

**Report On Audit**

**HOUSING AUTHORITY OF THE  
CITY OF SALEM**

**For the Year Ended  
September 30, 2018**

# Housing Authority of the City of Salem

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### **INDEPENDENT AUDITOR'S REPORT**

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

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

We have audited the accompanying financial statements of the Housing Authority of the City of Salem (a governmental public corporation) in Salem, New Jersey, hereafter referred to as the Authority, which comprise the statement of net position as of September 30, 2018, and the related statement of revenue, expenses and changes in net position, statement of cash flows for the year then ended, and the related notes to the financial statements.

#### **Management's Responsibility for the Financial Statements**

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

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

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Housing Authority of the City of Salem's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Housing Authority of the City of Salem's internal control. Accordingly, we express no such opinion.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Housing Authority of the City of Salem as of September 30, 2018, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Change in Method of Accounting for Pensions**

As discussed in Note 1 to the financial statements, the Authority changed its method for accounting and financial reporting of OPEB as a result of the adoption of Governmental Accounting Standards Board Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions - an Amendment of GASB Statement No. 45*. Our opinion is not modified with respect to this matter.

### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and OPEB and PERS supplemental information on pages 4 through 17 and pages 56-58 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards accepted in the United States of America, which consisted of inquiries of management about the method of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *Supplementary Information*

Our audit was conducted for the purpose of forming an opinion on the basic financial statements Housing Authority of the City of Salem. The accompanying supplemental information on pages 59-66 is presented for additional analysis and is not required part of the basic financial statements.

The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) is presented for purposes of additional analysis and is not a required part of the basic financial statements. The Capital Fund cost certification are also not required part of the basic financial statements.

The electronic filed Financial Data Schedule is presented for additional analysis as required by the U.S. Department of Housing and Urban Development's Real Estate Assessment Center and is also not required part of the basic financial statements.

The Schedule of Expenditures of Federal Awards, Capital Fund cost certification and the Financial Data Schedule, are the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements.

The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards, Capital Fund cost certification and the Financial Data Schedule, is 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 reports dated May 22, 2019 on our consideration of the Housing Authority of the City of Salem's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters.

The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Housing Authority of the City of Salem internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Housing Authority of the City of Salem's internal control over financial reporting and compliance.

**Hymanson, Parnes & Giampaolo**

Lincroft, New Jersey

Date: May 22, 2019

**HOUSING AUTHORITY OF THE CITY OF SALEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
AT SEPTEMBER 30, 2018**

As Management of the Housing Authority of the City of Salem (the Authority), present the following discussion and analysis which is supplementary information required by the Governmental Accounting Standards Board (GASB), and is intended to provide an easily readable explanation of the information provided in the attached financial statements. Management Discussion and Analysis is designed to focus on the current year activities, resulting changes, and current known facts. It is by necessity highly summarized, and in order to gain a thorough understanding of the Authority's financial position, the financial statements and footnotes should be viewed in their entirety beginning on page 18 of this report. New standards issued by GASB have significantly changed the format of the financial statements. We encourage readers to consider the information presented here in conjunction with the Authority's financial statements as presented elsewhere in this report.

**FINANCIAL HIGHLIGHTS**

The assets of the Authority exceeded its liabilities at the close of the most recent fiscal year by \$1,783,470 a decrease in the financial position of \$488,710 or 22% as compared to the prior year.

As noted above, the net position of the Authority was \$1,783,470 as of September 30, 2018. Of this amount, the unrestricted net position is negative (\$611,563) representing an increase in the deficit of \$362,891 or 146% percent from the previous year. During the year, the Authority recorded a prior period adjustment for the implementation of GASB #75 in the amount of (\$415,135). Additional information on the Authority's unrestricted net positions can be found in Note 20 the financial statements, which is included in this report.

The net investment in capital assets increased \$53,150 or 2% percent for an ending balance of \$2,390,935.

The restricted net position decreased \$178,969 or 98% percent from the prior year for and ending balance of \$4,098. Additional information on the Authority's restricted net position can be found in Notes 19 to the financial statements, which is included in this report.

The Authority's unrestricted cash, and cash equivalent at September 30, 2018 is \$301,177 representing a decrease of \$12,177 or 4% percent from the prior fiscal year. Total restricted deposits and funded reserves decreased \$181,394 or 88% percent for an ending balance of \$25,475. The full detail of this amount can be found in the Statement of Cash Flows on pages 21-22 of this report.

The Authority's total assets and deferred outflows are \$3,614,743 of which capital assets net book value is \$3,135,935; deferred outflow amount is \$40,515, and restricted deposits and funded reserves \$25,475 leaving total current assets at \$412,818. Total current assets increased from the previous year by \$13,035 or 3% percent.

**HOUSING AUTHORITY OF THE CITY OF SALEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
AT SEPTEMBER 30, 2018**

**FINANCIAL HIGHLIGHTS - CONTINUED**

Unrestricted cash and cash equivalents decreased by \$12,177, accounts receivables increased by \$31,364 and prepaid expenses decreased by \$6,152.

Total restricted deposits and funded reserves decreased \$181,394 for an ending balance of \$25,475.

Capital assets reported a decrease in the net book value of the capital assets in the amount of \$221,850 or 7% percent. The major factors that contributed for the decrease was the purchase of fixed assets in the amount of \$136,195, less the recording of depreciation expense in the amount of \$358,045. A full detail of capital outlays can be found in the Notes to the Financial Statements Section Note – 8 Fixed Assets.

The Authority reported a decrease in the deferred outflow for the pension cost in the amount of \$20,507 for an ending balance of \$40,515. The Authority reported a decrease in the deferred inflow for the pension cost in the amount of \$56,778 for an ending balance of \$190,393. A full detail of the pension reporting requirement can be found in the Notes to the Financial Statements Section Note – 9 Deferred Outflows/Inflows of Resources.

The Authority's total liabilities are reported at \$1,640,880 of which noncurrent liabilities are stated at \$1,371,036. Total liabilities increased during the year as compared to the prior year in the amount of \$134,772 or 9% percent. Total current liabilities increased during the year by \$9,321, leaving non-current liabilities for a decrease of \$125,451 as compared to the previous fiscal year.

Total current liabilities increased from the previous year by \$9,321 or 4% percent. Accounts payables decreased by \$43,145, accrued liabilities increased by \$60,527, tenant security deposit payable decreased by \$2,438, unearned revenue decreased \$3,358, other current liabilities increased \$12,735 and bonds payable current portion decreased \$15,000.

Total noncurrent liabilities increased by \$125,451 or 10% percent. Bonds payable – noncurrent decreased in the amount of \$260,000, long-term obligations for compensated absences increased in the amount of \$4,328 for an ending balance of \$25,385.

The Authority recorded a contingent liability as a noncurrent liability for a lawsuit filed for the amount of the insurance deductible of \$40,000 in the 2016 year. The balance of noncurrent liability at September 30, 2018 is \$-0-, a reduction of \$12,500 or 100% percent.

Accrued pension and OPEB liabilities increased \$393,623 or 135% percent for an ending balance of \$685,651. Accrued OPEB increased due to the adoption of GASB #75 by the Authority. Additional information on GASB #68 and #75 effect and the Authority's accrued OPEB liabilities at September 30, 2018 can be found in Notes 17-18 to the financial statements, which is included in this report.

**HOUSING AUTHORITY OF THE CITY OF SALEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
AT SEPTEMBER 30, 2018**

**FINANCIAL HIGHLIGHTS - CONTINUED**

The Authority had total operating revenue of \$2,096,362 as compared to \$1,938,217 from the prior year for an increase of \$158,145 or 8% percent. The Authority had total operating expenses of \$2,327,944 as compared to \$2,179,509 from the previous year for an increase of \$148,435 or 1% percent, resulting in a deficiency of revenue from operations in the amount of \$231,582 for the current year as compared to a deficiency of revenue from operations in the amount of \$241,292 for a decrease in the deficit of \$9,710 from the previous year. This was after consideration of depreciation expense.

Total capital improvements contributions from HUD were in the amount of \$157,622 as compared to \$109,021 from the previous year for an increase of \$48,601 or 45% percent. The Authority's had capital outlays in the amount of \$136,195 as well as payments for capital bond principal which amounted to \$100,000 for the fiscal year. These expenditures were funded by grants received during the year from the U.S. Department of Housing and Urban Development and the excess of those amounts were funded from management's reserves. A full detail of capital outlays can be found in the Notes to the Financial Statements Section Note – 8 Fixed Assets.

The Authority's Expenditures of Federal Awards amounted to \$1,598,716 for the fiscal year 2018 as compared to \$1,423,080 for the previous fiscal year 2017 for an increase of \$175,636 or 12% percent.

**USING THIS ANNUAL REPORT**

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

1. Public and Indian Housing Program
2. Section 8 Housing Choice Vouchers
3. Public Housing Capital Fund Program

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

**OVERVIEW OF THE FINANCIAL STATEMENT PRESENTATION**

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

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

**HOUSING AUTHORITY OF THE CITY OF SALEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
AT SEPTEMBER 30, 2018**

**OVERVIEW OF THE FINANCIAL STATEMENT PRESENTATION - CONTINUED** The Authority's financial statements and notes to financial statements included in this Report were prepared in accordance with generally accepted accounting principles (GAAP) applicable to governmental entities in the United States of America for the Enterprise Fund types. The Authority's activities are primarily supported by HUD subsidies and grants. The Authority's function is to provide decent, safe, and sanitary housing to low income and special needs populations. The financial statements can be found on pages 18 through 22.

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

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

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

Notes to the Financial Statements - Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided. These notes give greater understanding on the overall activity of the Housing Authority and how values are assigned to certain assets and liabilities and the longevity of these values. In addition, notes reflect the impact (if any) of any uncertainties the Housing Authority may face. The Notes to Financial Statements can be found in this Report beginning on page 23 through 55.

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

**HOUSING AUTHORITY OF THE CITY OF SALEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
AT SEPTEMBER 30, 2018**

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

The Schedule of Expenditures of Federal Awards is presented for purpose of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), Audits of States, Local Governments and Non-profit Organizations. The schedule of Expenditures of Federal Awards can be found on pages 59-60 of this report.

- 1. Federal Awards** - Pursuant to the Single Audit Act Amendments of 1996 (Public Law 104-156) and Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), federal award is defined as federal financial assistance and federal cost reimbursement contracts that non-federal agencies receive directly or indirectly from federal agencies or pass-through entities. Federal financial assistance is defined as assistance that nonfederal entities receive or administer in the form of grants, loans, loan guarantees, property, cooperative agreements, interest subsidies, insurance, direct appropriations and other assistance.
- 2. Type A and Type B Programs** - The Single Audit Act Amendments of 1996 and the Uniform Guidance establish the levels of expenditures or expenses to be used in defining Type A and Type B Federal financial assistance programs. Type A programs for the Housing Authority of the City of Salem are those which equal or exceeded \$750,000 in expenditures for the fiscal year ended September 30, 2018. Type B programs for the Housing Authority of the City of Salem are those which are less than \$750,000 in expenditures for the fiscal year ended September 30, 2018.

**HOUSING AUTHORITY OF THE CITY OF SALEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
AT SEPTEMBER 30, 2018**

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

The following summarizes the computation of Net Position between September 30, 2018 and September 30, 2017:

	<u>Year Ended</u>		Increase
	<u>September-18</u>	<u>September-17</u>	<u>(Decrease)</u>
Cash	\$ 301,177	\$ 313,354	\$ (12,177)
Other Current Assets	111,641	86,429	25,212
Restricted Cash	25,475	206,869	(181,394)
Capital Assets - Net	3,135,935	3,357,785	(221,850)
Deferred Outflows	40,515	61,022	(20,507)
Total Assets	3,614,743	4,025,459	(410,716)
Less: Current Liabilities	(269,844)	(260,523)	(9,321)
Less: Non Current Liabilities	(1,371,036)	(1,245,585)	(125,451)
Less: Deferred Inflows	(190,393)	(247,171)	56,778
Net Position	<u>\$ 1,783,470</u>	<u>\$ 2,272,180</u>	<u>\$ (488,710)</u>
Net Investment in Capital Assets	\$ 2,390,935	\$ 2,337,785	\$ 53,150
Restricted Net Position	4,098	183,067	(178,969)
Unrestricted Net Position	(611,563)	(248,672)	(362,891)
Net Position	<u>\$ 1,783,470</u>	<u>\$ 2,272,180</u>	<u>\$ (488,710)</u>

Total cash decrease by \$193,571 or 37% percent. Net cash provided by operating activities was \$128,010, net cash used by capital and related financing activities was \$319,528, and net cash used by investing activities was \$2,053. The full detail of this amount can be found in the Statement of Cash Flows on pages 21-22 of this audit report.

