

Report On Audit

**HOUSING AUTHORITY OF THE
BOROUGH OF HIGHTSTOWN**

**For the Year Ended
December 31, 2017**

Housing Authority of the Borough of Hightstown
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INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Housing Authority of the Borough of Hightstown
131 Rogers Avenue
Hightstown, New Jersey 08520

Report on the Financial Statements

We have audited the accompanying financial statements of the Housing Authority of the Borough of Hightstown (a governmental public corporation) in Hightstown, New Jersey, hereafter referred to as the Authority, which comprise the statement of net position as of December 31, 2017, and the related statement of revenue, expenses and changes in net position, statement of cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Housing Authority of the Borough of Hightstown'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 Borough of Hightstown'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 Borough of Hightstown as of December 31, 2017, and the respective changes in financial position, and, where applicable, cash flows thereof for the year's then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and PERS supplemental information budgetary comparison information on pages 4 through 15 and pages 51-52 be presented to supplement the basic financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards accepted in the United States of America, which consisted of inquiries of management about the method of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by 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 financial statements. Lastly, the supplemental information on the accompanying Financial Data Schedule is presented for the purpose of additional analysis and is not a required part of the financial statements. The Schedule of Federal Awards and the Financial Data Schedule are the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements.

The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued reports dated May 9, 2018 on our consideration of the Housing Authority of the Borough of Hightstown's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters.

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

Hymanson, Parnes & Giampaolo

Lincroft, New Jersey

Date: May 9, 2018

**HOUSING AUTHORITY OF THE BOROUGH OF HIGHTSTOWN
MANAGEMENT'S DISCUSSION AND ANALYSIS
AT DECEMBER 31, 2017**

As Management of the Housing Authority of the Borough of Hightstown (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 16 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 \$1,513,476 a decrease in the financial position of \$69,775 or 4% as compared to the prior year.

As noted above, the net position of the Authority was \$1,513,476 as of December 31, 2017. Of this amount, the unrestricted net position is a negative (\$63,408) representing an increase in the deficit of \$31,223, or 97% percent from the previous year. Additional information on the Authority's unrestricted net positions can be found in Note 18 the financial statements, which is included in this report.

The net investment in capital assets decreased \$38,552 or 2% percent for an ending balance of \$1,576,884.

The Authority's unrestricted cash, and cash equivalent at December 31, 2017 is \$782,099 representing an increase of \$8,786 or 1% percent from the prior year. Total restricted cash increased \$130 or less than 1% percent for an ending balance of \$40,333. The full detail of this amount can be found in the Statement of Cash Flow on pages 19-20 of this report.

The Authority's total assets and deferred outflows are \$2,581,258 of which deferred outflows is in the amount of \$162,237, capital assets net book value is \$1,576,884, leaving current assets at \$842,137. Total current assets increased from the previous year by \$11,196 or 1% percent. Unrestricted cash and cash equivalents increased by \$8,786, restricted cash and cash equivalents increased \$130, accounts receivables decreased by \$111, and prepaid expenses increased by \$2,391. Accounts receivables decrease was mainly due to tenants' balances decreasing from the prior year due to better collections.

**HOUSING AUTHORITY OF THE BOROUGH OF HIGHTSTOWN
MANAGEMENT'S DISCUSSION AND ANALYSIS
AT DECEMBER 31, 2017**

FINANCIAL HIGHLIGHTS - CONTINUED

Capital assets reported a decrease in the net book value of the capital assets in the amount of \$38,552 or 2% percent. The major factors that contributed for the decrease was the purchase of fixed assets in the amount of \$106,659, less the recording of depreciation expense in the amount of \$145,211. 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 \$51,324 for an ending balance of \$162,237. The Authority also reported an increase in the deferred inflow for the pension cost in the amount of \$99,035 for an ending balance of \$182,356. 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 \$885,426, of which noncurrent liabilities are stated at \$788,904. Total liabilities decreased during the year as compared to the prior year in the amount of \$107,940 or 11% percent. Total current liabilities increased during the year by \$2,182, leaving non-current liabilities for a decrease of \$110,122 as compared to the previous fiscal year.

Total current liabilities increased from the previous year by \$2,182 or 2% percent. Accounts payables increased by \$2,298, accrued liabilities increased by \$245, tenant security deposit payable increased by \$130, and unearned revenue decreased \$491.

Total noncurrent liabilities decreased by \$110,122 or 12% percent. Long-term obligations for compensated absences increased in the amount of \$1,448 for an ending balance of \$22,074. Accrued pension and OPEB liabilities decreased \$111,570 for an ending balance of \$766,830. Additional information on GASB 68's effect and the Authority's accrued pension and OPEB liabilities at December 31, 2017 can be found in Notes 16-17 to the financial statements, which is included in this report.

The Authority had total operating revenue of \$852,966 as compared to \$868,640 from the prior year for a decrease of \$15,674 or 2% percent. The Authority had total operating expenses of \$997,859 as compared to \$1,069,083 from the previous year for a decrease of \$71,224 or 7% percent, resulting in a deficiency of revenue from operations in the amount of \$144,893 for the current year as compared to a deficiency of revenue from operations in the amount of \$200,443 for a decrease in deficit of \$55,550 from the previous year. This was after consideration of depreciation expense and the OPEB/Pension liability decrease.

Total capital improvements contributions from HUD were in the amount of \$106,659 as compared to \$47,392 from the previous year for an increase of \$59,267 or 125% percent. The Authority's had capital outlays in the amount of \$106,659. These expenditures were funded by grants received during the year from the U.S. Department of Housing and Urban Development. A full detail of capital outlays can be found in the Notes to the Financial Statements Section Note – 8 Fixed Assets.

