

**HOUSING AUTHORITY
OF THE
CITY OF SALEM**

Financial Statements

September 30, 2013

With Independent Auditors' Report

Housing Authority of the City of Salem
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 September 30, 2013

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Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying statement of net position of the Housing Authority of the City of Salem as of September 30, 2013 and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended as well as the related notes to financial statements, which collectively comprise the Housing Authority of the City of Salem's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

The management of the Housing Authority of the City of Salem is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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



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, 2013, and the respective changes in financial position, and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 9 be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to 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.

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Housing Authority of the City of Salem's basic financial statements. The accompanying schedules of expenditures of federal awards, findings and questioned costs and prior audit findings and questioned costs are presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and are not a required part of the basic financial statements. The accompanying financial data schedules and schedule of capital fund program costs and advances are presented for purposes of additional analysis as required by the U.S. Department of Housing and Urban Development and are not a required part of the basic financial statements.

The accompanying supplementary schedule of expenditures of federal awards, schedule of findings and questioned costs, schedule of prior audit findings and questioned costs, financial data schedules and schedule of capital fund 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 basic financial statements. The accompanying schedules of findings and questioned costs and prior audit findings and questioned costs are presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary schedules of expenditures of federal awards, findings and questioned costs, prior audit findings and questioned costs, financial data schedules and schedule of capital fund program costs and advances are fairly stated, in all material respects, in relation to the basic financial statements as a whole.



Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 27, 2014, 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, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit in accordance with *Government Auditing Standards* in considering the Housing Authority of the City of Salem's internal control over financial reporting and compliance.

William Smith + Brown, PC

June 27, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS
Salem Housing Authority
Fiscal Year Ended September 30, 2013

As Management of 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, 2013. 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 \$3,361,468 (net position) as opposed to \$3,777,678 for the prior fiscal year.

2 – As of the close of the current fiscal year, the Authority's Proprietary Fund reported ending Unrestricted Net Position of \$103,745.

3 – The Authority's cash and cash equivalent balances (including tenant security deposits) at September 30, 2013, was \$434,987, representing an increase of \$14,637 from the prior fiscal year.

4 – The Authority had Total Operating Revenues of \$1,769,016 and Total Operating Expenses of \$2,180,608 (including depreciation \$533,694) for the year ended September 30, 2013.

5 – The Authority's capital outlays for the fiscal year were \$38,090. \$31,513 was from HUD capital grants and \$6,577 was from operations.

6 – The Authority's Expenditures of Federal Awards amounted to \$1,333,138 for the fiscal year.

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 statements and Notes to Financial Statements included in the this Report were prepared in accordance with generally accepted accounting principles (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 Position, the Statement of Revenues, Expenses and Changes in Net Position, and the Statement of Cash Flows.

The Statement of Net Position present information on all the Authority's assets and liabilities, with the difference between the two reported as net position. Increases or decreases in net position 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 Position present information showing how the Authority's net position changed during the most recent 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 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).

MANAGEMENT'S DISCUSSION AND ANALYSIS
Salem Housing Authority
Fiscal Year Ended September 30, 2013

B Using the Annual Report (Continued)

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 10 through 13.

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 21 of this report.

C The Authority as a Whole

The Authority's Net Position decreased during the fiscal year as detailed below. 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. The Authority's revenues were sufficient to cover all expenses, excluding depreciation during the fiscal year.

By far, the largest portion of the Authority's net position 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 its tenants. Consequently, these assets are not available for future spending. The unrestricted net position of the Authority is available for future use to provide program services.

D Budgetary Highlights

For the year ended September 30, 2013 individual program or grant budgets were prepared by Authority management and were approved by the Board of Commissioners. The budgets were primarily used as a management tool and have no legal stature. (Also, the Authority adopted a comprehensive annual budget for the General Fund.) The budgets were prepared in accordance with the accounting procedures prescribed by the applicable funding agency.

As indicated by the excess of revenues over expenses, when adjusted by depreciation expense, the Authority's Net Position remained relatively constant during the fiscal year. This is indicative of the Authority operating within its budgetary limitations in total, for all its programs.

MANAGEMENT'S DISCUSSION AND ANALYSIS
Salem Housing Authority
Fiscal Year Ended September 30, 2013

E Capital Assets and Debt Administration

1 – Capital Assets

As of September 30, 2013, the Authority's investment in capital assets for its Proprietary Fund was \$4,460,182 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment and construction in progress.

Major capital assets purchased from grants of \$111,513 during the fiscal year pertained to expenditures made in accordance with the Authority's Capital Fund Programs. These activities are funded by grants from HUD.

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

2 – Long Term Debt

During 2004, the Authority participated in a Capital Fund Leveraging Pool. The New Jersey Housing and Finance Agency issued tax exempt bonds and the proceeds were distributed among the participating Authorities. The Authority received \$1,920,000 to be used for capital improvements to its properties. Further details can be found in Note 5 to the financial statements.

F 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, 2014.

1 – The state of the economy, particularly its effect on tenant incomes, which are used in determining tenant rents paid to the Authority.

2 – The need for Congress to fund other initiatives and programs of the federal government, thereby decreasing funding available to public housing programs.

3 – The use of the Authority's Unrestricted Net Position of \$103,745 to fund any shortfalls rising from a possible economic turndown and reduced subsidies and grants. The Authority's Unrestricted Net Position appears sufficient to cover any shortfall.

G Significant Changes From September 30, 2012 to September 30, 2013

Tenant accounts receivable (net of allowance for doubtful accounts) decreased \$43,876 because the Authority wrote-off old, uncollectible balances and also improved their collection process during the current fiscal year.

Fixed Assets increased \$38,090 as the Authority continued to improve the living conditions of its tenants. The Authority purchased appliances and ranges, painted and tiled multiple apartments, and upgraded its security system.

Accrued compensated absences decreased \$15,669 primarily because of a \$19,770 payment made to the estate of a former employee. The current year accrual still includes the approximate \$25,000 of compensated absences owed to the former Executive Director.

MANAGEMENT'S DISCUSSION AND ANALYSIS
Salem Housing Authority
Fiscal Year Ended September 30, 2013

G Significant Changes from September 30, 2012 to September 30, 2013 (Continued)

Accrued wages decreased \$10,364 because there are no accrued wages at September 30, 2013. The last pay period covered the final day of the current fiscal year.

Accrued interest payable increased \$25,993 because bond interest was not accrued for during the prior fiscal year. The current year accrual represents the interest attributable to the Authority's capital bond leveraging program.

Bonds payable decreased \$80,000 because the Authority made \$80,000 of bond principal payments during the current fiscal year.

Accrued OPEB increased \$11,176 because the Authority did not record this liability on its books in the prior fiscal year. OPEB represents Other Post Employment Benefits owed to its current and former employees that qualify for this benefit. More information regarding OPEB can be found in the notes to the financial statements.

Total revenue increased \$36,695. Tenant rental revenue decreased \$4,824, HUD operating grants increased \$49,065, and other income decreased \$17,194. Other income for the year ended September 30, 2013 consists primarily of rent received from a local school and laundry income.

The operating expenses decreased \$173,181.