Other current assets increased \$25,212. Account receivable increased \$31,364 mainly from a HUD receivable in the amount of \$44,948. Prepaid expenses decreased \$6,152 or 11% percent.

Capital assets reported a decrease in the net book value of the capital assets in the amount of \$221,850 or 7% percent. The major factors that contributed for the decrease was the purchase of fixed assets in the amount of \$136,195, less the recording of depreciation expense in the amount of \$358,045. A full detail of capital outlays can be found in the Notes to the Financial Statements Section Note – 8 Fixed Assets.

The Authority reported a decrease in the deferred outflow for the pension cost in the amount of \$20,507 for an ending balance of \$40,515. The Authority reported a decrease in the deferred inflow for the pension cost in the amount of \$56,778 for an ending balance of \$190,393

**HOUSING AUTHORITY OF THE CITY OF SALEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
AT SEPTEMBER 30, 2018**

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

Total current liabilities increased from the previous year by \$9,321 or 4% percent. Accounts payables decreased by \$43,145, accrued liabilities increased by \$60,527, tenant security deposit payable decreased by \$2,438, unearned revenue decreased \$3,358, other current liabilities increased \$12,735 and bonds payable current portion decreased \$15,000.

Total noncurrent liabilities increased by \$125,451 or 10% percent. Bonds payable – noncurrent decreased in the amount of \$260,000, long-term obligations for compensated absences increased in the amount of \$4,328 for an ending balance of \$25,385.

The Authority recorded a contingent liability as a noncurrent liability for a lawsuit filed for the amount of the insurance deductible of \$40,000 in the 2016 year. The balance of noncurrent liability at September 30, 2018 is \$-0-, a reduction of \$12,500 or 100% percent.

Accrued pension and OPEB liabilities increased \$393,623 or 135% percent for an ending balance of \$685,651. Accrued OPEB increased due to the adoption of GASB #75 by the Authority. Additional information on GASB #68 and #75 effect and the Authority's accrued OPEB liabilities at September 30, 2018 can be found in Notes 17-18 to the financial statements, which is included in this report.

The Authority's reported net position of \$1,783,470 is made up of three categories. The net investment in capital assets in the amount of \$2,390,935 represents 134% percent of the total account balance. The net investment in capital assets (e.g., land, buildings, vehicles, equipment, and construction in process); less any related debt used to acquire those assets that are still outstanding. The Authority uses these capital assets to provide housing services to the tenants; consequently, these assets are not available for future spending.

The schedule below reflects the activity in the net investment in capital assets account for the current fiscal year:

Balance September 30, 2017	\$ 2,337,785
Acquisition in Fixed Assets	136,195
Depreciation Expense	(358,045)
Debt Payment	275,000
Balance September 30, 2018	<u>\$ 2,390,935</u>

The Authority reported a restricted net position of \$4,098, a decrease of \$178,969 from the prior year. This balance represents available resources that may be used only for specific purposes stipulated by the grantor. The account balance consists of the amount of cash that is restricted for the capital fund leveraging program. Additional information on these funds can be found in Note 4 Restricted Cash and Note 19 Restricted Net Position.

**HOUSING AUTHORITY OF THE CITY OF SALEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
AT SEPTEMBER 30, 2018**

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

The Housing Authority of the City of Salem operating results for September 30, 2018 reported a decrease in unrestricted position of \$362,891 for an ending balance of a deficit (\$611,563). During the year, the Authority had a prior period adjustment in the amount of (\$415,135) for the recording of the adoption of GASB #75 requirement. A full detail of these accounts can be found in the Notes to the Financial Statements Section Note – 20 Unrestricted Net Position.

The following summarizes the changes in Net Position between September 30, 2018 and September 30, 2017:

	<u>Year Ended</u>		Increase
	<u>September-18</u>	<u>September-17</u>	<u>(Decrease)</u>
<u>Revenues</u>			
Tenant Revenues	\$ 566,378	\$ 564,183	\$ 2,195
HUD Subsidies	1,441,094	1,314,059	127,035
Other Revenues	88,890	59,975	28,915
Total Operating Income	<u>2,096,362</u>	<u>1,938,217</u>	<u>158,145</u>
<u>Expenses</u>			
Operating Expenses	1,969,899	1,826,476	143,423
Depreciation Expense	358,045	353,033	5,012
Total Operating Expenses	<u>2,327,944</u>	<u>2,179,509</u>	<u>148,435</u>
Operating (Loss)			
Before Capital Grants	(231,582)	(241,292)	9,710
Interest Income	385	1,499	(1,114)
HUD Capital Grants	157,622	109,021	48,601
Increase in Net Position	<u>(73,575)</u>	<u>(130,772)</u>	<u>57,197</u>
Net Position Prior Year	2,272,180	2,387,952	(115,772)
Prior Period Adjustment	(415,135)	15,000	(430,135)
Total Net Position	<u>\$ 1,783,470</u>	<u>\$ 2,272,180</u>	<u>\$ (488,710)</u>

Approximately 69% percent of the Authority's total operating revenue was provided by HUD operating subsidy, while 27% percent resulted from tenant revenue. Charges for various services provided the remaining 4% percent of the total operating income.

**HOUSING AUTHORITY OF THE CITY OF SALEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
AT SEPTEMBER 30, 2018**

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

Total capital improvements contributions from HUD were in the amount of \$157,622 as compared to \$109,021 from the previous year for an increase of \$48,601 or 45% percent. The Authority's had capital outlays in the amount of \$136,195 as well as payments for capital bond principal which amounted to \$100,000 for the fiscal year. Excess amounts were funded from management's reserves. The current year capital additions included plumbing and electrical upgrades, apartment floor replacements, additional security cameras and emergency roof repairs.

The Authority's operating expenses cover a range of expenses. The largest expense was for utility expenses representing 25% percent of total operating expenses. Administrative expenses accounted for 16% percent, housing assistance payment expenses accounted for 12% percent, maintenance expense accounted for 24% percent, other operating expenses accounted for 6% percent, interest expense accounted for 2%, and depreciation accounted for the remaining 15% percent of the total operating expenses.

The Authority operating expenses exceeded its operating revenue resulting in a deficiency of revenue from operations in the amount of \$231,582 from operations as compared to excess expenses from operations of \$241,292 for the previous year. The key elements for the decrease of \$9,710 in the deficit in comparison to the prior year are as follow:

- The Authority experienced an increase in Housing and Urban Development funded Operating Grants in the amount of \$127,035 or 10% percent
- The Authority experienced an increase in tenant's rental income in the amount of \$2,195.
- The Authority experienced decreases in expenses as listed below:
  - Administrative expenses decrease \$8,453 or 2% percent
  - Utilities expense decreased \$10,926 or 2% percent
  - Interest expense decreased \$4,375 or 9% percent
- The Authority experienced increases expenses as listed below:
  - Maintenance increased \$97,373 or 21% percent
  - Housing assistance payments increased \$36,546 or 15% percent
  - Other operating expenses increased \$33,258 or 28% percent

Total net cash provided by operating activities during the year was \$128,010. A full detail of these amounts can be found on the Statement of Cash Flows on pages 21-22 of this report.

**HOUSING AUTHORITY OF THE CITY OF SALEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
AT SEPTEMBER 30, 2018**

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

The following are financial highlights of significant items for a four-year period of time ending on September 30, 2018:

	September-18	September-17	September-16	September-15
<b>Significant Income</b>				
Total Tenant Revenue	\$ 566,378	\$ 564,183	\$ 528,947	\$ 524,866
HUD Operating Grants	1,441,094	1,314,059	1,315,661	1,273,610
HUD Capital Grants	157,622	109,021	178,313	171,928
Investment Income	385	1,499	1,038	398
Other Income	88,890	59,975	65,602	13,999
Total	<u>\$ 2,254,369</u>	<u>\$ 2,048,737</u>	<u>\$ 2,089,561</u>	<u>\$ 1,984,801</u>
<b>Payroll Expense</b>				
Administrative Salaries	\$ 45,599	\$ 33,865	\$ 34,208	\$ 43,963
Maintenance Labor	77,191	61,824	75,458	105,285
Protective Services - Labor	-	-	26,904	25,441
Employee Benefits Expense	71,918	50,026	12,234	32,334
Total Payroll Expense	<u>\$ 194,708</u>	<u>\$ 145,715</u>	<u>\$ 148,804</u>	<u>\$ 207,023</u>
<b>Other Significant Expenses</b>				
Other Administrative Expenses	\$ 309,730	\$ 318,670	\$ 332,376	\$ 324,131
Utilities Expense	565,398	576,324	550,975	601,917
Maintenance Materials Cost	124,099	112,740	112,976	79,029
Maintenance Contract Cost	337,660	256,606	218,124	165,070
Insurance Premiums	134,305	109,001	98,085	90,484
Housing Assistance Payments	358,045	248,104	233,125	204,204
Total	<u>\$ 1,829,237</u>	<u>\$ 1,621,445</u>	<u>\$ 1,545,661</u>	<u>\$ 1,464,835</u>
<b>Total Operating Expenses</b>	<u>\$ 2,327,944</u>	<u>\$ 2,179,509</u>	<u>\$ 2,148,133</u>	<u>\$ 2,155,570</u>
<b>Total of Federal Awards</b>	<u>\$ 1,598,716</u>	<u>\$ 1,423,080</u>	<u>\$ 1,493,974</u>	<u>\$ 1,445,538</u>

**BUDGETARY HIGHLIGHTS**

The Authority submits its annual operating budgets and capital budgets to HUD. The Authority also submits its annual operating and capital budgets to the State of New Jersey Department of Community Affairs in accordance with New Jersey statute. After the New Jersey Department of Community Affairs approves the budget, it is formally adopted by resolution of the Housing Authority's Board of Commissioners. Once adopted, the Board of Commissioners may amend the legally adopted budget when unexpected modifications are required in estimated revenues and expenses. Each fund's budget is prepared on a detailed line item basis. Revenues are budgeted by source and expenditures are budgeted by expense classification within each revenue source.

**HOUSING AUTHORITY OF THE CITY OF SALEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
AT SEPTEMBER 30, 2018**

**THE AUTHORITY AS A WHOLE**

The Authority's revenues consist primarily of rents and subsidies and grants received from HUD. The Authority receives subsidies each month based on a pre-approved amount by HUD. Grants are drawn down based on need against a pre-authorized funding level. The Authority's revenues were not sufficient to cover all expenses.

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

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

Public and Indian Housing Program:

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

Public Housing Capital Fund Program:

The Public Housing Capital Fund was established under the Quality Housing & Work Responsibility Act of 1998 (QHWRA). Substantially all additions to land, structures and equipment are accomplished through these programs (included in the financial statements under PHA Owned Housing). These funds replace or materially upgrade deteriorated portions of existing Authority property. This fund is used for repairs, major replacements, upgrading and other non-routine maintenance work that needs to be done on the Authority's apartments to keep them clean, safe and in good condition.

Section 8 Housing Choice Voucher Program

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

**HOUSING AUTHORITY OF THE CITY OF SALEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
AT SEPTEMBER 30, 2018**

**NEW INITIATIVES**

For the fiscal year 2018 the Housing Authority's primary focus has been on funding and accountability. As a public entity that derives approximately 71% percent of its revenue from the Department of Housing and Urban Development, (2017 fiscal year was 69% percent), the Authority is constantly monitoring for any appropriation changes, especially since it appears the nation is continuing an era of need for additional public assistance to help families meet the challenges of a very tumultuous economy.

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

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

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

1 – Capital Assets

The Authority's investment in capital assets as of September 30, 2018 was \$3,135,935 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, and construction in progress. The total decrease during the year in the Authority's investment in capital assets was \$221,850 or 7% percent. Major capital expenditures of \$136,195 were made during the year. Major capital assets events during the fiscal year included the following:

- Plumbing and Electrical Upgrades
- Apartment Floor Replacements
- Additional Security Cameras
- Emergency Roof Repairs

**HOUSING AUTHORITY OF THE CITY OF SALEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
AT SEPTEMBER 30, 2018**

**CAPITAL ASSETS AND DEBT ADMINISTRATION -CONTINUED**

	September-18	September-17	Increase (Decrease)
Land	\$ 183,069	\$ 183,069	\$ -
Building	13,395,360	13,381,035	14,325
Furniture, Equipment - Dwelling	399,970	379,137	20,833
Furniture, Equipment - Administration	10,329	8,125	2,204
Leasehold Improvements	2,020,615	1,979,404	41,211
Construction in Process	237,907	180,285	57,622
Total Capital Assets	16,247,250	16,111,055	136,195
Less: Accumulated Depreciation	(13,111,315)	(12,753,270)	(358,045)
Net Book Value	\$ 3,135,935	\$ 3,357,785	\$ (221,850)

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

**2 – Debt Administration**

The Authority has participated in the New Jersey pooled leveraging program. Through this financing of majority capital projects will be completed on an expedited basis. Restricted Cash relating to the bonded debt stood at \$4,098 at the end of the fiscal year, with Capital Project Bond payable of \$745,000 in outstanding debt. A full disclosure of loan payable at September 30, 2018 can be found in Note 15 to the financial statements.