**HOUSING AUTHORITY OF THE BOROUGH OF HIGHTSTOWN
MANAGEMENT'S DISCUSSION AND ANALYSIS
AT DECEMBER 31, 2017**

FINANCIAL HIGHLIGHTS - CONTINUED

The Authority's Expenditures of Federal Awards amounted to \$377,650 for the year 2017 as compared to \$345,757 for the previous year 2016 for an increase of \$31,893 or 9% 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. Public Housing Capital Fund Program

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

OVERVIEW OF THE FINANCIAL STATEMENT PRESENTATION

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

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

The Authority's financial statements and notes to financial statements included in this Report were prepared in accordance with generally accepted accounting principles (GAAP) applicable to governmental entities in the United States of America for the Enterprise Fund types. The Authority's activities are primarily supported by HUD subsidies and grants. The Authority's function is to provide decent, safe, and sanitary housing to low income and special needs populations. The financial statements can be found on pages 16 through 20.

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.

**HOUSING AUTHORITY OF THE BOROUGH OF HIGHTSTOWN
MANAGEMENT'S DISCUSSION AND ANALYSIS
AT DECEMBER 31, 2017**

OVERVIEW OF THE FINANCIAL STATEMENT PRESENTATION - CONTINUED

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

Notes to the Financial Statements - Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided. These notes give greater understanding on the overall activity of the Housing Authority and how values are assigned to certain assets and liabilities and the longevity of these values. In addition, notes reflect the impact (if any) of any uncertainties the Housing Authority may face. The Notes to Financial Statements can be found in this Report beginning on page 21 through 48.

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

The Schedule of Expenditures of Federal Awards is presented for purpose of additional analysis as required by 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 page 49-50 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.

**HOUSING AUTHORITY OF THE BOROUGH OF HIGHTSTOWN
MANAGEMENT'S DISCUSSION AND ANALYSIS
AT DECEMBER 31, 2017**

OVERVIEW OF THE FINANCIAL STATEMENT PRESENTATION - CONTINUED

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 Borough of Hightstown are those which equal or exceeded \$750,000 in expenditures for the year ended December 31, 2017. Type B programs for the Housing Authority of the Borough of Hightstown are those which are less than \$750,000 in expenditures for the year ended December 31, 2017.

FINANCIAL ANALYSIS OF THE AUTHORITY (ENTITY WIDE)

The following summarizes the computation of Net Position between December 31, 2017 and December 31, 2016:

	<u>Year Ended</u>		Increase
	<u>December-17</u>	<u>December-16</u>	<u>(Decrease)</u>
Cash	\$ 822,432	\$ 813,516	\$ 8,916
Other Current Assets	19,705	17,425	2,280
Capital Assets - Net	1,576,884	1,615,436	(38,552)
Deferred Outflows	162,237	213,561	(51,324)
Total Assets	2,581,258	2,659,938	(78,680)
Less: Current Liabilities	(96,522)	(94,340)	(2,182)
Less: Non Current Liabilities	(788,904)	(899,026)	110,122
Less: Deferred Inflows	(182,356)	(83,321)	(99,035)
Net Position	<u>\$ 1,513,476</u>	<u>\$ 1,583,251</u>	<u>\$ (69,775)</u>
Net Investment in Capital Assets	\$ 1,576,884	\$ 1,615,436	\$ (38,552)
Unrestricted Net Position	(63,408)	(32,185)	(31,223)
Net Position	<u>\$ 1,513,476</u>	<u>\$ 1,583,251</u>	<u>\$ (69,775)</u>

Cash increased by \$8,916 or 1% percent. Net cash provided by operating activities was \$90, net cash provided by capital and related financing activities was \$7,628, and net cash provided by investing activities was \$1,198. The full detail of this amount can be found in the Statement of Cash Flow on pages 19-20 of this audit report.

Other current assets increased \$2,280. Accounts receivables decreased by \$111, and prepaid expenses increased by \$2,391. Accounts receivables decrease was mainly due to tenant's balances decreasing from the prior year.

**HOUSING AUTHORITY OF THE BOROUGH OF HIGHTSTOWN
MANAGEMENT'S DISCUSSION AND ANALYSIS
AT DECEMBER 31, 2017**

FINANCIAL ANALYSIS OF THE AUTHORITY (ENTITY WIDE) – CONTINUED

Capital assets reported a decrease in the net book value of the capital assets in the amount of \$38,552 or 2% percent. The major factors that contributed for the decrease was the purchase of fixed assets in the amount of \$106,659, less the recording of depreciation expense in the amount of \$145,211. 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 \$51,324 for an ending balance of \$162,237. The Authority also reported an increase in the deferred inflow for the pension cost in the amount of \$99,035 for an ending balance of \$182,356.

Total current liabilities increased from the previous year by \$2,182 or 2% percent. Accounts payables increased by \$2,298, accrued liabilities increased by \$245, tenant security deposit payable increased by \$130, and unearned revenue decreased \$491.

Total noncurrent liabilities decreased by \$110,122 or 12% percent. Long-term obligations for compensated absences increased in the amount of \$1,448 for an ending balance of \$22,074. Accrued pension and OPEB liabilities decreased \$111,570 for an ending balance of \$766,830.

The Authority's reported net position of \$1,513,476 is made up of two categories. The net investment in capital assets in the amount of \$1,576,884 represents the majority of the total account balance. The net investment in capital assets (e.g., land, buildings, vehicles, equipment, and construction in process); less any related debt used to acquire those assets that are still outstanding. The Authority uses these capital assets to provide housing services to the tenants; consequently, these assets are not available for future spending. The schedule below reflects the activity in this account for the current fiscal year:

Balance December 31, 2016	\$ 1,615,436
Acquisition in Fixed Assets	106,659
Depreciation Expense	(145,211)
Balance December 31, 2017	<u>\$ 1,576,884</u>

The Housing Authority of the Borough of Hightstown operating results for December 31, 2017 reported a decrease in unrestricted position of \$31,223 or 97% percent for an ending balance of negative \$(63,408). A full detail of this account can be found in the Notes to the Financial Statements Section Note – 18 Unrestricted Net Position.

