</u>	<u>\$ (108,218)</u>

Cash increased by \$119,550 or 27% percent. Net cash provided by operating activities was \$148,593, net cash used by capital and related financing activities was \$31,834, and net cash provided by investing activities was \$2,791. The full detail of this amount can be found in the Statement of Cash Flow on pages 20-21 of this audit report.

Other current assets increased \$17,049. Account receivable increased \$9,672 mainly due to a receivable from insurance proceeds at year end. Prepaid expenses increased \$7,377 or 17% percent.

Capital assets reported a decrease in the net book value of the capital assets in the amount of \$344,363 or 8% percent. The major factors that contributed for the decrease was the purchase of fixed assets in the amount of \$41,060, less the recording of depreciation expense in the amount of \$385,423. A full detail of capital outlays can be found in the Notes to the Financial Statements section Note – 8 Fixed Assets.

**DRAFT COPY  
PRELIMINARY & TENTATIVE  
for DISCUSSION PURPOSES ONLY**



**HOUSING AUTHORITY OF THE CITY OF SALEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
AT SEPTEMBER 30, 2014**

**FINANCIAL ANALYSIS OF THE AUTHORITY (ENTITY WIDE) – CONTINUED**

Total current liabilities increased from the previous year by \$18,217 or 8% percent. Accounts payables increased by \$13,475, accrued liabilities decreased by \$2,556, tenant security deposit payable increased by \$2,243, unearned revenue increased \$55, and bonds payable current portion increased by \$5,000.

Total noncurrent liabilities decreased by \$117,763 or 9% percent. Bonds payable – noncurrent decreased in the amount of \$90,000, long-term obligations for compensated absences decreased in the amount of \$27,763 for an ending balance of \$11,646, and accrued post-employment benefits (OPEB) liabilities remained the same as the prior year. Additional information on the Authority's accrued OPEB liability at September 30, 2014 can be found in Note 16 to the financial statements, which is included in this report.

The Authority's reported net position of \$3,253,250 is made up of three categories. The net investment in capital assets in the amount of \$2,815,819 represents 87% percent of the total account balance. The net investment in capital assets (e.g., land, buildings, vehicles, equipment, and construction in process); less any related debt used to acquire those assets that are still outstanding. The Authority uses these capital assets to provide housing services to the tenants; consequently, these assets are not available for future spending. The schedule below reflects the activity in this account for the current fiscal year:

Balance September 30, 2013	\$ 3,075,182
Acquisition in Fixed Assets	41,060
Depreciation Expense	(385,423)
Debt Payment	85,000
Balance September 30, 2014	<u>\$ 2,815,819</u>

The Authority reported a restricted net position of \$192,591, an increase of \$10,050 from the prior year. This balance represents available resources that may be used only for specific purposes stipulated by the grantor. The account balance consists of the amount of cash that is restricted for the Housing Choice Voucher program, and the capital fund leveraging program. Additional information on these funds can be found in Note 4 Restricted Cash and Note 17 Restricted Net Position.

The Housing Authority of the City of Salem operating results for September 30, 2014 reported an increase in unrestricted position of \$141,095 or 136% percent for an ending balance of \$244,840. A full detail of this account can be found in the Notes to the Financial Statements section Note – 18 Unrestricted Net Position.

At the end of the current year, the Authority is able to report positive balances in all three categories of net position. The same situation held true for the prior year.



**HOUSING AUTHORITY OF THE CITY OF SALEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
AT SEPTEMBER 30, 2014**

**FINANCIAL ANALYSIS OF THE AUTHORITY (ENTITY WIDE) - CONTINUED**

The following summarizes the changes in Net Position between September 30, 2014 and September 30, 2013:

	<u>Year Ended</u>		Increase
	September-14	September-13	(Decrease)
<u>Revenues</u>			
Tenant Revenues	\$ 524,400	\$ 521,672	\$ 2,728
HUD Subsidies	1,290,499	1,221,625	68,874
Other Revenues	21,394	25,719	(4,325)
Total Operating Income	1,836,293	1,769,016	67,277
<u>Expenses</u>			
Operating Expenses	1,681,625	1,711,538	(29,913)
Depreciation Expense	385,423	533,694	(148,271)
Total Operating Expenses	2,067,048	2,245,232	(178,184)
Operating (Loss)			
Before Capital Grants	(230,755)	(476,216)	245,461
Interest Income	548	384	164
HUD Capital Grants	121,989	111,513	10,476
Increase in Net Position	(108,218)	(364,319)	256,101
Net Position Prior Year	3,361,468	3,777,678	(416,210)
Prior Period Adjustment	-	(51,891)	51,891
Total Net Position	\$ 3,253,250	\$ 3,361,468	\$ (108,218)

Approximately 70% percent of the Authority's total operating revenue was provided by HUD operating subsidy, while 29% percent resulted from tenant revenue. Charges for various services provided the remaining 1% percent of the total operating income.

Total capital improvements contributions from HUD were in the amount of \$121,989 as compared to \$111,513 from the previous year for an increase of \$10,476 or 9% percent. The Authority's had capital outlays in the amount of \$41,060 as well as payments for capital bond principal which amounted to \$85,000 for the fiscal year. Excess amounts were funded from management's reserves. The current year additions included boiler upgrades, catch basins, electrical repairs, and apartment repairs.

**DRAFT COPY  
PRELIMINARY & TENTATIVE  
for DISCUSSION PURPOSES ONLY**



**HOUSING AUTHORITY OF THE CITY OF SALEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
AT SEPTEMBER 30, 2014**

**FINANCIAL ANALYSIS OF THE AUTHORITY (ENTITY WIDE) - CONTINUED**

The Authority's operating expenses cover a range of expenses. The largest expense was for utility expenses representing 26% percent of total operating expenses. Administrative expenses accounted for 19% percent, housing assistance payment expenses accounted for 10% percent, maintenance expense accounted for 18% percent, other operating expenses accounted for 5% percent, interest expense accounted for 3%, and depreciation accounted for the remaining 19% percent of the total operating expenses.

The Authority operating expenses exceeded its operating revenue resulting in a deficiency of revenue from operations in the amount of \$230,755 from operations as compared to excess expenses from operations of \$476,216 for the previous year. The key elements for the decrease in deficit in comparison to the prior year are as follow:

- The Authority experienced an increase in Housing and Urban Development funded Operating Grants in the amount of \$68,874 or 6% percent
- The Authority experienced decreases in expenses as listed below to combat HUD cutbacks:
  - Administrative expenses decreased \$40,834 or 10% percent
  - Other operating expenses decreased \$22,381 or 10% percent
- The Authority experienced increases in maintenance expenses in the amount of \$35,061 or 10% percent, due to increased costs in relation to maintaining an ageing property.
- The Authority budgeted for an operating loss in the amount of \$398,826, with the actual results of an operating loss of \$230,755, a difference of \$168,071.

Total net cash provided by operating activities during the year was \$148,593. A full detail of these amounts can be found on the Statement of Cash Flow on pages 20-21 of this report.

**DRAFT COPY  
PRELIMINARY & TENTATIVE  
for DISCUSSION PURPOSES ONLY**

**HOUSING AUTHORITY OF THE CITY OF SALEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
AT SEPTEMBER 30, 2014**

**FINANCIAL ANALYSIS OF THE AUTHORITY (ENTITY WIDE) - CONTINUED**

The following are financial highlights of significant items for a four year period of time ending on September 30, 2014:

	September-14	September-13	September-12	September-11
<b>Significant Income</b>				
Total Tenant Revenue	\$ 524,400	\$ 521,672	\$ 516,848	\$ 493,547
HUD Operating Grants	1,290,499	1,221,625	1,172,560	1,236,520
HUD Capital Grants	121,989	111,513	131,627	219,394
Investment Income	548	384	460	652
Other Income	21,394	25,719	42,913	48,871
Total	<u>\$ 1,958,830</u>	<u>\$ 1,880,913</u>	<u>\$ 1,864,408</u>	<u>\$ 1,998,984</u>
<b>Payroll Expense</b>				
Administrative Salaries	\$ 54,498	\$ 140,395	\$ 199,288	\$ 114,785
Tenant Services Salaries	-	-	-	20,815
Utilities Labor	-	-	17,841	22,133
Maintenance Labor	104,535	103,613	157,309	199,195
Protective Services - Labor	3,904	6,607	26,427	26,935
Employee Benefits Expense	75,757	180,928	175,234	189,271
Total Payroll Expense	<u>\$ 238,694</u>	<u>\$ 431,543</u>	<u>\$ 576,099</u>	<u>\$ 573,134</u>
<b>Other Significant Expenses</b>				
Other Administrative Expenses	\$ 311,553	\$ 192,183	\$ 134,510	\$ 165,322
Utilities Expense	542,757	534,835	509,674	532,705
Maintenance Materials Cost	93,520	48,079	31,662	44,688
Maintenance Contract Cost	126,337	109,787	144,376	81,686
Insurance Premiums	88,068	82,571	83,351	86,823
Housing Assistance Payments	206,573	229,134	217,905	208,539
Total	<u>\$ 1,368,808</u>	<u>\$ 1,196,589</u>	<u>\$ 1,121,478</u>	<u>\$ 1,119,763</u>
<b>Total Operating Expenses</b>	<u>\$ 2,067,048</u>	<u>\$ 2,245,232</u>	<u>\$ 2,421,323</u>	<u>\$ 2,392,428</u>
<b>Total of Federal Awards</b>	<u>\$ 1,412,488</u>	<u>\$ 1,333,138</u>	<u>\$ 1,304,187</u>	<u>\$ 1,455,914</u>

DRAFT COPY  
PRELIMINARY & TENTATIVE  
for DISCUSSION PURPOSES ONLY



**HOUSING AUTHORITY OF THE CITY OF SALEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
AT SEPTEMBER 30, 2014**

**THE AUTHORITY AS A WHOLE**

The Authority's revenues consist primarily of rents and subsidies and grants received from HUD. The Authority receives subsidies each month based on a pre-approved amount by HUD. Grants are drawn down based on need against a pre-authorized funding level. The Authority's revenues were not sufficient to cover all expenses. The Authority's unrestricted net position appears sufficient to cover any foreseeable shortfall arising from a possible economic turndown and reduced subsidies and grants.

By far, the largest portion of the Authority's net position reflects its net investment in capital assets (e.g., land, buildings, equipment, and construction in progress). The Authority uses these capital assets to provide housing services to its tenants. Consequently, these assets are reported as "Net Investment in Capital Assets" and are not available for future spending. The unrestricted position of the Authority is available for future use to provide program services.

**HOUSING AUTHORITY OF THE CITY OF SALEM PROGRAMS**

Public Housing Program:

Under the Public Housing Program, the Authority rents units that it owns to low-income households. This program is operated under an Annual Contributions Contract (ACC) with HUD. HUD's rent subsidy program provides housing assistance to low income families so that they are able to lease "decent, safe, and sanitary" housing for specific eligible tenants. The rent paid by the tenant is a percentage of tenant gross income subject to a \$50 minimum; it cannot exceed the greater of the following amounts: (a) 30% of the family's adjusted monthly income, (b) 10% of the family's monthly income, or (c) Housing Authority of the City of Salem flat rent amount.

Capital Fund Program:

The public Housing Capital Fund was established under the Quality Housing & Work Responsibility Act of 1998 (QHWRA). This fund is used for repairs, major replacements, upgrading and other non-routine maintenance work that needs to be done on the Authority's apartments to keep them clean, safe and in good condition.

Housing Choice Voucher Program

Under the Housing Choice Voucher Program, the Authority administers contracts with independent landlords to provide housing to Section 8 tenants. The Authority subsidizes the tenant's rent through Housing Assistance Payment made to the landlord. This program is also administered under an Annual Contributions Contract (ACC) with HUD. HUD provides annual contributions funding to enable the Authority to structure a contract that sets the participants' rent at approximately 30% of household income subject to certain restrictions.