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

The Housing Authority of the City of Salem is primarily dependent upon HUD for the funding of operations; therefore, the Housing Authority is affected more by Federal budget than by local economic conditions. Pressure on the federal budget will remain in the form of both record deficits and competing funding needs. We do not expect this consistent trend to change.

The capital budgets for the 2019 fiscal year have already been submitted to HUD for approval and no major changes are expected. Capital Funds are used for the modernization of public housing property including administrative fees involved in the modernization.

**HOUSING AUTHORITY OF THE CITY OF SALEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
AT SEPTEMBER 30, 2018**

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

The following factors were considered in preparing the Authority's budget for the fiscal year ending September 30, 2019.

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

**CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT**

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

**HOUSING AUTHORITY OF THE CITY OF SALEM**  
**STATEMENT OF NET POSITION**  
**AS OF SEPTEMBER 30, 2018**

	<u>2018</u>
<b>Assets</b>	
<b>Current Assets:</b>	
Cash and Cash Equivalents - Unrestricted	\$ 301,177
Accounts Receivables, Net of Allowances	61,957
Prepaid Expenses	49,684
Total Current Assets	<u>412,818</u>
<b>Restricted Deposits and Funded Reserves</b>	
Tenant Security Deposit	21,377
Capital Leveraging Projects	4,098
Total Restricted Deposits and Funded Reserves	<u>25,475</u>
<b>Noncurrent Assets</b>	
Capital Assets	
Land	183,069
Building	13,395,360
Furniture, Equipment - Dwelling	399,970
Furniture, Equipment - Administration	10,329
Leasehold Improvements	2,020,615
Construction in Process	237,907
Total Capital Assets	<u>16,247,250</u>
Less: Accumulated Depreciation	<u>(13,111,315)</u>
Net Book Value	<u>3,135,935</u>
Total Assets	<u>3,574,228</u>
<b>Deferred Outflow of Resources</b>	
State of New Jersey P.E.R.S.	<u>40,515</u>
Total Assets and Deferred Outflow of Resources	<u><u>\$ 3,614,743</u></u>

See accompanying notes to the financial statements.

**HOUSING AUTHORITY OF THE CITY OF SALEM**  
**STATEMENT OF NET POSITION**  
**AS OF SEPTEMBER 30, 2018**

	<u>2018</u>
<b>Liabilities</b>	
<b>Current Liabilities:</b>	
Accounts Payable	\$ 17,339
Accrued Liabilities	131,771
Tenant Security Deposit Payable	21,364
Unearned Revenue	1,635
Other Current Liabilities	12,735
Long Term Debt - Current	85,000
Total Current Liabilities	<u>269,844</u>
<b>Noncurrent Liabilities</b>	
Long Term Debt - Noncurrent	660,000
Accrued Compensated Absences - Long-Term	25,385
Accrued Other-Post Employment Benefits (OPEB) Liabilities	685,651
Total Noncurrent Liabilities	<u>1,371,036</u>
Total Liabilities	<u>1,640,880</u>
<b>Deferred Inflow of Resources</b>	
State of New Jersey P.E.R.S.	<u>190,393</u>
<b>Net Position:</b>	
Net Investment in Capital Assets	2,390,935
Restricted	4,098
Unrestricted	(611,563)
Total Net Position	<u>1,783,470</u>
Total Liabilities, Deferred Inflow of Resources, and Net Position	<u><u>\$ 3,614,743</u></u>

See accompanying notes to the financial statements.

**HOUSING AUTHORITY OF THE CITY OF SALEM**  
**STATEMENT OF REVENUE, EXPENSES AND**  
**CHANGES IN NET POSITION**  
**FOR THE TWELVE MONTHS ENDED SEPTEMBER 30, 2018**

	2018
<b>Revenue:</b>	
Tenant Rental Revenue	\$ 566,378
HUD PHA Operating Grants	1,441,094
Other Revenue	88,890
Total Revenue	<u>2,096,362</u>
<b>Operating Expenses:</b>	
Administrative Expense	365,865
Utilities Expense	565,398
Maintenance Expense	556,786
Other Operating Expenses	151,199
Interest Expense	46,001
Housing Assistance Payments	284,650
Depreciations Expense	358,045
Total Operating Expenses	<u>2,327,944</u>
Excess Expenses Over Revenue From Operations	(231,582)
<b>Non Operating Income:</b>	
Investment Income	<u>385</u>
Excess Expenses Before Capital Grant Contributions	(231,197)
Capital Grant Contributions	<u>157,622</u>
<b>Change in Net Position</b>	(73,575)
Beginning Net Position	2,272,180
Prior period Adjustment	(415,135)
Beginning Net Position - Restated	<u>1,857,045</u>
Ending Net Position	<u><u>\$ 1,783,470</u></u>

See accompanying notes to the financial statements.

**HOUSING AUTHORITY OF THE CITY OF SALEM**  
**STATEMENT OF CASH FLOWS - 1**  
**FOR THE TWELVE MONTHS ENDED SEPTEMBER 30, 2018**

	2018
<b>Cash Flow From Operating Activities</b>	
Receipts from Tenants	\$ 559,603
Receipts from Federal Grants	1,410,876
Receipts from Misc. Sources	88,890
Payments to Vendors and Suppliers	(886,603)
Payment of Utilities	(565,398)
Housing Assistance Payments	(284,650)
Payments to Employees	(122,790)
Payment of Employee Benefits	(71,918)
Net Cash Provided by Operating Activities	<u>128,010</u>
<b>Cash Flow From Capital and Related Financing Activities</b>	
Receipts from Capital Grants	157,622
Acquisitions and Construction of Capital Assets	(136,195)
Increase (Decrease) in Compensated Absences - Long Term	4,328
Net Effect of Deferred Inflows and Outflows	(36,271)
Payment of Noncurrent Liabilities	(12,500)
Change in Accrued Net Pension and OPEB Liabilities	393,623
Prior Period Adjustments	(415,135)
Payment of Debt	(275,000)
Net Cash Used by Capital and Related Financing Activities	<u>(319,528)</u>
<b>Cash Flow From Investing Activities</b>	
Interest Income	385
Decrease of Tenant Security Deposit	(2,438)
Net Cash Used by Investing Activities	<u>(2,053)</u>
Net Decrease in Cash and Cash Equivalents	(193,571)
<b>Beginning Cash</b>	<u>520,223</u>
<b>Ending Cash</b>	<u><u>\$ 326,652</u></u>
Reconciliation of Cash Balances:	
Cash and Cash Equivalents - Unrestricted	\$ 301,177
Funded Reserves - Restricted	25,475
Total Ending Cash	<u><u>\$ 326,652</u></u>

See accompanying notes to the financial statements.

**HOUSING AUTHORITY OF THE CITY OF SALEM**  
**STATEMENT OF CASH FLOWS - 2**  
**FOR THE TWELVE MONTHS ENDED SEPTEMBER 30, 2018**

	<u>2018</u>
<b>Reconciliation of Operating Income to Net Cash</b>	
(Used) by Operating Activities	
Excess of Expenses Over Revenue	\$ (231,582)
Adjustments to reconcile excess revenue over expenses to net cash provided by operating activities:	
Depreciation Expense	358,045
(Increase) Decrease in:	
Accounts Receivables	(31,364)
Prepaid Expenses	6,152
Increase (Decrease) in:	
Accounts Payable	(43,145)
Accrued Expenses	60,527
Unearned Revenue	(3,358)
Other Current Liabilities	12,735
Net Cash Provided By Operating Activities	<u>\$ 128,010</u>

See accompanying notes to the financial statements.

# HOUSING AUTHORITY OF THE CITY OF SALEM

## Notes to Financial Statements

September 30, 2018

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

**1. Organization** - The Authority is a governmental, public corporation which was organized under the laws public corporation created under federal and state housing laws as defined by State statute (N.J., S.A. 40A:12A-1 et al the Housing Authority Act) for the purpose of engaging in the development, acquisition and administrative activities of the low-income housing program and other programs with similar objectives for low and moderate income families residing in the City of Salem in accordance with the rules and regulations prescribed by the Department of Housing and Urban Development (HUD).

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

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

Based on the following criteria, the Authority has not identified any entity which should be subject to evaluation for inclusion in the Authority's reporting entity. The criteria for including or excluding a component unit relationship as set forth in GASB's #61 *The financial Reporting Entity* and Financial Reporting Standards, include whether:

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

# HOUSING AUTHORITY OF THE CITY OF SALEM

## Notes to Financial Statements September 30, 2018

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

The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The accompanying financial statements are presented in conformity with accounting principles generally accepted in the United States of America for governmental units as prescribed by the Governmental Accounting Standards Board (GASB) and other authoritative sources. The Authority has determined that the applicable measurement focus (flow of economic resources) and accounting basis (accrual) is similar to that of a commercial enterprise. As such, the use of proprietary funds best reflects the activities of the Authority.

The Authority has adopted GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. The Statement establishes accounting and financial reporting standards for non-exchange transactions including financial or capital resources. The Authority's primary source of non-exchange revenue relates to grants and subsidies. 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. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, the Authority incorporates FASB and AICPA guidance into GASB authoritative literature.

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

Both administrative fees 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 fees and HAP revenue in the reporting period as revenue for financial statement reporting.

# HOUSING AUTHORITY OF THE CITY OF SALEM

## Notes to Financial Statements September 30, 2018

### **Significant Accounting Policies -Continued**

The Authority adopted Statement No. 68 of the Governmental Accounting Standards Board "*Accounting and Financial Reporting for Pensions*." The Statement established standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenditures associated with pension plans of State and Local Governments. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actual present value, and attribute that present value to periods of employee service. In addition, this Statement details the recognition and disclosure requirements for employers with liabilities to a defined benefit pension plan and for employers whose employees are provided with defined contribution pensions.

### New Accounting Standards Adopted

Statement No. 75 of the Government Accounting Standards Board ("GASB 75") *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* was issued June 2015. GASB 75 establishes financial reporting standards for other postemployment benefits (OPEB) plans for state and local governments. This standard replaces the requirements of GASB 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended. The statement establishes standards for recognizing and measuring liabilities, deferred inflows and outflows of resources, and expense/expenditures, as well as identifying the methods and assumptions required to project benefit payments, discount projected benefit payments, to their actuarial present value, and attribute that present value to periods of employee service. Additionally, GASB 75 lays out requirements for additional note disclosures and required supplementary information.

The Authority adopted this accounting standards effective October 1, 2017. As a result of adopting GASB 75, which was applied retroactively, the Authority restated its other postemployment benefit liability and its net position as of September 30, 2017 by (\$415,135).

### **Basis of Accounting –**

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

The major sources of revenue are tenants dwelling rentals, HUD operating subsidy, and other revenue. The Authority provides housing assistance payments to participating owners on behalf of eligible tenants to provide decent, safe and sanitary housing for extremely low and very low income families.

## HOUSING AUTHORITY OF THE CITY OF SALEM

### Notes to Financial Statements September 30, 2018

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

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

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

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

Other revenue composed primarily of miscellaneous services fees and resident's late charges. The revenue is recorded as earned since it is measurable and available. Non-operating revenue and expenses consist of revenues and expenses that are related to financing and investing activities and result from non-exchange transactions or ancillary activities.

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

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

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

# HOUSING AUTHORITY OF THE CITY OF SALEM

## Notes to Financial Statements September 30, 2018

### **Report Presentation -**

The financial statements of the Authority have been prepared in accordance with accounting principles generally accepted in the United States of America applicable to enterprise funds of State and Local Governments on a going concern basis. The focus of enterprise funds is the measurement of economic resources, that is, the determination of operating income, changes in net position (or cost recovery), financial position and cash flows. The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

The Authority is a single enterprise fund and maintains its records on the accrual basis of accounting. Enterprise funds account for activities (i) that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity; or (ii) that are required by law or regulations that the activity's cost of providing services, including capital cost (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues, or (iii) that the pricing policies of the activity establish fees and charges, designated to recover its costs, including capital costs (such as depreciation or debt service). Under this method, revenues are recorded when earned and expenses are recorded when the related liability is incurred.

The Authority's financial statements are prepared in accordance with GASB Statement No. 34 (as amended), *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* ("Statement"). The Statement requires the basic financial statements to be prepared using the economic resources measurement focus and the accrual basis of accounting and requires the presentation of a Statement of Net Position, a Statement of Revenues, Expenses, and Changes in Net Position, and a Statement of Cash Flows. The Statement also requires the Authority to include Management's Discussion and Analysis as part of Required Supplementary Information.