- Administrative expenses increased \$8,812, or 2.1%. Administrative salaries and benefits significantly decreased due to cost cutting measures. However, these savings were offset by costs incurred for the Executive Director shared service contract with the Millville Housing Authority.
- Housing assistance payments increased \$11,229, or 5.2% from the prior fiscal year.
- Tenant services expense remained flat, decreasing only \$531.
- Utilities expense increased \$13,810, or 2.7%. Slightly higher rates and consumption resulted in higher expenses.
- Ordinary maintenance expenses decreased \$63,448, or 15.7%. Although the Authority maintains safe and healthy living conditions for its tenants, the prior administration frivolously spent funds on maintenance costs. The current administration implemented cost cutting measures while at the same time maintaining a healthy stable living environment.
- Protective services costs decreased \$26,088, or 69.0%, as the Authority terminated a security employee during the current fiscal year as part of its cost management project.
- General expenses decreased \$22,999, or 18.7%, as bad debts, insurance and compensated absences expense all decreased from the prior fiscal year.
- Depreciation expense decreased \$93,966, or 15.0%, because there was an error in the prior year calculation.

MANAGEMENT'S DISCUSSION AND ANALYSIS
Salem Housing Authority
Fiscal Year Ended September 30, 2013

H Budget Comparison

Comparison Budget vs. Actual - Low Income Public Housing

	Budget	Actual	Fav. /(Unfav.) Variance	% Variance
Tenant Rental & Other Revenue	524,684	521,672	(3,012)	-0.57%
Investment Income	500	372	(128)	25.60%
Other Income	66,954	25,719	(41,235)	61.59%
Total Operating Revenue	592,138	547,763	(44,375)	-7.49%
Operating Expenses:				
Administrative	425,194	387,256	37,938	8.92%
Tenant Services	4,000	1,073	2,927	73.18%
Utilities	550,000	534,835	15,165	2.76%
Maintenance	416,331	341,287	75,044	18.03%
Protective Services	39,352	11,696	27,656	70.28%
General Expense	88,900	100,280	(11,380)	-12.80%
Total Operating Expenses	1,523,777	1,376,427	147,350	9.67%
Residual Receipts/(Deficit)	(931,639)	(828,664)	102,975	-11.05%
Operating Subsidy	893,000	873,959	(19,041)	-2.13%
Residual Receipts/(Deficit)	\$ (38,639)	\$ 45,295	\$ 83,934	-217.23%

I 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 Acting Executive Director, Housing Authority of the Borough of Harrison, Harrison & Schuyler Avenue, Harrison, New Jersey 07029-1331, or call (973) 483-1488.

MANAGEMENT'S DISCUSSION AND ANALYSIS
Salem Housing Authority
Fiscal Year Ended September 30, 2013

Composition of Net Position is as follows:

	<u>Year Ended</u>		<u>Variance</u>	<u>% Variance</u>
	<u>Sept. 30, 2013</u>	<u>Sept. 30, 2012</u>		
Cash and Other Current Assets	\$ 486,580	\$ 515,385	\$ (28,805)	-5.59%
Capital Assets - Net	<u>4,460,182</u>	<u>4,955,786</u>	<u>(495,604)</u>	<u>-10.00%</u>
Total Assets	4,946,762	5,471,171	(524,409)	-9.58%
Less: Total Liabilities	<u>(1,585,294)</u>	<u>(1,693,493)</u>	<u>108,199</u>	<u>-6.39%</u>
Net Position	<u>\$ 3,361,468</u>	<u>\$ 3,777,678</u>	<u>\$ (416,210)</u>	<u>-11.02%</u>
Invested in Capital Assets, Net of Debt	3,075,182	3,490,786	(415,604)	-11.91%
Restricted Net Position	182,541	192,872	(10,331)	-5.36%
Unrestricted Net Position	<u>103,745</u>	<u>94,020</u>	<u>9,725</u>	<u>10.34%</u>
Total Net Position	<u>\$ 3,361,468</u>	<u>\$ 3,777,678</u>	<u>\$ (416,210)</u>	<u>-11.02%</u>

Computations of Changes in Net Position are as follows:

	<u>Year Ended</u>			
	<u>Sept. 30, 2013</u>	<u>Sept. 30, 2012</u>		
<u>Revenues</u>				
Tenant Revenues	\$ 521,672	\$ 516,848	\$ 4,824	0.93%
HUD Subsidies	1,221,625	1,172,560	49,065	4.18%
Other Income	<u>25,719</u>	<u>42,913</u>	<u>(17,194)</u>	<u>-40.07%</u>
Total Operating Revenues	<u>1,769,016</u>	<u>1,732,321</u>	<u>36,695</u>	<u>2.12%</u>
<u>Expenses</u>				
Operating Expenses excluding depreciation	1,646,914	1,726,129	(79,215)	-4.59%
Depreciation Expense	<u>533,694</u>	<u>627,660</u>	<u>(93,966)</u>	<u>-14.97%</u>
Total Operating Expenses	<u>2,180,608</u>	<u>2,353,789</u>	<u>(173,181)</u>	<u>-7.36%</u>
Deficiency of Operating Revenues Over Expenses	(411,592)	(621,468)	209,876	-33.77%
<u>Non-Operating Revenues</u>				
Interest Income/(Expense)	<u>(64,240)</u>	<u>(67,074)</u>	<u>2,834</u>	<u>-4.23%</u>
Deficiency of Revenues Over Expenses Before Capital Grants Received	(475,832)	(688,542)	212,710	-30.89%
HUD Capital Grants	<u>111,513</u>	<u>131,627</u>	<u>(20,114)</u>	<u>-15.28%</u>
Increase/(Decrease) in Net Position	(364,319)	(556,915)	192,596	-34.6%
Prior Period Adjustments	(51,891)	(34,542)	(17,349)	0.00%
Beginning Net Position	<u>3,777,678</u>	<u>4,369,135</u>	<u>(591,457)</u>	<u>-13.54%</u>
Total Net Position	<u>\$ 3,361,468</u>	<u>\$ 3,777,678</u>	<u>\$ (416,210)</u>	<u>-11.02%</u>

FINANCIAL STATEMENTS

Housing Authority of the City of Salem
Salem, New Jersey
Statement of Net Position
September 30, 2013

ASSETS	
CURRENT ASSETS	
Cash and Cash Equivalents - Unrestricted	\$ 210,851
Cash - Restricted	182,541
Cash - Tenant Security Deposits	41,595
Accounts Receivable - Tenants (Net of allowance \$6,919)	6,919
Prepaid Expenses and Other Current Assets	<u>44,674</u>
Total Current Assets	<u>486,580</u>
FIXED ASSETS	
Land	183,069
Buildings and Improvements	15,179,817
Furniture, Equipment and Machinery	291,903
Construction in Progress	<u>59,600</u>
Total Fixed Assets	15,714,389
Less: Accumulated Depreciation	<u>(11,254,207)</u>
Net Fixed Assets	<u>4,460,182</u>
Total Assets	<u>\$ 4,946,762</u>
LIABILITIES AND NET POSITION	
CURRENT LIABILITIES	
Accounts Payable:	
Vendors and Contractors	\$ 73,021
Due to Tenants:	
Security Deposits	41,595
Deferred Revenue	4,721
Accrued Liabilities:	
Compensated Absences - Current Portion	4,379
Accrued Interest Payable	25,993
Current Portion of Bonds Payable	<u>85,000</u>
Total Current Liabilities	234,709
Accrued Compensated Absences - Noncurrent	39,409
Bonds Payable, Net of Current Portion	1,300,000
Accrued Pension and OPEB	<u>11,176</u>
Total Liabilities	<u>1,585,294</u>
NET POSITION	
Invested in Net Fixed Assets Net of Related Debt	3,075,182
Restricted Net Position	182,541
Unrestricted Net Position	<u>103,745</u>
Total Net Position	<u>3,361,468</u>
Total Liabilities and Net Position	<u>\$ 4,946,762</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