**DRAFT COPY  
PRELIMINARY & TENTATIVE  
for DISCUSSION PURPOSES ONLY**



**HOUSING AUTHORITY OF THE CITY OF SALEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
AT SEPTEMBER 30, 2014**

**BUDGETARY HIGHLIGHTS**

For the year ended September 30, 2014, individual program or grant budgets were prepared by the Authority and adopted by the Board of Commissioners. The budgets were primarily used as a management tool and have no legal stature. The budgets were prepared in accordance with the accounting procedures prescribed by the applicable funding agency.

The budget for the Low Rent Public Housing was adopted on the basis of accounting practices prescribed by the U.S. Department of Housing and Urban Development (HUD), which differ in some respects from generally accepted accounting principles. The full detail can be found in the Budget comparison to actual results for the Low Rent Public Housing Program on page 45 of this report.

The budget for the Housing Choice Voucher Program was adopted on the basis of accounting practices prescribed by the U.S. Department of Housing and Urban Development (HUD), which differ in some respects from generally accepted accounting principles. The Housing Choice Voucher program Housing Assistance Payments (HAP) funds were approved by the U.S. Department of Housing and Urban Development (HUD) on a basis consistent with the grant application covering HAP programs. The full detail can be found in the Budget comparison to actual results for the Housing Choice Voucher Program on page 46 of this report.

**NEW INITIATIVES**

For the fiscal year 2014 the Housing Authority's primary focus has been on funding and accountability. As a public entity that derives approximately 72% percent of its revenue from the Department of Housing and Urban Development, (2013 fiscal year was 71% percent), the Authority is constantly monitoring for any appropriation changes, especially since it appears the nation is continuing an era of need for additional public assistance to help families meet the challenges of a very tumultuous economy.

The current administration of the Authority is determined to improve the financial results of the Authority's operations. The Authority has made steady progress in various phases of our operations, all the while maintaining a strong occupancy percentage in the public housing units and a high utilization rate in Housing Assistance Programs. Interactions with the residents are a constant reminder of the need of the services.

Regardless of the constraints (financial or regulatory) placed on this Housing Authority, the Authority will continuously look for ways to better provide or expand housing and housing assistance to qualified residents of the City of Salem all the while being mindful of their responsibility to be good stewards of the public's tax dollars.

**DRAFT COPY  
PRELIMINARY & TENTATIVE  
for DISCUSSION PURPOSES ONLY**

**HOUSING AUTHORITY OF THE CITY OF SALEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
AT SEPTEMBER 30, 2014**

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

1 – Capital Assets

The Authority's investment in capital assets as of September 30, 2014 was \$4,115,819 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, and construction in progress. The total decrease during the year in the Authority's investment in capital assets was \$344,363 or 8% percent. Major capital expenditures of \$41,060 were made during the year. Major capital assets events during the fiscal year included the following:

- Boiler Upgrades
- Catch Basins
- Electrical Repairs
- Apartment Repairs

	September-14	September-13	Increase (Decrease)
Land	\$ 183,069	\$ 183,069	\$ -
Building	13,369,244	13,369,244	-
Furniture, Equipment - Dwelling	290,028	287,581	2,447
Furniture, Equipment - Administration	5,945	4,322	1,623
Leasehold Improvements	1,810,573	1,810,573	-
Construction in Process	96,590	59,600	36,990
Total Capital Assets	15,755,449	15,714,389	41,060
Less: Accumulated Depreciation	(11,639,630)	(11,254,207)	(385,423)
Net Book Value	\$ 4,115,819	\$ 4,460,182	\$ (344,363)

Additional information on the Authority's capital assets can be found in Note 8 to the financial statements, which is included in this report.

2 – Debt Administration

The Authority has participated in the New Jersey pooled leveraging program. Through this financing of majority capital projects will be completed on an expedited basis. Restricted Cash relating to the bonded debt stood at \$181,164 at the end of the fiscal year, with Capital Project Bond payable of \$1,300,000 in outstanding debt. A full disclosure of loans payable at September 30, 2014 can be found in Note 15 to the financial statements.

**DRAFT COPY  
PRELIMINARY & TENTATIVE  
for DISCUSSION PURPOSES ONLY**



**HOUSING AUTHORITY OF THE CITY OF SALEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
AT SEPTEMBER 30, 2014**

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The Housing Authority of the City of Salem is primarily dependent upon HUD for the funding of operations; therefore, the Housing Authority is affected more by Federal budget than by local economic conditions. The Department of Housing and Urban Development (HUD) has historically been underfunded to meet the subsidy needs of public housing authorities. We do not expect this consistent trend to change.

The capital budgets for the 2015 fiscal year have already been submitted to HUD for approval and no major changes are expected. Capital Funds are used for the modernization of public housing property including administrative fees involved in the modernization.

The following factors were considered in preparing the Authority's budget for the fiscal year ending September 30, 2015.

- State of New Jersey economy including the impact on tenant income. Local inflationary, recessionary and employment trends, which can affect resident incomes and therefore the amount of rental income. Tenant rental payments are based on tenant income.
- The need for Congress to fund the Department of Defense and Homeland Security due to the war on terrorism and other impending military activities will probably result in reduced appropriations for all other domestic program spending.
- Continued increases in health care insurance are expected to impact employee benefits cost over the next several years.
- Inflationary pressure on utility rates, supplies and other cost.
- Trends in the housing market which affect rental housing available for the Section 8 tenants, along with the amount of the rents charged by the private landlords, are expected to have a continued impact on Section 8 HAP payments.
- Even if HUD was fully funded for both the Operating and Capital Funds, it is unlikely that Congress would appropriate adequate funding. Pressure on the federal budget will remain in the form of both record deficits and competing funding needs.

**CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT**

The financial report is designed to provide a general overview of the Authority's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Mr. Paul Dice, Executive Director, Housing Authority of the City of Salem, 205 Seventh Street, Salem, New Jersey 08079, phone number (856) 935-5022.

**HOUSING AUTHORITY OF THE CITY OF SALEM**  
**STATEMENT OF NET POSITION**  
**AS OF SEPTEMBER 30, 2014**

	September 30, 2014
<b>Assets</b>	
<b>Current Assets:</b>	
Cash and Cash Equivalents - Unrestricted	\$ 318,108
Cash and Cash Equivalents - Restricted	236,429
Accounts Receivables, Net of Allowances	16,591
Prepaid Expenses	52,051
Total Current Assets	<u>623,179</u>
<b>Noncurrent Assets</b>	
Capital Assets	
Land	183,069
Building	13,369,244
Furniture, Equipment - Dwelling	290,028
Furniture, Equipment - Administration	5,945
Leasehold Improvements	1,810,573
Construction in Process	96,590
Total Capital Assets	<u>15,755,449</u>
Less: Accumulated Depreciation	<u>(11,639,630)</u>
Net Book Value	<u>4,115,819</u>
 Total Assets	 <u>4,738,998</u>
<b>Deferred Outflow of Resources</b>	
Total Deferred Outflows of Resources	<u>-</u>
 Total Assets and Deferred Outflow of Resources	 <u>\$ 4,738,998</u>

**DRAFT COPY**  
**PRELIMINARY & TENTATIVE**  
**for DISCUSSION PURPOSES ONLY**

See accompanying notes to the financial statements.



**HOUSING AUTHORITY OF THE CITY OF SALEM**  
**STATEMENT OF NET POSITION**  
**AS OF SEPTEMBER 30, 2014**

	September 30, 2014
<b>Liabilities</b>	
<b>Current Liabilities:</b>	
Accounts Payable	\$ 86,496
Accrued Liabilities	27,816
Tenant Security Deposit Payable	43,838
Unearned Revenue	4,776
Long Term Debt - Current	90,000
Total Current Liabilities	<u>252,926</u>
<b>Noncurrent Liabilities</b>	
Long Term Debt - Noncurrent	1,210,000
Accrued Compensated Absences - Long-Term	11,646
Accrued Other-Post Employment Benefits (OPEB) Liabilities	11,176
Total Noncurrent Liabilities	<u>1,232,822</u>
Total Liabilities	<u>1,485,748</u>
<b>Deferred Inflow of Resources</b>	
Total Deferred Inflow of Resources	<u>-</u>
<b>Net Position:</b>	
Net Investment in Capital Assets	2,815,819
Restricted	192,591
Unrestricted	244,840
Total Net Position	<u>3,253,250</u>
Total Liabilities, Deferred Inflow of Resources, and Net Position	<u><u>\$ 4,738,998</u></u>

**DRAFT COPY**  
**PRELIMINARY & TENTATIVE**  
**for DISCUSSION PURPOSES ONLY**

See accompanying notes to the financial statements.

**HOUSING AUTHORITY OF THE CITY OF SALEM**  
**STATEMENT OF REVENUE, EXPENSES AND**  
**CHANGES IN NET POSITION**  
**FOR THE TWELVE MONTHS ENDED SEPTEMBER 30, 2014**

	September 30, 2014
<b>Revenue:</b>	
Tenant Rental Revenue	\$ 524,400
HUD PHA Operating Grants	1,290,499
Other Revenue	21,394
Total Revenue	<u>1,836,293</u>
<b>Operating Expenses:</b>	
Administrative Expense	387,775
Utilities Expense	542,757
Maintenance Expense	376,348
Other Operating Expenses	106,368
Interest Expense	61,624
Housing Assistance Payments	206,753
Depreciations Expense	385,423
Total Operating Expenses	<u>2,067,048</u>
Excess Expenses Over Revenue From Operations	<u>(230,755)</u>
<b>Non Operating Income and (Expenses):</b>	
Investment Income	548
Total Non Operating Income	<u>548</u>
(Deficit) Before Capital Grant Contributions	(230,207)
Capital Grant Contributions	<u>121,989</u>
<b>Change in Net Position</b>	(108,218)
Beginning Net Position	<u>3,361,468</u>
Ending Net Position	<u>\$ 3,253,250</u>

**DRAFT COPY**  
**PRELIMINARY & TENTATIVE**  
**for DISCUSSION PURPOSES ONLY**

See accompanying notes to the financial statements.



**HOUSING AUTHORITY OF THE CITY OF SALEM**  
**STATEMENT OF CASH FLOW - 1**  
**FOR THE TWELVE MONTHS ENDED SEPTEMBER 30, 2014**

	September 30, 2014
<b>Cash Flow From Operating Activities</b>	
Receipts from Tenants	\$ 525,879
Receipts from Federal Grants	1,290,499
Receipts from Misc. Sources	21,394
Payments to Vendors and Suppliers	(1,243,732)
Housing Assistance Payments	(206,753)
Payments to Employees	(162,937)
Payment of Employee Benefits	(75,757)
Net Cash Provided by Operating Activities	<u>148,593</u>
<b>Cash Flow From Capital and Related Financing Activities</b>	
Receipts from Capital Grants	121,989
Acquisitions and Construction of Capital Assets	(41,060)
Increase in Compensated Absences - Long Term	(27,763)
Payment of Debt	(85,000)
Net Cash (Used) by Capital and Related Financing Activities	<u>(31,834)</u>
<b>Cash Flow From Investing Activities</b>	
Interest Income	548
Increase of Tenant Security Deposit	2,243
Net Cash Provided by Investing Activities	<u>2,791</u>
Net Increase in Cash and Cash Equivalents	119,550
<b>Beginning Cash</b>	<u>434,987</u>
<b>Ending Cash</b>	<u><u>\$ 554,537</u></u>
Reconciliation of Cash Balances:	
Cash and Cash Equivalents - Unrestricted	\$ 318,108
Tenant Security Deposit	43,838
HAP Reserve - Restricted	11,205
Leveraging Deposits	181,386
Total Ending Cash	<u><u>\$ 554,537</u></u>

**DRAFT COPY**  
**PRELIMINARY & TENTATIVE**  
**for DISCUSSION PURPOSES ONLY**

See accompanying notes to the financial statements.