**HOUSING AUTHORITY OF THE BOROUGH OF HIGHTSTOWN
MANAGEMENT'S DISCUSSION AND ANALYSIS
AT DECEMBER 31, 2017**

FINANCIAL ANALYSIS OF THE AUTHORITY (ENTITY WIDE) - CONTINUED

The following summarizes the changes in Net Position between December 31, 2017 and December 31, 2016:

Computation of Changes in Net Position are as follows:

	<u>Year Ended</u>		<u>Increase</u>
	<u>December-17</u>	<u>December-16</u>	<u>(Decrease)</u>
<u>Revenues</u>			
Tenant Revenues	\$ 572,008	\$ 558,200	\$ 13,808
HUD Subsidies	270,991	298,365	(27,374)
Other Revenues	9,967	12,075	(2,108)
Total Operating Income	852,966	868,640	(15,674)
<u>Expenses</u>			
Operating Expenses	852,648	827,570	25,078
Depreciation Expense	145,211	241,513	(96,302)
Total Operating Expenses	997,859	1,069,083	(71,224)
Operating (Loss)			
Before Capital Grants	(144,893)	(200,443)	55,550
Interest Income	1,198	1,146	52
Extraordinary Maintenance	(32,739)	(29,749)	(2,990)
HUD Capital Grants	106,659	47,392	59,267
Change in Net Position	(69,775)	(181,654)	111,879
Net Position Prior Year	1,583,251	1,764,905	(181,654)
Total Net Position	<u>\$ 1,513,476</u>	<u>\$ 1,583,251</u>	<u>\$ (69,775)</u>

Approximately 67% percent of the Authority's total operating revenue was provided by tenant revenue, while 32% percent resulted from HUD operating subsidy. Charges for various services provided the remaining 1% percent of the total operating income.

Total capital improvements contributions from HUD were in the amount of \$106,659 as compared to \$47,392 from the previous year for an increase of \$59,267 or 125% percent. The Authority's had capital outlays in the amount of \$106,659 for the year. The current year additions included kitchen upgrades, parking lot improvements, landscaping and site improvements, and replacement of office furniture.

**HOUSING AUTHORITY OF THE BOROUGH OF HIGHTSTOWN
MANAGEMENT'S DISCUSSION AND ANALYSIS
AT DECEMBER 31, 2017**

FINANCIAL ANALYSIS OF THE AUTHORITY (ENTITY WIDE) - CONTINUED

The Authority's operating expenses cover a range of expenses. The largest expense was for administrative expenses representing 32% percent of total operating expenses. Tenant services accounted for 1% percent, utilities expense accounted for 21% percent, maintenance expense accounted for 19% percent, other operating expenses accounted for 12% percent, 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 \$144,893 from operations as compared to excess expenses from operations of \$200,443 for the previous year. The key elements for the decrease in deficit in comparison to the prior year are as follow:

- The Authority experienced a decrease in Housing and Urban Development funded Operating Grants in the amount of \$27,374 or 9% percent
- Tenant Rental Revenue increased \$13,808 due to increases in the tenant reportable income.
- The Authority experienced increases in the following expenses:
 - Utility expenses increased \$3,904 or 2% percent
 - Maintenance expenses increased \$37,316 or 24% percent.
 - Other Operating expenses increased \$4,596 or 4% percent
- The Authority experienced decreases in the following expenses:
 - Administrative expenses decreased \$16,738 or 5% percent. This was mainly due to decrease in employee benefit costs due to the pension liability
 - Tenant services cost decreased \$4,000 or 67% percent

Total net cash provided by operating activities during the year was \$90 as compared to cash provided in the amount of \$49,285 in the prior year. A full detail of these amounts can be found on the Statement of Cash Flow on pages 19-20 of this report.

**HOUSING AUTHORITY OF THE BOROUGH OF HIGHTSTOWN
MANAGEMENT'S DISCUSSION AND ANALYSIS
AT DECEMBER 31, 2017**

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 December 31, 2017:

	December-17	December-16	December-15	December-14
Significant Income				
Total Tenant Revenue	\$ 572,008	\$ 558,200	\$ 550,497	\$ 535,625
HUD Operating Grants	270,991	298,365	299,879	296,681
HUD Capital Grants	106,659	47,392	114,030	41,491
Investment Income	1,198	1,146	1,013	882
Other Income	9,967	12,075	15,471	17,659
Total	<u>\$ 960,823</u>	<u>\$ 917,178</u>	<u>\$ 980,890</u>	<u>\$ 892,338</u>
Payroll Expense				
Administrative Salaries	\$ 173,562	\$ 170,323	\$ 165,529	\$ 161,118
Utilities Labor	14,573	12,947	12,925	13,299
Maintenance Labor	53,678	36,701	44,092	46,763
Employee Benefits Expense	94,309	107,063	68,904	77,810
Total Payroll Expense	<u>\$ 336,122</u>	<u>\$ 327,034</u>	<u>\$ 291,450</u>	<u>\$ 298,990</u>
Other Significant Expenses				
Other Administrative Expenses	\$ 83,134	\$ 81,581	\$ 90,118	\$ 89,210
Utilities Expense	192,227	191,583	193,328	199,271
Maintenance Materials Cost	34,026	27,425	25,470	22,056
Maintenance Contract Cost	84,098	77,502	72,551	83,972
Insurance Premiums	44,667	40,519	40,329	39,674
Total	<u>\$ 438,152</u>	<u>\$ 418,610</u>	<u>\$ 421,796</u>	<u>\$ 434,183</u>
Total Operating Expenses	<u>\$ 997,859</u>	<u>\$ 1,069,083</u>	<u>\$ 1,016,512</u>	<u>\$ 1,014,149</u>
Total of Federal Awards	<u>\$ 377,650</u>	<u>\$ 345,757</u>	<u>\$ 413,909</u>	<u>\$ 338,172</u>

THE AUTHORITY AS A WHOLE

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

**HOUSING AUTHORITY OF THE BOROUGH OF HIGHTSTOWN
MANAGEMENT'S DISCUSSION AND ANALYSIS
AT DECEMBER 31, 2017**

HOUSING AUTHORITY OF THE BOROUGH OF HIGHTSTOWN 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 Borough of Hightstown 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.

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.

NEW INITIATIVES

For the fiscal year 2017 the Housing Authority's primary focus has been on funding and accountability. As a public entity that derives approximately 39% percent of its revenue from the Department of Housing and Urban Development, (2016 fiscal year was 39% 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. Interactions with the residents are a constant reminder of the need of the services.