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

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

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

## HOUSING AUTHORITY OF THE CITY OF SALEM

### Notes to Financial Statements

September 30, 2018

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

- 1 – Cash and cash equivalents are stated at cost, which approximates market. The Authority considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.
- 2 – Collection losses on accounts receivable are charged against an allowance for doubtful accounts.
- 3 – Buildings and equipment are recorded at cost for all programs and depreciation is computed on the straight line basis.
- 4 – Repairs funded out of operations, such as painting, roofing and plumbing, are charged against income for all programs.
- 5 – Operating subsidies received from HUD are recorded as income when earned.
- 6 – The cost of accumulated unpaid compensated absences, including fringe benefits, is reported in the period earned rather than in the period paid.
- 7 – Prepaid expenses represent payments made by the Authority in the current year to provide services occurring in the subsequent fiscal year.
- 8 – The Authority does not have any infrastructure assets for its Enterprise Fund.
- 9 – Inter-fund receivable and payables arise from inter-fund transactions and are recorded by all funds in the period in which the transactions are executed.
- 10- Advertising cost is charged to expense when incurred.
- 11- Costs related to environmental remediation are charged to expense. Other environmental costs are also charged to expense unless they increase the value of the property and/or provide future economic benefits, in which event they are capitalized. Liabilities are recognized when the expenditures are considered probable and can be reasonably estimated. Measurement of liabilities is based on currently enacted laws and regulations, existing technology, and undiscounted site-specific costs. Generally, such recognition coincides with the Authority's commitment to a formal plan of action.
- 12- When expenses are incurred where both restricted and unrestricted net positions are available the Authority will first use the restricted funds until they are exhausted and then the unrestricted net position will be used.

## HOUSING AUTHORITY OF THE CITY OF SALEM

### Notes to Financial Statements September 30, 2018

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

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

#### 14 - Taxes

The Authority operates as defined by the Internal Revenue Code Section 115 and is exempt from income taxes under Section 115.

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

#### 15 - Net Position

In accordance with the provisions of Statement No. 34 ("Statement 34") of the Governmental Accounting Standards Board *"Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments"*, the Authority has classified its net position into three components - net investment in capital assets; restricted; and unrestricted. These classifications are defined as follows:

## HOUSING AUTHORITY OF THE CITY OF SALEM

### Notes to Financial Statements September 30, 2018

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

##### 15 - Net Position -Continued

*Net Investment in Capital Assets* - This component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of net investment in capital assets. Rather that portion of the debt is included in the same net position component as the unspent proceeds.

*Restricted* - This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), granters, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

*Unrestricted Net Position* - This component of net position consists of net position that do not meet the definitions of "restricted" or "net investment in capital assets."

##### 16-Impairment Losses

The Authority reviews its investment in real estate for impairment whenever events or changes in circumstances indicate that the carrying value of such property may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the real estate to the future net undiscounted cash flow expected to be generated by the rental property including any estimated proceeds from the eventual disposition of the real estate. If the real estate is considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount of the real estate exceeds the fair value of such property. No impairment losses were recognized in 2018.

#### **Budgetary and Policy Control -**

The Authority submits its annual operating budgets and capital budgets to HUD. The Authority also submits its annual operating and capital budgets to the State of New Jersey Department of Community Affairs in accordance with New Jersey statute. After the New Jersey Department of Community Affairs approves the budget, it is formally adopted by resolution of the Housing Authority's Board of Commissioners. Once adopted, the Board of Commissioners may amend the legally adopted budget when unexpected modifications are required in estimated revenues and expenses. Each fund's budget is prepared on a detailed line item basis. Revenues are budgeted by source and expenditures are budgeted by expense classification within each revenue source.

## HOUSING AUTHORITY OF THE CITY OF SALEM

### Notes to Financial Statements September 30, 2018

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

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

Public and Indian Housing Program:

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

Public Housing Capital Fund Program:

The Public Housing Capital Fund was established under the Quality Housing & Work Responsibility Act of 1998 (QHWRA). Substantially all additions to land, structures and equipment are accomplished through these programs (included in the financial statements under PHA Owned Housing). These funds replace or materially upgrade deteriorated portions of existing Authority property. This fund is used for repairs, major replacements, upgrading and other non-routine maintenance work that needs to be done on the Authority's apartments to keep them clean, safe and in good condition.

Section 8 Housing Choice Voucher Program:

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

## HOUSING AUTHORITY OF THE CITY OF SALEM

### Notes to Financial Statements September 30, 2018

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

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

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

#### **NOTE 2 – ESTIMATES**

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

## HOUSING AUTHORITY OF THE CITY OF SALEM

### Notes to Financial Statements September 30, 2018

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

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

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

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

On the web:

<http://www.state.nj.us/treasury/pensions/pdf/financial/2018divisioncombined.pdf>

#### Funding Policy

The contribution policy is set by N.J.S.A. 43:15A, Chapter 62, P.L. of 1994 and Chapter 115, P.L. of 1998, and requires contributions by active members and contributing employers. Plan member and employer contributions may be amended by State of New Jersey legislation. Employer's contributions are actuarially determined annually by the Division of Pensions. Employee contributions are currently 6.64% of base wages. The annual employer contribution includes funding for basic retirement allowances, cost-of-living adjustments, the cost of medical premiums after retirement for qualified retirees, and noncontributory death benefits. The Authority's contribution for 2018 amounted to \$10,669.

#### Post Employment Retirement Benefits

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

Further information on the Pension Plan and its effects do to the adoption of GASB 68 can be found in Note 18– Accrued Pension Liability.

## HOUSING AUTHORITY OF THE CITY OF SALEM

### Notes to Financial Statements September 30, 2018

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

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

#### **Concentration of Credit Risk**

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

#### **Risk Disclosures**

##### Collateral for Deposits

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

##### Interest Rate Risk

As a means of limiting its exposure to fair value losses arising from rising interest rates, the Authority's investment policy limits the Authority's investment portfolio to maturities not to exceed two years at time of purchase. At September 30, 2018, the Authority's deposits and investments were not limited and all of which are either available on demand or have maturities of less than two years.

## HOUSING AUTHORITY OF THE CITY OF SALEM

### Notes to Financial Statements September 30, 2018

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

##### Credit Risk

This is risk that a security or a portfolio will lose some or all of its value due to a real or perceived change in the ability of the issuer to repay its debt. The Authority's investment policy is that none of its total portfolio may be invested in securities of any single issuer, other than the US Government, its agencies and instrumentalities.

The Authority's checking accounts and investments are categorized to give indication of the level of credit risk assumed by the Authority. Custodial credit risk is the risk in the event of a bank failure, the Authority's deposits may not be returned to it. The custodial credit risk categories are described as follows:

<u>Depository Accounts</u>	<u>September-18</u>
Insured	\$ 326,652
Collateralized held by pledging bank's trust department in the Authority's name	-
Total Cash and Cash Equivalents	<u>\$ 326,652</u>

##### **Restricted Deposits**

The Authority has total restricted deposits at September 30, 2018 in the amount of \$25,475. The tenant security deposit restricted deposits at September 30, 2018 was in the amount of \$21,377. This amount is held as security deposits for the tenants of the Public and Indian Housing Program in an interest bearing accounts.

The amount of \$4,098 for 2018 is held in trust at the Bank of New York with investments consisting of Morgan Stanley Prime Installment Investments. These funds at Bank of New York are controlled by the New Jersey Housing Mortgage Finance Agency (NJHMFA) for the capital leveraging project.

## HOUSING AUTHORITY OF THE CITY OF SALEM

### Notes to Financial Statements September 30, 2018

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

Accounts Receivable at September 30, 2018 consisted of the following:

	<u>September-18</u>
Tenants Accounts Receivable - Present	\$ 13,152
Less: Allowance for Doubtful Accounts	<u>(6,576)</u>
Net Tenants Accounts Receivable	<u>6,576</u>
Tenants Receivable for A/C Units	11,793
Tenants Receivable for Repayment Agreements	9,073
Less: Allowance for Doubtful Accounts	<u>(10,433)</u>
Net Accounts Receivable - Tenants	<u>10,433</u>
Accounts Receivable HUD	<u>44,948</u>
Total Other Receivables	<u>55,381</u>
Total Accounts Receivables	<u><u>\$ 61,957</u></u>

Housing Authority of the City of Salem carries its accounts receivable at cost less an allowance for doubtful accounts. Accounts are written off as uncollectible when management determines that a sufficient period of time has elapsed without receiving payment and the individual do not exhibit the ability to meet their obligations. Management continually monitors payment patterns of the tenants, investigates past-due accounts to assess likelihood of collections, and monitors the industry and economic trends to estimate required allowances. It is reasonably possible that management's estimate of the allowance will change. As of September 30, 2018, the allowance for doubtful accounts was \$17,009.

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

Certain payments to vendors reflect cost applicable to future accounting periods and are recorded as prepaid items. All purchases of insurance premiums are amortized on a monthly basis. Prepaid expenses at September 30, 2018 consisted of the following amounts:

	<u>September-18</u>
Prepaid IT Computer Expense	\$ 5,856
Prepaid Insurance	<u>43,828</u>
Total Prepaid Expenses	<u><u>\$ 49,684</u></u>

# HOUSING AUTHORITY OF THE CITY OF SALEM

## Notes to Financial Statements September 30, 2018

### **NOTE 7 – INTERFUND ACTIVITY**

Interfund activity is reported as short term loans, services provided during the course of operations, reimbursements, or transfers. Short term loans are reported as interfund short term receivables and payable as appropriate. The amounts between the various programs administered by the Authority at September 30, 2018 are detailed on the Financial Data Schedule of this report. Interfund receivables and payables between funds are eliminated in the Statement of Net Position.

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

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

#### Depreciation Expense

Depreciation expense for September 30, 2018 was \$358,045. Depreciation is provided using the straight line method over the estimated useful lives of the assets.

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

The Housing Authority of the City of Salem reviews its rental property for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. When recovery is reviewed, if the undiscounted cash flows estimated to be generated by the property are less than its carrying amount, management compares the carrying amount of the property to its fair value in order to determine whether an impairment loss has occurred. The amount of impairment loss is equal to the excess of the asset's carrying value over its estimated fair value. No impairment loss has been recognized during the years ended September 30, 2018.

## HOUSING AUTHORITY OF THE CITY OF SALEM

### Notes to Financial Statements September 30, 2018

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

Below is a schedule of changes in fixed assets for the twelve months ended September 30, 2018:

	Balance September-17	Additions	Balance September-18
Land	\$ 183,069	\$ -	\$ 183,069
Buildings	13,381,035	14,325	13,395,360
Furniture & Equipment - Dwelling	379,137	20,833	399,970
Furniture & Equipment - Administration	8,125	2,204	10,329
Leasehold Improvements	1,979,404	41,211	2,020,615
Construction in Progress	180,285	57,622	237,907
Total Fixed Assets	16,111,055	136,195	16,247,250
Accumulated Depreciation	(12,753,270)	(358,045)	(13,111,315)
Net Book Value	\$ 3,357,785	\$ (221,850)	\$ 3,135,935

Below is a schedule of the net book value of the fixed assets for the Authority as of September 30, 2018:

<u>Net Book Value of the Fixed Assets</u>	<u>September-18</u>
Land	\$ 183,069
Buildings	2,219,402
Furniture & Equipment - Dwelling	67,078
Furniture & Equipment - Administration	3,288
Leasehold Improvements	425,191
Construction in Progress	237,907
Net Book Value	<u>\$ 3,135,935</u>

# HOUSING AUTHORITY OF THE CITY OF SALEM

## Notes to Financial Statements September 30, 2018

### **NOTE 9 – DEFERRED OUTFLOWS/INFLOWS OF RESOURCES**

A deferred outflow is an outflow of resources, which is a consumption of net assets by the government that is applicable to the reporting period. A deferred inflow is an inflow of resources, which is an acquisition of net assets by the government that is applicable to the reporting period.

The Pension Liability discussed in Note 18 resulted in the Authority incurring deferred outflows and inflows. The difference between expected and actual experience with regard to economic and demographic factors, when the actuary calculated the net pension liability, is amortized over a five-year closed period for PERS, reflecting the average remaining service life of members (active and inactive members), respectively. The first year of amortization is recognized as pension expense with the remaining years shown as either a deferred outflow of resources or a deferred inflow of resources. The Authority's deferred outflows and inflows are as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experiences	\$ 4,027	\$ 1,089
Changes in Assumptions	34,801	67,528
Net Difference Between Projected and Actual Earning on Pension Plan Investments	-	1,981
Changes in Proportion and Differences Between Contributions and Proportionate Share of Contributions	1,687	119,795
Contributions Subsequent to the Measurement Date	-	-
Total	<u>\$ 40,515</u>	<u>\$ 190,393</u>

#### Difference in Expected and Actual Experience

The difference between expected and actual experience with regard to economic and demographic factors is amortized over a five year closed period reflecting the average remaining service life of the plan members (active and inactive), respectively. The first year of amortization is recognized as pension expense with the remaining years shown as either deferred outflow of resources or a deferred inflow of resources. The collective amount of the difference between expected and actual experience for the fiscal year is \$4,027 and \$1,089.