**HOUSING AUTHORITY OF THE CITY OF SALEM**  
**STATEMENT OF CASH FLOW - 2**  
**FOR THE TWELVE MONTHS ENDED SEPTEMBER 30, 2014**

September 30,  
2014

---

**Reconciliation of Operating Income to Net Cash**

(Used) by Operating Activities

Excess of Expenses Over Revenue	\$ (230,755)
Adjustments to reconcile excess revenue over expenses to net cash provided by operating activities:	

Depreciation Expense, net of adjustments	385,423
Amortization of Other Assets	-

(Increase) Decrease in:

Accounts Receivables - Net of Adjustments	(9,672)
Prepaid Expenses	(7,377)

Increase (Decrease) in:

Accounts Payable	13,475
Accrued Expenses	(2,556)
Unearned Revenue	55

Net Cash Provided By Operating Activities	<u>\$ 148,593</u>
---	-------------------

**DRAFT COPY**  
**PRELIMINARY & TENTATIVE**  
**for DISCUSSION PURPOSES ONLY**

See accompanying notes to the financial statements.



# HOUSING AUTHORITY OF THE CITY OF SALEM

## Notes to Financial Statements September 30, 2014

### **NOTE 1 - SUMMARY OF ORGANIZATION, ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES**

**1. Organization** - The Authority is a governmental, public corporation which was organized under the laws public corporation created under federal and state housing laws as defined by State statute (N.J., S.A. 4A: the Housing Authority Act) for the purpose of engaging in the development, acquisition and administrative activities of the low-income housing program and other programs with similar objectives for low and moderate income families residing in the City of Salem in accordance with the rules and regulations prescribed by the Department of Housing and Urban Development (HUD).

The Authority is governed by a Board of Commissioners which is essentially autonomous but is responsible to the U.S. Department of Housing and Urban Development and the State of New Jersey Department of Community Affairs. An Executive Director is appointed by the Housing Authority's Board to manage the day-to-day operations of the Authority. The Authority is responsible for the development, maintenance, and management of public housing for low and moderate income families residing in City of Salem. Operating and modernization subsidies are provided to the Authority by the federal government.

The financial statements include all the accounts of the Authority. The Authority is the lowest level of government over which the Authority's Board of Commissioners and Executive Director exercise oversight responsibility. The Authority is not included in any governmental "reporting entity" since its board members; while they are appointed primarily by the Mayor of the City of Salem and City Council, the Board of Commissioners have decision making authority, the power to designate management, the responsibility to significantly influence operations, and primary responsibility for accounting and fiscal matters. The Authority has also concluded that it is excluded from the City of Salem reporting entity.

Based on the following criteria, the Authority has not identified any entity which should be subject to evaluation for inclusion in the Authority's reporting entity. The criteria for including or excluding a component unit relationship as set forth in Section 2100 of GASB's Codification of governmental Accounting and Financial Reporting Standards, include whether:

- A. The organization is legally separate.
- B. The organization is fiscal dependency on the primary government.
- C. The organization has potential to impose a financial benefit or burden on the primary government.
- D. The organization meets the financial accountability criteria for inclusion as a component unit of the primary government.
- E. The primary government is able to impose its will on the organization.

**DRAFT COPY  
PRELIMINARY & TENTATIVE  
for DISCUSSION PURPOSES**



# HOUSING AUTHORITY OF THE CITY OF SALEM

## Notes to Financial Statements September 30, 2014

### **2. Significant Accounting Policies**

The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The accompanying financial statements are presented in conformity with accounting principles generally accepted in the United States of America for governmental units as prescribed by the Governmental Accounting Standards Board (GASB) and other authoritative sources. The Authority has determined that the applicable measurement focus (flow of economic resources) and accounting basis (accrual) is similar to that of a commercial enterprise. As such, the use of proprietary funds best reflects the activities of the Authority. Entities using this method observe all Financial Accounting Standards Board (FASB) Statements and Interpretations in the preparation of financial statements, unless the GASB has specifically addressed the accounting issue in one of its own pronouncements. GASB-20-"Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting" addresses the applicability of the various FASB's, and allows several options in the use of the FASB's. The Authority has elected to use Alternative 2 of GASB-20 which states that "a proprietary activity may also apply all FASB Statements and Interpretations issued after November 30, 1989, except for those that conflict with or contradict GASB pronouncements". The Authority follows GASB-45-"Accounting for Pensions by State and Local Governmental Employers."

### **Basis of Accounting –**

The financial statements of the Authority are prepared under the accrual basis of accounting in order to recognize the flow of economic resources. Under the accrual basis of accounting, transactions are recognized when they occur, regardless of when cash is received or disbursed. Revenues and expenses are recognized on the accrual basis, with revenues recognized in the accounting period in which they are earned and become measurable, and expenses recognized in the period incurred, if measurable. Operating revenue and expenses consist of those revenue and expenses that result from ongoing principal operations of the Authority. All assets, liabilities, net positions, revenue, and expenses are accounting for through a single enterprise fund for the primary government.

In Enterprise fund, activities are recorded using the accrual basis of accounting. Under the accrual basis of accounting revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. This requires the Housing Authority to account for operations in a manner similar to private business or where the Board has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

The major sources of revenue are tenants dwelling rentals, HUD operating subsidy, capital grants, and other revenue.

**DRAFT COPY  
PRELIMINARY & TENTATIVE  
for DISCUSSION PURPOSES ONLY**



# HOUSING AUTHORITY OF THE CITY OF SALEM

## Notes to Financial Statements September 30, 2014

### **Basis of Accounting – Continued**

HUD's rent subsidy program provides housing to low income families so that they are able to lease "decent, safe, and sanitary" housing for specific eligible tenants. The rent paid by the tenant is a percentage of tenant gross income subject to a \$50 minimum; it cannot exceed the greater of the following amounts:

- (a) 30% of the family's adjusted monthly income,
- (b) 10% of the family's monthly income, or
- (c) Housing Authority of the City of Salem's flat rent amount.

Tenants dwelling rental charges are determined and billed monthly and are recognized as revenue when assessed because they are measurable and are collectible within the current period. The amounts not received by September 30, are considered to be accounts receivable and any amounts received for subsequent period are recorded as deferred revenue.

HUD operating, capital grants which finance capital and current operations are susceptible to accrual and recognized during the year earned in accordance with applicable HUD program guidelines. The Capital Fund Grant program income are expenditure driven grants with the revenue from the grant classified based on the expenditure. If the funds were expended for capital activities, the revenue is reported as capital contribution; if the funds are expended for other than capital, the revenue is reported as operating revenue.

HUD Section 8 Housing Choice Voucher Assistance Program receives from HUD an Annual Budget Amount (ABA) during the year in accordance with applicable HUD program guidelines. As of January 1, 2005 excess funds disbursed by HUD to the Authority for the payment of HAP's that are not utilized are not returned to HUD, but become part of the undesignated fund balance and may only be used to assist additional families up to the number of units under contract.

Administrative fee paid by HUD to the Authority in excess of administrative expenses are a part of the undesignated fund balance and are considered to be administrative fee reserves.

Other revenue composed primarily of miscellaneous services fees and residents late charges. The revenue is recorded as earned since it is measurable and available.

Non-operating revenue and expenses consist of revenues and expenses that are related to financing and investing activities and result from non exchange transactions or ancillary activities.

**DRAFT COPY  
PRELIMINARY & TENTATIVE  
for DISCUSSION PURPOSES ONLY**



# HOUSING AUTHORITY OF THE CITY OF SALEM

## Notes to Financial Statements September 30, 2014

### **Basis of Accounting – Continued**

Financial transactions are recorded and organized in accordance with the purpose of the transaction. Each program is an independent fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. All material inter-program accounts and transactions are eliminated in the preparation of the basic financial statements. Because the Authority's activity is considered self-financing and does not rely on specific taxes or fines (i.e. property taxes, sales and use tax etc.) no activity will be maintained as governmental funds but will be recorded as proprietary funds under the Enterprise Fund.

### **Report Presentation -**

The Authority's basic financial statements are presented on an entity-wide basis consisting of various housing programs. The financial statements included in this report were prepared in accordance with generally accepted accounting principles (GAAP) in the United States of America. In accordance with GASB Statement No. 34, the report includes Management's Discussion and Analysis. The Authority has implemented the general provisions of GASB Statement No. 34.

Also the Authority adopted the provisions of Statement No. 37 "Basic Financial Statement and Management's Discussion and Analysis for State and Local Governments" Statement No.38 "Certain Financial Statement Note Disclosures", and Statement No. 63 "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position" which supplements GASB Statement No. 34.

GASB Statement No. 34 established standards for external financial reporting for all State and Local Governments entities that includes a statement of net assets, a statement of revenue, expenses, and changes in net assets, and a statement of cash flow.

GASB Statement No. 63 requires the classification of "net assets" into "net position" which consists of three components, Net Investment in Capital Assets, Restricted, and Unrestricted.

The adoptions of Statement No. 34, Statement No. 37, Statement No. 38, and Statement No. 63 have no significant effect on the financial statements except, for the classification of net position in accordance with Statement No. 63.

### Net Investment in Capital Assets.

The net position consists of capital assets, net of accumulated depreciation and reduced by outstanding balances of debt issued to finance the acquisition, improvement, or construction of those assets.

DRAFT COPY  
RELIMINARY & TENTATIVE  
OF DISCUSSION PURPOSES ONLY



# HOUSING AUTHORITY OF THE CITY OF SALEM

## Notes to Financial Statements September 30, 2014

### **Report Presentation - Continued**

#### Restricted Net Position

The net position less that are subject to constraints on their use by creditors, grantors, contributors, legislation, or other governmental laws or regulations.

#### Unrestricted Net Position

The net position consists of net assets that do not meet the definition of Restricted Net Position or Invested in Capital Assets, Net of Related Debt.

The federally funded programs administered by the Authority are detailed in the Financial Data Schedule and the Schedule of Expenditures of Federal Awards; both are which are included as Supplemental information.

### **Other accounting policies are as follows**

1 – Cash and cash equivalents are stated at cost, which approximates market. Cash and cash equivalents include cash in banks, petty cash and certificates of deposit, and other investments with original maturities of less than three months from the date of purchase. Investments are recorded at fair value based on quoted market prices. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties.

2 – Collection losses on accounts receivable are charged against an allowance for doubtful accounts.

3 – Buildings and equipment are recorded at cost for all programs and depreciation is computed on the straight line basis.

4 – Repairs funded out of operations, such as painting, roofing and plumbing, are charged against income for all programs.

5 – Operating subsidies received from HUD are recorded as income when earned.

6 – The cost of accumulated unpaid compensated absences, including fringe benefits, is reported in the period earned rather than in the period paid.

7 – Prepaid expenses represent payments made by the Authority in the current year to provide services occurring in the subsequent fiscal year.

8 - The Authority has elected not to apply to its proprietary activities Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee of Accounting Procedure issued after November 30, 1989.

**DRAFT COPY**  
**PRELIMINARY & TENTATIVE**  
**for DISCUSSION PURPOSES ONLY**



# HOUSING AUTHORITY OF THE CITY OF SALEM

## Notes to Financial Statements September 30, 2014

### **Other accounting policies - Continued**

9 – The Authority does not have any infrastructure assets for its Enterprise Fund.

10 – Inter-fund receivable and payables arise from inter-fund transactions and are recorded by all funds in the period in which the transactions are executed.

11- Advertising cost is charged to expense when incurred.

12- Certain conditions may exist as of the date the financial statements are issued, which may result in a loss to the Authority but which will only be resolved when one or more future events occur or fail to occur. The Authority's management and its legal counsel assess such contingent liabilities, and such assessment inherently involves an exercise of judgment. In assessing loss contingencies related to legal proceedings that are pending against the Authority or unasserted claims that may result in such proceedings, the Authority's legal counsel evaluates the perceived merits of any legal proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought therein. If the assessment of a contingency indicates that it is probable that a material loss has been incurred and the amount of the liability can be estimated, then the estimated liability would be accrued in the Authority's financial statements. If the assessment indicates that a potentially material loss contingency is not probable but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss if determinable and material, would be disclosed. Loss contingencies considered remote are generally not disclosed unless they involve guarantees, in which case the nature of the guarantee would be disclosed.

13- Costs related to environmental remediation are charged to expense. Other environmental costs are also charged to expense unless they increase the value of the property and/or provide future economic benefits, in which event they are capitalized. Liabilities are recognized when the expenditures are considered probable and can be reasonably estimated. Measurement of liabilities is based on currently enacted laws and regulations, existing technology, and undiscounted site-specific costs. Generally, such recognition coincides with the Authority's commitment to a formal plan of action.