Housing Authority of the City of Salem
 Salem, New Jersey
 Statement of Revenues, Expenses and Changes in Net Position
 For the Year Ended September 30, 2013

OPERATING REVENUES	
Tenant Rental and Other Revenue	\$ 521,672
HUD Grants - Operating	1,221,625
Other Income	<u>25,719</u>
Total Revenues	<u>1,769,016</u>
OPERATING EXPENSES	
Administration	428,609
Housing Assistance Payments	229,134
Tenants Services	1,073
Utilities	534,835
Ordinary Maintenance and Operations	341,287
Protective Services	11,696
General Expense	100,280
Depreciation Expense	<u>533,694</u>
Total Operating Expenses	<u>2,180,608</u>
OPERATING LOSS	(411,592)
NON OPERATING REVENUES/(EXPENSES)	
Interest Income	384
Interest Expense	<u>(64,624)</u>
Loss Before Contributions and Transfers	(475,832)
Capital Grants	<u>111,513</u>
DECREASE IN NET POSITION	<u>(364,319)</u>
Net Position as Previously Reported	3,777,678
Prior Period Adjustments	<u>(51,891)</u>
Beginning of the Year, Restated	<u>3,725,787</u>
Ending Net Position	<u>\$ 3,361,468</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

Housing Authority of the City of Salem
Salem, New Jersey
Statement of Cash Flows
For the Year Ended September 30, 2013

CASH FLOWS FROM OPERATING ACTIVITIES

Cash Received:	
From Tenants for Rental & Other Income	\$ 508,567
From Government Agencies for Operating Grants	1,221,625
For Other Operating Revenues	25,719
Cash Paid:	
To Employees for Operations	(276,648)
To Suppliers for Operations	(1,132,103)
For Housing Assistance Payments	<u>(229,134)</u>
Net Cash Provided by Operating Activities	<u>118,026</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Capital Grants Received	111,513
Acquisition of Property and Equipment	(38,090)
Repayment of Debt	<u>(80,000)</u>
Net Cash Used by Capital and Related Financing Activities	<u>(6,577)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Cash Received for Tenant Security Deposits	(5,954)
Investment Expense	(91,242)
Investment Income	<u>384</u>
Net Cash Used by Investing Activities	<u>(96,812)</u>

Net Increase in Cash and Cash Equivalents	14,637
Cash and Equivalents at Beginning of Period	<u>420,350</u>
Cash and Equivalents at End of Period	<u>\$ 434,987</u>

CASH AND EQUIVALENTS PER FINANCIAL STATEMENTS

Cash and Cash Equivalents - Unrestricted	\$ 210,851
Cash - Restricted	182,541
Cash - Tenant Security Deposits	<u>41,595</u>
Total Cash and Equivalents	<u>434,987</u>

(Continued on the following page)

The accompanying Notes to Financial Statements are an integral part of this statement.

Housing Authority of the City of Salem
 Salem, New Jersey
 Statement of Cash Flows (continued)
 For the Year Ended September 30, 2013

RECONCILIATION OF OPERATING LOSS TO NET CASH
 PROVIDED BY OPERATIONS

Operating Loss	\$ (411,592)
Depreciation	533,694
Bad Debt Expense	13,607
Decrease/(Increase) in Assets	
Accounts Receivable - Tenants	4,996
Prepaid Expenses and Other Current Assets	(434)
Increase/(Decrease) in Liabilities	
Accounts Payable	(1,673)
Deferred Revenue	(31,708)
Accrued Wages and Payroll Taxes Payable	(10,364)
Compensated Absences	(15,669)
Accrued Interest Payable	25,993
Accrued Pension and OPEB	11,176
	<hr/>
Net Cash Provided by Operating Activities	<u>\$ 118,026</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

Housing Authority of the City of Salem
Salem, New Jersey
Notes to Financial Statements
September 30, 2013

1. Summary of Organization, Activities and Significant Accounting Policies:

A. Organization and Activities

The Housing Authority of the City of Salem (the Authority) is a governmental, public corporation created under the laws of the state of New Jersey to provide housing for qualified individuals in accordance with the rules and regulations prescribed by the United States of Housing and Urban Development. The governing board is essentially autonomous but is responsible to the U.S. Department of Housing and Urban Development. An executive director is appointed by the Authority's Board of Commissioners to manage the day-to-day operations of the Authority.

The combined financial statements include all 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 federally funded programs administered by the Authority are detailed on the Financial Data Schedule and the Schedule of Expenditures of Federal Awards, both of which are included as Supplemental Information.

B. Significant Accounting Policies

Basis of Accounting – The financial statements of the Authority are prepared using 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 are recognized in the accounting period in which they are earned and become measurable, and expenses recognized in the period incurred, if measurable. Operating revenues and expenses consist of those revenues and expenses that result from the ongoing principal operations of the Authority. Non-operating revenues and expenses consist of those revenues and expenses that are related to financing and investing types of activities and result from non-exchange transactions or ancillary activities. All assets, liabilities, net position, revenue and expenses are accounted for using a single enterprise fund for the primary government.

Revenue – The major sources of revenue are various subsidies and grants received from the United States Department of Housing and Urban Development, charges to tenants and other miscellaneous revenues discussed below.

Federal Grant Revenue – Operating subsidies, Section Eight housing assistance grants and Capital Fund Program revenue received from HUD are recorded under the accrual method of accounting and are recognized in the period earned in accordance with applicable HUD guidelines. The Authority is generally entitled to receive funds from HUD under an established payment schedule, or as expenditures are made under the Capital Fund Program. HUD subsidizes the Authority's Housing Choice Voucher Program based on the prior year Voucher Management Submission (VMS Report). Authorities exceeding funding levels must use reserves to fund the shortage. Authorities whose funding exceeds expenditures may retain the excess amounts. However, the amounts retained must be segregated between HAP and Administrative reserves.

Tenant Charges – Tenant rental charges are determined and billed monthly and are recognized as revenue when billed as they are measurable and collectible within the current period. Amounts not collected at year-end are included in the balance sheet as accounts receivable, and amounts paid by tenants for the subsequent fiscal year are recorded as deferred revenue.

Other Revenues – Miscellaneous revenue consists primarily of miscellaneous service fees. The revenue is recorded as earned since it is measurable and available.

Report Presentation – The financial statements included in this Report were prepared in accordance with generally accepted accounting principles (GAAP) in the United States of America applicable to governmental entities for Proprietary Fund Types. The Authority implemented the provisions of Governmental Accounting Standards Board Statement No. 34 "Basic Financial Statements and Management's Discussion and Analysis

Housing Authority of the City of Salem
Salem, New Jersey
Notes to Financial Statements
September 30, 2013

for State and Local Governments" (Statement No. 34). The Authority also adopted the provisions of Statement No. 37 "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus" and Statement No. 38 "Certain Financial Statement Note Disclosures", which supplement Statement No. 34. Statement No. 34 established standards for all state and local governmental entities that include a statement of net position, a statement of activities and a statement of cash flows. It requires the classification of net position into three components – Invested in Capital Assets Net of Related Debt, Restricted Net Assets, and Unrestricted Net Assets. Statement No. 63 requires the re-naming of the Statement of Net Assets to the Statement of Net Position. The Statement of Net Position reports all assets, deferred outflows of resources, liabilities and deferred inflows of resources and net position. These classifications are defined as follows:

Invested in Capital Assets, Net of Related Debt – This component consists of land, construction in progress and depreciable assets, net of accumulated depreciation and net of the related debt outstanding. If there are significant unspent related debt proceeds as of year-end, the portion of the debt related to the unspent proceeds is not included in the calculation of Net Position Invested in Capital Assets, Net of Related Debt. Rather, that portion of the debt is included in the same net asset component as the unspent proceeds.

