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on May 2 & 3rd 2012

- Michael Blokely
- Patrick Cossio
- Pete Frascella

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**HOUSING AUTHORITY OF THE CITY OF SALEM**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTAL INFORMATION**

**YEAR ENDED SEPTEMBER 30, 2011**

**HOUSING AUTHORITY OF THE CITY OF SALEM**  
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**YEAR ENDED SEPTEMBER 30, 2011**

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners  
The Housing Authority of the City of Salem:

We have audited the financial statements of the Housing Authority of the City of Salem ("the Authority") as of and for the year ended September 30, 2011, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. 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; and audit requirements prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Housing Authority of the City of Salem as of September 30, 2011, and the changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 3, 2012 on our consideration of the Housing Authority of the City of Salem's internal control over financial reporting and our tests on its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and important for assessing the results of our audit.

## INDEPENDENT AUDITOR'S REPORT (continued)

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis contained on pages 3 through 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historic context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements of the Housing Authority of the City of Salem taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and is not a required part of the financial statements. The accompanying financial data schedule and schedules of grant program costs and advances are also not required parts of the financial statements and are presented for the purposes of additional analysis as required by the U.S. Department of Housing and Urban Development. The schedule of federal awards, financial data schedule and schedules of grant program costs and advances are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the 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 financial statements as a whole.

June 8, 2012  
Toms River, New Jersey

*Fallon & Larsen LLP*

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

HOUSING AUTHORITY OF THE CITY OF SALEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2011

As Management of the Housing Authority of the City of Salem ("the Authority"), we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal year ended September 30, 2011. We encourage readers to consider the information presented here in conjunction with the Authority's financial statements as presented elsewhere in this Report.

A. Financial Highlights

1. The assets of the Authority exceeded its liabilities at the close of the most recent fiscal year by \$4,369,135 (net assets) as opposed to \$4,762,579 for the prior fiscal year.
2. As of the close of the current fiscal year, the Authority's Proprietary Fund reported ending Unrestricted Net Assets of \$365,061.
3. The Authority's cash and cash equivalents, restricted cash and investment balance including tenant security deposits at September 30, 2011 was \$367,725 representing a decrease of \$81,718 from the prior fiscal year.
4. The Authority had Total Operating Revenues of \$1,858,938 and Total Operating Expenses of \$2,319,507 for the year ended September 30, 2011.
5. The Authority's capital outlays for the fiscal year were \$139,394 of which was funded by the Capital Fund Program and Capital Fund Stimulus Grant.
6. The Authority's Expenditures of Federal Awards amounted to \$1,468,058.

B. Using the Annual Report

1. Management's Discussion and Analysis

The Management's Discussion and Analysis is intended to serve as an introduction to the Authority's financial statements. The Authority's financial statements and Notes to Financial Statements included in the this Report were prepared in accordance with GAAP applicable to governmental entities in the United States of America for Proprietary Fund types.

2. Financial Statements

The financial statements are designed to provide readers with a broad overview of the Authority's finances, in a manner similar to a private-sector business. They consist of The Statement of Net Assets, the Statement of Revenues, Expenses and Changes in Net Assets and the Statement of Cash Flows.

HOUSING AUTHORITY OF THE CITY OF SALEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2011

B. Using the Annual Report (continued)

The Statement of Net Assets presents information on all the Authority's assets and liabilities, with the difference between the two reported as net assets. Increases or decreases in net assets will serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

The Statement of Revenues, Expenses, and Changes in Net Assets presents information showing how the Authority's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of unrelated cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g.; depreciation and earned but unused vacation leave).

The Statements of Cash Flows presents relevant information about the Authority's cash receipts and cash payments during the year.

The financial statements report on the Authority's activities. The 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 9 through 12.

3. Notes To Financial Statements

The Notes to Financial Statements provide additional information that is essential to a full understanding of the data provided in the financial statements. The Notes to Financial Statements can be found in this Report after the financial statements.

4. Supplemental Information

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 29 of this report.

C. The Authority as a Whole

The Authority's Net Assets decreased during the fiscal year. The Authority's revenues are primarily 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.

HOUSING AUTHORITY OF THE CITY OF SALEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2011

C. The Authority as a Whole (continued)

*Bad*

✓ The Authority's revenues were insufficient to cover all expenses, excluding depreciation during the fiscal year. By far, the largest portion of the Authority's net assets reflects its investment in capital assets (e.g., land, buildings, equipment and construction in progress). The Authority uses these capital assets to provide housing services to tenants consequently, these assets are not available for future spending. The unrestricted net assets of the Authority are available for future use to provide program services.

D. Budgetary Highlights

*Bad*

For the year ended September 30, 2011, individual program or grant budgets were prepared by the Authority and were approved 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. As indicated by the excess of expenses over revenues the Authority's Net Assets decreased during the fiscal year.

E. Capital Assets and Debt Administration

As of September 30, 2011, the Authority's investment in capital assets for its Proprietary Fund was \$5,531,819 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment and construction in progress.

Major capital assets purchased of \$139,394, during the fiscal year pertained to expenditures made in accordance with the Authority's Capital Fund Program and Capital Fund Stimulus Grant.

Additional information on the Authority's capital assets can be found in Note 4 to the Financial Statements which is included in this Report.

*Debt PAY back*

During the fiscal year ended September 30, 2005, the Authority entered into a Capital Fund Leveraging Pool. The New Jersey Housing and Mortgage and Finance Agency issued bonds and the funds were distributed to the Housing Authority. On December 24, 2004, the Authority received \$1,920,000 (grant for \$1,867,861 net of financing costs of \$52,139) to be used for capital improvements to its buildings. Further details can be found in Note 7 to the Financial Statements.