14- When expenses are incurred where both restricted and unrestricted net positions are available the Authority will first use the restricted funds until they are exhausted and then the unrestricted net position will be used.

**DRAFT COPY  
PRELIMINARY & TENTATIVE  
for DISCUSSION PURPOSES ONLY**



# HOUSING AUTHORITY OF THE CITY OF SALEM

## Notes to Financial Statements September 30, 2014

### **Other accounting policies - Continued**

15- Fair Value Measurements – Fair value is defined as an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants. Generally accepted accounting principles defined a three-tier hierarchy, which prioritizes the inputs used in measuring fair value as follows:

- Level 1: Observable inputs such as quoted prices in active markets;
- Level 2: Inputs, other than quoted prices in active markets that are observable either directly or indirectly; and
- Level 3: Unobservable inputs for which there is little or no market data, which requires the Authority to develop assumptions.

### **Budgetary and Policy Control –**

The Authority submits its annual operating and capital budgets to U.S. Department of Housing and Urban Development. Each fund's budget is prepared on a detailed line item basis. Revenues are budgeted by source and expenditures are budgeted by expense classification within each revenue source. Budgetary Comparison under GASB No. 34, budgetary comparison information is required to be presented for the Low Rent Housing Program and the Housing Choice Voucher Program which the Board of Commissions has legally adopted the budget during the year. The budgetary comparison schedules have been provided for these programs to demonstrate compliance with the budgets. The comparison of actual results to the Authority's for the Low Income Public Housing Program found on page 45 the Section Eight Housing Choice Voucher Program on page 46.

**Activities** - The only programs or activities administered by the Authority were:

Program	CFDA #	Project #	Units Authorized
<u>Public Housing</u>			
Low Rent Housing	14.850	NJ-58	179
Capital Fund	14.872		
<u>Section 8 Housing</u>			
Housing Choice Vouchers	14.871	NJ058	31

#### **A. Low Rent Public Housing Program**

The Low Rent Public Housing Program is designed to provide low-cost housing within the City of Salem. Funding is provided by eligible residents who are charged monthly rent based on family size, family income and other determinants, as well as by subsidies provided by HUD.



# HOUSING AUTHORITY OF THE CITY OF SALEM

## Notes to Financial Statements September 30, 2014

### **Activities – Continued**

#### **B. Capital Fund Programs**

Substantially all additions to land, structures and equipment are accomplished through these programs (included in the financial statements under PHA Owned Housing). These funds replace or materially upgrade deteriorated portions of existing Authority property. These programs are financed by HUD subsidies. The capital fund programs are now merged into the low rent public housing program.

#### **C. Housing Choice Vouchers Program**

Under the Housing Choice Voucher Program, the Authority administers contracts with independent landlords to provide housing to Section 8 tenants. The Authority subsidizes the tenant's rent through Housing Assistance Payment made to the landlord. This program is also administered under an Annual Contributions Contract (ACC) with HUD.

**Taxes** - Under federal, state, and local law, the Authority's program are exempt from income, property and excise taxes. However, the Authority is required to make payments in lieu of taxes (PILOT) for the low-income housing program in accordance with the provision of a Cooperation Agreement. Under the Cooperation Agreement, the Authority must pay the municipality the lesser of 10% of its net shelter rent or the approximate full real property taxes.

**Grants** - The Authority receives reimbursement from various grantors for the cost of sponsored projects, including administrative cost. Grant revenues are recognized as income when earned. Grant expenditures are recognized on the accrual basis.

**Board of Commissioners** - The criteria used in determining the scope of the entity for financial reporting purposes are as follows:

1. The ability of the Board to exercise supervision of a component unit's financial independence.
2. The Board's governing authority extends to financial decision making authority and is held primarily accountable for decisions.
3. The Board appoints the management of the Authority who is responsible for the day-to-day operations and this management are directly accountable to the Board.
4. The ability of the Board to significantly influence operations through budgetary approvals, signing and authorizing contracts, exercising control over facilities, and approving the hiring or retention of key managerial personnel.
5. The ability of the Board to have absolute authority over all funds of the Authority and have accountability in fiscal matters.

DRAFT COPY  
PRELIMINARY & TENTATIVE  
for DISCUSSION PURPOSES ONLY



# HOUSING AUTHORITY OF THE CITY OF SALEM

## Notes to Financial Statements September 30, 2014

### **NOTE 2 – ESTIMATES**

The financial statements and related disclosures are prepared in conformity with accounting principles generally accepted in the United States. Management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and revenue and expenses during the period reported. These estimates include assessing the collectibility of accounts receivable, the use, and recoverability of inventory, and the useful lives and impairment of tangible and intangible assets, among others. Estimates and assumptions are reviewed periodically and the effects of revisions are reflected in the financial statements in the period they are determined to be necessary. Actual results could differ from the estimates.

### **NOTE 3 - PENSION PLAN**

The Authority participates in the State of New Jersey Public Employees Retirement System (PERS), which is sponsored and administered by the New Jersey Division of Pensions and Benefits. It is a cost sharing, multiple-employer defined benefit pension plan. PERS was established in January 1955 under the provision of NJ SA 43:15A to provide coverage, including post-retirement health care, for substantially all full time employees of the state, its counties, municipalities, school districts or public agencies, provided the employee is not a member of another state administered retirement system.

Membership is mandatory for such employees. Contributions to the plan are made by both the employee and the Authority. Required employee contributions to the system are based on a flat rate determined by the New Jersey Division of Pensions for active plan members. Benefits paid to retired employees are based on length of service, latest earnings, and veteran status. Authority contributions to the system are determined by PERS and are billed annually to the Authority.

The State of New Jersey, Department of Treasury, Division of Pensions and Benefits, issued publicly available financial reports that include the financial statements and required supplementary information for PERS. The financial reports may be obtained by writing to the State of New Jersey, Department of Treasury, Division of Pensions and Benefits, P.O. Box 295, Trenton, New Jersey 08625-0925.

On the web:

<http://www.state.nj.us/treasury/pensions/pdf/financial/2014divisioncombined.pdf>

### Post Employment Retirement Benefits

The Authority provides post employment health care benefits and life insurance for its eligible retirees. Eligibility requires that employees be 55 years or older with various years of service.

**DRAFT COPY  
PRELIMINARY & TENTATIVE  
for DISCUSSION PURPOSES ONLY**



# HOUSING AUTHORITY OF THE CITY OF SALEM

## Notes to Financial Statements September 30, 2014

### **NOTE 3 - PENSION PLAN - CONTINUED**

#### Funding Policy

The contribution policy is set by N.J.S.A. 43:15A, Chapter 62, P.L. of 1994 and Chapter 115, P.L. of 1998, and requires contributions by active members and contributing employers. Plan member and employer contributions may be amended by State of New Jersey legislation. Employer's contributions are actuarially determined annually by the Division of Pensions. Employee contributions are currently 6.64% of base wages. The annual employer contribution includes funding for basic retirement allowances, cost-of-living adjustments, the cost of medical premiums after retirement for qualified retirees, and noncontributory death benefits. The Authority's contribution for 2014 amounted to \$10,848.

### **NOTE 4 - CASH, CASH EQUIVALENTS**

The Authority's cash, cash equivalents are stated at cost, which approximates market. Cash, cash equivalents and investment includes cash in banks, petty cash and a money market checking account and certificates of deposit, and other investments with original maturities of less than three months from the date of purchase. For the statement of cash flows, cash and cash equivalents include all cash balances and highly liquid investments with a maturity of three months or less at time of purchase. It is the Authority's policy to maintain collateralization in accordance with the State of New Jersey and HUD requirements.

HUD requires housing authorities to invest excess funds in obligations of the United States, Certificates of Deposit or any other federally insured investment. HUD also requires that deposits be fully collateralized at all times. Acceptable collateralization includes FDIC/FSLIC insurance and the market value of securities purchased and pledged to the political subdivision. Pursuant to HUD restrictions, obligations of the United States are allowed as security for deposits. Obligations furnished as security must be held by the Authority or with an unaffiliated bank or trust company for the account of the Authority. These funds at various banks are collateral pledge under the New Jersey Government Code of the Banking Law.

#### Collateral for Deposits

New Jersey Authorities are required by N.J.S.A. 40A:5-14 to deposit public funds in a bank or trust company having its place of business in the State of New Jersey and organized under the laws of the United States or State of New Jersey or the New Jersey Cash Management Fund. N.J.S.A. 40A:5-15.1 provides a list of securities which may be purchased by New Jersey Authorities. The Authority is required to deposit funds in public depositories protected from loss under the provisions of the Governmental Unit Deposit Protection Act ("GUDPA"). GUDPA was enacted in 1970 to protect governmental units from a loss of funds on deposit with a failed banking institution in New Jersey.

**DRAFT COPY  
PRELIMINARY & TENTATIVE  
for DISCUSSION PURPOSES ONLY**



# HOUSING AUTHORITY OF THE CITY OF SALEM

## Notes to Financial Statements September 30, 2014

### **NOTE 4 – CASH, CASH EQUIVALENTS - CONTINUED**

The Authority has total unrestricted cash, cash equivalents at September 30, 2014 in the amount of \$318,108 and restricted cash in the amount of \$236,429 which consists of the following:

	<u>September-14</u>
Bank of New York	\$ 181,386
Franklin Bank	219,661
TD Bank North America	153,390
Petty Cash	100
Total Cash and Cash Equivalents	<u>\$ 554,537</u>

Below is the detail of the restricted cash amounts for September 30, 2014 in the amount of \$236,429:

	<u>September-14</u>
Capital Leveraging Projects	\$ 181,386
HCV HAP Reserve	11,205
Tenant Security Deposits	43,838
Total Restricted Cash	<u>\$ 236,429</u>

The amount of \$181,386 for 2014 is held in trust at the Bank of New York with investments consisting of Morgan Stanley Prime Installment Investments. These funds at Bank of New York are controlled by the New Jersey Housing Mortgage Finance Agency (NJHMFA) for the capital leveraging project which the Authority is under taking.

The Authority has restricted cash in the amount of \$11,205 as of September 30, 2014 which is for the Section 8 Housing Choice Voucher Program HAP Reserve.

The tenant security deposit restricted cash at September 30, 2014 was in the amount of \$43,838. These amounts are held as security deposits for the tenants of the Low Income Housing in interest bearing accounts at TD Bank North America.

**DRAFT COPY  
PRELIMINARY & TENTATIVE  
for DISCUSSION PURPOSES ONLY**

# HOUSING AUTHORITY OF THE CITY OF SALEM

## Notes to Financial Statements September 30, 2014

### **NOTE 4 – CASH, CASH EQUIVALENTS -CONTINUED**

#### **Risk Disclosures**

##### Interest Rate Risk

As a means of limiting its exposure to fair value losses arising from rising interest rates, the Authority's investment policy limits the Authority's investment portfolio to maturities not to exceed two years at time of purchase. At September 30, 2014, the Authority's deposits and investments were not limited and all of which are either available on demand or have maturities of less than two years.

##### Credit Risk

This is risk that a security or a portfolio will lose some or all of its value due to a real or perceived change in the ability of the issuer to repay its debt. The Authority's investment policy is that none of its total portfolio may be invested in securities of any single issuer, other than the US Government, its agencies and instrumentalities. The Authority's checking accounts are categorized to give indication of the level of credit risk assumed by the Authority. Custodial credit risk is the risk in the event of a bank failure, the Authority's deposits may not be returned to it. The custodial credit risk categories are described as follows:

<u>Depository Accounts</u>		<u>September-14</u>
Insured		\$ 554,537
Collateralized held by pledging bank's trust department in the Authority's name		-
Total Cash and Cash Equivalents		<u>\$ 554,537</u>

DRAFT COPY  
PRELIMINARY & TENTATIVE  
for DISCUSSION PURPOSES ONLY



# HOUSING AUTHORITY OF THE CITY OF SALEM

## Notes to Financial Statements September 30, 2014

### **NOTE 5 - ACCOUNTS RECEIVABLE**

Accounts Receivable at September 30, 2014 consisted of the following:

	<u>September-14</u>
Tenants Accounts Receivable - Present	\$ 9,967
Tenants Accounts Receivable - Vacated	<u>2,392</u>
Total Tenants Accounts Receivable	12,359
Less: Allowance for Doubtful Accounts	<u>(6,180)</u>
Net Tenants Accounts Receivable	<u>6,179</u>
 Insurance Receivable	 <u>10,412</u>
Total Other Receivables	<u>10,412</u>
 Total Accounts Receivables	 <u>\$ 16,591</u>

Housing Authority of the City of Salem carries its accounts receivable at cost less an allowance for doubtful accounts. On a periodic basis, the Authority evaluates its accounts receivable and establishes an allowance for doubtful accounts based on history of past write off's, collections, and current credit conditions. Accounts are written off as uncollectible when management determines that a sufficient period of time has elapsed without receiving payment and the individual do not exhibit the ability to meet their obligations.