## HOUSING AUTHORITY OF THE CITY OF SALEM

### Notes to Financial Statements September 30, 2018

#### **NOTE 9 – DEFERRED OUTFLOWS/INFLOWS OF RESOURCES - CONTINUED**

##### Changes in Assumptions

The change in assumptions about future economic or demographic factors or other inputs is amortized over a five year closed period, reflecting the average remaining service life of the plan members (active and inactive members), respectively. The first year of amortization is recognized as pension expense with the remaining years shown as either a deferred outflow of resources or a deferred inflow of resources. The collective amount of the difference between expected and actual experience for the fiscal year is \$34,801 and \$67,528.

##### Net Difference between Projected and Actual Investments Earnings on Pension Plan Investments

The difference between the System's expected rate of return of 7.5% and the actual investment earnings on pension plan investments is amortized over a five year closed period in accordance with GASB 68. The first year of amortization is recognized as pension expense with the remaining years shown as either a deferred outflow of resources or a deferred inflow of resources. The collective amount of the difference between expected and actual experience for the fiscal year is \$-0- and \$1,981.

##### Changes in Proportion and Differences between Contributions and Proportionate Share of Contributions

The change in employer proportionate share is the amount of difference between the employer proportionate shares of net pension liability in the prior year compared to the current year. The difference between employer contributions and proportionate share of contributions is the difference between the total amount of employer contributions and the amount of the proportionate share of employer contributions. The change in proportionate share and the difference between employer contributions and proportionate share of contributions is amortized over a six-year closed period for PERS, reflecting the average remaining service life of ERS members (active and inactive members), respectively. The changes in proportion and differences between employer contributions and proportionate share of contributions for the fiscal year are \$1,687 and \$119,795.

#### **NOTE 10 – ACCOUNTS PAYABLE**

The Authority reported accounts payable on its Statement of Net Position as of September 30, 2018. Accounts payable vendors are amount owed to creditors as a result of delivered goods and completed services. Accounts payable at September 30, 2018 consist of amounts owed to vendors in the amount of \$17,241 and PILOT payable of \$98.

## HOUSING AUTHORITY OF THE CITY OF SALEM

### Notes to Financial Statements September 30, 2018

#### **NOTE 11 – ACCOUNTS PAYABLE – OTHER GOVERNMENT (PILOT PAYABLE)**

Under Federal, State and local law, the Authority's programs are exempt from income, property and excise taxes. However, the Authority is required to make a payment in lieu of taxes (PILOT) for the PHA Owned Program in accordance with the provisions of its Cooperation Agreement with the City of Salem. Under the Cooperation Agreements, the Authority must pay the municipality 10% of its net shelter rent for real property taxes. During the fiscal year ended September 30, 2018 there was PILOT accrued of \$98. The Authority after calculating the PILOT expense had net shelter rents resulting in \$98 in expense.

#### **NOTE 12 – ACCRUED EXPENSES**

The Authority reported accrued expenses on its Statement of Net Position. Accrued expenses are liabilities incurred on or before September 30. Accrued liabilities at September 30, 2018 consist of the following:

	September-18
Accrued Wages and Payroll Taxes	\$ 6,616
Compensated Absences - Current Portion	2,821
Accrued Interest Payable	14,414
Accrued Utilities	98,050
Accrued Audit Fee	9,870
Total Accrued Liabilities	<u>\$ 131,771</u>

#### **NOTE 13 – ACCRUED COMPENSATED ABSENCES**

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

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

## HOUSING AUTHORITY OF THE CITY OF SALEM

### Notes to Financial Statements September 30, 2018

#### **NOTE 13 – ACCRUED COMPENSATED ABSENCES - CONTINUED**

The Authority has determined that the potential liability for accumulated vacation and sick time at September 30, 2018 as follows:

	September-18
Accumulated Sick Time	\$ 12,672
Accumulated Vacation Time	13,529
Accrued Payroll Taxes	2,005
Total	28,206
Compensated Absences - Current Portion	(2,821)
Total Compensated Absences - Noncurrent	\$ 25,385

#### **NOTE 14 – UNEARNED REVENUE**

The Authority reported unearned revenues on its Statement of Net Position. Unearned revenues arise when resources are received by the Authority before it has legal claim to them, as when grant monies are received prior to the occurrence of qualifying expenditures. In subsequent periods, when the Authority has a legal claim to the resources, the liability for unearned revenue is removed from the Statement of Net Position and the revenue is recognized. The unearned revenue account balance at September 30, 2018 is \$1,635 consisting of prepaid rents for October 2018.

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

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

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

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

## HOUSING AUTHORITY OF THE CITY OF SALEM

### Notes to Financial Statements September 30, 2018

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

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

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

The interest payable for November 1, 2018 is \$17,296 and May 1, 2019 is \$16,421. These amounts were not accrued since the payment would be made from the Authority Capital Fund Program (CFP) and would be considered grant revenue in the year ended September 30, 2018.

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

September 30, 2019	\$ 85,000
September 30, 2020	90,000
September 30, 2021	95,000
September 30, 2022	100,000
September 30, 2023	100,000
Sub Total	<u>470,000</u>
Next Three Years Ending September 30, 2026	<u>275,000</u>
Total Capital Project Bonds	<u><u>\$ 745,000</u></u>

#### **NOTE 16 – OTHER CURRENT LIABILITY**

The Authority is involved in a lawsuit was handled by the Authority insurance carrier. The Authority recorded a contingent liability as a noncurrent liability for a lawsuit filed for the amount of the insurance deductible of \$40,000 in the 2016 year. The balance of current liability at September 30, 2018 is \$12,735.

## HOUSING AUTHORITY OF THE CITY OF SALEM

### Notes to Financial Statements September 30, 2018

#### **NOTE 17 – ACCRUED PENSION AND OPEB LIABILITIES**

The Authority as of September 30, 2018 reported accrued pension and OPEB liability amounts as follows:

	<u>September-18</u>
Accrued OPEB Liability	\$ 474,460
Accrued Pension Liability	<u>211,191</u>
Total OPEB and Pension Liability	<u>\$ 685,651</u>

These amounts arose due to adoption of GASB #75 this year as well as GASB #68 which was adopted in 2015 year. This note will discuss the liability associated with GASB #75, which is accrued other postemployment benefits. Note - 18 will discuss the effect of GASB #68 and the liability which arose from that.

#### **OPEB Liability – Plan Description and Benefits Provided**

*Plan Description:* The Authority administers a single-employer defined-benefit post-employment healthcare plan. Spouses are eligible for coverage under the plan and benefits may continue to the surviving spouses.

*Benefits Provided:* Retirees, that are vested, are eligible for post-employment medical benefits, including prescription drug benefits, as part of the medical plan on a fully insured basis through New Jersey State Health Benefits Program. Employee will pay Medicare Part B premium and reimbursed by Authority. Dental coverage and vision coverage are also provided to retirees. All coverages are 100% subsidized by the Authority.

*Employees covered by benefits terms:* At October 1, 2017 (the census date), the following employees were covered by the benefits terms:

Retired Employees Receiving Benefits	2
Actives Eligible for Benefits	0
Active Employees	<u>4</u>
Total Employees	<u><u>6</u></u>

*Assets:* The Authority has not accumulated plan assets in an irrevocable trust designated for plan participants.

## HOUSING AUTHORITY OF THE CITY OF SALEM

### Notes to Financial Statements September 30, 2018

#### **NOTE 17 – ACCRUED OPEB LIABILITIES – CONTINUED**

##### **Net OPEB Liability**

The Authority's net OPEB liability was measured as of October 1, 2017 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date.

Actuarial Assumptions: The total OPEB Liability in the October 1, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all period included in the measurement, unless otherwise specified:

Discount Rate:	3.50%, net of OPEB plan investment expense, including inflation.
Assets	Not valued since benefit is unfunded
Information for Valuation	All information provided by Authority
Covered Benefits	Employees that retire are eligible for subsidized postemployment medical, including prescription drug coverage. Benefits are provided for dental, vision, and Medicare Part B premium
Insurance Coverage and Funding Ba	Medical, including prescription drugs, are fully insured through the NJ State Health Benefits Program for Local Government Employer Groups.
Actuarial Cost Method	Entry Age Normal as Percentage of Payroll
Retirement System	Valuation is based on NJ Public Employees' Retirement System (PERS). Decrement tables used in this valuation are form the July 1, 2016 Annual Report of the Actuary.
Mortality	RP 2014 Healthy Male and Femal Tables are base don the Combined Healthy Table for both pre & post reitirement projected with mortality improvements using Projection Scale AA for 2 years plus 7 years for generational improvement.

Change in Assumptions: Effective October 1, 2017.

# HOUSING AUTHORITY OF THE CITY OF SALEM

## Notes to Financial Statements September 30, 2018

### NOTE 17 – ACCRUED OPEB LIABILITIES – CONTINUED

#### Changes in Net OPEB Liability:

Balance as of October 1, 2017	\$ 488,697
<u>Changes For the Year</u>	
Service Cost	3,913
Interest	16,498
Benefit Payments	(34,648)
Net Changes	(14,237)
Balance as of September 30, 2018	\$ 474,460

Sensitivity of the OPEB Liability to changes in the discount rate: The following presents the total OPEB liability of the Authority, as well as what the Authority's OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.50%) or one percentage point higher (4.50%) than the current discount rate:

	<u>Discount Rate Sensitivity</u>		
	1% Decrease 2.50%	Current Rate 3.50%	1% Increase 4.50%
Total OPEB Liability	\$ 538,110	\$ 474,460	\$ 423,372

Sensitivity of the OPEB Liability to changes in healthcare cost trend rates: The following presents the total OPEB liability of the Authority, as well as what the Authority's OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower or one percentage point higher than current healthcare cost trend rates than the current healthcare cost trend rates:

	<u>Healthcare Cost Inflation Rate Sensitivity</u>		
	1% Decrease	Current	1% Increase
Total OPEB Liability	\$ 422,789	\$ 474,460	\$ 539,257

#### **OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB**

For the year ended September 30, 2018, the Authority recognized an OPEB expense of \$20,411 before contribution in the amount of \$34,648, which netted to (\$14,237). As of September 30, 2018, the Authority did not report a deferred outflows of resources and deferred inflows of resources in relation to OPEB.

# HOUSING AUTHORITY OF THE CITY OF SALEM

## Notes to Financial Statements September 30, 2018

### **NOTE 18 – ACCRUED PENSION LIABILITY**

#### Net Pension Liability Information

The Authority as of September 30, 2018 reported a net pension liability in the amount of \$211,191 due to GASB 68. The component of the current year net pension liability of the Authority as of June 30, 2018, the last evaluation date, is as follows:

	<u>PERS</u>
Employer Total Pension Liability	\$ 455,125
Plan Net Position	<u>(243,934)</u>
Employer Net Pension Liability	<u>\$ 211,191</u>

The Authority allocation percentage is 0.00107261% as of June 30, 2018.

#### Plan Description

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. The State of New Jersey, Public Employees' Retirement System (PERS) is a cost-sharing multiple-employer defined benefit pension plan administered by the State of New Jersey, Division of Pensions and Benefits (the Division).

For additional information about PERS, please refer to Division's Comprehensive Annual Financial Report (CAFR) which can be found at [www.state.nj.gov/treasury/pensions/financial-reports.shtml](http://www.state.nj.gov/treasury/pensions/financial-reports.shtml).

The vesting and benefit provisions are set by N.J.S.A. 43:15A. PERS provides retirement, death and disability benefits. All benefits vest after ten years of service, except for medical benefits, which vest after 25 years of service or under the disability provisions of PERS. The Authority participates in the State of New Jersey, Public Employees' Retirement System (PERS).

The following represents the membership tiers for PERS:

- 1) Tier 1 – Members who enrolled prior to July 1, 2007
- 2) Tier 2 – Members who were eligible to enroll on or after July 1, 2007 and prior to November 2, 2008
- 3) Tier 3 – Members who were eligible to enroll on or after November 2, 2008 and prior to May 22, 2010
- 4) Tier 4 – Members who were eligible to enroll on or after May 22, 2010 and prior to June 28, 2011
- 5) Tier 5 – Members who were eligible to enroll on or after June 28, 2011.