F. Significant Changes From Prior Year

*they gave us 47,851 less in 2011*

Accounts receivable due from HUD decreased by \$47,851 due to the Authority being reimbursed for capital grant expenditures prior to the fiscal year end.



HOUSING AUTHORITY OF THE CITY OF SALEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2011

F. Significant Changes From Prior Year (continued)

✓ Long term debt decreased by \$80,000 as HUD drawdowns under the Capital Fund Leveraging Program were used to make required debt service payments.

✓ *Pool* - Operating grants under the Low Rent Public Housing Program decreased by \$21,117 as HUD reduced the amount of subsidy paid to the Authority.

✓ *Pool* - Capital grants decreased by \$242,619 from the prior year. The Authority utilized the majority of funding from the Capital Fund Stimulus Program in 2010.

✓ *Good* - Administrative expenses decreased \$76,905 due to a reduction in staff size.

✓ *Good & Bad* - Ordinary maintenance and operations expenses increased \$52,773 as the Authority incurred costs in the rehabilitation of off line units in the Low Rent Public Housing Program.

*Will Jackson Shorter work & Over time*

G. Economic Factors and Next Year's Budgets and Rates

The following factors were considered in preparing the Authority's budget for the fiscal year ending September 30, 2012:

- ✓ 1. The state of the economy, particularly in light of current world affairs.
- ✓ 2. The need for Congress to fund the war on terrorism and the possible cut-back on HUD subsidies and grants.

*Good & Bad* 3. The use of the Authority's Unrestricted Net Assets to fund any shortfalls rising from a possible economic downturn and reduced subsidies and grants. The Authority's Unrestricted Net Assets appear sufficient to cover any shortfall.

H. 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 the Executive Director, Housing Authority of the City of Salem, 205 Seventh Street, Salem, NJ 08079 or call (856) 935-5022.

HOUSING AUTHORITY OF THE CITY OF SALEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2011

**I. Summarized Financial Data**

Computation of Net Assets are as follows:					
				As of	
				<u>9/30/2011</u>	<u>9/30/2010</u>
Cash and Other Assets				\$ 530,799	\$ 665,080
Capital Assets - Net				<u>5,531,819</u>	<u>5,957,203</u>
Total Assets				6,062,618	6,622,283
Less: Total Liabilities				<u>1,693,483</u>	<u>1,859,704</u>
Net Assets				<u>\$ 4,369,135</u>	<u>\$ 4,762,579</u>
Invested in Capital Assets				\$ 3,986,819	\$ 4,332,203
Restricted Net Assets				17,255	29,304
Unrestricted Net Assets				<u>365,061</u>	<u>401,072</u>
Total Net Assets				<u>\$ 4,369,135</u>	<u>\$ 4,762,579</u>

HOUSING AUTHORITY OF THE CITY OF SALEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2011

I. Summarized Financial Data (continued)

Computations of Changes in Net Assets are as follows:				Year Ended	
				9/30/11	9/30/10
<u>Revenues</u>					
Tenant Revenues				\$ 493,547	\$ 518,542
HUD Subsidies				1,316,520	1,213,848
Other Revenues				48,871	38,093
Total Operating Revenues				1,858,938	1,770,483
<u>Expenses</u>					
Other Operating Expenses				1,546,190	1,559,143
Housing Assistance Payments				208,539	196,315
Depreciation Expense				564,778	556,691
Total Operating Expenses				2,319,507	2,312,149
Excess (Deficiency) of Operating Revenues					
Over Expenses				(460,569)	(541,666)
<u>Non-Operating Income/(Expenses)</u>					
Interest income				652	1,004
Interest expense				(72,921)	(76,855)
Net non-operating revenue (expense)				(72,269)	(75,851)
Excess of Revenues over Expenses					
Before Capital Grant Received				(532,838)	(617,517)
<u>Capital Grants</u>					
HUD Capital Grants				139,394	501,454
Excess (Deficiency) of Revenues Over Expenses				(393,444)	(116,063)
Net Assets – Beginning				4,762,579	4,878,642
Net Assets – Ending				\$ 4,369,135	\$ 4,762,579

## **FINANCIAL STATEMENTS**

**HOUSING AUTHORITY OF THE CITY OF SALEM  
STATEMENT OF NET ASSETS  
AS OF SEPTEMBER 30, 2011**

**ASSETS**

Current assets:	
Cash and cash equivalents	\$ 169,833
Accounts receivable - HUD	65,247
Account receivable - tenants, net	19,619
Prepaid expenses	<u>43,666</u>
Total current assets	<u>298,365</u>
Non-current assets:	
Restricted cash and cash equivalents	197,892
Other assets	34,542
Capital assets, net	<u>5,531,819</u>
Total non-current assets	<u>5,764,253</u>
Total assets	<u>\$ 6,062,618</u>

**LIABILITIES**

Current liabilities:	
Accounts payable	\$ 40,955
Accrued wages and payroll taxes	11,964
Accrued compensated absences	35,499
Tenant security deposits	41,359
Deferred revenues	4,408
Current portion of bonds payable	<u>80,000</u>
Total current liabilities	<u>214,185</u>
Noncurrent liabilities:	
Accrued compensated absences, net of current portion	14,298
Bonds payable, net of current portion	<u>1,465,000</u>
Total noncurrent liabilities	<u>1,479,298</u>
Total liabilities	<u>1,693,483</u>

**NET ASSETS**

Net assets:	
Invested in capital assets, net	3,986,819
Restricted	17,255
Unrestricted	<u>365,061</u>
Total net assets	<u>\$ 4,369,135</u>