### **NOTE 6 - PREPAID EXPENSES**

Certain payments to vendors reflect cost applicable to future accounting periods and are recorded as prepaid items. All purchases of insurance premiums are amortized on a monthly basis. Prepaid expenses at September 30, 2014 consisted of the following amounts:

	<u>September-14</u>
Prepaid Pension	\$ 6,982
Prepaid Insurance	29,218
Insurance Deposits	<u>15,851</u>
Total Prepaid Expenses	<u>\$ 52,051</u>

**DRAFT COPY  
PRELIMINARY & TENTATIVE  
for DISCUSSION PURPOSES ONLY**

# HOUSING AUTHORITY OF THE CITY OF SALEM

## Notes to Financial Statements September 30, 2014

### **NOTE 7 – INTERFUND ACTIVITY**

Interfund activity is reported as short term loans, services provided during the course of operations, reimbursements, or transfers. Short term loans are reported as interfund short term receivables and payable as appropriate. The amounts between the various programs administered by the Authority at September 30, 2014 are detailed on the Financial Data Schedule of this report. Interfund receivables and payables between funds are eliminated in the Statement of Net Position. The component unit investment in joint ventures and the equity balance was eliminated for both years in the Statement of Net Position.

### **NOTE 8 - FIXED ASSETS**

Fixed assets consist primarily of expenditures to acquire, construct, place in operations, and improve the facilities of the Authority and are stated at cost as determined by an appraisal. Expenditures for repairs, maintenance and minor renewals are charged against income in the year they are incurred. Major renewals and betterment are capitalized. Expenditures are capitalized when they meet the Capitalization Policy requirements. Under the policy, assets purchased or constructed at a cost not exceeding \$1,000 are expensed when incurred.

Property and equipment are stated at cost. Donated fixed assets are stated at their fair value on the date donated. Depreciation is provided using the straight line method over the estimated useful lives of the assets.

1.) Building and Structure	40 Years
2.) Site Improvements	15 Years
3.) Furniture & Equipment	15 Years
4.) Vehicles	5 Years
5.) Computer Equipment	5 years

**DRAFT COPY  
PRELIMINARY & TENTATIVE  
for DISCUSSION PURPOSES ONLY**

The Housing Authority of the City of Salem has given consideration to the GASBS #42, Accounting for the Impairment or Disposal of Long-Lived Assets, in the preparation of these financial statements.

The carrying value of long-live assets in accordance with GASBS #42, when indications of an impairment are present, the recoverability of the carrying value of the asset in question are assessed based on the future undiscounted cash flow expected to result from their use. If the carrying value cannot be recovered, impairment losses would be recognized to the extent the carrying value exceeds fair value. The Authority has not recognized any impairment in the carry value of its fixed assets at September 30, 2014.



# HOUSING AUTHORITY OF THE CITY OF SALEM

## Notes to Financial Statements September 30, 2014

### **NOTE 8 - FIXED ASSETS - CONTINUED**

Below is a schedule of changes in fixed assets for the twelve months ended September 30, 2014:

	Balance September-13	Additions	Balance September-14
Land	\$ 183,069	\$ -	\$ 183,069
Buildings	13,369,244	-	13,369,244
Furniture & Equipment - Dwelling	287,581	2,447	290,028
Furniture & Equipment - Administration	4,322	1,623	5,945
Leasehold Improvements	1,810,573	-	1,810,573
Construction in Progress	59,600	36,990	96,590
Total Fixed Assets	15,714,389	41,060	15,755,449
Accumulated Depreciation	(11,254,207)	(385,423)	(11,639,630)
Net Book Value	\$ 4,460,182	\$ (344,363)	\$ 4,115,819

Below is a schedule of the net book value of the fixed assets for the Authority as of September 30, 2014:

<u>Net Book Value of the Fixed Assets</u>	<u>September-14</u>
Land	\$ 183,069
Buildings	3,401,880
Furniture & Equipment - Dwelling	6,536
Furniture & Equipment - Administration	3,892
Leasehold Improvements	423,852
Construction in Progress	96,590
Net Book Value	<u>\$ 4,115,819</u>

### **NOTE 9 - ACCOUNTS PAYABLE**

The Authority reported accounts payable on its Statement of Net Position as of September 30, 2014. Accounts payable vendors are amount owed to creditors as a result of delivered goods and completed services. Accounts payable at September 30, 2014 consist of amounts owed to vendors in the amount of \$86,496

**DRAFT COPY  
PRELIMINARY & TENTATIVE  
for DISCUSSION PURPOSES ONLY**

# HOUSING AUTHORITY OF THE CITY OF SALEM

## Notes to Financial Statements September 30, 2014

### **NOTE 10 – ACCOUNTS PAYABLE – OTHER GOVERNMENT (PILOT PAYABLE)**

Under Federal, State and local law, the Authority's programs are exempt from income, property and excise taxes. However, the Authority is required to make a payment in lieu of taxes (PILOT) for the PHA Owned Program in accordance with the provisions of its Cooperation Agreement with the City of Salem. Under the Cooperation Agreements, the Authority must pay the municipality the littlest of 10% of its net shelter rent or the approximate full real property taxes. During the fiscal year ended September 30, 2014 there was no PILOT expense accrued. The Authority after calculating the PILOT expense had negative net shelter rents resulting in \$-0- in expense in and \$-0- amount to accrue.

### **NOTE 11 – ACCRUED EXPENSES**

The Authority reported accrued expenses on its Statement of Net Position. Accrued expenses are liabilities incurred on or before September 30. Accrued liabilities at September 30, 2014 consist of the following:

	September-14
Accrued Wages and Payroll Taxes	\$ 1,886
Compensated Absences - Current Portion	1,294
Accrued Interest Payable	24,636
Total Accrued Liabilities	<u>\$ 27,816</u>

### **NOTE 12 – ACCRUED COMPENSATED ABSENCES**

Compensated absences are those for which employees will be paid, such as vacation and sick leave. A liability for compensated absences that is attributable to services already rendered and that is not contingent on a specific event that is outside the control of the Authority will be accounted for in the period in which such services were rendered.

Accrued compensated absences represents amounts to which employees are entitled to base on accumulated leave earned in accordance with the Authority's Personnel Policy. Employees may be compensated for accumulated vacation leave in the event of retirement or termination from service. Employees may be compensated for sick leave at retirement, to a maximum of \$12,000.

**DRAFT COPY  
PRELIMINARY & TENTATIVE  
for DISCUSSION PURPOSES ONLY**



## HOUSING AUTHORITY OF THE CITY OF SALEM

### Notes to Financial Statements September 30, 2014

#### **NOTE 12 – ACCRUED COMPENSATED ABSENCES - CONTINUED**

The Authority has determined that the potential liability for accumulated vacation and sick time at September 30, 2014 as follows:

	September-14
Accumulated Sick Time	\$ 4,625
Accumulated Vacation Time	7,395
Accrued Payroll Taxes	920
Total	12,940
Compensated Absences - Current Portion	(1,294)
Total Compensated Absences - Noncurrent	\$ 11,646

#### **NOTE 13 – UNEARNED REVENUE**

The Authority reported unearned revenues on its Statement of Net Position. Unearned revenues arise when resources are received by the Authority before it has legal claim to them, as when grant monies are received prior to the occurrence of qualifying expenditures. In subsequent periods, when the Authority has a legal claim to the resources, the liability for unearned revenue is removed from the Statement of Net Position and the revenue is recognized. The unearned revenue account balance at September 30, 2014 is \$4,776 consists of prepaid rents and subsidy for October 2014.

#### **NOTE 14 – LONG TERM DEBT**

At September 30, 1999, the Authority's Long Term Debt (guaranteed by HUD), in accordance with HUD's GAAP Conversion Guide, the Long Term Debt and related debt service accounts were written off.

#### **NOTE 15 – LONG TERM DEBT – CAPITAL PROJECT BOND PAYABLE**

The Authority participated on December 23, 2004 with other New Jersey Housing Authorities in the issuance of \$79,860,000 in Series 2004 HMFA Bonds. The Authority portion of the Series 2004 HMFA Bonds is \$6,400,000. The purpose of the Bonds is restricted. The proceeds from the Bonds must be used in the renovations and capital improvements to the Authority assets in the Low Income Housing Program. The Bonds are fully registered in denominations of \$5,000. The term of the Bonds is twenty (20) years expiring on November 1, 2026.

The faith and credit of the Housing Authority of the City of Salem was not pledged for payment of principal and interest on the Bonds. Additionally, the Bonds are not an obligation of the State of New Jersey, The United States, or the Housing and Urban Development (HUD). The Bonds are not secured directly or indirectly by any collateral in the Authority Low Income Housing Program.

DRAFT COPY  
PRELIMINARY & TENTATIVE  
for DISCUSSION PURPOSES ONLY

# HOUSING AUTHORITY OF THE CITY OF SALEM

## Notes to Financial Statements September 30, 2014

### **NOTE 15 – LONG TERM DEBT – CAPITAL PROJECT BOND PAYABLE**

Interest on the Bonds is payable on May 1 and November 1 commencing on May 1, 2005. The interest is calculated on a basis of three hundred sixty (360) day year of twelve (12) thirty (30) day month.

The Bonds are payable by the Authority Capital Fund Program (CFP), which is subject to the availability of appropriations, and paid to the Authority by HUD.

Under the Bond Agreement, the Authority is required to maintain a Debt Service Reserve Fund located at the Bank of New York, an amount equal to the debt service reserve fund requirement. If at any time, the amount on deposit in the debt service reserve fund is insufficient to pay the principal and interest when due, the Trustee is authorized to withdraw the amount due from the reserve fund.

The interest payable for November 1, 2014 is \$29,566 and May 1, 2015 is \$28,688. These amounts were not accrued since the payment would be made from the Authority Capital Fund Program (CFP) and would be considered grant revenue in the year ended September 30, 2015.

The debt requirements as to principal reduction of the mortgages for long term debt until exhausted are as follows:

September 30, 2015	\$ 90,000
September 30, 2016	90,000
September 30, 2017	100,000
September 30, 2018	100,000
September 30, 2019	105,000
Sub Total	<u>485,000</u>
Next Five Years Ending September 30, 2024	605,000
Next Two Years Ending September 30, 2025	<u>210,000</u>
	<u>815,000</u>
Total Capital Project Bonds	<u>\$ 1,300,000</u>

**DRAFT COPY  
PRELIMINARY & TENTATIVE  
for DISCUSSION PURPOSES ONLY**



# HOUSING AUTHORITY OF THE CITY OF SALEM

## Notes to Financial Statements September 30, 2014

### **NOTE 16 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSION**

The Authority's provides subsidized benefits at retirement for medical, dental, vision, life insurance and reimbursement for Medicare Part B premium reimbursements for individuals meeting eligibility requirements for the coverage. All benefits are provided for the lifetime of the retiree except for vision coverage which terminates at age 65. The funding policy for the Authority's OPEB contributions was established by and may be amended only by Board Resolution.

The Authority's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize unfunded actuarial liabilities over a period of the working lifetime of the individual employee. The Authority chose to use the Alternative Measurement Method to calculate this Liability. The Authority's liability at September 30, 2014 is \$11,176.