**HOUSING AUTHORITY OF THE BOROUGH OF HIGHTSTOWN
MANAGEMENT'S DISCUSSION AND ANALYSIS
AT DECEMBER 31, 2017**

NEW INITIATIVES - CONTINUED

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 assistance to qualified residents of Borough of Hightstown 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 December 31, 2017 was \$1,576,884 (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 \$38,552 or 2% percent. Major capital expenditures of \$106,659 were made during the year. Major capital assets events during the fiscal year included the following:

- Kitchen Upgrades
- Parking Lot Improvements
- Landscaping and Site Improvements
- Replacement of Office Furniture

	December-17	December-16	Change
Land	\$ 336,630	\$ 336,630	\$ -
Building	7,266,626	7,266,626	-
Furniture, Equipment - Dwelling	118,008	118,008	-
Furniture, Equipment - Administration	152,380	152,380	-
Construction in Process	165,473	58,814	106,659
Total Fixed Assets	8,039,117	7,932,458	106,659
Accumulated Depreciation	(6,462,233)	(6,317,022)	(145,211)
Net Book Value	\$ 1,576,884	\$ 1,615,436	\$ (38,552)

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 does not have any long-term debt at this time.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Housing Authority of the Borough of Hightstown 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.

**HOUSING AUTHORITY OF THE BOROUGH OF HIGHTSTOWN
MANAGEMENT'S DISCUSSION AND ANALYSIS
AT DECEMBER 31, 2017**

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

The capital budgets for the 2018 fiscal year have already been submitted to HUD for approval and no major changes are expected. Capital Funds are used for the modernization of public housing property including administrative fees involved in the modernization.

The following factors were considered in preparing the Authority's budget for the fiscal year ending December 31, 2018.

- State of New Jersey economy including the impact on tenant income. Local inflationary, recessionary and employment trends, which can affect resident incomes and therefore the amount of rental income. Tenant rental payments are based on tenant income.
- The need for Congress to fund the Department of Defense and Homeland Security due to the war on terrorism and other impending military activities will probably result in reduced appropriations for all other domestic program spending.
- Continued increases in health care insurance are expected to impact employee benefits cost over the next several years.
- Inflationary pressure on utility rates, supplies and other cost.
- 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 Keith LePrevost, Housing Authority of the Borough of Hightstown, 131 Rogers Avenue, Hightstown, N.J. 08520, or call (609)448-2268.

HOUSING AUTHORITY OF THE BOROUGH OF HIGHTSTOWN
STATEMENT OF NET POSITION -1
AS OF DECEMBER 31, 2017

	2017
Assets	
Current Assets:	
Cash and Cash Equivalents - Unrestricted	\$ 782,099
Cash and Cash Equivalents - Restricted	40,333
Prepaid Expenses	19,705
Total Current Assets	<u>842,137</u>
Noncurrent Assets	
Capital Assets	
Land	336,630
Building	7,266,626
Furniture, Equipment - Dwelling	118,008
Furniture, Equipment - Administration	152,380
Leasehold Improvements	165,473
Total Capital Assets	<u>8,039,117</u>
Less: Accumulated Depreciation	<u>(6,462,233)</u>
Net Book Value	<u>1,576,884</u>
Total Assets	2,419,021
Deferred Outflow of Resources	
State of New Jersey P.E.R.S.	<u>162,237</u>
Total Assets and Deferred Outflow of Resources	<u><u>\$ 2,581,258</u></u>

See accompanying notes to the financial statements.

HOUSING AUTHORITY OF THE BOROUGH OF HIGHTSTOWN
STATEMENT OF NET POSITION -2
AS OF DECEMBER 31, 2017

	<u>2017</u>
Liabilities	
Current Liabilities:	
Accounts Payable	\$ 49,795
Accrued Liabilities	2,655
Tenant Security Deposit Payable	40,333
Unearned Revenue	<u>3,739</u>
Total Current Liabilities	<u>96,522</u>
Noncurrent Liabilities	
Accrued Compensated Absences - Long-Term	22,074
Accrued Pension and OPEB Liabilities	<u>766,830</u>
Total Noncurrent Liabilities	<u>788,904</u>
 Total Liabilities	 <u>885,426</u>
Deferred Inflow of Resources	
State of New Jersey P.E.R.S.	<u>182,356</u>
Net Position:	
Net Investment in Capital Assets	1,576,884
Unrestricted	<u>(63,408)</u>
Total Net Position	<u>1,513,476</u>
 Total Liabilities, Deferred Inflow of Resources, and Net Position	 <u><u>\$ 2,581,258</u></u>

See accompanying notes to the financial statements.

HOUSING AUTHORITY OF THE BOROUGH OF HIGHTSTOWN
STATEMENT OF REVENUE, EXPENSES AND
CHANGES IN NET POSITION
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2017

	2017
Revenue:	
Tenant Rental Revenue	\$ 572,008
HUD PHA Operating Grants	270,991
Other Revenue	9,967
Total Revenue	<u>852,966</u>
Operating Expenses:	
Administrative Expense	324,902
Tenant Services	2,000
Utilities Expense	212,201
Maintenance Expense	192,504
Other Operating Expenses	121,041
Depreciation Expense	145,211
Total Operating Expenses	<u>997,859</u>
Excess Expenses Over Revenue From Operations	<u>(144,893)</u>
Non Operating Income and (Expenses):	
Extraordinary Maintenance	(32,739)
Investment Income - Unrestricted	1,198
Capital Grant Contributions	106,659
Total Non Operating Income	<u>75,118</u>
Change in Net Position	(69,775)
Beginning Net Position	<u>1,583,251</u>
Ending Net Position	<u><u>\$ 1,513,476</u></u>

See accompanying notes to the financial statements.