Restricted Net Position – This component includes net assets subject to restrictions placed on net asset use through external constraints imposed by creditors (such as debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by the law through constitutional provisions or enabling legislation.

Unrestricted Net Position – This component consists of net assets that do not meet the definition of Restricted Net Position or Invested in Capital Assets, Net of Related Debt.

The adoption of Governmental Accounting Standards Board Statements 34, 37 and 38 have no significant effect on the basic financial statements, except for the classification of net position in accordance with Statement No. 34.

Significant 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. Interest costs necessary to place a Capital Asset in its intended location and condition are capitalized.

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

5 – The Authority is subsidized by the Federal Government. The Authority is not subject to Federal or State income taxes, nor is it required to file Federal and State income tax returns.

6 – Operating subsidies and capital grants received from HUD are recorded as income when earned.

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

Housing Authority of the City of Salem
 Salem, New Jersey
 Notes to Financial Statements
 September 30, 2013

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

9 – Inventories in the Proprietary Fund consist of supplies and are recorded at the lower of first-in first-out, cost or market.

10 - The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and reported amounts of revenues and expenses during the reporting period.

11 - 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.

12 – The Authority does not have any infrastructure assets for its Proprietary Fund.

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

14 – Long-lived assets to be held and used are tested for recoverability whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. When required, impairment losses on assets to be held and used are recognized based on the fair value of the asset and long-lived assets to be disposed of by sale are reported at the lower of carrying amount or fair value less cost to sell. As of September 30, 2013, the Authority has not recognized any reduction in the carrying value of its fixed assets when considering SFAS 144.

Budgetary Policy and Control – The housing authority prepares an annual operating and capital budget in accordance with HUD requirements. However, HUD no longer approves the budgets. The budget is formally adopted by resolution of the Authority's Board of Commissioners. Once adopted, the Board of Commissioners may amend the adopted budget when unexpected modifications are required in estimated revenues and expenses. The 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.

2. Cash and Cash Equivalents and Investments

The Authority maintains cash and investments in local banks. These funds are covered by Act 72 of the State of New Jersey, which requires the institutions to pool collateral for all of governmental deposits and have the collateral held by an approved custodian in the institution's name.

Cash and Cash Equivalents (including tenant security deposits) of \$434,987 at September 30, 2013, consisted of the following:

	<u>June 30, 2013</u>
Checking Accounts	\$ 393,292
Escrow Accounts	41,595
Petty Cash Fund	<u>100</u>
Total Cash and Equivalents	<u>\$ 434,987</u>

The carrying amount of the Authority's cash and cash equivalents as of September 30, 2013 was \$434,987 and the bank balances were \$480,006. Of the bank balances, \$480,006 was covered by FDIC insurance. Cash and cash equivalents held at financial institutions are held in the Authority's name.

Housing Authority of the City of Salem
Salem, New Jersey
Notes to Financial Statements
September 30, 2013

3. Accounts Receivable – Tenants (Net)

Tenant accounts receivable are stated net of an allowance for doubtful accounts. The allowance for doubtful accounts as of September 30, 2013 was \$6,919.

4. Fixed Assets

Fixed assets consist primarily of expenditures to acquire, construct, place in operation and improve the facilities of the Authority and are stated at cost, less accumulated depreciation. The following is a summary of the changes in general fixed assets for the fiscal years ended September 30, 2013:

	Balance Sept. 30, 2012	Additions	Disposals	Transfers/ Other	Balance Sept. 30, 2013
Land	\$ 183,069	\$ -	\$ -	\$ -	\$ 183,069
Buildings & Improvements	14,623,634	-	-	556,183	15,179,817
Furniture and Equipment	279,950	6,577	-	5,376	291,903
Construction in Progress	589,646	31,513	-	(561,559)	59,600
Total Fixed Assets	15,676,299	38,090	-	-	15,714,389
Accumulated Depreciation	(10,720,513)	(533,694)	-	-	(11,254,207)
Net Fixed Assets	\$ 4,955,786	\$ (495,604)	\$ -	\$ -	\$ 4,460,182

Depreciation expense for the fiscal years ended September 30, 2013 amounted to \$533,694.

Expenditures are capitalized when they meet the Authority's Capitalization policy. Under that policy, assets purchased or constructed at a cost not exceeding \$1,000 are expenses when incurred.

Depreciation of Fixed Assets is provided using the straight-line method for reporting purposes at rates based upon the following estimated useful lives:

	Years
Buildings	40
Improvements	15
Furniture	5
Equipment	5
Vehicles	5
Computer Equipment	3

5. Non-Current Liabilities

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 were expensed at the issuance on the bonds.

Debt service activity for the year ended September 30, 2013 consisted of the following:

Description	Sep. 30, 2012	Additions	Principal Payments	Sep. 30, 2013	Amounts due within one year
Capital Fund Revenue Bonds	\$ 1,465,000	\$ -	\$ (80,000)	\$ 1,385,000	\$ 85,000

Housing Authority of the City of Salem
 Salem, New Jersey
 Notes to Financial Statements
 September 30, 2013

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>
2014	\$ 85,000	\$ 61,624	\$ 146,624
2015	90,000	58,254	148,254
2016	90,000	54,423	144,423
2017	100,000	50,376	150,376
2018-2022	550,000	182,713	732,713
2023-2026	<u>470,000</u>	<u>44,885</u>	<u>514,885</u>
	<u>\$ 1,385,000</u>	<u>\$ 452,275</u>	<u>\$ 1,837,275</u>

6. Accrued Compensated Absences

Accrued compensated absences of \$43,788 at September 30, 2013, represent amounts of accumulated leave for which employees are entitled to receive payment in accordance with the Authority's Personnel Policy. Employees may be compensated for accumulated vacation time in the event of retirement or termination of service.

7. Other Post-Employment Benefits (OPEB)

The Authority provides subsidized benefits at retirement for medical, dental, vision, life insurance and reimbursement for Medicare Part B premium reimbursement 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 any unfunded actuarial liabilities over a period of the working lifetime of the individual employee. The Authority's liability at September 30, 2013 is \$11,176.

8. 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 Authority was required to make a contribution of \$29,975 to the system during the audit period. 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.

Housing Authority of the City of Salem
Salem, New Jersey
Notes to Financial Statements
September 30, 2013

9. Risk Management

The Authority is exposed to various risks of loss related to torts, theft, damage to and destruction of assets; errors and omissions; and natural disasters for which the Authority carries commercial insurance. During the year ended September 30, 2013, the Authority's risk management program, in order to deal with potential liabilities, consisted of various insurance policies for fire, general liability, crime, auto and public-officials errors and omissions. Periodically, but not less than once annually, the Authority conducts a physical inspection of its Projects to determine potential liability issues. Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Settled claims relating to the commercial insurance have not exceeded the amount of insurance in any of the past three fiscal years.