**HOUSING AUTHORITY OF THE CITY OF SALEM  
STATEMENT OF REVENUES, EXPENSES  
AND CHANGES IN NET ASSETS  
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

Operating revenues:	
Tenant revenue	\$ 493,547
HUD operating grants	1,316,520
Other revenues	<u>48,871</u>
Total operating revenues	<u>1,858,938</u>
Operating expenses:	
Administrative	334,361
Tenant services	31,201
Utilities	565,224
Ordinary maintenance and operations	425,966
Protective services	40,783
Insurance and general expenses	148,655
Housing assistance payments	208,539
Depreciation	<u>564,778</u>
Total operating expenses	<u>2,319,507</u>
Operating gain (loss)	<u>(460,569)</u>
Non-operating revenues (expenses):	
Interest income	652
Interest expense	<u>(72,921)</u>
Net non-operating revenue (expense)	<u>(72,269)</u>
Income (loss) before capital grants	(532,838)
Capital grants	<u>139,394</u>
Change in net assets	(393,444)
Total net assets, beginning of year, as restated	<u>4,762,579</u>
Total net assets, end of year	<u>\$ 4,369,135</u>

See accompanying notes to financial statements.

**HOUSING AUTHORITY OF THE CITY OF SALEM  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

Cash Flows from Operating Activities:	
Cash received from tenants	\$ 550,939
Cash received from grantors	1,329,688
Cash paid to suppliers	(1,385,067)
Cash paid to employees	<u>(427,616)</u>
Net cash flows provided (used) by operating activities	<u>67,944</u>
Cash Flows from Capital and Related Financing Activities:	
Repayment of debt	(80,000)
Purchases of capital assets	(139,394)
Capital grants	<u>139,394</u>
Net cash flows provided (used) by capital and related financing activities	<u>(80,000)</u>
Cash Flows from Investing Activities:	
Interest expense	(70,314)
Interest received on investments	<u>652</u>
Net cash flows provided (used) by investing activities	<u>(69,662)</u>
Net increase (decrease) in cash	(81,718)
Cash and cash equivalents, beginning of year	<u>449,443</u>
Cash and cash equivalents, end of year	<u><u>\$ 367,725</u></u>
Reconciliation of Cash and Cash Equivalents to the Statements of Net Assets:	
Cash and cash equivalents	\$ 169,833
Restricted cash	<u>197,892</u>
Cash and cash equivalents at end of year	<u><u>\$ 367,725</u></u>

See accompanying notes to financial statements.

**HOUSING AUTHORITY OF THE CITY OF SALEM**  
**STATEMENT OF CASH FLOWS (continued)**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2011**

Reconciliation of operating loss to net cash  
provided (used) by operating activities:

Operating gain (loss)	\$	(460,569)
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Items which did not use cash:

Depreciation		564,778
Bad debts		43,121

Changes in operating assets and liabilities:

Accounts receivable - HUD		13,168
Accounts receivable - tenants		(45,949)
Accounts receivable - other		2,310
Prepaid expenses		2,045
Other assets		-
Accounts payable		(10,268)
Accrued expenses		1,794
Accrued compensated absences		(19,341)
Tenant security deposits		2,026
Deferred revenues		4,406
Other liabilities		<u>(29,577)</u>

Net cash provided (used) by operating activities	\$	<u>67,944</u>
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**HOUSING AUTHORITY OF THE CITY OF SALEM  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Organization**

The Housing Authority of the City of Salem ("the Authority") is a governmental, public corporation created under federal and state housing laws 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, New Jersey. The Authority is responsible for operating certain low-rent housing programs in the City under programs administered by the U.S. Department of Housing and Urban Development ("HUD"). These programs provide housing for eligible families under the United States Housing Act of 1937, as amended.

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 ("HUD") and the State of New Jersey, Division of Local Government Services ("the Division"). An executive director is appointed by the Housing Authority's Board to manage the day-to-day operations of the Authority.

The Authority maintains its accounting records by program.

**B. Description of Programs**

The following programs are operated by the Authority:

Low Rent Public Housing Program

The public housing program is designed to provide low-cost housing. Under this program, HUD provides funding via an annual contributions contract. These funds, combined with the rental income received from tenants, are available solely to meet the operating expenses of the program.

Housing Assistance Payments Program - Section 8

The Authority administers a program of rental assistance payments to private owners on behalf of eligible low-income families under Section 8 of the Housing and Urban Development Act of 1974. The program provides payments covering the difference between the maximum rental on a dwelling unit, as approved by HUD, and the amount of rent contribution by a participating family. The Authority also administers a program of Section 8 Rental assistance funded by the State of New Jersey to supplement federal funding.

Public Housing Capital Fund Program

The purpose of the Capital Fund Program is to provide another source of funding to cover the cost of physical and management improvements and rehabilitation on existing low-income housing and improving the central office facilities. Funding for this program is provided by grants from HUD.

**HOUSING AUTHORITY OF THE CITY OF SALEM  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**B. Description of Programs (continued)**

American Reinvestment and Recovery Act (ARRA) Grant

The purpose of the ARRA Grant Program is to provide funds for the capital and management activities of Public Housing Agencies as authorized under section 9 of the United States Housing Act of 1937 (42 U.S.C. 1437g) (the "Act"), with the exception that funds cannot be used for operations or rental assistance. The funds shall be awarded by competition for priority investments, including investments that leverage private sector funding or financing for renovations and energy conservation retrofit investments.

**C. Reporting Entity**

In accordance with Statement No. 39 of the Government Accounting Standards Board ("GASB"), the Authority's basic financial statements include those of the Boonton Housing Authority and any component units. Component units are legally separate, tax-exempt organizations that meet all of the following criteria:

1. The economic resources received by the separate organization are almost entirely for the direct benefit of the Authority.
2. The Authority has the ability to access a majority of the economic resources held by the separate organization.
3. The economic resources referred to in No. 2 are significant to the Authority.