HOUSING AUTHORITY OF THE BOROUGH OF HIGHTSTOWN
STATEMENT OF CASH FLOW -1
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2017

	2017
Cash Flow From Operating Activities	
Receipts from Tenants	\$ 572,119
Receipts from Federal Grants	270,991
Receipts from Misc. Sources	9,967
Payments to Vendors and Suppliers	(324,638)
Payments to Employees	(241,813)
Payment of Employee Benefits	(94,309)
Payments for Utilities	(192,227)
Net Cash Provided by Operating Activities	<u>90</u>
Cash Flow From Capital and Related Financing Activities	
Receipts from Capital Grants	106,659
Acquisitions and Construction of Capital Assets	(106,659)
Extraordinary Maintenance	(32,739)
Increase (Payment) in Compensated Absences	1,448
Receipt in Tenant Security Deposit Payable	130
Accrued Pension and OPEB Liabilities	(111,570)
Net Effect of Deferred Outflows and Inflows	150,359
Net Cash Provided by Capital and Related Financing Activities	<u>7,628</u>
Cash Flow From Investing Activities	
Interest Income	1,198
Net Cash Provided by Investing Activities	<u>1,198</u>
Net Increase in Cash and Cash Equivalents	8,916
Beginning Cash	<u>813,516</u>
Ending Cash	<u><u>\$ 822,432</u></u>
<u>Reconciliation of Cash Balances:</u>	
Cash and Cash Equivalents - Unrestricted	\$ 782,099
Tenant Security Deposit	40,333
Total Ending Cash	<u><u>\$ 822,432</u></u>

See accompanying notes to the financial statements.

HOUSING AUTHORITY OF THE BOROUGH OF HIGHTSTOWN
STATEMENT OF CASH FLOW -2
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2017

	<u>2017</u>
Reconciliation of Operating Income to Net Cash	
(Used) by Operating Activities	
Excess of Expenses Over Revenue	\$ (144,893)
Adjustments to reconcile excess revenue over expenses to net cash provided by operating activities:	
Depreciation Expense	145,211
(Increase) Decrease in:	
Accounts Receivables	111
Prepaid Expenses	(2,391)
Increase (Decrease) in:	
Accounts Payable	2,298
Accrued Expenses	245
Unearned Revenue	(491)
Net Cash Provided By Operating Activities	<u>\$ 90</u>

See accompanying notes to the financial statements.

HOUSING AUTHORITY OF THE BOROUGH OF HIGHTSTOWN

Notes to Financial Statements

December 31, 2017

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) 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 Borough of Hightstown 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 the Borough of Hightstown. 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 Hightstown and Borough 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 Borough of Hightstown 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 BOROUGH OF HIGHTSTOWN

Notes to Financial Statements

December 31, 2017

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.

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.

Basis of Accounting –

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

HOUSING AUTHORITY OF THE BOROUGH OF HIGHTSTOWN

Notes to Financial Statements December 31, 2017

Basis of Accounting – Continued

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

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 Borough of Hightstown's flat rent amount.

Tenants dwelling rental charges are determined and billed monthly and are recognized as revenue when assessed because they are measurable and are collectible within the current period. The amounts not received by December 31, are considered to be accounts receivable and any amounts received for subsequent period are recorded as deferred revenue.

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

Other revenue is income 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.

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 BOROUGH OF HIGHTSTOWN

Notes to Financial Statements December 31, 2017

Report Presentation -

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.

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

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

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

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

Net Investment in Capital Assets.

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

Restricted.

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

Unrestricted.

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

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

HOUSING AUTHORITY OF THE BOROUGH OF HIGHTSTOWN

Notes to Financial Statements

December 31, 2017

Other accounting policies are as follows

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

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

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

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

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

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

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

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

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

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

11- Advertising cost is charged to expense when incurred.

12- 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.

HOUSING AUTHORITY OF THE BOROUGH OF HIGHTSTOWN

Notes to Financial Statements

December 31, 2017

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

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

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

The carrying amounts reported for cash and short-term investments approximate fair value.

HOUSING AUTHORITY OF THE BOROUGH OF HIGHTSTOWN

Notes to Financial Statements

December 31, 2017

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.

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

Program	CFDA #	Project #	Units Authorized
<u>Public Housing</u>			
Public and Indian Housing Program	14.850	NJ-45	100
Public Housing Capital Fund	14.872		

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 the Borough of Hightstown 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.

HOUSING AUTHORITY OF THE BOROUGH OF HIGHTSTOWN

Notes to Financial Statements

December 31, 2017

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

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

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

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

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 BOROUGH OF HIGHTSTOWN

Notes to Financial Statements

December 31, 2017

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/2017divisioncombined.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 2017 amounted to \$24,277.

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 17 – Accrued Pension Liability.

HOUSING AUTHORITY OF THE BOROUGH OF HIGHTSTOWN

Notes to Financial Statements December 31, 2017

NOTE 4 – CASH, AND CASH EQUIVALENTS

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

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

Collateral for Deposits

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

The book balances at December 31, 2017 for unrestricted cash were \$782,099 and restricted cash of \$40,333 as discussed below:

	<u>December-17</u>
1st Constitution Bank	\$ 822,212
Petty Cash	220
Total Cash and Cash Equivalents	<u>\$ 822,432</u>

The Authority has total restricted cash at December 31, 2017 in the amount of \$40,333 which consists of tenant security deposits. These amounts are held as security deposits for the tenants of the Public and Indian Housing Program in an interest bearing accounts at 1st Constitution Bank.

HOUSING AUTHORITY OF THE BOROUGH OF HIGHTSTOWN

Notes to Financial Statements December 31, 2017

NOTE 4 – CASH, AND CASH EQUIVALENTS - CONTINUED

Risk Disclosures

Interest Rate Risk

As a means of limiting its exposure to fair value losses arising from rising interest rates, the Authority's investment policy limits the Authority's investment portfolio to maturities not to exceed two years at time of purchase.

At December 31, 2017, the Authority's deposits and investments were not limited and all of which are either available on demand or have maturities of less than two years.

Credit Risk

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

<u>Depository Accounts</u>	<u>December-17</u>
Insured	\$ 250,220
Collateralized held by pledging bank's trust department in the Authority's n	572,212
	<u>\$ 822,432</u>

NOTE 5 - ACCOUNTS RECEIVABLE

The Housing Authority of the Borough of Hightstown 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.