10. Construction Commitments

At September 30, 2013, the Authority had outstanding construction commitments pertaining to its Capital Fund Programs. The costs pertaining to such commitments will be paid by grants approved and committed to the Authority by the U.S. Department of Housing and Urban Development.

11. Economic Dependency

For the year ended September 30, 2013, a substantial portion of the Authority's revenues were received as subsidies and grants from the United States Department of Housing and Urban Development and Rural Development. This funding is subject to availability of funds and Congressional approval, as well as the Authority's compliance with Federal rules and regulations.

12. Contingencies

Amounts received or receivable from HUD are subject to review and adjustment by HUD. Any disallowed claims, including amounts already collected, may constitute a liability to the Authority. The amounts, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time, although the Authority expects that such amounts, if any, are immaterial.

13. Unrestricted Net Position – Undesignated Fund Balance

Prior to January 1, 2005 excess funds advanced by HUD to the Authority for the payment of housing assistance payments were returned to HUD at the end of the Authority's fiscal 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 Housing Assistance Payments that are not so 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 fees 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 undesignated fund balance also includes interest income on HAP investments, family self-sufficiency program forfeitures and fraud recoveries. The housing authority's portion of fraud recoveries (i.e., the higher of 50% of the amount collected or the reasonable and necessary costs that the PHA incurred related to the collection) must continue to be used for activities related to the provision of voucher assistance authorized under Section 8 of the United States Housing Act of 1937. The balance of the recovery amount must be maintained in the undesignated fund balance account as excess HAP. In accordance with HUD

Housing Authority of the City of Salem
Salem, New Jersey
Notes to Financial Statements
September 30, 2013

requirements, the Agency's restricted and unrestricted fund balance consists of the following components as of September 30, 2013:

	<u>Sept. 30, 2013</u>
Housing Assistance Payments (HAP)	\$ 1,377
Administrative Equity	<u>5,879</u>
Total Restricted and Unrestricted Net Position	<u>\$ 7,256</u>

14. Prior Period Adjustments

There are two prior period adjustments at September 30, 2013 that total \$51,891. The first is to adjust tenant accounts receivable by \$25,273. The second is to adjust bond interest expense by \$26,618.

15. Subsequent Events

The Authority has evaluated subsequent events through June 27, 2014, the date on which the financial statements were available to be issued. Based on this evaluation, the Authority has determined that no subsequent events have occurred which require disclosure in the financial statements.

SUPPLEMENTARY INFORMATION

Housing Authority of the City of Salem
 Schedule of Expenditures of Federal Awards
 For the Year Ended September 30, 2013

Federal Grantor / Program Title	CFDA Number	Federal Expenditures
United States Department of Housing and Urban Development:		
Low Rent Public Housing	14.850a	\$ 873,959
Section 8 Housing Choice Voucher Program	14.871	238,735
Public Housing Capital Fund Program	14.872	<u>220,444</u>
		<u>\$ 1,333,138</u>

Housing Authority of the City of Salem
Notes to Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2013

1. **Basis of Presentation**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Housing Authority of the City of Salem and is presented on the accrual basis of accounting. 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 the 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 position or cash flows of the Housing Authority of the City of Salem.

2. **Non-Cash Federal Assistance**

The Authority did not receive any non-cash Federal assistance for the year ended September 30, 2013.

3. **Sub-Recipients**

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

Housing Authority of the City of Salem
Salem, New Jersey
Schedule of Capital Fund Program
Costs and Advances
For the Year Ended September 30, 2013

	<u>501-11</u>	<u>501-12</u>	<u>Total</u>
Budget	\$ 285,798	\$ 259,543	\$ 545,341
<u>Advances</u>			
Cumulative through 9/30/12	\$ 173,718	\$ -	\$ 173,718
Current Year	112,080	34,904	146,984
Cumulative through 9/30/13	<u>285,798</u>	<u>34,904</u>	<u>320,702</u>
<u>Costs</u>			
Cumulative through 9/30/12	173,718	-	173,718
Current Year	112,080	34,904	146,984
Cumulative through 9/30/13	<u>285,798</u>	<u>34,904</u>	<u>320,702</u>
Excess / (Deficiency)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Summary			
<u>Soft Costs</u>			
Cumulative through 9/30/12	\$ 65,631	\$ -	\$ 65,631
Current Year	67,947	31,338	99,285
Cumulative through 9/30/13	<u>133,578</u>	<u>31,338</u>	<u>164,916</u>
<u>Hard Costs</u>			
Cumulative through 9/30/12	108,087	-	108,087
Current Year	44,133	3,566	47,699
Cumulative through 9/30/13	<u>152,220</u>	<u>3,566</u>	<u>155,786</u>
Cumulative	<u>\$ 285,798</u>	<u>\$ 34,904</u>	<u>\$ 320,702</u>

See Independent Auditors' Report.

Salem Housing Authority (NJ058)

SALEM, NJ

Entity Wide Balance Sheet Summary

Submission Type: Audited/A-133

Fiscal Year End: 09/30/2013

	Project Total	14,871 Housing Choice Vouchers	Subtotal	ELIM	Total
111 Cash - Unrestricted	\$204,972	\$5,879	\$210,851		\$210,851
112 Cash - Restricted - Modernization and Development					
113 Cash - Other Restricted	\$181,164	\$1,377	\$182,541		\$182,541
114 Cash - Tenant Security Deposits	\$41,595		\$41,595		\$41,595
115 Cash - Restricted for Payment of Current Liabilities					
100 Total Cash	\$427,731	\$7,256	\$434,987	\$0	\$434,987
121 Accounts Receivable - PHA Projects					
122 Accounts Receivable - HUD Other Projects					
124 Accounts Receivable - Other Government					
125 Accounts Receivable - Miscellaneous					
126 Accounts Receivable - Tenants	\$13,838		\$13,838		\$13,838
126.1 Allowance for Doubtful Accounts - Tenants	-\$6,919		-\$6,919		-\$6,919
126.2 Allowance for Doubtful Accounts - Other					
127 Notes, Loans, & Mortgages Receivable - Current					
128 Fraud Recovery	\$964		\$964		\$964
128.1 Allowance for Doubtful Accounts - Fraud	-\$964		-\$964		-\$964
129 Accrued Interest Receivable					
120 Total Receivables, Net of Allowances for Doubtful Accounts	\$6,919	\$0	\$6,919	\$0	\$6,919
131 Investments - Unrestricted					
132 Investments - Restricted					
135 Investments - Restricted for Payment of Current Liability					
142 Prepaid Expenses and Other Assets	\$44,674		\$44,674		\$44,674
143 Inventories					

See Independent Auditors' Report.

Salem Housing Authority (NJ058)

SALEM, NJ

Entity Wide Balance Sheet Summary

Submission Type: Audited/A-133

Fiscal Year End: 09/30/2013

	Project Total	14.871 Housing Choice Vouchers	Subtotal	ELIM	Total
143.1 Allowance for Obsolete Inventories					
144 Inter Program Due From					
145 Assets Held for Sale					
150 Total Current Assets	\$479,324	\$7,256	\$486,580	\$0	\$486,580
161 Land	\$183,069		\$183,069		\$183,069
162 Buildings	\$13,369,244		\$13,369,244		\$13,369,244
163 Furniture, Equipment & Machinery - Dwellings	\$287,581		\$287,581		\$287,581
164 Furniture, Equipment & Machinery - Administration	\$4,322		\$4,322		\$4,322
165 Leasehold Improvements	\$1,810,573		\$1,810,573		\$1,810,573
166 Accumulated Depreciation	-\$11,254,207		-\$11,254,207		-\$11,254,207
167 Construction in Progress	\$59,600		\$59,600		\$59,600
168 Infrastructure					
160 Total Capital Assets, Net of Accumulated Depreciation	\$4,460,182	\$0	\$4,460,182	\$0	\$4,460,182
171 Notes, Loans and Mortgages Receivable - Non-Current					
172 Notes, Loans, & Mortgages Receivable - Non Current - Past					
173 Grants Receivable - Non Current					
174 Other Assets					
176 Investments in Joint Ventures					
180 Total Non-Current Assets	\$4,460,182	\$0	\$4,460,182	\$0	\$4,460,182
190 Total Assets	\$4,939,506	\$7,256	\$4,946,762	\$0	\$4,946,762
311 Bank Overdraft					
312 Accounts Payable <= 90 Days	\$73,021		\$73,021		\$73,021

See Independent Auditors' Report.