Based upon the application of these criteria, this report includes all programs and activities operated by the Authority. There were no additional entities required to be included in the reporting entity under these criteria in the current fiscal year. Furthermore, the Authority is not included in any other reporting entity on the basis of such criteria.

**D. Basis of Accounting**

The Authority's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP).

The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations).

**HOUSING AUTHORITY OF THE CITY OF SALEM  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**D. Basis of Accounting (continued)**

The programs of the Authority are organized as separate accounting entities. Each program is accounted for by a separate set of self-balancing accounts that comprise its assets, liabilities, net assets (program equity), revenues, and expenses. The individual programs account for the governmental resources allocated to them for the purpose of carrying on specific programs in accordance with laws, regulations, or other restrictions, including those imposed by HUD. The funds of the Authority are all considered Enterprise Funds that are used to account for activities that are operated in a manner similar to those found in the private sector.

All enterprise funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, and losses from assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

The Authority's primary source of non-exchange revenue relates to grants and subsidies. In accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Non-exchange Transactions*, grant and subsidy revenue are recognized at the time eligible program expenditures occur and/or the Authority has complied with the grant and subsidy requirements.

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Activities that Use Proprietary Fund Accounting*, the Authority has elected to apply all Financial Accounting Standards Board pronouncements, Accounting Principles Board Opinions and Accounting Research Bulletins issued that do not conflict with or contradict GASB Pronouncements.

On January 30, 2008, HUD issued PIH Notice 2008-9 which among other things clarifies HUD's reporting position that unused housing assistance payments ("HAP") under proprietary fund reporting should be reported as restricted net assets, with the associated cash and investments also being reported as restricted. Any unused administrative fees should be reported as unrestricted net assets, with the associated assets being reported on the FDS as unrestricted.

Both administrative fee and HAP revenue continue to be recognized under the guidelines set forth in GASB Statement No. 33. Accordingly, both the time and purpose restrictions as defined by GASB 33 are met when these funds are available and measurable, not when these funds are expended. The Housing Choice Voucher program is no longer a cost reimbursement grant, therefore the Authority recognizes unspent administrative fee and HAP revenue in the reporting period as revenue for financial statement reporting.

Any investment income earned on these funds is reflected in the net asset account on which the investment income was earned. Investment income earned on HAP cash balances is credited to the HAP restricted net asset account and investment income earned on administrative fee cash balances is credited to the unrestricted net asset account.

**HOUSING AUTHORITY OF THE CITY OF SALEM  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**E. Cash and cash equivalents**

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 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.

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 HUD requirements.

**F. Accounts Receivable**

Rents are due from tenants on the first day of each month. As a result, tenants receivable balances primarily consist of rents past due and vacated units. An allowance for doubtful accounts is established to provide for all accounts, which may not be collected in the future for any reason. Collection losses on accounts receivable are charged against the allowance for doubtful accounts. The Authority recognizes a receivable from HUD and other governmental agencies for amounts billed but not received and for amounts unbilled but earned as of year end.

**G. Prepaid Expenses**

Prepaid expenses represent amounts paid as of year-end that will benefit future operations.

**H. Capital Assets**

Capital assets are stated at cost. Expenditures for repairs and maintenance are charged directly to expense as they are incurred. Expenditures determined to represent additions or betterments are capitalized. Upon the sale or retirement of fixed assets, the cost and related accumulated depreciation is eliminated from the accounts and any related gain or loss is reflected in the Statement of Revenues, Expenses and Changes in Net Assets. Depreciation is calculated using the straight-line method based on the estimated useful lives of the following asset groups:

- |                           |           |
|---------------------------|-----------|
| • Buildings               | 40 Years  |
| • Furniture and Equipment | 3-5 Years |

The Authority has established a capitalization threshold of \$1,000.

**HOUSING AUTHORITY OF THE CITY OF SALEM  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**I. Compensated Absences**

Compensated absences represent amounts to which employees are entitled to based on accumulated leave earned in accordance with the Authority's Personnel Policy. Employees earn one sick day per month during the remainder of the first calendar year of employment and fifteen sick days in every calendar year thereafter. Annual vacation leave with pay shall be earned at rates based on length of employment. These amounts range from thirteen days for one to five years employment and twenty-six days for twenty-one years or more. Employees may be compensated for sick leave at retirement at a rate of one half the number of unused sick days accumulated not to exceed \$12,000.

**J. Deferred Revenue**

The Authority's deferred revenue primarily consists of the prepayment of rent by residents.

**K. Inter-program Receivables and Payables**

Inter-program receivables/payables are current, and are the result of the use of the Public Housing Program as the common paymaster for shared costs of the Authority. Cash settlements are made periodically, and all inter-program balances net zero. In accordance with GASB Statement No. 34, interprogram receivables and payables are eliminated for financial statement purposes.

**L. Operating Revenues and Expenses**

The Authority defines its operating revenues as income derived from charges to residents and others for services provided, as well as government subsidies and grants used for operating purposes. Operating expenses are costs incurred in the operation of its program activities to provide services to residents and others. The Authority classifies all other revenues as non-operating.

**M. Use of Management Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates include the allowance for doubtful accounts, accrued expenses and other liabilities, depreciable lives of properties and equipment and contingencies. Actual results could differ significantly from these estimates.

**HOUSING AUTHORITY OF THE CITY OF SALEM  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**N. Taxes**

The Authority is a unit of local government under New Jersey law and is exempt from real estate, sales and income taxes.