HOUSING AUTHORITY OF THE BOROUGH OF HIGHTSTOWN

Notes to Financial Statements December 31, 2017

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 written off on a monthly basis. Prepaid expenses as of December 31, 2017 consisted of prepaid insurance in the amounts of \$19,705.

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 December 31, 2017 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 by an appraised value.

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.

Donated fixed assets are stated at their fair value on the date donated.

Depreciation Expense

Depreciation is provided using the straight line method over the estimated useful lives of the assets.

1. Building and Structure	40 years
2. Office Improvements	7 years
3. Site Improvements	15 years
4. Building Components	15 years
5. Office Equipment	5 years

HOUSING AUTHORITY OF THE BOROUGH OF HIGHTSTOWN

Notes to Financial Statements December 31, 2017

NOTE 8 - FIXED ASSETS - CONTINUED

The Housing Authority of the Borough of Hightstown 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 December 31, 2017.

Below is a schedule of changes in fixed assets for the twelve months ending December 31, 2017:

	December-16	Additions	December-17
Land	\$ 336,630	\$ -	\$ 336,630
Building	7,266,626	-	7,266,626
Furniture, Equipment - Dwelling	118,008	-	118,008
Furniture, Equipment - Administration	152,380	-	152,380
Construction in Process	58,814	106,659	165,473
Total Fixed Assets	7,932,458	106,659	8,039,117
Accumulated Depreciation	(6,317,022)	(145,211)	(6,462,233)
Net Book Value	\$ 1,615,436	\$ (38,552)	\$ 1,576,884

Below is a schedule of the net book value of the fixed assets for the Authority as of December 31, 2017:

Net Book Value of Fixed Assets	December-17
Land	\$ 336,630
Building	1,061,708
Furniture, Equipment - Dwelling	13,073
Furniture, Equipment - Administration	-
Construction in Process	165,473
Net Book Value	\$ 1,576,884

HOUSING AUTHORITY OF THE BOROUGH OF HIGHTSTOWN

Notes to Financial Statements December 31, 2017

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 17 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	\$ 14,364	\$ -
Changes in Assumptions	122,900	122,450
Net Difference Between Projected and Actual Earning on Pension Plan Investments	4,154	-
Changes in Proportion and Differences Between Contributions and Proportionate Share of Contributions	20,819	59,906
Contributions Subsequent to the Measurement Date	-	-
Total	<u>\$ 162,237</u>	<u>\$ 182,356</u>

HOUSING AUTHORITY OF THE BOROUGH OF HIGHTSTOWN

Notes to Financial Statements December 31, 2017

NOTE 9 - DEFERRED OUTFLOWS/INFLOWS OF RESOURCES - CONTINUED

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 \$14,364.

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 \$122,900 and \$122,450.

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 \$4,154.

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 PERS 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 \$20,819 and \$59,906.

HOUSING AUTHORITY OF THE BOROUGH OF HIGHTSTOWN

Notes to Financial Statements December 31, 2017

NOTE 10 – ACCOUNTS PAYABLE

The Authority reported accounts payable on its Statement of net Position as of December 31, 2017. Accounts payable vendors are amount owing to creditors or generally on open accounts, as a result of delivered goods and completed services. Accounts payable at December 31, 2017 consist of the following:

	<u>December-17</u>
Accounts Payable Vendors	\$ 13,814
Accounts Payable - Other Government	35,981
Total Accounts Payable	<u>\$ 49,795</u>

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 Borough of Hightstown. Under the Cooperation Agreements, the Authority must pay the municipality the littlest of 10% of its net shelter rent or the approximate full real property taxes. The total amount of PILOT payable at December 31, 2017 is \$35,981.

	<u>December-17</u>
Balance Beginning of Year	\$ 34,915
P.I.L.O.T. Accrued	35,981
Less: Payments Made	(34,915)
Total P.I.L.O.T. Payable	<u>\$ 35,981</u>

NOTE 12 – ACCRUED EXPENSES

The Authority reported accrued expenses on its Statement of Net Position. Accrued expenses are liabilities covering expenses incurred on or before December 31, and are payable at some future date. Accrued liabilities at December 31, 2017 consist of the following:

	<u>December-17</u>
Compensated Absences - Current Portion	\$ 2,453
Accrued Payroll Taxes	202
Total Accrued Expenses	<u>\$ 2,655</u>

HOUSING AUTHORITY OF THE BOROUGH OF HIGHTSTOWN

Notes to Financial Statements

December 31, 2017

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.

An employee may not accumulate vacation leave beyond the end of any calendar year. Employees may be compensated for accumulated sick leave to a maximum of thirty days.

The Authority has determined that the potential liability for accumulated sick time is as follows:

	December-17
Sick Time	\$ 22,784
FICA Expense	1,743
Total Compensated Absences	24,527
Less: Current Portion	(2,453)
Total Accrued Compensated Absences - Long Term	<u>\$ 22,074</u>

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 for December 31, 2017 is \$3,739 which represents prepaid rent for the month of January 2018.

NOTE 15 – LONG TERM DEBT

At December 31, 1999, the Authority's Long Term Debt (guaranteed by HUD), in accordance with HUD's GAAP Conversion Guide, the Long Term Debt and related debt service accounts were written off. GASB Interpretation No. 2, "Disclosure of Conduit Debt Obligations," provided guidance as to the proper GAAP treatment of this HUD-guaranteed debt. The debt transactions between the Authority and HUD are similar to conduit debt obligations, which are "certain limited-obligation revenue bonds, certificates of participation, or similar debt instruments issued by the state or local governmental entity for the express purpose of providing capital financing for a specific third party that is not a part of the issuer" financial reporting entity.

HOUSING AUTHORITY OF THE BOROUGH OF HIGHTSTOWN

Notes to Financial Statements December 31, 2017

NOTE 16 – ACCRUED PENSION AND OPEB LIABILITIES

The Authority as of December 31, 2017 reported accrued pension and OPEB liability amounts as follows:

	<u>December-17</u>
Accrued OPEB Liability	\$ 156,798
Accrued Pension Liability	<u>610,032</u>
Total OPEB and Pension Liability	<u><u>\$ 766,830</u></u>

These amounts arose due to adoption of GASB 45 several years ago as well as GASB 68 which was just adopted this fiscal year. This note will discuss the liability associated with GASB 45, which is accrued other postemployment benefits. Note 17 will discuss the effect of GASB 68 and the liability which arose from that.