## HOUSING AUTHORITY OF THE CITY OF SALEM

### Notes to Financial Statements September 30, 2018

#### **NOTE 18 – ACCRUED PENSION LIABILITY - CONTINUED**

##### Allocation Percentage Methodology

Although the Division administers one cost-sharing multiple-employer defined benefit pension plan, separate (sub) actuarial valuations are prepared to determine the actuarial determined contribution rate by group. Following this method, the measurement of the collective net pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense excluding that attributable to employer-paid member contributions are determined separately for each individual employer of the State and local groups of the plan.

To facilitate the separate (sub) actuarial valuations, the Division maintains separate accounts to identify additions, deductions, and fiduciary net position applicable to each group. The allocation percentages presented for each group in the schedule of employer allocations are applied to amounts presented in the schedules of pension amounts by employer. The allocation percentages for each group as of June 30, 2018 are based on the ratio of each employer's contributions to total employer contributions of the group for the fiscal years ended June 30, 2018.

The contribution for PERS is set by NJSA 43:15A and requires contributions by active members and contributing employers. State legislation has modified the amount that is contributed by the State. The State's pension contribution is based on an actuarially determined amount, which include the employer portion of the normal cost and an amortization of the unfunded accrued liability. Funding for noncontributory group insurance benefits is based on actual claims paid. For fiscal year 2018 the State's pension contribution was less than the actuarial determined amount.

The local employers' contribution amounts are based on an actuarially determined rate which includes the normal cost and unfunded accrued liability. Chapter 19, P.L. 2009 provided an option for local employers of PERS to contribute 50% of the normal and accrued liability contribution amounts certified for payments due in State fiscal year 2009. Such employers will be credited with the full payment and any such amounts will not be included in their unfunded liability.

The actuaries will determine the unfunded liability of those retirement systems, by employer, for the reduced normal and accrued liability contributions provided under this law. This unfunded liability will be paid by the employer in level annual payments over a period of 15 years beginning with the payments due in the fiscal year ended June 30, 2012 and will be adjusted by the rate of return on the actuarial value of assets.

# HOUSING AUTHORITY OF THE CITY OF SALEM

## Notes to Financial Statements September 30, 2018

### **NOTE 18 – ACCRUED PENSION LIABILITY - CONTINUED**

#### Actuarial Assumptions

The total pension liability for June 30, 2018 measurement dates were determined by using an actuarial valuation as of July 1, 2016, with update procedures used to roll forward the total pension liability to June 30, 2018. The actuarial valuations used the following actuarial assumptions:

Inflation	2.25%
Salary Increases:	
Through 2026	1.65-4.15%, based on age
Thereafter	2.65-5.15%, based on age
Investment Rate of Return	7.00%

Pre-retirement mortality rates were based on the RP-2000 Employee Preretirement Mortality Table for male and female active participants. For local employees, mortality tables are set back 2 years for males and 7 years for females. In addition, the tables provide for future improvements in mortality from the base year of 2013 using a generational approach based on the plan actuary's modified MP-2014 projection scale. Post-mortality rates were based on the RP-2000 Combined Healthy Male and Female Mortality Tables (setback 1 year for males and females) for service retirements and beneficiaries of former members and a one-year static projection based on mortality improvement Scale AA. In addition, the tables for service retirements and beneficiaries of former members provide for future improvements in mortality from the base year of 2013 using a generational approach based on the plan actuary's modified MP-2014 projection scale. Disability retirement rates used to value disabled retirees were based on the RP-2000 Disabled Mortality Table (set back 3 years for males and set forward 1 year for females).

The actuarial assumptions used in the July 1, 2017 evaluation were based on the results of an actuarial experience study for the period July 1, 2011 to June 30, 2014. It is likely that future experience will not exactly conform to these assumptions. To the extent that actual experience deviates from these assumptions, the emerging liabilities were higher or lower than anticipated. The more the experience deviates, the larger the impact on future financial statements.

## HOUSING AUTHORITY OF THE CITY OF SALEM

### Notes to Financial Statements September 30, 2018

#### **NOTE 18 – ACCRUED PENSION LIABILITY - CONTINUED**

##### Actuarial Assumptions - Continued

In accordance with State statute, the long-term expected rate of return on plan investments (7.00% at June 30, 2018) is determined by the State Treasurer, after consultation with the Directors of the Division of Investments and Division of Pensions and Benefits, the board of trustees and the actuaries. The long-term expected rate of return was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic rates of return for each major asset class included in PERS's target asset allocation as of June 30, 2018 as summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Absolute return/risk mitigation	5.00%	5.51%
Cash Equivalents	5.50%	1.00%
U.S. Treasuries	3.00%	1.87%
Investment Grade Credit	10.00%	3.78%
Public High Yield	2.50%	6.82%
Global Diversified credit	5.00%	7.10%
Credit Oriented Hedge Funds	1.00%	6.60%
Debt Related Private Equity	2.00%	10.63%
Debt Related Real Estate	1.00%	6.61%
Private Real Asset	2.50%	11.83%
Equity Related Real Estate	6.25%	9.23%
U.S. Equity	30.00%	8.19%
Non-U.S. Developed Markets Equity	11.50%	9.00%
Emerging Markets Equity	6.50%	11.64%
Buyouts/Venture Capital	8.25%	13.08%
	<u>100%</u>	

##### Discount Rate

The discount rate used to measure the total pension liability was 5.66% as of June 30, 2018. This single blended discount rate was based on the long-term expected rate of return on pension plan investments of 7.00%, and a municipal bond rate of 3.87% as of June 30, 2018, based on the Bond Buyer Go 20-Bond Municipal Bond Index which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher.

# HOUSING AUTHORITY OF THE CITY OF SALEM

## Notes to Financial Statements September 30, 2018

### **NOTE 18 – ACCRUED PENSION LIABILITY - CONTINUED**

#### Discount Rate -Continued

The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made based on the most recent fiscal year. The State employer contributed 50% of the actuarially determined contributions and the local employers contributed 100% of their actuarially determined contributions. Based on those assumptions, the plan's fiduciary net position was projected to be available to make projected future benefit payments of current plan members through June 30, 2046. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments after that date in determining the total pension liability.

#### Sensitivity of the Net Pension Liability to the Discount Rate Assumption

The following presents the current-period net pension liability of the employers calculated using the current-period discount rate assumption of 5.66% percent, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (4.66% percent) or 1 percentage-point higher (6.66% percent) than the current assumption (in thousands). Sensitivity of the Authority's proportionate share of the Net Pension Liability due to change in the Discount Rate:

	1% Decrease (4.66%)	Current Discount (5.66%)	1% Increase (6.66%)
Authority's Proportionate Share of the Net Pension Liability (Asset)	\$ 265,549	\$ 211,191	\$ 165,589

#### Collective Deferred Outflows of Resources and Deferred Inflows of Resources

The amounts reported as deferred outflows of resources and deferred inflows of resources (excluding employer specific amounts) related to pensions will be recognized in pension expense as follows:

Year Ending June 30, 2019	\$ 1,466
Year Ending June 30, 2020	(2,029)
Year Ending June 30, 2021	(14,552)
Year Ending June 30, 2022	(12,614)
Year Ending June 30, 2023	(4,039)
	<u>\$ (31,769)</u>

## HOUSING AUTHORITY OF THE CITY OF SALEM

### Notes to Financial Statements September 30, 2018

#### **NOTE 18 – ACCRUED PENSION LIABILITY – CONTINUED**

##### Changes in Proportion

The previous amounts do not include employer specific deferred outflows of resources and deferred inflows of resources related to changes in proportion. These amounts should be recognized (amortized) by each employer over the average of the expected remaining service lives of all plan members, which is 5.48, 5.57, 5.72, and 6.44 years for the 2018, 2017, 2016, and 2015 amounts, respectively.

##### Pension Expense

The components of allocable pension expense, which exclude pension expense related to specific liabilities of individual employers, for the plan fiscal year ending June 30, 2018, are as follows:

Service Cost	\$	9,969
Interest on the Total Pension Liability		23,965
Member Contributions		(5,724)
Administrative Expenses		159
Expected Investment Return Net of Investment Expenses		(15,046)
Pension Expense Related to Specific Liabilities of Individual Employers		(88)
Current Period Recognition (Amortization) of Deferred Outflows and Inflows of Resources:		
Difference Between Expected and Actual Experience		1,617
Changes of Assumptions		(1,861)
Differences Between Projected and Actual Investment Earnings on Pension Plan Investments		(1,282)
Total	\$	<u>11,707</u>

# HOUSING AUTHORITY OF THE CITY OF SALEM

## Notes to Financial Statements September 30, 2018

### **NOTE 19 – RESTRICTED NET ASSETS**

The Authority restricted net position account balance at September 30, 2018 is \$4,098. The detail of the restricted reserve account balances is as follows:

	State Leveraging
Balance September 30, 2017	\$ 183,067
Increase During the Year	-
Decrease During the Year	(178,969)
Balance September 30, 2018	<u>\$ 4,098</u>

### Housing Choice Voucher Program HUD Held Reserves Funds

Effective January 1, 2012, HUD was required to control the disbursement of funds in such a way that the Authority does not receive funds before they are needed, resulting in the re-establishment of HUD held program reserves to comply with the Treasury requirements. HUD held reserve is a holding account at the HUD level that maintains the excess of HAP funds that have been obligated (ABA) but undisbursed to the Authority. The excess HAP funds will remain obligated but not disbursed to the Authority. HUD will hold these funds until needed by the Authority. The amount of HUD held reserves for the Authority at September 30, 2018 was \$5,748.

### **NOTE 20 – UNRESTRICTED NET POSITION**

The Authority's unrestricted net position account balance at September 30, 2018 is negative (\$611,563). The detail of the account balance is as follows:

	PIH Program Reserves	HCV Program Adm Reserves	Total
Balance September 30, 2017	\$ (258,038)	\$ 9,366	\$ (248,672)
Prior Period Adjustment - GASB 75	(415,135)	-	(415,135)
Increase During the Year	48,898	3,346	52,244
Balance September 30, 2018	<u>\$ (624,275)</u>	<u>\$ 12,712</u>	<u>\$ (611,563)</u>

## **HOUSING AUTHORITY OF THE CITY OF SALEM**

### Notes to Financial Statements

September 30, 2018

#### **NOTE 21 – RISK MANAGEMENT**

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters for which the Authority purchases commercial insurance. During the year ended September 30, 2018, the Authority's risk management program, in order to deal with the above potential liabilities, purchased various insurance policies for fire, general liability, crime, auto, employee bond, worker's compensation, and public-officials errors omissions. Periodically, but not less than once annually, the Authority conducts a physical inspection of its buildings for the purpose of determining potential liability issues.

#### **NOTE 22 - ANNUAL CONTRIBUTIONS BY FEDERAL AGENCIES**

HUD contributes operating subsidy for the Public and Indian program approved in the operating budget under the Annual Contribution Contract. The operating subsidy contributions for the year ended September 30, 2018 were \$1,007,724.

Annual Contributions Contracts for the Section 8 Housing Choice Voucher Program to provide for housing assistance payments to private owners of residential units on behalf of eligible low or very low income families. The program provides for such payment with respect to existing housing covering the difference between the maximum rental on a dwelling unit, and the amount of rent contribution by the participating family and related administrative expense. HUD contributions for the Housing Choice Voucher for September 30, 2018 was in the amount of \$243,461.

#### **NOTE 23 - CURRENT VULNERABILITY DUE TO CERTAIN CONCENTRATIONS**

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

Total financial support by HUD was \$1,598,716 to the Authority which represents approximately 71% percent of the Authority's total revenue for the fiscal year September 30, 2018.

## **HOUSING AUTHORITY OF THE CITY OF SALEM**

### Notes to Financial Statements September 30, 2018

#### **NOTE 24 - CONTINGENCIES**

Litigation – At September 30, 2018, the Authority is subject to one legal proceeding arising in the ordinary course of business. The Authority's insurance carrier and legal counsel are handling this case. While the outcome of this matter is currently undeterminable, management does not expect that the ultimate cost to resolve this matter will have a material adverse effect on the Authority's financial position, results of operation or cash flows.

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

#### **NOTE 25 - PRIOR PERIOD ADJUSTMENTS**

For year ending September 30, 2018

As of September 30, 2018, the Authority had a prior period adjustment in the amount of (\$415,135) while recording GASB #75 Net OPEB Liability.

#### **NOTE 26 – SUBSEQUENT EVENTS**

Events that occur after the Statement of Net Position date but before the financial statements were available to be issued, must be evaluated for recognition or disclosed. The effects of subsequent events that provide evidence about conditions that existed after the Statement of Net Position's date required disclosure in the accompanying notes. Management has evaluated the activity of the Authority thru May 22, 2019; the date which the financial statements were available for issue and concluded that no subsequent events have occurred that would require recognition in the financial statements or disclosure in the notes to the financial statements.