**O. Equity Classifications**

Equity is classified as net assets and displayed in three components:

✓ Invested in capital assets, net of related debt - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.

Restricted net assets - Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

Unrestricted net assets - All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

**P. Budgets and Budgetary Accounting**

The Authority is required by contractual agreements to adopt annual, appropriated operating budgets for all its programs receiving federal expenditure awards. All budgets are prepared on a HUD basis, which is materially consistent with accounting principles generally accepted in the United States of America. All appropriations lapse at HUD's program year end or at the end of grant periods.

The Public Housing Program prepares its budget annually. The Board of Commissioners adopts the budget through passage of a budget resolution and submits it to HUD at least ninety days prior to the beginning of the program year.

**Q. Economic Dependency**

The Section 8 and Low Rent Housing programs of the Authority are economically dependent on operating grants and subsidies from HUD.

*Handwritten notes:*  
Approved by June 30, 2011  
July 30  
Aug 30  
Sept 30  
Oct 1

**HOUSING AUTHORITY OF THE CITY OF SALEM  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**R. Risk Management**

The Authority is exposed to various risks of loss related to torts, theft, damage, and destruction of assets; errors and omissions; and natural disasters. The Authority maintains insurance policies acquired from independent insurance carriers covering all structural property, automobiles, crime coverage, personal property and general liability. Settlement amounts have not exceeded insurance coverage for the last three years.

**NOTE 2. CASH AND CASH EQUIVALENTS**

At September 30, 2011, the Authority had funds on deposit in checking and money market accounts.

For the fiscal years ended September 30, 2011, the carrying amount of the Authority's cash (including restricted cash) was \$367,725 and the bank balances were \$408,716.

Of the bank balances, \$250,000 were covered by federal depository insurance and the remaining \$158,716 were collateralized with the pledging financial institution for the fiscal year ended September 30, 2011.

Cash Account

Insured:	
FDIC	\$ 250,000
Collateralized:	
Collateralized amount held by pledging financial institution	<u>158,716</u>
	<u>\$ 408,716</u>

Custodial credit risk is the risk that, in the event of a bank failure, the government's deposits may not be returned to it. The Authority does not have a formal policy for custodial credit risk. As of September 30, 2011, the Authority's bank balances were not exposed to custodial credit risk.

**NOTE 3. ACCOUNTS RECEIVABLE**

**A. Accounts Receivable - Tenants, net**

Accounts Receivable - Tenants, net consists of rental money due to the Authority for providing housing. Tenant receivables are shown net of an allowance for doubtful accounts of \$19,619 for the year ended September 30, 2011.

**HOUSING AUTHORITY OF THE CITY OF SALEM  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

**NOTE 3. ACCOUNTS RECEIVABLE (continued)**

**B. Accounts Receivable - HUD**

Accounts receivable - HUD consists of amounts due to the Authority for operating and capital grants. The Authority considers these amounts fully collectible and accordingly, have made no allowance. At September 30, 2011, Accounts receivable - HUD consisted of the following:

<u>Category</u>	
Low Rent Public Housing	\$ <u>65,247</u>

**NOTE 4. RESTRICTED CASH**

Restricted cash consists of the following at September 30, 2011:

<u>Description</u>	<u>2011</u>
Debt leveraging account	\$ 180,637
Housing assistance payment reserves	<u>17,255</u>
	<u>\$ 197,892</u>

Capital fund debt leveraging proceeds are restricted for use in the Low Rent Public Housing Program in accordance with the Authority's annual plan.

Housing assistance payment reserves are restricted for use only in the Housing Choice Voucher Program for tenant rents.

**NOTE 5. OTHER ASSETS**

Other assets consist of closing costs related to the issuance of Capital Fund Program Revenue Bonds, 2004 Series A. Total issuance costs totaled \$52,139 and are being amortized over the life of the bonds on a straight line basis which is not materially different than the interest method. As of September 30, 2011, other assets are shown net of accumulated amortization of \$17,597.

For the year ended September 30, 2011, amortization expense totaled \$2,607 and is included in interest expense in the accompanying Statements of Revenues, Expenses and Changes in Net Assets.



**HOUSING AUTHORITY OF THE CITY OF SALEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2011**

**NOTE 6. CAPITAL ASSETS, NET**

A summary of the changes in capital assets during the year ended September 30, 2011 were as follows:

Description	September 30, 2010	Additions	Dispositions	Transfers	September 30, 2011
Non-depreciable capital assets:					
Land	\$ 183,069	\$ -	\$ -	\$ -	\$ 183,069
Construction in progress	<u>610,374</u>	<u>139,394</u>	<u>-</u>	<u>(108,920)</u>	<u>640,848</u>
Total	<u>793,443</u>	<u>139,394</u>	<u>-</u>	<u>(108,920)</u>	<u>823,917</u>
Depreciable capital assets:					
Buildings	14,411,885	-	-	108,920	14,520,805
Furniture and equipment	<u>279,950</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>279,950</u>
Total	<u>14,691,835</u>	<u>-</u>	<u>-</u>	<u>108,920</u>	<u>14,800,755</u>
Less: accumulated depreciation	<u>9,528,075</u>	<u>564,778</u>	<u>-</u>	<u>-</u>	<u>10,092,853</u>
Net capital assets	<u>\$ 5,957,203</u>	<u>\$ (425,384)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,531,819</u>

**NOTE 7. COMPENSATED ABSENCES**

Accrued compensated absences represents the amounts to which employees are entitled to based 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 at a rate of one half the number of unused sick days accumulated not to exceed \$12,000. Compensated absences activity for the years ended September 30, 2011 consisted of the following:

Beginning accumulated compensated absences	\$ 69,138
Compensated absences earned	32,202
Compensated absences redeemed	<u>(51,543)</u>
Ending accumulated compensated absences	49,797
Less: current portion of accumulated compensated absences	<u>35,499</u>
Accumulated compensated absences, net of current portion	<u>\$ 14,298</u>

**HOUSING AUTHORITY OF THE CITY OF SALEM  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

**NOTE 8. ✓ BONDS PAYABLE**

During 2004, the Authority entered into a Capital Fund leveraging pool. The New Jersey Housing and Mortgage Finance Agency issued tax exempt, twenty year Capital Fund Program Revenue Bonds, 2004 Series A on December 23, 2004. The Authority's share of funds from the bond issue pool amounted to \$1,920,000. The related closing costs of \$52,139 are to be amortized over the life of the bonds. Interest accrues at 4.418% and is payable semi-annually on May 1st and November 1st. Repayment of the funds shall be paid solely from Capital Fund allocations received by the Authority from the Department of Housing and Urban Development.

Outstanding balances at September 30, 2011 totaled \$1,545,000. Annual debt service for principal and interest over the next five years and in five year increments are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	80,000	67,534	147,534
2013	80,000	64,624	144,624
2014	85,000	61,624	146,624
2015	90,000	58,254	148,254
2016	90,000	54,423	144,423
2017 - 2021	530,000	206,769	736,769
2022 - 2026	<u>590,000</u>	<u>71,205</u>	<u>661,205</u>
	<u>\$ 1,545,000</u>	<u>\$ 584,433</u>	<u>\$ 2,129,433</u>

Debt service activity for the years ended September 30, 2011 consisted of the following:

<u>Description</u>	<u>September 30, 2010</u>	<u>Additions</u>	<u>Principal Payments</u>	<u>September 30, 2011</u>
Capital Fund Revenue Bonds	<u>\$ 1,625,000</u>	<u>\$ -</u>	<u>\$ (80,000)</u>	<u>\$ 1,545,000</u>

**NOTE 9. PENSION PLAN**

**A. Public Employee's Retirement System**

The Authority participates in the Public Employees Retirement System (PERS), a cost-sharing multiple employer defined benefit pension plan administered by the Division of Pensions within the Department of Treasury, State of New Jersey. PERS provides retirement, death and disability benefits, as well as medical benefits for certain qualified members and beneficiaries.

The PERS was established on January 1, 1955 under the provisions of N.J.S.A. 43:15A. The PERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State of New Jersey, Division of Pensions CN-295, Trenton, NJ 08625, (609) 777-1777.

**HOUSING AUTHORITY OF THE CITY OF SALEM  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

**NOTE 9. PENSION PLAN (CONTINUED)**

**B. 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 5% 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 the years ending September 30, 2011, amounted to \$35,782.

**C. Post Employment Retirement Benefits**

As part of PERS, the Authority also provides post employment health care benefits and life insurance to all eligible retirees through the State Health Benefits Program (SHBP). Eligibility requires that employees be 55 years or older with at least 25 years of service.

Participants are contractually required to contribute at a rate assessed each year by the SHBP, currently 5.5 percent of annual covered payroll. The SHBP sets the employer contribution rate based on the annual required contribution of the employers (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) of the plan over a period not to exceed thirty years.

Expenditures are recognized based on an actuarial study and report of the SHBP and are recorded as the contractually required premiums are incurred. For the years ending September 30, 2011, the Authority incurred \$23,389, for post employment health care benefits.

The State of New Jersey, Department of Treasury, Division of Pension 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 or link to the following website address at:

<http://www.state.nj.us/treasury/pensions/annrprts.shtml>.

**HOUSING AUTHORITY OF THE CITY OF SALEM  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

**NOTE 10. RESTRICTED NET ASSETS**

As of September 30, 2011, restricted net assets consisted of housing assistance payment reserves which are restricted for rent payments to landlords as part of the housing choice voucher program.

**NOTE 11. PRIOR PERIOD ADJUSTMENT**

Beginning Restricted Net Assets and Accounts Receivable - HUD were decreased by \$1,543,589 to correct an error in reporting capital fund debt leveraging expenditures.

**NOTE 12. CONTINGENCIES**

The Authority receives financial assistance from HUD in the form of grants and subsidies. Entitlement to the funds is generally conditional upon compliance with terms and conditions of the grant agreements and applicable regulations, including the expenditure of the funds for eligible purposes. Substantially all grants, entitlements and cost reimbursements are subject to financial and compliance audits by HUD. As a result of these audits, costs previously reimbursed could be disallowed and require payments to HUD. As of September 30, 2011, the Authority estimates that no material liabilities will result from such audits.

**NOTE 13. SUBSEQUENT EVENTS**

Events that occur after the financial statement date but before the financial statements were available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the financial statement date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the financial statement date require disclosure in the accompanying notes to the financial statements. Management evaluated the activity of the Authority through June 8, 2012 (the date the financial statements were available to be issued) 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.

*IAP*

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

To the Board of Commissioners  
The Housing Authority of the City of Salem:

We have audited the financial statements of the Housing Authority of the City of Salem ("the Authority") as of and for the year ended September 30, 2011, and have issued our report therein dated June 8, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and audit requirements prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey (the "Division").

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions 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 entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the 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.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS (continued)**

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority'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 that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information of management and the U.S. Department of Housing and Urban Development, federal awarding agencies and the Division and is not intended to be and should not be used by anyone other than these specified parties.