### **NOTE 17 – RESTRICTED NET ASSETS**

The Authority restricted net position account balance at September 30, 2014 is \$192,591. The detail of the restricted reserve account balances is as follows:

	State Leveraging	HCV HAP Payments	Total
Balance September 30, 2013	181,164	1,377	182,541
Increase During the Year	222	9,828	10,050
Balance September 30, 2014	\$ 181,386	\$ 11,205	\$ 192,591

### Housing Choice Voucher Program - Reserves

Prior to January 1, 2005 excess funds received from the Annual Budget Amount (ABA) by HUD to the Authority for the payment of housing assistance payments (HAP) were returned to HUD at the end of the Authority's calendar year. In accordance with HUD's PIH Notice 2006-03, starting January 1, 2005 excess funds disbursed by HUD to the Authority for the payment of HAP's that are not utilized are not returned to HUD, but become part of the undesignated fund balance and may only be used to assist additional families up to the number of units under contract. In November 2007, HUD amended this notice and stated that HAP equity account is restricted. The Authority followed HUD direction and transfer the excess funds from unrestricted to restricted net assets.

**DRAFT COPY  
PRELIMINARY & TENTATIVE  
for DISCUSSION PURPOSES ONLY**

# HOUSING AUTHORITY OF THE CITY OF SALEM

## Notes to Financial Statements September 30, 2014

### **NOTE 18 – UNRESTRICTED NET POSITION**

The Authority's unrestricted net position account balance at September 30, 2014 is \$244,840. The detail of the account balance is as follows:

	LIH Program	HCV Program	
	Reserves	Adm Reserves	Total
Balance September 30, 2013	\$ 97,866	\$ 5,879	\$ 103,745
Increase During the Year	138,994	2,101	141,095
Balance September 30, 2014	\$ 236,860	\$ 7,980	\$ 244,840

#### Housing Choice Voucher Program - Reserves

Administrative fee paid by HUD to the Authority in excess of administrative expenses are also part of the undesignated fund balance and are considered to be administrative fee reserves. Administrative fee reserves accumulated prior to January 1, 2005 are subject to all requirements applicable to administrative fee reserves including, but not limited to, 24 CFR 982.155 – i.e. other housing purposes permitted by state and local law. Excess administrative fees earned in 2005 and subsequent years must be used for activities related to the provision of tenant based rental assistance authorized under Section 8 of the United States Housing Act of 1937, including related development activities.

The Authority has \$7,980 post-2003 administrative fee equity for the Housing Choice Voucher Program.

### **NOTE 19 – RISK MANAGEMENT**

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters for which the Authority purchases commercial insurance. During the year ended September 30, 2014, the Authority's risk management program, in order to deal with the above potential liabilities, purchased various insurance policies for fire, general liability, crime, auto, employee bond, worker's compensation, and public-officials errors omissions. Periodically, but not less than once annually, the Authority conducts a physical inspection of its buildings for the purpose of determining potential liability issues.

**DRAFT COPY  
PRELIMINARY & TENTATIVE  
for DISCUSSION PURPOSES ONLY**



## HOUSING AUTHORITY OF THE CITY OF SALEM

### Notes to Financial Statements September 30, 2014

#### **NOTE 20 - ANNUAL CONTRIBUTIONS BY FEDERAL AGENCIES**

Pursuant to the Annual Contribution Contract, HUD makes annual debt service contributions to the Authority for each permanently financed project in the amount equal to the debt service on its bonds, plus, if necessary, an amount to fully amortize the Authority's indebtedness represented by permanent notes or project notes. Accrued HUD contributions for the year ended September 30, 2014 were \$ - 0 -.

HUD also contributes an additional operating subsidy approved in the operating budget under the Annual Contribution Contract. Additional operating subsidy contributions for the year ended September 30, 2014 was in the amount of \$906,419.

Annual Contributions Contracts for the Section 8 Housing Choice Voucher Program to provide for housing assistance payments to private owners of residential units on behalf of eligible low or very low income families. The programs provide for such payment with respect to existing housing covering the difference between the maximum rental on a dwelling unit, and the amount of rent contribution by the participating family and related administrative expense. HUD contributions for the Housing Choice Voucher for September 30, 2014 were in the amount of \$237,534.

#### **NOTE 21 - CURRENT VULNERABILITY DUE TO CERTAIN CONCENTRATIONS**

The Authority operations are concentrated in the low income housing real estate market. In addition, the Authority operates in a heavily regulated environment. The operations of the Authority are subject to the administrative directives, rules and regulations of federal, state, and local regulatory agencies, including, but not limited to HUD. Such administrative directives, rules, and regulations are subject to change by an act of congress or an administrative change mandated by HUD. Such changes may occur with little notice or inadequate funding to pay for the related cost, including the additional administrative burden, to comply with a change.

Governmental Accounting Standards Boards Statements (GASBS) requires disclosure in financial statements of a situation where one entity provides more than 10% percent of the audited entity's revenues. Total financial support by HUD was \$1,412,488 to the Authority which represents approximately 72% percent of the Authority's total revenue for the fiscal year September 30, 2014.

**DRAFT COPY  
PRELIMINARY & TENTATIVE  
for DISCUSSION PURPOSES ONLY**

# HOUSING AUTHORITY OF THE CITY OF SALEM

## Notes to Financial Statements September 30, 2014

### **NOTE 22 - CONTINGENCIES**

Litigation – At September 30, 2014, the Authority was not involved in any threatening litigation.

Grants Disallowances – The Authority participates in federally assisted grant programs. The programs are subject to compliance audits under the single audit approach. Such audits performed by the federal government could lead to adjustments for disallowed claims, including amounts already collected, and reimbursement by the Authority for expenditures disallowed under the terms of the grant. The Authority's management believes that the amount of disallowances, if any, which may arise from future audits will not be material.

### **NOTE 23 - SUBSEQUENT EVENTS**

Events that occur after the Statement of Net Position date but before the financial statements were available to be issued, must be evaluated for recognition or disclosed. The effects of subsequent events that provide evidence about conditions that existed after the Statement of Net Position's date required disclosure in the accompanying notes. Management has evaluated the activity of the Authority thru June 12, 2015; the date which the financial statements were available for issue and concluded that no subsequent events have occurred that would require recognition in the financial statements or disclosure in the notes to the financial statements.

**DRAFT COPY  
PRELIMINARY & TENTATIVE  
for DISCUSSION PURPOSES ONLY**



**HOUSING AUTHORITY OF THE CITY OF SALEM  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE TWELVE MONTHS ENDED SEPTEMBER 30, 2014**

Programs funded by the U.S. Department of Housing  
and Urban Development: Subject to Annual Contribution Contract

	<u>CFDA#</u>	<u>Expenditures</u>
<u>PHA Owned Housing</u>		
Low Rent Public Housing	14.850	\$ 906,419
Public Housing Capital Fund Program	14.872	268,535
Subtotal		<u>1,174,954</u>
 <u>Rental Assistance Housing Programs</u>		
Housing Choice Vouchers	14.871	237,534
Subtotal		<u>237,534</u>
 Total Awards		 <u><u>\$ 1,412,488</u></u>

**Note 1. Presentation:**

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Housing Authority of the City of Salem. The information in this schedule is presented in accordance with those requirements of OMB Circular A-133, Audits of State, Local Governments, and Non-Profit Organizations. Because the Schedule presents only a selected portion of the operations of the Housing Authority of the City of Salem, it is not intended to and does not present the financial position, change in net position, or cash flow of the Housing Authority of the City of Salem.

**Note 2. Summary of Significant Accounting Policies:**

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, Cost Principles for Non-profit Organizations, wherein certain types of expenditures are not allowed or limited as to reimbursement.

**Note 3. Loans Outstanding:**

Housing Authority of the City of Salem had Capital Project Bonds payable in the amount of \$1,300,000 outstanding at September 30, 2014. See Note 15 on pages 38-39 of this report for full detail.

**Note 4. Sub recipients:**

Of the federal expenditures presented in the schedule above, the Housing Authority of the City of Salem did not provide federal awards to any sub recipients.

**DRAFT COPY  
PRELIMINARY & TENTATIVE  
for DISCUSSION PURPOSES ONLY**

**HOUSING AUTHORITY OF THE CITY OF SALEM  
BUDGETARY COMPARISON SCHEDULE  
LOW INCOME HOUSING PROGRAM  
FOR THE TWELVE MONTHS ENDED SEPTEMBER 30, 2014**

	Actual Results	Budget Approved Amount	Variance to Budget Positive (Negative)
<b>Revenue:</b>			
Tenant Rental Revenue	\$ 524,400	\$ 531,000	\$ (6,600)
HUD PHA Operating Grants	1,052,965	1,007,675	45,290
Other Revenue	21,394	1,200	20,194
Total Revenue	1,598,759	1,539,875	58,884
<b>Operating Expenses:</b>			
Administration:			
Administrative Salaries	54,498	36,174	(18,324)
Audit Fee's	12,000	9,000	(3,000)
Employee Benefit Contributions	21,724	30,098	8,374
Other Operating Administrative Expenses	280,663	246,664	(33,999)
Total Administrative Expenses	368,885	321,936	(46,949)
Tenant Services:			
Tenant Services - Other	838	1,200	362
Utilities:			
Water	169,621	145,000	(24,621)
Electricity	296,513	320,000	23,487
Gas	76,623	80,000	3,377
Total Utilities	542,757	545,000	2,243
Maintenance:			
Maintenance Labor	104,535	105,630	1,095
Materials	93,520	60,000	(33,520)
Maintenance Contract Cost	126,337	136,980	10,643
Employee Benefit Contributions	51,956	87,886	35,930
Total Maintenance	376,348	390,496	14,148
Other Operating Expenses:			
Insurance	88,068	102,000	13,932
Other General Expenses	7,256	-	(7,256)
Payment in Lieu of Taxes	-	-	-
Bad Debt - Tenant Rents	10,206	7,500	(2,706)
Interest Expense	61,624	-	(61,624)
Total Other Operating Expenses	167,154	109,500	(57,654)
Total Operating Expenses	1,455,982	1,368,132	(87,850)
Excess Revenue Over Expenses From Operations	142,777	171,743	(28,966)
Other Income and (Expenses):			
Interest Income	510	-	510
Transfer Out to Restricted	(222)	-	(222)
Replacement of Equipment	(4,071)	-	(4,071)
Total Other (Expenses) and Income	(3,783)	-	(4,071)
Excess Revenue over Expenses (Loss)	\$ 138,994	\$ 171,743	\$ (32,749)

See accompanying notes to the financial statements.