## HOUSING AUTHORITY OF THE CITY OF SALEM

Required Supplementary Information  
September 30, 2018

### **SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS LAST TEN FISCAL YEARS**

GASB #75 requires supplementary information which includes changes in the Authority's total OPEB liability along with related ratios as listed below.

<b><u>Total OPEB Liability</u></b>	<b><u>2018</u></b>
Service Cost	\$ 3,913
Interest	16,498
Changes in Benefit Terms	-
Difference Between Expected and	
Actual Experiences	-
Changes in Assumptions or Other	
Inputs	-
Benefit Payments	(34,648)
Net Change in Total OPEB Liability	(14,237)
Total OPEB Liability, Beginning	488,697
Total OPEB Liability, Ending	<u>\$ 474,460</u>
Covered, Employee Payroll	\$ 107,228
Total OPEB Liability as a	
percentage of covered employee	
payroll	442.48%

*Schedule is intended to show information for ten years. Additional years will be displayed as they become available.*

## HOUSING AUTHORITY OF THE CITY OF SALEM

Required Supplementary Information  
September 30, 2018

### **SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY OF THE PUBLIC EMPLOYEE RETIREMENT SYSTEM**

GASB #68 requires supplementary information which includes the Authority's share of the net pension liability along with related ratios as listed below.

The schedule below displays the Authority's proportionate share of Net Pension Liability.

	2018	2017	2016	2015	2014
Housing Authority's proportion of the net pension liability	0.00107261%	0.00108734%	0.00109491%	0.00107650%	0.00131589%
Housing Authority's proportionate share of the net pension liability	\$ 211,192	\$ 253,114	\$ 324,280	\$ 241,652	\$ 246,370
Housing Authority's covered employee payroll	\$ 122,790	\$ 95,689	\$ 109,666	\$ 149,248	\$ 159,033
Housing Authority's proportionate share of the net pension liability as a percentage of its covered-employee payroll	171.99%	264.52%	295.70%	161.91%	205.97%
Plan fiduciary net position as a percentage of the total pension liability	53.60%	48.01%	59.86%	52.07%	52.08%

*\*The amounts determined for each fiscal year were determined as of June 30.*

*Schedule is intended to show information for ten years. Additional years will be displayed as they become available.*

# HOUSING AUTHORITY OF THE CITY OF SALEM

Required Supplementary Information  
September 30, 2018

## **SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY OF THE PUBLIC EMPLOYEE RETIREMENT SYSTEM**

The schedule below displays the Authority's contractually required contributions along with related ratios.

	2018	2017	2016	2015	2014
Contractually required contribution	\$ 10,669	\$ 10,073	\$ 9,727	\$ 9,255	\$ 10,848
Contribution in relation to the contractually required contribution	(10,669)	(10,073)	(9,727)	(9,255)	(10,848)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Authority's covered payroll	\$ 122,790	\$ 95,689	\$ 109,666	\$ 149,248	\$ 159,033
Contribution as a percentage of covered employee payroll	8.69%	10.53%	8.87%	6.20%	6.82%

*\*The amounts determined for each fiscal year were determined as of June 30.*

*Schedule is intended to show information for ten years. Additional years will be displayed as they become available.*

**HOUSING AUTHORITY OF THE CITY OF SALEM  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE TWELVE MONTHS ENDED SEPTEMBER 30, 2018**

Programs funded by:

U.S. Department of Housing and Urban Development

CFDA #'s	Grant Period		Grant Award	Fiscal Year	Fiscal Year	Cumulative Expenditures
	From	To		Cash Receipts	Expenditures	
<u>Public and Indian Housing Program</u>						
NJ058-00000116D	1/1/2016	12/31/2016	\$ 939,647	\$ 1,291	\$ 1,291	\$ 939,647
NJ058-00000117D	1/1/2017	12/31/2017	936,094	235,895	235,895	936,094
NJ058-00000118D	1/1/2018	12/31/2018	1,041,866	770,538	770,538	770,538
Grant Subtotal			<u>2,917,607</u>	<u>1,007,724</u>	<u>1,007,724</u>	<u>2,646,279</u>
<u>Public Housing Capital Fund Program</u>						
NJ39P045501-16	4/13/2016	4/12/2020	306,626	74,561	74,561	306,626
NJ39P045501-17	8/16/2017	8/15/2019	325,400	228,767	228,767	228,767
NJ39P045501-18	5/29/2018	5/28/2020	505,179	44,203	44,203	44,203
Grant Subtotal			<u>1,137,205</u>	<u>347,531</u>	<u>347,531</u>	<u>579,596</u>
<u>Section 8 Housing Choice Voucher Program</u>						
NJ058	10/1/2017	9/30/2018	243,461	243,461	243,461	243,461
Grant Subtotal			<u>243,461</u>	<u>243,461</u>	<u>243,461</u>	<u>243,461</u>
Total Expenditures of Federal Awards						
			\$ 4,298,273	\$ 1,598,716	\$ 1,598,716	\$ 3,469,336

**HOUSING AUTHORITY OF THE CITY OF SALEM**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE TWELVE MONTHS ENDED SEPTEMBER 30, 2018**

The accompanying Schedule of Expenditures of Federal Awards includes the federal award activity of the Housing Authority of the City of Salem is under programs of the federal government for the year ended September 30, 2018. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Housing Authority of the City of Salem, it is not intended to and does not present the financial position, change in net position, or cash 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 cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

**Note 3. Indirect Cost Rate**

The Housing Authority of the City of Salem has not elected to use the 10 percent de minimis indirect cost rate as allowable under the Uniform Guidance.

**Note 4. Loans Outstanding:**

Housing Authority City of Salem had Capital Project Bonds payable in the amount of \$745,000, outstanding at September 30, 2018. See Note 15 on page 43 of this report for full detail.

**Note 5. Non- Cash Federal Assistance:**

The Authority did not receive any non-cash Federal assistance for the year ended September 30, 2018.

**Note 6. Sub recipients:**

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

**HOUSING AUTHORITY OF THE CITY OF SALEM  
STATEMENT AND CERTIFICATION OF  
ACTUAL CAPITAL FUND GRANT COST  
AS OF SEPTEMBER 30, 2018**

	NJ39P058501-15		
	Approved Budget	Actual Cost	Overrun
Operations	\$ 59,822	\$ 59,822	\$ -
Administration	29,911	29,911	-
Dwelling Structures	59,558	59,558	-
Bond Debt Obligation	149,825	149,825	-
Total	<u>\$ 299,116</u>	<u>\$ 299,116</u>	<u>\$ -</u>
Funds Advanced	\$ 299,116		
Funds Expended	299,116		
Excess of Funds Advanced	<u>\$ -</u>		

1. The distribution of cost by project and account classification accompanying the Actual Capital Fund Cost Certificates submitted to HUD for approval were in agreement with the Authority's records.
2. All Capital Fund cost have been paid and all related liabilities have been discharged through payment.
3. The Capital Fund Program 501-15 was completed on September 30, 2018.
4. There were no budget overruns noted.

## Entity Wide Balance Sheet Summary

Submission Type: Audited/Single Audit

Fiscal Year End: 09/30/2018

	Project Total	14,871 Housing Choice Vouchers	Subtotal	ELIM	Total
111 Cash - Unrestricted	\$273,282	\$27,895	\$301,177		\$301,177
112 Cash - Restricted - Modernization and Development					
113 Cash - Other Restricted	\$4,098		\$4,098		\$4,098
114 Cash - Tenant Security Deposits	\$21,377		\$21,377		\$21,377
115 Cash - Restricted for Payment of Current Liabilities					
100 Total Cash	\$298,757	\$27,895	\$326,652	\$0	\$326,652
121 Accounts Receivable - PHA Projects					
122 Accounts Receivable - HUD Other Projects	\$44,203	\$745	\$44,948		\$44,948
124 Accounts Receivable - Other Government					
125 Accounts Receivable - Miscellaneous	\$20,866		\$20,866		\$20,866
126 Accounts Receivable - Tenants	\$13,152		\$13,152		\$13,152
126.1 Allowance for Doubtful Accounts - Tenants	-\$6,576		-\$6,576		-\$6,576
126.2 Allowance for Doubtful Accounts - Other	-\$10,433	\$0	-\$10,433		-\$10,433
127 Notes, Loans, & Mortgages Receivable - Current					
128 Fraud Recovery					
128.1 Allowance for Doubtful Accounts - Fraud					
129 Accrued Interest Receivable					
120 Total Receivables, Net of Allowances for Doubtful Accounts	\$61,212	\$745	\$61,957	\$0	\$61,957
131 Investments - Unrestricted					
132 Investments - Restricted					
135 Investments - Restricted for Payment of Current Liability					
142 Prepaid Expenses and Other Assets	\$49,684		\$49,684		\$49,684
143 Inventories					
143.1 Allowance for Obsolete Inventories					
144 Inter Program Due From	\$14,439		\$14,439	-\$14,439	\$0
145 Assets Held for Sale					
150 Total Current Assets	\$424,092	\$28,640	\$452,732	-\$14,439	\$438,293
161 Land	\$183,069		\$183,069		\$183,069
162 Buildings	\$13,395,360		\$13,395,360		\$13,395,360
163 Furniture, Equipment & Machinery - Dwellings	\$399,970		\$399,970		\$399,970
164 Furniture, Equipment & Machinery - Administration	\$10,329		\$10,329		\$10,329
165 Leasehold Improvements	\$2,020,615		\$2,020,615		\$2,020,615
166 Accumulated Depreciation	-\$13,111,315		-\$13,111,315		-\$13,111,315
167 Construction in Progress	\$237,907		\$237,907		\$237,907
168 Infrastructure					
160 Total Capital Assets, Net of Accumulated Depreciation	\$3,135,935	\$0	\$3,135,935	\$0	\$3,135,935
171 Notes, Loans and Mortgages Receivable - Non-Current					
172 Notes, Loans, & Mortgages Receivable - Non Current - Past Due					
173 Grants Receivable - Non Current					
174 Other Assets					
176 Investments in Joint Ventures					
180 Total Non-Current Assets	\$3,135,935	\$0	\$3,135,935	\$0	\$3,135,935
200 Deferred Outflow of Resources	\$40,515		\$40,515		\$40,515
290 Total Assets and Deferred Outflow of Resources	\$3,600,542	\$28,640	\$3,629,182	-\$14,439	\$3,614,743
311 Bank Overdraft					
312 Accounts Payable <= 90 Days	\$15,752	\$1,489	\$17,241		\$17,241
313 Accounts Payable >90 Days Past Due					
321 Accrued Wage/Payroll Taxes Payable	\$6,616		\$6,616		\$6,616
322 Accrued Compensated Absences - Current Portion	\$2,821		\$2,821		\$2,821
324 Accrued Contingency Liability					

## Entity Wide Balance Sheet Summary

Submission Type: Audited/Single Audit

Fiscal Year End: 09/30/2018

	Project Total	14.871 Housing Choice Vouchers	Subtotal	ELIM	Total
325 Accrued Interest Payable	\$14,414		\$14,414		\$14,414
331 Accounts Payable - HUD PHA Programs					
332 Account Payable - PHA Projects					
333 Accounts Payable - Other Government	\$98		\$98		\$98
341 Tenant Security Deposits	\$21,364		\$21,364		\$21,364
342 Unearned Revenue	\$1,635		\$1,635		\$1,635
343 Current Portion of Long-term Debt - Capital Projects/Mortgage Revenue	\$85,000		\$85,000		\$85,000
344 Current Portion of Long-term Debt - Operating Borrowings					
345 Other Current Liabilities	\$12,735		\$12,735		\$12,735
346 Accrued Liabilities - Other	\$107,920		\$107,920		\$107,920
347 Inter Program - Due To		\$14,439	\$14,439	-\$14,439	\$0
348 Loan Liability - Current					
310 Total Current Liabilities	\$268,355	\$15,928	\$284,283	-\$14,439	\$269,844
351 Long-term Debt, Net of Current - Capital Projects/Mortgage Revenue	\$660,000		\$660,000		\$660,000
352 Long-term Debt, Net of Current - Operating Borrowings					
353 Non-current Liabilities - Other					
354 Accrued Compensated Absences - Non Current	\$25,385		\$25,385		\$25,385
355 Loan Liability - Non Current					
356 FASB 5 Liabilities					
357 Accrued Pension and OPEB Liabilities	\$685,651		\$685,651		\$685,651
350 Total Non-Current Liabilities	\$1,371,036	\$0	\$1,371,036	\$0	\$1,371,036
300 Total Liabilities	\$1,639,391	\$15,928	\$1,655,319	-\$14,439	\$1,640,880
400 Deferred Inflow of Resources	\$190,393		\$190,393		\$190,393
508.4 Net Investment in Capital Assets	\$2,390,935		\$2,390,935		\$2,390,935
511.4 Restricted Net Position	\$4,098	\$0	\$4,098		\$4,098
512.4 Unrestricted Net Position	-\$624,275	\$12,712	-\$611,563		-\$611,563
513 Total Equity - Net Assets / Position	\$1,770,758	\$12,712	\$1,783,470	\$0	\$1,783,470
600 Total Liabilities, Deferred Inflows of Resources and Equity - Net	\$3,600,542	\$28,640	\$3,629,182	-\$14,439	\$3,614,743