June 8, 2012  
Toms River, New Jersey

*Fallon & Larsen LLP*

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL  
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Commissioners  
The Housing Authority of the City of Salem:

Compliance

We have audited the compliance of the Housing Authority of the City of Salem ("the Authority"), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended September 30, 2011. The Authority's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

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

In our opinion, the Authority complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2011.

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL  
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 (continued)**

Internal Control Over Compliance

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Authority's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance 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 over compliance 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 is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented, or detected and corrected, on a timely basis.

Our consideration of the 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 over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information of management and the U.S. Department of Housing and Urban Development, federal awarding agencies and the Division and is not intended to be and should not be used by anyone other than these specified parties.

June 8, 2012  
Toms River, New Jersey

*Fallon & Larsen LLP*



**HOUSING AUTHORITY OF THE CITY OF SALEM  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

<u>Federal and State Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Grant Expenditures</u>
U.S. Department of Housing and Urban Development:		
Low Rent Public Housing	14.850a	\$ 823,428
Section 8 Housing Choice Voucher Program	14.871	231,446
Public Housing Capital Fund Program	14.872	350,381
Capital Fund Stimulus Grant (ARRA)	14.885	<u>62,803</u>
		<u>\$ 1,468,058</u>

**HOUSING AUTHORITY OF THE CITY OF SALEM**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**SEPTEMBER 30, 2011**

**NOTE 1. BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Housing Authority of the City of Salem under programs of the federal government for the year ended September 30, 2011. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of operations of the Housing Authority of the City of Salem, it is not intended to and does not present the financial position, changes in net assets or cash flows 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 principles contained in OMB Circular A-87, Cost Principles for State, Local and Indian Tribes, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.

**NOTE 3. SUBRECIPIENTS**

The Authority was not a subrecipient of any federal awards and did not pass-through any federal awards to subrecipients.

**NOTE 4. NON-CASH FEDERAL ASSISTANCE**

The Authority did not receive any non-cash Federal assistance for the year ended September 30, 2011.

**HOUSING AUTHORITY OF THE CITY OF SALEM  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
SEPTEMBER 30, 2011**

**I. Summary of Auditor's Results**

**Financial Statement Section**

- |    |  |             |
|----|--|-------------|
| 1. | Type of auditor's report issued:   | Unqualified |
| 2. | Internal control over financial reporting  |             |
| a. | Material Weakness(es) identified?  | No          |
| b. | Were significant deficiencies identified not considered to be material weaknesses? | No          |
| 3. | Noncompliance material to the financial statements?                                | No          |

**Federal Awards Section**

- |    |  |             |
|----|--|-------------|
| 1. | Dollar threshold used to determine Type A Programs:  | \$300,000   |
| 2. | Dollar threshold used to determine Type B Programs:  | \$100,000   |
| 3. | Auditee qualified as low-risk Auditee?   | Yes         |
| 4. | Type of auditor's report on compliance for major programs:   | Unqualified |
| 5. | Internal Control over compliance:  |             |
| a. | Material weakness(es) identified?  | No          |
| b. | Were significant deficiencies identified not considered to be material weaknesses?                                     | No          |
| c. | Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133 (section .510(a))? | No          |
| 6. | Identification of major programs:  |             |

**CFDA Number**

**Name of Federal Program**

14.850a	Low Rent Public Housing
14.872	Public Housing Capital Fund
14.885	Capital Fund Stimulus Grant (ARRA)

**HOUSING AUTHORITY OF THE CITY OF SALEM**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)**  
**SEPTEMBER 30, 2011**

**II.     Financial Statement Findings**

There were no findings relating to the financial statements which are required to be reported in accordance with government auditing standards generally accepted in the United States of America.

**III.    Federal Award Findings and Questioned Costs**

There were no findings or questioned costs relating to federal awards.

**IV.    Schedule of Prior Year Federal Audit Findings**

None reported.

**HOUSING AUTHORITY OF THE CITY OF SALEM  
SCHEDULE OF CAPITAL FUND PROGRAM  
CLOSED COSTS AND ADVANCES  
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

	<u>501-08</u>	<u>501-09</u>	<u>501-10</u>	<u>501-11</u>	<u>Totals</u>
Budget	\$ <u>335,416</u>	\$ <u>330,986</u>	\$ <u>332,003</u>	\$ <u>285,798</u>	\$ <u>666,402</u>
<u>Advances:</u>					
Cumulative through 09/30/10	\$ 335,416	\$ 237,917	\$ -	\$ -	\$ 573,333
Current Year	<u>-</u>	<u>93,069</u>	<u>256,352</u>	<u>960</u>	<u>350,381</u>
Cumulative through 09/30/11	<u>335,416</u>	<u>330,986</u>	<u>256,352</u>	<u>960</u>	<u>923,714</u>
<u>Costs:</u>					
Cumulative through 09/30/10	335,416	237,917	-	-	573,333
Current Year	<u>-</u>	<u>93,069</u>	<u>256,352</u>	<u>960</u>	<u>350,381</u>
Cumulative through 09/30/11	<u>335,416</u>	<u>330,986</u>	<u>256,352</u>	<u>960</u>	<u>923,714</u>
Excess / (Deficiency)	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
<u>Summary</u>					
<u>Soft Costs:</u>					
Cumulative through 09/30/10	\$ 226,496	\$ 86,856	\$ -	\$ -	\$ 313,352
Current Year	<u>-</u>	<u>77,096</u>	<u>183,466</u>	<u>-</u>	<u>260,562</u>
Cumulative through 09/30/11	<u>226,496</u>	<u>163,952</u>	<u>183,466</u>	<u>-</u>	<u>573,914</u>
<u>Hard Costs:</u>					
Cumulative through 09/30/10	108,920	151,061	-	-	259,981
Current Year	<u>-</u>	<u>15,973</u>	<u>72,886</u>	<u>960</u>	<u>89,819</u>
Cumulative through 09/30/11	<u>108,920</u>	<u>167,034</u>	<u>72,886</u>	<u>960</u>	<u>349,800</u>
Cumulative	\$ <u>335,416</u>	\$ <u>330,986</u>	\$ <u>256,352</u>	\$ <u>960</u>	\$ <u>923,714</u>