**HOUSING AUTHORITY OF THE CITY OF SALEM  
BUDGETARY COMPARISON SCHEDULE  
HOUSING CHOICE VOUCHER PROGRAM  
FOR THE TWELVE MONTHS ENDED SEPTEMBER 30, 2014**

	Actual Results	Budget Approved Amount	Variance to Budget Positive (Negative)
<b>Revenue - Annual Contribution Required</b>			
Housing Assistance Payments	\$ 216,581	\$ 216,000	\$ 581
Administrative Fee	20,953	21,000	(47)
Total Revenue	237,534	237,000	534
<b>Operating Expenses:</b>			
Administration:			
Management Fees	17,184	-	(17,184)
Audit Fee's	1,500	-	(1,500)
Other Operating Administrative Expenses	206	21,000	20,794
Total Administrative Expenses	18,890	21,000	2,110
Other Operating Expenses:			
Housing Assistance Payments	206,753	216,000	9,247
Total Other Operating Expenses	206,753	216,000	9,247
Total Operating Expenses	225,643	237,000	11,357
Excess Revenue Over Expenses From Operations	11,891	-	11,891
Other Income and (Expenses):			
Investment Income	38	-	38
Transfer Out to Restricted	(9,828)	-	(9,828)
Total Other Income and (Expenses)	(9,790)	-	(9,790)
Excess Revenue over Expenses	\$ 2,101	\$ -	\$ 2,101

**DRAFT COPY  
PRELIMINARY & TENTATIVE  
for DISCUSSION PURPOSES ONLY**



Salem Housing Authority (NJ058)  
SALEM, NJ  
Entity Wide Balance Sheet Summary

Submission Type: Audited/A-133

Fiscal Year End: 09/30/2014

	Project Total	14,871 Housing Choice Vouchers	Subtotal	ELIM	Total
111 Cash - Unrestricted	\$310,128	\$7,980	\$318,108		\$318,108
112 Cash - Restricted - Modernization and Development	\$181,386		\$181,386		\$181,386
113 Cash - Other Restricted		\$11,205	\$11,205		\$11,205
114 Cash - Tenant Security Deposits	\$43,838		\$43,838		\$43,838
115 Cash - Restricted for Payment of Current Liabilities					
100 Total Cash	\$535,352	\$19,185	\$554,537		\$554,537
121 Accounts Receivable - PHA Projects					
122 Accounts Receivable - HUD Other Projects					
124 Accounts Receivable - Other Government					
125 Accounts Receivable - Miscellaneous	\$10,412		\$10,412		\$10,412
126 Accounts Receivable - Tenants	\$12,359		\$12,359		\$12,359
126.1 Allowance for Doubtful Accounts - Tenants	-\$6,180		-\$6,180		-\$6,180
126.2 Allowance for Doubtful Accounts - Other	\$0		\$0		\$0
127 Notes, Loans, & Mortgages Receivable - Current					
128 Fraud Recovery					
128.1 Allowance for Doubtful Accounts - Fraud					
129 Accrued Interest Receivable					
120 Total Receivables, Net of Allowances for Doubtful Accounts	\$16,591	\$0	\$16,591		\$16,591
131 Investments - Unrestricted					
132 Investments - Restricted					
135 Investments - Restricted for Payment of Current Liability					
142 Prepaid Expenses and Other Assets	\$52,051		\$52,051		\$52,051
143 Inventories					
143.1 Allowance for Obsolete Inventories					
144 Inter Program Due From					
145 Assets Held for Sale					
150 Total Current Assets	\$603,994	\$19,185	\$623,179		\$623,179
161 Land	\$183,069		\$183,069		\$183,069
162 Buildings	\$13,369,244		\$13,369,244		\$13,369,244
163 Furniture, Equipment & Machinery - Dwellings	\$290,028		\$290,028		\$290,028
164 Furniture, Equipment & Machinery - Administration	\$5,945		\$5,945		\$5,945
165 Leasehold Improvements	\$1,810,573		\$1,810,573		\$1,810,573
166 Accumulated Depreciation	-\$11,639,630		-\$11,639,630		-\$11,639,630
167 Construction in Progress	\$96,590		\$96,590		\$96,590
168 Infrastructure					
160 Total Capital Assets, Net of Accumulated Depreciation	\$4,115,819	\$0	\$4,115,819		\$4,115,819
171 Notes, Loans and Mortgages Receivable - Non-Current					
172 Notes, Loans, & Mortgages Receivable - Non Current - Past Due					
173 Grants Receivable - Non Current					
174 Other Assets					
176 Investments in Joint Ventures					
180 Total Non-Current Assets	\$4,115,819	\$0	\$4,115,819		\$4,115,819
200 Deferred Outflow of Resources					
290 Total Assets and Deferred Outflow of Resources	\$4,719,813	\$19,185	\$4,738,998		\$4,738,998
311 Bank Overdraft					
312 Accounts Payable <= 90 Days	\$86,496		\$86,496		\$86,496

DRAFT COPY  
PRELIMINARY & TENTATIVE  
for DISCUSSION PURPOSES ONLY

See accompanying notes to the financial statements



## Entity Wide Balance Sheet Summary

Submission Type: Audited/A-133

Fiscal Year End: 09/30/2014

	Project Total	14.871 Housing Choice Vouchers	Subtotal	ELIM	Total
313 Accounts Payable >90 Days Past Due					
321 Accrued Wage/Payroll Taxes Payable	\$1,886		\$1,886		\$1,886
322 Accrued Compensated Absences - Current Portion	\$1,294		\$1,294		\$1,294
324 Accrued Contingency Liability					
325 Accrued Interest Payable	\$24,636		\$24,636		\$24,636
331 Accounts Payable - HUD PHA Programs					
332 Account Payable - PHA Projects					
333 Accounts Payable - Other Government					
341 Tenant Security Deposits	\$43,838		\$43,838		\$43,838
342 Unearned Revenue	\$4,776		\$4,776		\$4,776
343 Current Portion of Long-term Debt - Capital Projects/Mortgage Revenue	\$90,000		\$90,000		\$90,000
344 Current Portion of Long-term Debt - Operating Borrowings					
345 Other Current Liabilities					
346 Accrued Liabilities - Other					
347 Inter Program - Due To					
348 Loan Liability - Current					
310 Total Current Liabilities	\$252,926	\$0	\$252,926		\$252,926
351 Long-term Debt, Net of Current - Capital Projects/Mortgage Revenue	\$1,210,000		\$1,210,000		\$1,210,000
352 Long-term Debt, Net of Current - Operating Borrowings					
353 Non-current Liabilities - Other					
354 Accrued Compensated Absences - Non Current	\$11,646		\$11,646		\$11,646
355 Loan Liability - Non Current					
356 FASB 5 Liabilities					
357 Accrued Pension and OPEB Liabilities	\$11,176		\$11,176		\$11,176
350 Total Non-Current Liabilities	\$1,232,822	\$0	\$1,232,822		\$1,232,822
300 Total Liabilities	\$1,485,748	\$0	\$1,485,748		\$1,485,748
400 Deferred Inflow of Resources					
508.4 Net Investment in Capital Assets	\$2,815,819		\$2,815,819		\$2,815,819
511.4 Restricted Net Position	\$181,386	\$11,205	\$192,591		\$192,591
512.4 Unrestricted Net Position	\$236,860	\$7,980	\$244,840		\$244,840
513 Total Equity - Net Assets / Position	\$3,234,065	\$19,185	\$3,253,250		\$3,253,250
600 Total Liabilities, Deferred Inflows of Resources and Equity - Net	\$4,719,813	\$19,185	\$4,738,998		\$4,738,998

**DRAFT COPY**  
**PRELIMINARY & TENTATIVE**  
**for DISCUSSION PURPOSES ONLY**



## Entity Wide Revenue and Expense Summary

Submission Type: Audited/A-133

Fiscal Year End: 09/30/2014

	Project Total	14.871 Housing Choice Vouchers	Subtotal	ELIM	Total
70300 Net Tenant Rental Revenue	\$524,400		\$524,400		\$524,400
70400 Tenant Revenue - Other					
70500 Total Tenant Revenue	\$524,400	\$0	\$524,400		\$524,400
70600 HUD PHA Operating Grants	\$1,052,965	\$237,534	\$1,290,499		\$1,290,499
70610 Capital Grants	\$121,989		\$121,989		\$121,989
70710 Management Fee					
70720 Asset Management Fee					
70730 Book Keeping Fee					
70740 Front Line Service Fee					
70750 Other Fees					
70700 Total Fee Revenue					
70800 Other Government Grants					
71100 Investment Income - Unrestricted	\$435	\$38	\$473		\$473
71200 Mortgage Interest Income					
71300 Proceeds from Disposition of Assets Held for Sale					
71310 Cost of Sale of Assets					
71400 Fraud Recovery					
71500 Other Revenue	\$21,394		\$21,394		\$21,394
71600 Gain or Loss on Sale of Capital Assets					
72000 Investment Income - Restricted	\$75		\$75		\$75
70000 Total Revenue	\$1,721,258	\$237,572	\$1,958,830		\$1,958,830
91100 Administrative Salaries	\$54,498		\$54,498		\$54,498
91200 Auditing Fees	\$12,000	\$1,500	\$13,500		\$13,500
91300 Management Fee		\$17,184	\$17,184		\$17,184
91310 Book-keeping Fee					
91400 Advertising and Marketing					
91500 Employee Benefit contributions - Administrative	\$21,724		\$21,724		\$21,724
91600 Office Expenses	\$79,175		\$79,175		\$79,175
91700 Legal Expense	\$66,990		\$66,990		\$66,990
91800 Travel	\$5,703		\$5,703		\$5,703
91810 Allocated Overhead					
91900 Other	\$128,795	\$206	\$129,001		\$129,001
91000 Total Operating - Administrative	\$368,885	\$18,890	\$387,775		\$387,775
92000 Asset Management Fee					
92100 Tenant Services - Salaries					
92200 Relocation Costs					
92300 Employee Benefit Contributions - Tenant Services					
92400 Tenant Services - Other	\$838		\$838		\$838
92500 Total Tenant Services	\$838	\$0	\$838		\$838
93100 Water	\$169,621		\$169,621		\$169,621
93200 Electricity	\$296,513		\$296,513		\$296,513
93300 Gas	\$76,623		\$76,623		\$76,623
93400 Fuel					
93500 Labor					
93600 Sewer					
93700 Employee Benefit Contributions - Utilities					
93800 Other Utilities Expense					
93000 Total Utilities	\$542,757	\$0	\$542,757		\$542,757
94100 Ordinary Maintenance and Operations - Labor	\$104,535		\$104,535		\$104,535

See accompanying notes to the financial statements



## Entity Wide Revenue and Expense Summary

Submission Type: Audited/A-133

Fiscal Year End: 09/30/2014

	Project Total	14.871 Housing Choice Vouchers	Subtotal	ELIM	Total
94200 Ordinary Maintenance and Operations - Materials and Other	\$93,520		\$93,520		\$93,520
94300 Ordinary Maintenance and Operations Contracts	\$126,337		\$126,337		\$126,337
94500 Employee Benefit Contributions - Ordinary Maintenance	\$51,956		\$51,956		\$51,956
94000 Total Maintenance	\$376,348	\$0	\$376,348		\$376,348
95100 Protective Services - Labor	\$3,904		\$3,904		\$3,904
95200 Protective Services - Other Contract Costs					
95300 Protective Services - Other					
95500 Employee Benefit Contributions - Protective Services	\$2,077		\$2,077		\$2,077
95000 Total Protective Services	\$5,981	\$0	\$5,981		\$5,981
96110 Property Insurance	\$13,330		\$13,330		\$13,330
96120 Liability Insurance	\$74,738		\$74,738		\$74,738
96130 Workmen's Compensation					
96140 All Other Insurance					
96100 Total insurance Premiums	\$88,068	\$0	\$88,068		\$88,068
96200 Other General Expenses					
96210 Compensated Absences	\$1,275		\$1,275		\$1,275
96300 Payments in Lieu of Taxes					
96400 Bad debt - Tenant Rents	\$10,206		\$10,206		\$10,206
96500 Bad debt - Mortgages					
96600 Bad debt - Other					
96800 Severance Expense					
96000 Total Other General Expenses	\$11,481	\$0	\$11,481		\$11,481
96710 Interest of Mortgage (or Bonds) Payable	\$61,624		\$61,624		\$61,624
96720 Interest on Notes Payable (Short and Long Term)					
96730 Amortization of Bond Issue Costs					
96700 Total Interest Expense and Amortization Cost	\$61,624	\$0	\$61,624		\$61,624
96900 Total Operating Expenses	\$1,455,982	\$18,890	\$1,474,872		\$1,474,872
97000 Excess of Operating Revenue over Operating Expenses	\$265,276	\$218,682	\$483,958		\$483,958
97100 Extraordinary Maintenance					
97200 Casualty Losses - Non-capitalized					
97300 Housing Assistance Payments		\$206,753	\$206,753		\$206,753
97350 HAP Portability-In					
97400 Depreciation Expense	\$385,423		\$385,423		\$385,423
97500 Fraud Losses					
97600 Capital Outlays - Governmental Funds					
97700 Debt Principal Payment - Governmental Funds					
97800 Dwelling Units Rent Expense					
90000 Total Expenses	\$1,841,405	\$225,643	\$2,067,048		\$2,067,048
10010 Operating Transfer In	\$65,395		\$65,395		\$65,395
10020 Operating transfer Out	-\$65,395		-\$65,395		-\$65,395
10030 Operating Transfers from/to Primary Government					
10040 Operating Transfers from/to Component Unit					
10050 Proceeds from Notes, Loans and Bonds					
10060 Proceeds from Property Sales					
10070 Extraordinary Items, Net Gain/Loss					