## Entity Wide Revenue and Expense Summary

Submission Type: Audited/Single Audit

Fiscal Year End: 09/30/2018

	Project Total	14.871 Housing Choice Vouchers	Subtotal	ELIM	Total
70300 Net Tenant Rental Revenue	\$566,378		\$566,378		\$566,378
70400 Tenant Revenue - Other					
70500 Total Tenant Revenue	\$566,378	\$0	\$566,378		\$566,378
70600 HUD PHA Operating Grants	\$1,197,633	\$243,461	\$1,441,094		\$1,441,094
70610 Capital Grants	\$157,622		\$157,622		\$157,622
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	\$360	\$25	\$385		\$385
71200 Mortgage Interest Income					
71300 Proceeds from Disposition of Assets Held for Sale					
71310 Cost of Sale of Assets					
71400 Fraud Recovery		\$4,070	\$4,070		\$4,070
71500 Other Revenue	\$20,136	\$64,684	\$84,820		\$84,820
71600 Gain or Loss on Sale of Capital Assets					
72000 Investment Income - Restricted					
70000 Total Revenue	\$1,942,129	\$312,240	\$2,254,369		\$2,254,369
91100 Administrative Salaries	\$45,599		\$45,599		\$45,599
91200 Auditing Fees	\$9,870		\$9,870		\$9,870
91300 Management Fee		\$22,780	\$22,780		\$22,780
91310 Book-keeping Fee					
91400 Advertising and Marketing					
91500 Employee Benefit contributions - Administrative	\$10,536		\$10,536		\$10,536
91600 Office Expenses	\$72,102		\$72,102		\$72,102
91700 Legal Expense	\$54,799		\$54,799		\$54,799
91800 Travel					
91810 Allocated Overhead					
91900 Other	\$148,715	\$1,464	\$150,179		\$150,179
91000 Total Operating - Administrative	\$341,621	\$24,244	\$365,865		\$365,865
92000 Asset Management Fee					
92100 Tenant Services - Salaries					
92200 Relocation Costs					
92300 Employee Benefit Contributions - Tenant Services					
92400 Tenant Services - Other					
92500 Total Tenant Services	\$0	\$0	\$0		\$0
93100 Water	\$186,697		\$186,697		\$186,697
93200 Electricity	\$251,373		\$251,373		\$251,373
93300 Gas	\$127,328		\$127,328		\$127,328
93400 Fuel					
93500 Labor					
93600 Sewer					
93700 Employee Benefit Contributions - Utilities					
93800 Other Utilities Expense					
93000 Total Utilities	\$565,398	\$0	\$565,398		\$565,398
94100 Ordinary Maintenance and Operations - Labor	\$77,191		\$77,191		\$77,191
94200 Ordinary Maintenance and Operations - Materials and Other	\$124,099		\$124,099		\$124,099
94300 Ordinary Maintenance and Operations Contracts	\$337,660		\$337,660		\$337,660

## Entity Wide Revenue and Expense Summary

Submission Type: Audited/Single Audit

Fiscal Year End: 09/30/2018

	Project Total	14.871 Housing Choice Vouchers	Subtotal	ELIM	Total
94500 Employee Benefit Contributions - Ordinary Maintenance	\$17,836		\$17,836		\$17,836
94000 Total Maintenance	\$556,786	\$0	\$556,786		\$556,786
95100 Protective Services - Labor					
95200 Protective Services - Other Contract Costs					
95300 Protective Services - Other					
95500 Employee Benefit Contributions - Protective Services					
95000 Total Protective Services	\$0	\$0	\$0		\$0
96110 Property Insurance					
96120 Liability Insurance					
96130 Workmen's Compensation					
96140 All Other Insurance	\$134,305		\$134,305		\$134,305
96100 Total insurance Premiums	\$134,305	\$0	\$134,305		\$134,305
96200 Other General Expenses	\$2,085		\$2,085		\$2,085
96210 Compensated Absences					
96300 Payments in Lieu of Taxes	\$98		\$98		\$98
96400 Bad debt - Tenant Rents	\$14,711		\$14,711		\$14,711
96500 Bad debt - Mortgages					
96600 Bad debt - Other					
96800 Severance Expense					
96000 Total Other General Expenses	\$16,894	\$0	\$16,894		\$16,894
96710 Interest of Mortgage (or Bonds) Payable	\$46,001		\$46,001		\$46,001
96720 Interest on Notes Payable (Short and Long Term)					
96730 Amortization of Bond Issue Costs					
96700 Total Interest Expense and Amortization Cost	\$46,001	\$0	\$46,001		\$46,001
96900 Total Operating Expenses	\$1,661,005	\$24,244	\$1,685,249		\$1,685,249
97000 Excess of Operating Revenue over Operating Expenses	\$281,124	\$287,996	\$569,120		\$569,120
97100 Extraordinary Maintenance					
97200 Casualty Losses - Non-capitalized					
97300 Housing Assistance Payments		\$222,716	\$222,716		\$222,716
97350 HAP Portability-In		\$61,934	\$61,934		\$61,934
97400 Depreciation Expense	\$358,045		\$358,045		\$358,045
97500 Fraud Losses					
97600 Capital Outlays - Governmental Funds					
97700 Debt Principal Payment - Governmental Funds					
97800 Dwelling Units Rent Expense					
90000 Total Expenses	\$2,019,050	\$308,894	\$2,327,944		\$2,327,944
10010 Operating Transfer In	\$44,203		\$44,203		\$44,203
10020 Operating transfer Out	-\$44,203		-\$44,203		-\$44,203
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

## Entity Wide Revenue and Expense Summary

Submission Type: Audited/Single Audit

Fiscal Year End: 09/30/2018

	Project Total	14.871 Housing Choice Vouchers	Subtotal	ELIM	Total
10000 Excess (Deficiency) of Total Revenue Over (Under) Total Expenses	-\$76,921	\$3,346	-\$73,575		-\$73,575
11020 Required Annual Debt Principal Payments	\$100,000	\$0	\$100,000		\$100,000
11030 Beginning Equity	\$2,262,814	\$9,366	\$2,272,180		\$2,272,180
11040 Prior Period Adjustments, Equity Transfers and Correction of Errors	-\$415,135		-\$415,135		-\$415,135
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 Rents					
11100 Changes in Allowance for Doubtful Accounts - Other					
11170 Administrative Fee Equity		\$12,712	\$12,712		\$12,712
11180 Housing Assistance Payments Equity		\$0	\$0		\$0
11190 Unit Months Available	2160	360	2520		2520
11210 Number of Unit Months Leased	2043	324	2367		2367
11270 Excess Cash	-\$24,319		-\$24,319		-\$24,319
11610 Land Purchases	\$0		\$0		\$0
11620 Building Purchases	\$0		\$0		\$0
11630 Furniture & Equipment - Dwelling Purchases	\$0		\$0		\$0
11640 Furniture & Equipment - Administrative Purchases	\$0		\$0		\$0
11650 Leasehold Improvements Purchases	\$57,622		\$57,622		\$57,622
11660 Infrastructure Purchases	\$0		\$0		\$0
13510 CFFP Debt Service Payments	\$146,001		\$146,001		\$146,001
13901 Replacement Housing Factor Funds	\$0		\$0		\$0



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Housing Authority of the City of Salem as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise Housing Authority of the City of Salem basic financial statements, and have issued our report thereon dated May 22, 2019.

### **Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Housing Authority of the City of Salem internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Housing Authority of the City of Salem's internal control. Accordingly, we do not express an opinion on the effectiveness of Housing Authority of the City of Salem 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 Housing Authority of the City of Salem financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed 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.

*Hymanson, Parnes & Giampaolo*

Lincroft, New Jersey

Date: May 22, 2019



# *Hymanson, Parnes & Giampaolo*

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### **INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

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

#### **Report on Compliance for Each Major Federal Program**

We have audited Housing Authority of the City of Salem compliance with the types of compliance requirements described in the OMB Compliance Supplement that could have a direct and material effect on each of Housing Authority of the City of Salem major federal programs for the year ended September 30, 2018. Housing Authority of the City of Salem major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

#### ***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

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

Our responsibility is to express an opinion on compliance for each of Housing Authority of the City of Salem 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 the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Those standards and the Uniform Guidance 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 Housing Authority of the City of Salem compliance with those requirements and performing such other procedures as we consider 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 Housing Authority of the City of Salem compliance.

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

In our opinion, 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, 2018.

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

Management of Housing Authority of the City of Salem is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Housing Authority of the City of Salem's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 Housing Authority of the City of Salem 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 a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. 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 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.

**Purpose of This Report**

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

*Hymanson, Parnes & Giampaolo*

Lincroft, New Jersey

Date: May 22, 2019

**HOUSING AUTHORITY OF THE CITY OF SALEM**  
Schedule of Findings, Questioned Costs, and Recommendations  
Year Ended September 30, 2018

**Prior Audit Findings**

None reported

**Summary of Auditor's Results**

**Financial Statements**

Type of Auditor's Report Issued:

Unmodified

Internal Control over Financial Reporting:

Material Weakness (es) Identified? \_\_\_\_\_

yes X no

Significant Deficiency(ies) identified that are  
considered to be material weakness(es)? \_\_\_\_\_

yes X none reported

Noncompliance Material to Financial Statements Noted? \_\_\_\_\_

yes X no

**Federal Awards**

Internal Control over Major Programs:

Material Weakness (es) Identified? \_\_\_\_\_

yes X no

Significant Deficiency(ies) identified that are  
considered to be material weakness(es)? \_\_\_\_\_

yes X none reported

Type of audit report issued on compliance for  
major programs:

Unmodified

Any audit findings disclosed that are required to be  
reported in accordance with section Title 2 U.S. Code of Federal Regulation  
Part 200, Uniform Administrative Requirements, \_\_\_\_\_

yes X no

Identification of Major Programs

CFDA#	Name of Federal Program	Amount
14.872	Public Housing Capital Fund Program	\$ 347,531

Dollar threshold used to Distinguish between Type A and Type B Programs \$ 750,000

Auditee qualified as a low-risk auditee

X yes \_\_\_\_\_ no

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

None reported

**FINDINGS – FINANCIAL STATEMENT AUDIT**

None reported



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

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

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

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

We were engaged to perform an audit in accordance with the Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), by Housing Authority of the City of Salem as of and for the year ended September 30, 2018, and have issued our reports thereon dated May 22, 2019. The information in the "Hard Copy Documents" column was included within the scope, or was a by-product of that audit. Further, our opinion on the fair presentation of the supplementary information dated September 30, 2018, was expressed in relation to the basic financial statements of Housing Authority of the City of Salem taken as a whole.

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

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

*Hymanson, Parnes & Giampaolo*

Lincroft, New Jersey  
May 22, 2019

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

<b>PROCEDURE</b>	<b>UFRS RULE INFORMATION</b>	<b>HARD COPY DOCUMENTS</b>	<b>AGREES</b>	<b>DOES NOT AGREE</b>
1	Balance Sheet and Revenue and Expense (data line items 111 to 13901)	Financial Data Schedule,all CFDA's	<input checked="" type="radio"/>	<input type="radio"/>
2	Footnotes (data element G5000-010)	Footnotes to audited basic financial statements	<input checked="" type="radio"/>	<input type="radio"/>
3	Type of opinion on FDS (data element G3100-040)	Auditor's supplemental report on FDS	<input checked="" type="radio"/>	<input type="radio"/>
4	Audit findings narrative (data element G5200-010)	Schedule of Findings and Questioned costs	<input checked="" type="radio"/>	<input type="radio"/>
5	General information (data element series G2000,G2100,G2200,G9000,G9100)	OMB Data Collection Form*	<input checked="" type="radio"/>	<input type="radio"/>
6	Financial statement report information (data element G3000-010 to G3000-050)	Schedule of Findings and Questioned costs,Part 1 and OMB Data Collection Form*	<input checked="" type="radio"/>	<input type="radio"/>
7	Federal program report information (data element G4000-020 to G4000-040)	Schedule of Findings and Questioned costs,Part 1 and OMB Data Collection Form*	<input checked="" type="radio"/>	<input type="radio"/>
8	Type of Compliance Requirement (G4200-020 & G4000-030)	OMB Data Collection Form*	<input checked="" type="radio"/>	<input type="radio"/>
9	Basic financial statements and auditor's reports required to be submitted electronically	Basic financial statements (inclusive of auditor reports)	<input checked="" type="radio"/>	<input type="radio"/>