OPEB Liability

The Authority's annual other postemployment benefit ("OPEB") cost (expense) is calculated based on the annual required contribution of employer ("ARC"), an amount actuarially determined in accordance with parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty (30) years.

The following table shows the components of the Authority's annual OPEB costs for the fiscal year, the amount actually contributed to the plan and changes in the Authority's net OPEB obligation to the plan:

	<u>December-17</u>
Annual Required Contribution	\$ 35,354
Interest on net OPEB obligation	1,803
Adjustment to annual required contribution	<u>84</u>
Annual OPEB cost (expense)	37,241
Contributions made	<u>-</u>
Increase in net OPEB obligation	37,241
Net OPEB Obligation – beginning of year	<u>119,557</u>
Net OPEB Obligation – end of year	<u><u>\$ 156,798</u></u>

HOUSING AUTHORITY OF THE BOROUGH OF HIGHTSTOWN

Notes to Financial Statements December 31, 2017

NOTE 16 – ACCRUED OPEB LIABILITIES – CONTINUED

The Authority's annual OPEB cost, the percentage of the annual OPEB cost contributed to the plan, and the net OPEB obligation for the 2017 fiscal year is as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
December-15	\$ 37,241	0%	\$ 37,241
December-16	\$ 37,241	0%	\$ 37,241
December-17	\$ 37,241	0%	\$ 37,241

FUNDED STATUS AND FUNDING PROGRESS

As of January 1, 2015, the most recent valuation date, the plan was 0.0% funded. The unfunded accrued liability for benefits was \$141,094, and the actuarial value of assets was \$-0-.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrences of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contribution of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The schedule of funding progress, presented in the required supplementary information following the financial statements, presents multiyear trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

EFFECT OF A 1% CHANGE IN HEALTHCARE TREND RATES

In the event of that healthcare trend rates were 1% percent higher than forecast and employee contributions were to increase at the forecast rates, the Accrued Liability would increase to \$190,136 or by 34.8% percent and the corresponding Normal Cost would increase from \$30,463 to \$40,298 or by 34.4% percent.

HOUSING AUTHORITY OF THE BOROUGH OF HIGHTSTOWN

Notes to Financial Statements
December 31, 2017

NOTE 16 – ACCRUED OPEB LIABILITIES – CONTINUED

ACTUARIAL METHODS AND ASSUMPTIONS

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by employer and plan members) and include the types of benefits provided at the time each valuation and the historical pattern of sharing benefit costs between employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

- | | |
|-----------------------------|-----------------------|
| • Actuarial Cost Method | Projected Unit Credit |
| • Investment Rate of Return | 4.00% per annum |
| • Healthcare Trend Rates: | |

	Year	Pre - 65	Post - 65
Initial Trend	January-16	8.00%	8.00%
Ultimate Trend	2022 & Later	5.00%	5.00%
Grading per Year		0.50%	0.50%

- General Inflation Assumption: 3.5% per annum
- Actuarial Value of Assets: Market Value
- Amortization of UAAL: Amortized as fixed dollar basis over 30 years at transition
- Remaining Amortization Period: 30 years at January 1, 2015

Reconciliation of Plan Participation (As of January 1, 2015) Active Employees:

	January 1, 2015
Number of Active Employees	3
Average Age - Actives	45
Average Years of Service - Actives	4.7
Number of Retired Employees	0
Average Age - Retirees	0
Actives Eligible for Benefits	0

HOUSING AUTHORITY OF THE BOROUGH OF HIGHTSTOWN

Notes to Financial Statements December 31, 2017

NOTE 16 – ACCRUED OPEB LIABILITIES – CONTINUED

SUMMARY OF CHANGES TO UNFUNDED ACCRUED LIABILITY

Below is a schedule the items that caused the increase in the UAL from the prior actuarial valuation of the unfunded accrued liability as of January 1, 2015:

Prior Valuation of UAL January 1, 2010	\$ 139,836
Impact due to changes in discount rate assumption from 5% to 4%	31,186
Impact due to changes in demographics, health plan costs, and other valuation assumptions	(29,928)
Total UAL as of January 1, 2015	<u>\$ 141,094</u>

NOTE 17 – ACCRUED PENSION LIABILITY

Net Pension Liability Information

The Authority as of December 31, 2017 reported a net pension liability in the amount of \$610,032 due to GASB 68. The component of the current year net pension liability of the Authority as of June 30, 2017, the last evaluation date, is as follows:

	PERS
Employer Total Pension Liability	<u>\$ 1,175,398</u>
Plan Net Position	(565,366)
Employer Net Pension Liability	<u>\$ 610,032</u>

The Authority allocation percentage is 0.002620593500% as of June 30, 2017.

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.

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).

HOUSING AUTHORITY OF THE BOROUGH OF HIGHTSTOWN

Notes to Financial Statements December 31, 2017

NOTE 17 – ACCRUED PENSION LIABILITY - CONTINUED

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.

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, 2017 are based on the ratio of each employer's contributions to total employer contributions of the group for the fiscal years ended June 30, 2017.

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 2017 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.

HOUSING AUTHORITY OF THE BOROUGH OF HIGHTSTOWN

Notes to Financial Statements December 31, 2017

NOTE 17 – ACCRUED PENSION LIABILITY - CONTINUED

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.