**NOTES TO SCHEDULE OF CAPITAL FUND PROGRAM COSTS AND ADVANCES**

The total amount of Capital Fund Program Costs and Advances - Closed grants incurred and earned by the Housing Authority of the City of Salem as of and for the year ended September 30, 2011 are provided herein:

- 1) Capital Fund Grant NJ39P058501-08 with an approved funding of \$335,416 has been fully drawn down and expended as per Capital Fund Grant Regulations.
- 2) Capital Fund Grant NJ39P058501-09 with an approved funding of \$330,986 has been fully drawn down and expended as per Capital Fund Grant Regulations.

# Housing Authority of the City of Salem

NJ058

Financial Data Schedule (FDS)

September 30, 2011

Line Item #	Account Description	Projects	Capital Fund Stimulus Grant	Housing Choice Vouchers	Business Activities	TOTAL
	Utilities					
93100	Water	60,860	-	-	-	60,860
93200	Electricity	277,761	-	-	-	277,761
93300	Gas	130,477	-	-	-	130,477
93500	Labor	22,133	-	-	-	22,133
93600	Sewer	63,607	-	-	-	63,607
93700	Employee benefit contributions- utility	10,386	-	-	-	10,386
93800	Other utilities expense	-	-	-	-	-
	Ordinary maintenance & operation					
94100	Ordinary maintenance and operations - labo	199,195	-	-	-	199,195
94200	Ordinary maintenance and operations - materials & othe	44,688	-	-	-	44,688
94300	Ordinary maintenance and operations - contract cost	81,686	-	-	-	81,686
94500	Employee benefit contributions- ordinary maintenanc	100,397	-	-	-	100,397
	Protective services					
95100	Protective services - labo	26,935	-	-	-	26,935
95200	Protective services- other contract cost	-	-	-	-	-
95300	Protective services - othe	-	-	-	-	-
95500	Employee benefit contributions- protective service	13,848	-	-	-	13,848
	General expense					
96110	Property Insurance	37,334	-	-	-	37,334
96120	Liability Insurance	26,047	-	-	-	26,047
96130	Workmen's Compensator	21,706	-	-	-	21,706
96140	All Other Insurance	1,736	-	-	-	1,736
96200	Other general expense	-	-	-	-	-
96210	Compensated absence	18,711	-	-	-	18,711
96300	Payments in lieu of tax:	-	-	-	-	-
96400	Bad debt - tenant rent	43,121	-	-	-	43,121
96700	Interest expense	-	-	-	-	-
96710	Interest of Mortgage (or bonds) payabl	70,314	-	-	-	70,314
96730	Amortization of Bond Issue Cost	2,607	-	-	-	2,607
96800	Severance expense	-	-	-	-	-
96900	TOTAL OPERATING EXPENSES	1,582,976	13,228	22,907	-	1,619,111
97000	EXCESS OPERATING REVENUE OVER OPERATING EXPENSES	133,742	49,575	196,556	-	379,873
97100	Extraordinary maintenance	-	-	-	-	-
97200	Casualty losses - non capitalizex	-	-	-	-	-
97300	Housing assistance payment	-	-	208,539	-	208,539
97350	HAP Portability - ir	-	-	-	-	-
97400	Depreciation expense	564,778	-	-	-	564,778
97500	Fraud losses	-	-	-	-	-
97800	Dwelling units rent expense	-	-	-	-	-

Housing Authority of the City of Salem						
NJ058						
Financial Data Schedule (FDS)						
September 30, 2011						
Line Item #	Account Description	Projects	Capital Fund Stimulus Grant	Housing Choice Vouchers	Business Activities	TOTAL
90000	TOTAL EXPENSES	2,147,754	13,228	231,446	-	2,392,428
OTHER FINANCING SOURCES (USES)						
10010	Operating transfers in	113,200	-	-	-	113,200
10020	Operating transfers out	(113,200)	-	-	-	(113,200)
10030	Operating transfers from/to primary government	-	-	-	-	-
10040	Operating transfers from/to component unit	-	-	-	-	-
10070	Extraordinary items, net gain/loss	-	-	-	-	-
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 program and project out	-	-	-	-	-
10100	TOTAL OTHER FINANCING SOURCES (USES)	-	-	-	-	-
10000	EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES	(431,036)	49,575	(11,983)	-	(393,444)
MEMO ACCOUNT INFORMATION:						
11020	Required annual debt principal payments	80,000	-	-	-	80,000
11030	Beginning equity	6,257,485	-	37,970	10,713	6,306,168
11040	Prior period adjustments and equity transfers	(1,483,301)	(49,575)	-	(10,713)	(1,543,589)
11170	Administrative fee equity	-	-	8,732	-	8,732
11180	Housing assistance payments equity	-	-	17,255	-	17,255
11190	Unit months available	2,160	-	372	-	2,532
11210	Number of unit months leased	1,874	-	354	-	2,228
Equity Roll Forward Test:						
	Calculation from R/E Statement	\$ 4,343,148	\$ -	\$ 25,987	\$ -	\$ 4,369,135
	B/S Line 513	\$ 4,343,148	\$ -	\$ 25,987	\$ -	\$ 4,369,135
		\$ -	\$ -	\$ -	\$ -	\$ -