See accompanying notes to the financial statements

**DRAFT COPY**  
**PRELIMINARY & TENTATIVE**  
**FOR DISCUSSION PURPOSES ONLY**



## Entity Wide Revenue and Expense Summary

Submission Type: Audited/A-133

Fiscal Year End: 09/30/2014

	Project Total	14.871 Housing Choice Vouchers	Subtotal	ELIM	Total
10080 Special Items (Net Gain/Loss)					
10091 Inter Project Excess Cash Transfer In					
10092 Inter Project Excess Cash Transfer Out					
10093 Transfers between Program and Project - In					
10094 Transfers between Project and Program - Out					
10100 Total Other financing Sources (Uses)	\$0	\$0	\$0		\$0
10000 Excess (Deficiency) of Total Revenue Over (Under)					
Total Expenses	-\$120,147	\$11,929	-\$108,218		-\$108,218
11020 Required Annual Debt Principal Payments	\$85,000	\$0	\$85,000		\$85,000
11030 Beginning Equity	\$3,354,212	\$7,256	\$3,361,468		\$3,361,468
11040 Prior Period Adjustments, Equity Transfers and Correction of Errors					
11050 Changes in Compensated Absence Balance					
11060 Changes in Contingent Liability Balance					
11070 Changes in Unrecognized Pension Transition Liability					
11080 Changes in Special Term/Severance Benefits					
11090 Changes in Allowance for Doubtful Accounts - Dwelling Rents					
11100 Changes in Allowance for Doubtful Accounts - Other					
11170 Administrative Fee Equity		\$7,980	\$7,980		\$7,980
11180 Housing Assistance Payments Equity		\$11,205	\$11,205		\$11,205
11190 Unit Months Available	2095	372	2467		2467
11210 Number of Unit Months Leased	2079	343	2422		2422
11270 Excess Cash	\$3,159		\$3,159		\$3,159
11610 Land Purchases	\$0		\$0		\$0
11620 Building Purchases	\$0		\$0		\$0
11630 Furniture & Equipment - Dwelling Purchases	\$0		\$0		\$0
11640 Furniture & Equipment - Administrative Purchases	\$0		\$0		\$0
11650 Leasehold Improvements Purchases	\$36,989		\$36,989		\$36,989
11660 Infrastructure Purchases	\$0		\$0		\$0
13510 CFFP Debt Service Payments	\$146,624		\$146,624		\$146,624
13901 Replacement Housing Factor Funds	\$0		\$0		\$0

**DRAFT COPY**  
**PRELIMINARY & TENTATIVE**  
**for DISCUSSION PURPOSES ONLY**





# Hymanson, Parnes & Giampaolo

## Certified Public Accountants

tele: 732-842-4550  
fax: 732-842-4551

467 Middletown-Lincroft Rd.  
Lincroft, NJ 07738

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

#### INDEPENDENT AUDITOR'S REPORT

Board of Commissioners  
Housing Authority of the City of Salem  
205 Seventh Street  
Salem, New Jersey 08079

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Housing Authority of the City of Salem (hereafter referred to as the Authority), which comprise the statement of net position as of September 30, 2014 and the related statements of revenue, expenses and changes in net position, statement of cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 12, 2015.

#### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Housing Authority of the City of Salem'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 Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority'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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Authority'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.

DRAFT COPY  
PRELIMINARY & TENTATIVE  
for DISCUSSION PURPOSES ONLY

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 Housing Authority of the City of Salem'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*.

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

*Hymanson, Parnes & Giampaolo*

Lincroft, New Jersey

Date: June 12, 2015

DRAFT COPY  
PRELIMINARY & TENTATIVE  
for DISCUSSION PURPOSES ONLY





# Hymanson, Parnes & Giampaolo

## Certified Public Accountants

tele: 732-842-4550  
fax: 732-842-4551

467 Middletown-Lincroft Rd.  
Lincroft, NJ 07738

### REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

**(Unmodified Opinion on Compliance for Each Major Program:  
No Material Weakness or Significant Deficiencies  
in Internal Control Over Compliance Identified)**

#### INDEPENDENT AUDITOR'S REPORT

Board of Commissioners  
Housing Authority of the City of Salem  
205 Seventh Street  
Salem, New Jersey 08079

#### **Report on Compliance**

We have audited the Housing Authority of the City of Salem's (hereafter referred to as the Authority), compliance with the types of compliance requirements described in *OMB Circular A-133 Compliance Supplement* applicable to Authority's major federal programs identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

#### **Management's Responsibility for Compliance**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

#### **Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for the Housing Authority of the City of Salem's major federal programs based on our audit of the types of compliance requirements referred to above. 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 OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a direct and material effect on the major federal programs occurred. An audit includes examining, on a test basis, evidence about Housing Authority of the City of Salem's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

**DRAFT COPY  
PRELIMINARY & TENTATIVE  
for DISCUSSION PURPOSES ONLY**



We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Housing Authority of the City of Salem's compliance.

### **Opinion on Each Major Federal Program**

In our opinion, the Housing Authority of the City of Salem complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2014.

### **Report on Internal Control Over Compliance**

Management of the Housing Authority of the City of Salem is responsible for establishing and maintaining effective internal control over compliance with the type of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstance for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 Authority'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 compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

*A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance 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 deficiencies, significant deficiencies, or material weaknesses in internal control over compliance. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



**Purpose of This Report**

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*Hymanson, Parnes & Giampaolo*

Lincroft, New Jersey

Date: June 12, 2015

DRAFT COPY  
PRELIMINARY & TENTATIVE  
for DISCUSSION PURPOSES ONLY

**HOUSING AUTHORITY OF THE CITY OF SALEM**  
Schedule of Findings, Questioned Costs, and Recommendations  
Year Ended September 30, 2014

**Federal Awards and Questioned Cost Findings**

**Prior Audit Findings**

*Finding #2013-01*

Finding - Housing Authority did not adhere to written policy for the admission of tenants under the Low Rent Public Housing Program – CFDA # 14.850

No similar instance was noted during the year financial statement audit for the fiscal year ending September 30, 2014.

**DRAFT COPY  
PRELIMINARY & TENTATIVE  
for DISCUSSION PURPOSES ONLY**



**HOUSING AUTHORITY OF THE CITY OF SALEM**  
Schedule of Findings, Questioned Costs, and Recommendations  
Year Ended September 30, 2014

**Summary of Auditor's Results**

**Financial Statements**

Type of Auditor's Report Issued: Unmodified

Internal Control over Financial Reporting:

Material Weakness (es) Identified? \_\_\_\_\_ yes X no  
Significant Deficiency(ies) identified that are  
considered to be material weakness(es)? \_\_\_\_\_ yes X none reported

Noncompliance Material to Financial Statements Noted? \_\_\_\_\_ yes X no

**Federal Awards**

Internal Control over Major Programs:

Material Weakness (es) Identified? \_\_\_\_\_ yes X no  
Significant Deficiency(ies) identified that are  
considered to be material weakness(es)? \_\_\_\_\_ yes X none reported

Type of audit report issued on compliance for  
major programs: Unmodified

Any audit findings disclosed that are required to be  
reported in accordance with section 510(a) of  
Circular A-133 \_\_\_\_\_ yes X no

Identification of Major Programs

CFDA#	Name of Federal Program	Amount
14.850	Low Rent Public Housing Program	\$ 906,419
14.871	Housing Choice Vouchers Program	\$ 237,534

Dollar threshold used to Distinguish between Type A and Type B Programs \$ 300,000

Auditee qualified as a low-risk auditee \_\_\_\_\_ yes X no

**FINDINGS AND QUESTIONED COST – MAJOR FEDERAL AWARD PROGRAM  
AUDIT**

None reported

**FINDINGS – FINANCIAL STATEMENT AUDIT**

None reported

**DRAFT COPY  
PRELIMINARY & TENTATIVE  
for DISCUSSION PURPOSES ONLY**



# Hymanson, Parnes & Giampaolo

## Certified Public Accountants

tele: 732-842-4550  
fax: 732-842-4551

467 Middletown-Lincroft Rd.  
Lincroft, NJ 07738

### INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

Board of Commissioners  
Housing Authority of the City of Salem  
205 South Street  
Salem, New Jersey 08079

We have performed the procedure described in the second paragraph of this report, which was agreed to by Housing Authority of the City of Salem and the U.S. Department of Housing and Urban Development, Public Indian Housing-Real Estate Assessment Center (PIH-REAC), solely to assist them in determining whether the electronic submission of certain information agrees with the related hard copy documents included within the OMB Circular A-133 reporting package. Housing Authority of the City of Salem is responsible for the accuracy and completeness of the electronic submission. This agreed-upon procedure engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States. The sufficiency of the procedure is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedure described below either for the purpose for which this report has been requested or for any other purpose.

We compared the electronic submission of the items listed in the "UFRS Rule Information" column with the corresponding printed documents listed in the "Hard Copy Documents" column. The results of the performance of our agreed-upon procedure indicate agreement or non-agreement of the electronically submitted information and hard copy documents as shown in the attached chart.

We were engaged to perform an audit in accordance with OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, by Housing Authority of the City of Salem as of and for the year ended September 30, 2014, and have issued our reports thereon dated June 12, 2015. The information in the "Hard Copy Documents" column was included within the scope, or was a by-product of that audit. Further, our opinion on the fair presentation of the supplementary information dated September 30, 2014, was expressed in relation to the basic financial statements of Housing Authority of the City of Salem taken as a whole.

A copy of the reporting package required by OMB Circular A-133, which includes the auditor's reports, is available in its entirety from Housing Authority of the City of Salem. We have not performed any additional auditing procedures since the date of the aforementioned audit reports. Further, we take no responsibility for the security of the information transmitted electronically to the U.S. Department of Housing and Urban Development, PIH-REAC.

This report is intended solely for the information and use of Housing Authority of the City of Salem and the U.S. Department of Housing and Urban Development, PIH-REAC, and is not intended to be and should not be used by anyone other than these specified parties.

*Hymanson, Parnes & Giampaolo*

Lincroft, New Jersey  
June 12, 2015

**DRAFT COPY  
PRELIMINARY & TENTATIVE  
for DISCUSSION PURPOSES ONLY**



ATTACHMENT TO INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON  
PROCEDURE

PROCEDURE	UFRS RULE INFORMATION	HARD COPY DOCUMENTS	AGREES	DOES NOT AGREE
1	Balance Sheet and Revenue and Expense (data line items 111 to 13901)	Financial Data Schedule,all CFDA's	<input checked="" type="radio"/>	<input type="radio"/>
2	Footnotes (data element G5000-010)	Footnotes to audited basic financial statements	<input checked="" type="radio"/>	<input type="radio"/>
3	Type of opinion on FDS (data element G3100-040)	Auditor's supplemental report on FDS	<input checked="" type="radio"/>	<input type="radio"/>
4	Audit findings narrative (data element G5200-010)	Schedule of Findings and Questioned costs	<input checked="" type="radio"/>	<input type="radio"/>
5	General information (data element series G2000,G2100,G2200,G9000,G9100)	OMB Data Collection Form*	<input checked="" type="radio"/>	<input type="radio"/>
6	Financial statement report information (data element G3000-010)	Schedule of Findings and Questioned costs,Part 1 and OMB Data Collection Form*	<input checked="" type="radio"/>	<input type="radio"/>
7	Federal program report information (data element G4000-020 to G4000-040)	Schedule of Findings and Questioned costs,Part 1 and OMB Data Collection Form*	<input checked="" type="radio"/>	<input type="radio"/>
8	Type of Compliance Requirement (G4200-020 & G4000-030)	OMB Data Collection Form*	<input checked="" type="radio"/>	<input type="radio"/>
9	Basic financial statements and auditor's reports required to be submitted electronically	Basic financial statements (inclusive of auditor reports)	<input checked="" type="radio"/>	<input type="radio"/>

**DRAFT COPY  
PRELIMINARY & TENTATIVE  
for DISCUSSION PURPOSES ONLY**