Salem Housing Authority (NJ058)

SALEM, NJ

Entity Wide Balance Sheet Summary

Submission Type: Audited/A-133

Fiscal Year End: 09/30/2013

	Project Total	14,871 Housing Choice Vouchers	Subtotal	ELIM	Total
313 Accounts Payable >90 Days Past Due					
321 Accrued Wage/Payroll Taxes Payable					
322 Accrued Compensated Absences - Current Portion	\$4,379		\$4,379		\$4,379
324 Accrued Contingency Liability					
325 Accrued Interest Payable	\$25,993		\$25,993		\$25,993
331 Accounts Payable - HUD PHA Programs					
332 Account Payable - PHA Projects					
333 Accounts Payable - Other Government					
341 Tenant Security Deposits	\$41,595		\$41,595		\$41,595
342 Deferred Revenues	\$4,721		\$4,721		\$4,721
343 Current Portion of Long-term Debt - Capital	\$85,000		\$85,000		\$85,000
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	\$234,709	\$0	\$234,709	\$0	\$234,709
351 Long-term Debt, Net of Current - Capital Projects/Mortgage	\$1,300,000		\$1,300,000		\$1,300,000
352 Long-term Debt, Net of Current - Operating Borrowings					
353 Non-current Liabilities - Other					
354 Accrued Compensated Absences - Non Current	\$39,409		\$39,409		\$39,409
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	\$1,350,585	\$0	\$1,350,585	\$0	\$1,350,585

See Independent Auditors' Report.

Salem Housing Authority (NJ058)
SALEM, NJ

Entity Wide Balance Sheet Summary

Submission Type: Audited/A-133

Fiscal Year End: 09/30/2013

	Project Total	14,871 Housing Choice Vouchers	Subtotal	ELIM	Total
300 Total Liabilities	\$1,585,294	\$0	\$1,585,294	\$0	\$1,585,294
508.1 Invested In Capital Assets, Net of Related Debt	\$3,075,182		\$3,075,182		\$3,075,182
511.1 Restricted Net Assets	\$181,164	\$1,377	\$182,541		\$182,541
512.1 Unrestricted Net Assets	\$97,866	\$5,879	\$103,745		\$103,745
513 Total Equity/Net Assets	\$3,354,212	\$7,256	\$3,361,468	\$0	\$3,361,468
600 Total Liabilities and Equity/Net Assets	\$4,939,506	\$7,256	\$4,946,762	\$0	\$4,946,762

Salem Housing Authority (NJ058)

SALEM, NJ

Entity Wide Revenue and Expense Summary

Submission Type: Audited/A-133

Fiscal Year End: 09/30/2013

	Project Total	14,871 Housing Choice Vouchers	Subtotal	ELIM	Total
70300 Net Tenant Rental Revenue	\$509,622		\$509,622		\$509,622
70400 Tenant Revenue - Other	\$12,050		\$12,050		\$12,050
70500 Total Tenant Revenue	\$521,672	\$0	\$521,672		\$521,672
70600 HUD PHA Operating Grants	\$982,890	\$238,735	\$1,221,625		\$1,221,625
70610 Capital Grants	\$111,513		\$111,513		\$111,513
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	\$138	\$5	\$143		\$143
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	\$25,719		\$25,719		\$25,719
71600 Gain or Loss on Sale of Capital Assets					
72000 Investment Income - Restricted	\$234	\$7	\$241		\$241
70000 Total Revenue	\$1,642,166	\$238,747	\$1,880,913		\$1,880,913
91100 Administrative Salaries	\$125,645	\$14,750	\$140,395		\$140,395

See Independent Auditors' Report

Salem Housing Authority (NJ058)

SALEM, NJ

Entity Wide Revenue and Expense Summary

Submission Type: Audited/A-133

Fiscal Year End: 09/30/2013

	Project Total	14,871 Housing Choice Vouchers	Subtotal	ELIM	Total
91200 Auditing Fees	\$10,240	\$1,000	\$11,240		\$11,240
91300 Management Fee					
91310 Book-keeping Fee					
91400 Advertising and Marketing					
91500 Employee Benefit contributions - Administrative	\$88,781	\$7,250	\$96,031		\$96,031
91600 Office Expenses	\$5,000		\$5,000		\$5,000
91700 Legal Expense	\$42,103		\$42,103		\$42,103
91800 Travel	\$2,491		\$2,491		\$2,491
91810 Allocated Overhead					
91900 Other	\$131,349		\$131,349		\$131,349
91000 Total Operating - Administrative	\$405,609	\$23,000	\$428,609		\$428,609
92000 Asset Management Fee					
92100 Tenant Services - Salaries					
92200 Relocation Costs					
92300 Employee Benefit Contributions - Tenant Services					
92400 Tenant Services - Other	\$1,073		\$1,073		\$1,073
92500 Total Tenant Services	\$1,073	\$0	\$1,073		\$1,073
93100 Water	\$146,378		\$146,378		\$146,378
93200 Electricity	\$309,700		\$309,700		\$309,700
93300 Gas	\$78,757		\$78,757		\$78,757
93400 Fuel					
93500 Labor					
93600 Sewer					
93700 Employee Benefit Contributions - Utilities					

See Independent Auditors' Report.

Salem Housing Authority (NJ058)
SALEM, NJ

Entity Wide Revenue and Expense Summary

Fiscal Year End: 09/30/2013

Submission Type: Audited/A-133

	Project Total	14,871 Housing Choice Vouchers	Subtotal	ELIM	Total
93800 Other Utilities Expense					
93000 Total Utilities	\$534,835	\$0	\$534,835		\$534,835
94100 Ordinary Maintenance and Operations - Labor	\$103,613		\$103,613		\$103,613
94200 Ordinary Maintenance and Operations - Materials and	\$48,079		\$48,079		\$48,079
94300 Ordinary Maintenance and Operations Contracts	\$109,787		\$109,787		\$109,787
94500 Employee Benefit Contributions - Ordinary Maintenance	\$79,808		\$79,808		\$79,808
94000 Total Maintenance	\$341,287	\$0	\$341,287		\$341,287
95100 Protective Services - Labor	\$6,607		\$6,607		\$6,607
95200 Protective Services - Other Contract Costs					
95300 Protective Services - Other					
95500 Employee Benefit Contributions - Protective Services	\$5,089		\$5,089		\$5,089
95000 Total Protective Services	\$11,696	\$0	\$11,696		\$11,696
96110 Property Insurance	\$11,028		\$11,028		\$11,028
96120 Liability Insurance	\$71,543		\$71,543		\$71,543
96130 Workmen's Compensation					
96140 All Other Insurance					
96100 Total insurance Premiums	\$82,571	\$0	\$82,571		\$82,571
96200 Other General Expenses					
96210 Compensated Absences	\$4,102		\$4,102		\$4,102
96300 Payments in Lieu of Taxes					
96400 Bad debt - Tenant Rents	\$13,607		\$13,607		\$13,607
96500 Bad debt - Mortgages					

See Independent Auditors' Report.

Salem Housing Authority (NJ058)

SALEM, NJ

Entity Wide Revenue and Expense Summary

Submission Type: Audited/A-133

Fiscal Year End: 09/30/2013

	Project Total	14,871 Housing Choice Vouchers	Subtotal	ELIM	Total
96600 Bad debt - Other					
96800 Severance Expense					
96000 Total Other General Expenses	\$17,709	\$0	\$17,709		\$17,709
96710 Interest of Mortgage (or Bonds) Payable	\$64,624		\$64,624		\$64,624
96720 Interest on Notes Payable (Short and Long Term)					
96730 Amortization of Bond Issue Costs	\$64,624	\$0	\$64,624		\$64,624
96700 Total Interest Expense and Amortization Cost					
96900 Total Operating Expenses	\$1,459,404	\$23,000	\$1,482,404		\$1,482,404
97000 Excess of Operating Revenue over Operating Expenses	\$182,762	\$215,747	\$398,509		\$398,509
97100 Extraordinary Maintenance					
97200 Casualty Losses - Non-capitalized					
97300 Housing Assistance Payments		\$229,134	\$229,134		\$229,134
97350 HAP Portability-In					
97400 Depreciation Expense	\$533,694		\$533,694		\$533,694
97500 Fraud Losses					
97600 Capital Outlays - Governmental Funds					
97700 Debt Principal Payment - Governmental Funds					
97800 Dwelling Units Rent Expense					
90000 Total Expenses	\$1,993,098	\$252,134	\$2,245,232		\$2,245,232
10010 Operating Transfer In	\$25,954		\$25,954		\$25,954
10020 Operating transfer Out	-\$25,954		-\$25,954		-\$25,954

See Independent Auditors' Report.

Salem Housing Authority (NJ058)

SALEM, NJ

Entity Wide Revenue and Expense Summary

Submission Type: Audited/A-133

Fiscal Year End: 09/30/2013

	Project Total	14,871 Housing Choice Vouchers	Subtotal	ELIM	Total
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					
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	-\$350,932	-\$13,387	-\$364,319		-\$364,319
11020 Required Annual Debt Principal Payments	\$80,000	\$0	\$80,000		\$80,000
11030 Beginning Equity	\$3,757,035	\$20,643	\$3,777,678		\$3,777,678
11040 Prior Period Adjustments, Equity Transfers and Correction	-\$51,891		-\$51,891		-\$51,891
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 Liability					
11090 Changes in Allowance for Doubtful Accounts - Dwelling					
11100 Changes in Allowance for Doubtful Accounts - Other					
11170 Administrative Fee Equity		\$5,879	\$5,879		\$5,879
11180 Housing Assistance Payments Equity		\$1,377	\$1,377		\$1,377

See Independent Auditors' Report.

Salem Housing Authority (NJ058)

SALEM, NJ

Entity Wide Revenue and Expense Summary

Fiscal Year End: 09/30/2013

Submission Type: Audited/A-133

	Project Total	14,871 Housing Choice Vouchers	Subtotal	ELIM	Total
11190 Unit Months Available	2160	372	2532		2532
11210 Number of Unit Months Leased	2064	359	2423		2423
11270 Excess Cash	-\$85,925		-\$85,925		-\$85,925
11610 Land Purchases	\$0		\$0		\$0
11620 Building Purchases	\$27,947		\$27,947		\$27,947
11630 Furniture & Equipment - Dwelling Purchases	\$0		\$0		\$0
11640 Furniture & Equipment - Administrative Purchases	\$3,566		\$3,566		\$3,566
11650 Leasehold Improvements Purchases	\$0		\$0		\$0
11660 Infrastructure Purchases	\$0		\$0		\$0
13510 CFFP Debt Service Payments	\$0		\$0		\$0
13901 Replacement Housing Factor Funds	\$0		\$0		\$0

OTHER REPORTS AND COMMENTS



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**Independent Auditors' Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards***

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Housing Authority of the City of Salem as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise Housing Authority of the City of Salem's basic financial statements, and have issued our report thereon dated June 27, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Housing Authority of the City of Salem's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Housing Authority of the City of Salem's internal control. Accordingly, we do not express an opinion on the effectiveness of the Housing Authority of the City of Salem's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



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

Withern Smith + Brown, PC

June 27, 2014



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**Independent Auditors' Report on Compliance
for Each Major Program and on Internal Control
Over Compliance Required by OMB Circular A-133**

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

Report on Compliance for Each Major Federal Program

We have audited the Housing Authority of the City of Salem's compliance with the types of compliance requirements described in the OMB Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of the Housing Authority of the City of Salem's major federal programs for the year ended September 30, 2013. The Housing Authority of the City of Salem's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of 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 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 Housing Authority of the City of Salem'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 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 types of 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, 2013.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2013-01. Our opinion on its major federal program is not modified with respect to this matter.

The Housing Authority of the City of Salem's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Housing Authority of the City of Salem's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

The management of the Housing Authority of the City of Salem 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 Housing Authority of the City of Salem's internal control over compliance with requirements that could have a direct and material effect on a major federal program 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 Housing Authority of the City of Salem'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 over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *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 over compliance that might be deficiencies, significant deficiencies, or material weaknesses or significant deficiencies. 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.

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.

William Smith + Brown, PC

June 27, 2014

Housing Authority of the City of Salem
 Schedule of Findings and Questioned Costs
 For the Year Ended September 30, 2013

A. Summary of Auditors' Findings

Financial Statements

Type of auditors' report issued:	Unqualified
Internal Control over Financial Reporting:	
Material weaknesses identified?	No
Significant deficiencies identified that were not considered to be material weaknesses?	No
Noncompliance material to the financial statements noted?	None

Federal Awards

Internal control over major federal award programs:	
Material weaknesses identified?	No
Significant deficiencies identified that were not considered to be material weaknesses?	Yes
Type of auditors' report issued on compliance for major programs:	Unqualified
Identification of programs tested as major programs:	
CFDA 14.850a Low Rent Public Housing	
The threshold for distinguishing Types A and B programs	\$300,000
Qualified as a low-risk auditee	No

B. Findings – Required to be reported under *Government Auditing Standards*

None

(continued on next page)

Housing Authority of the City of Salem
Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2013

C. Findings – Required to be reported under *OMB Circular A-133*

Finding 2013-01

Criteria

Housing Authorities are required to establish, adopt and adhere to written policies for the admission of tenants from the public housing authority waiting list. The Salem Housing Authority (SHA) had adopted a written policy, however, in certain instances SHA personnel did not adhere to the admissions policy.

Condition

SHA employees did not always adhere to its admissions policies when selecting tenants for admission from the wait list.

Cause

A former SHA employee failed to follow SHA's wait list policies and HUD's program requirements related to admissions in select instances during the fiscal year ended September 30, 2013.

Effect

Failure on the part of this former employee to adhere to adopted policy may have resulted in improper admission of tenants, tenants being housed out of order, or tenants improperly denied access to affordable housing.

Recommendation

The pattern of noncompliance with SHA's wait list policies pre-date MHA's assuming the management of the SHA. Since MHA's management acted immediately to correct the situation upon detecting it, there is no further action required.

Management's Response and Corrective Action Plan

Prior to commencement of this audit, this situation was uncovered solely as a result of internal control policies and procedures implemented by MHA's management team. Upon detecting these instances of noncompliance, MHA immediately contracted with a nationally recognized Public Housing and Section 8 consulting firm to audit the wait list and determine the impact of the employee's transgressions. The audit outlined extensive mismanagement despite the employee having been properly trained. The SHA also informed HUD of the wait list transgressions, provided HUD with a copy of the audit, terminated the subject employee, re-wrote its Admissions and Continued Occupancy Policy (ACOP), and replaced the employee with someone competent to manage the wait list.

As stated by the auditor, management is satisfied that its system of internal control over compliance was able to detect these isolated instances of noncompliance with established policy. Further, as a result of its detection of these issues, MHA management took swift and decisive action to help ensure that such noncompliance does not occur in the future. After adopting its new ACOP, management will continue to closely monitor compliance with established policies in this area. Paul Dice, Executive Director is the person responsible for this corrective action plan. The corrective action plan has been completed as of this date.

**Housing Authority of the City of Salem
Summary Schedule of Prior Audit Findings and Questioned Costs
For the Year Ended September 30, 2013**

Financial Statement Findings

2012-1

Finding: Internal controls related to the accounting for and compliance with federal and state laws, regulations and grants pertaining to wages and hours worked may have been overridden by management.

No similar instances were noted during the financial statement audit for the fiscal year ended September 30, 2013.

Federal Awards and Questioned Costs Findings

2012-1

Finding: Internal controls related to the accounting for and compliance with federal and state laws, regulations and grants pertaining to wages and hours worked may have been overridden by management.

No similar instances were noted during the financial statement audit for the fiscal year ended September 30, 2013.

2012-2

Finding: The Authority's Admissions and Continued Occupancy Policy as well as HUD regulations were not being followed regarding move-ins to the Low Rent Public Housing Program.

A finding related to the Authority's admission of tenants to the Low Rent Public Housing Program is repeated at **2013-01**.

2012-3

Finding: Documentation related to annual inspections of Low Rent Public Housing Program Units was damaged and was not available for the audit.

No similar instances were noted during the financial statement audit for the fiscal year ended September 30, 2013.

2012-4

Finding: The Authority could not provide documentation related to the award of contracts in the Capital Fund and American Reinvestment and Recovery Act programs.

The Capital Fund Program was not considered a major program for the fiscal year ended September 30, 2013. There was no American Reinvestment and Recovery Act program.

See Independent Auditors' Report.



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June 27, 2014

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

In planning and performing our audit of the financial statements of Housing Authority of the City of Salem (the "Authority") as of and for the year ended September 30, 2013 in accordance with auditing standards generally accepted in the United States of America, we considered Housing Authority of the City of Salem's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we do not express an opinion on the effectiveness of Housing Authority of the City of Salem's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified.

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

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

This communication is intended solely for the information and use of management, the Board of Commissioners and others within the Authority and is not intended to be, and should not be, used by anyone other than these specified parties.



Objectives, Responsibilities and Limitations Regarding Internal Control and this Letter

<p><i>Our Responsibility Regarding Internal Control</i></p>	<ul style="list-style-type: none"> ◦ To consider Authority's internal control over financial reporting. ◦ To use this consideration solely to design audit procedures. These procedures support our expressed opinion regarding the financial statements. ◦ To communicate to management and the audit committee matters that come to our attention during the audit that we considered to be either a significant deficiency or material weakness. These terms are specifically defined by the standards of the profession.
<p><i>Limitations of Our Assessment of Internal Control</i></p>	<ul style="list-style-type: none"> ◦ Our consideration of internal control is not designed to express an opinion on its effectiveness. Accordingly, we express no such opinion. ◦ Our consideration would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. Accordingly, we have only communicated such matters that came to our attention during the audit.
<p><i>Who Should Rely on this Letter?</i></p>	<ul style="list-style-type: none"> ◦ This letter is intended solely for management, those in charge of governance of the Authority and others within the Authority. ◦ This letter should not be used by anyone other than the aforementioned specified individuals.

Key Terms and Definitions Used in This Letter

The following of key terms and definitions used in the body of this letter:

<p><i>Internal Control</i></p>	<p>Internal control is a process – affected by those charged with governance, management, and other personnel – designed to provide reasonable assurance about the achievement of the entity's objectives with regard to the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable rules and regulations.</p>
<p><i>Deficiencies in Internal Control</i></p>	<ul style="list-style-type: none"> ◦ Identified conditions that do 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. ◦ There are two types of deficiencies in internal control that can exist: <ul style="list-style-type: none"> ◦ Deficiency in design - A control that is not adequately designed in that it is either not properly developed or is missing a control objective ◦ Deficiency in operation - A control that is adequately designed, but not operating appropriately or the person performing the

	<p>control does not possess the necessary authority or competence to perform the control effectively.</p> <ul style="list-style-type: none"> ◦ There are three categories of deficiencies in internal control: <ul style="list-style-type: none"> ◦ Material weaknesses ◦ Significant deficiencies ◦ Other matters - Less severe deficiencies <p>The severity of a deficiency is based on its potential for material misstatement and not just on actual identified misstatements.</p>
Material Weaknesses	<ul style="list-style-type: none"> ◦ Professional standards define a material weakness as 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. ◦ Indications of material weaknesses in internal control include: <ul style="list-style-type: none"> ◦ Identification of fraud, whether or not material, on the part of senior management ◦ Restatement of previously issued financial statements to reflect the correction of a material misstatement due to error or fraud ◦ Identification by the auditor of a material misstatement on the financial statements under audit in circumstances that indicate that the misstatement would not have been detected by the entity's internal control; and ◦ Ineffective oversight of the entity's financial reporting and internal control by those charged with governance
Significant Deficiencies	<p>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.</p>

Matters Identified During the Audit

The following is a summary of matters identified during our audit that are being reported to those charged with governance pursuant to professional standards:

	Observation	WS+B Recommendation
s	<p><u>Departures from Waiting List Procedures</u></p> <p>During the audit we noted that Authority personnel were not following established procedures for the admission of tenants into public housing apartments from the waiting list. This could result in unfair treatment of potential tenants for housing.</p>	<p>It is our understanding that the Authority has designed and implemented a system to ensure that applicants for both the Authority's public housing and housing choice voucher programs are properly selected from its waiting lists, giving proper weight to preferences established in its Admissions and Continued Occupancy Policy (ACOP). Employees now involved in the process have been properly trained in the performance of their duties, and the process is monitored by</p>



		senior management on an ongoing basis to ensure that the ACOP is being adhered to with respect to admissions decisions and established wait list preferences.
--	--	---

- m: Any matter identified during our audit notated with this notation meets the professional standard's definition of material weakness.
- s: Any matter identified during our audit notated with this notation meets the professional standard's definition of significant deficiency.
- o: Any matter identified during our audit notated with this notation is considered less severe than either a significant deficiency or a material weakness.

The matters summarized in this letter have already been presented to management for their consideration during the conduct of our audit engagement. If you should have any questions, or require any clarification regarding anything discussed in this letter, we would be pleased to meet with you to discuss these matters.

Respectfully submitted,

WithumSmith+Brown, PC