Actuarial Assumptions

The total pension liability for June 30, 2017 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, 2017. 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, 2016 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 BOROUGH OF HIGHTSTOWN

Notes to Financial Statements

December 31, 2017

NOTE 17 – ACCRUED PENSION LIABILITY - CONTINUED

In accordance with State statute, the long-term expected rate of return on plan investments (7.00% at June 30, 2017) 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, 2017 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 5.00% as of June 30, 2017. 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 3.58% as of June 30, 2017, 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 BOROUGH OF HIGHTSTOWN

Notes to Financial Statements December 31, 2017

NOTE 17 – ACCRUED PENSION LIABILITY - 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 40% 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 2014. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2040, and the municipal bond rate 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 5.00% 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 (4.00% percent) or 1 percentage-point higher (6.00% 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 (4.00%)	Current Discount (5.00%)	1% Increase (6.00%)
Authority's Proportionate Share of the Net Pension Liability (Asset)	\$ 756,786	\$ 610,032	\$ 487,768

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, 2018	\$ 14,361
Year Ending June 30, 2019	21,671
Year Ending June 30, 2020	13,131
Year Ending June 30, 2021	(17,465)
Year Ending June 30, 2022	(12,729)
Total	<u>\$ 18,969</u>

HOUSING AUTHORITY OF THE BOROUGH OF HIGHTSTOWN

Notes to Financial Statements December 31, 2017

NOTE 17 – 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 2017, 2016, 2015, and 2014 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, 2017, are as follows:

Service Cost	\$	28,453
Interest on the Total Pension Liability		51,633
Member Contributions		(13,535)
Administrative Expenses		354
Expected Investment Return Net of Investment Expenses		(36,865)
Pension Expense Related to Specific Liabilities of Individual Employers		(400)
Current Period Recognition (Amortization) of Deferred Outflows and Inflows of Resources:		
Difference Between Expected and Actual Experience		4,524
Changes of Assumptions		10,543
Differences Between Projected and Actual Investment Earnings on Pension Plan Investments		(706)
Total	\$	<u>44,001</u>

HOUSING AUTHORITY OF THE BOROUGH OF HIGHTSTOWN

Notes to Financial Statements December 31, 2017

NOTE 18 – UNRESTRICTED

The Authority's Unrestricted Net Position account balance at December 31, 2017 is \$(63,408). The detail of the account balance is as follows:

	PIH Program Reserves
Balance December 31, 2015	\$ (44,652)
Decrease During the Year	12,467
Balance December 31, 2016	(32,185)
Increase During the Year	(31,223)
Balance December 31, 2017	<u>\$ (63,408)</u>

NOTE 19 – RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters for which the Authority purchases commercial insurance. During the year ended December 31, 2017, 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 20 - ANNUAL CONTRIBUTIONS BY FEDERAL AGENCIES

Pursuant to the Annual Contribution Contract, HUD makes annual debt service contributions to the Authority for each permanently financed project in the amount equal to the debt service on its bonds, plus, if necessary, an amount to fully amortize the Authority's indebtedness represented by permanent notes or project notes. Accrued HUD contributions for the year ended December 31, 2017 were \$ - 0 -.

HUD also contributes an additional operating subsidy approved in the operating budget under the Annual Contribution Contract. Additional operating subsidy contributions for the year ended December 31, 2017 were \$256,196.

HOUSING AUTHORITY OF THE BOROUGH OF HIGHTSTOWN

Notes to Financial Statements

December 31, 2017

NOTE 21 - CURRENT VULNERABILITY DUE TO CERTAIN CONCENTRATIONS

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

Total financial support by HUD was \$377,650 to the Authority which represents approximately 39% percent of the Authority's total revenue for the year December 31, 2017.

NOTE 22 - CONTINGENCIES

Litigation – At December 31, 2017, the Authority was not involved in any threatened litigation.

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

NOTE 23 – SUBSEQUENT EVENTS

Events that occur after the Statement of Net Position date but before the financial statements were available to be issued, must be evaluated for recognition or disclosed. The effects of subsequent events that provide evidence about conditions that existed after the Statement of Net Position date required disclosure in the accompanying notes. Management has evaluated the activity of the Authority thru May 9, 2018; 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 BOROUGH OF HIGHTSTOWN
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2017

Programs funded by:

U.S. Department of Housing and Urban Development

	CFDA #'s	Grant Period		Grant Award	Fiscal Year Cash Receipts	Fiscal Year Expenditures	Cumulative Expenditures
		From	To				
<u>Low Rent Public Housing</u>							
NJ045-00000116D	14.850	1/1/2016	12/31/2016	\$ 289,685	\$ 398	\$ 398	\$ 289,685
NJ045-00000117D	14.850	1/1/2017	12/31/2017	255,798	255,798	255,798	255,798
Grant Subtotal				545,483	256,196	256,196	545,483
<u>Public Housing Capital Fund Program</u>							
NJ39P045501-15	14.872	4/13/2015	4/12/2019	101,174	30,929	30,929	88,547
NJ39P045501-16	14.872	4/13/2016	4/12/2020	110,954	61,205	61,205	73,906
NJ39P045501-17	14.872	8/16/2017	8/15/2021	110,981	29,320	29,320	29,320
Grant Subtotal				323,109	121,454	121,454	191,773
Total Awards				\$ 868,592	\$ 377,650	\$ 377,650	\$ 737,256

**HOUSING AUTHORITY OF THE BOROUGH OF HIGHTSTOWN
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2017**

Note 1. Presentation:

The accompanying Schedule of Expenditures of Federal Awards includes the federal award activity of the Housing Authority of the Borough of Hightstown is under programs of the federal government for the year ended December 31, 2017. 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 Borough of Hightstown, it is not intended to and does not present the financial position, change in net position, or cash flow of the Housing Authority of the Borough of Hightstown.

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.

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

Note 3. Loans Outstanding:

Housing Authority of the Borough of Hightstown had had no loans outstanding at December 31, 2017.

Note 4. Non- Cash Federal Assistance:

The Authority did not receive any non-cash Federal assistance for the year ended December 31, 2017.

Note 5. Sub recipients:

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

HOUSING AUTHORITY OF THE BOUROUGH OF HIGHTSTOWN

Schedule of Proportionate Share of the Net Pension Liability Of the Public Employee Retirement System (PERS)

December 31, 2017

REQUIRED SUPPLEMENTAL INFORMATION

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.

	2017	2016	2015	2014
Housing Authority's proportion of the net pension liability	0.00256218%	0.00256218%	0.00248042%	0.00277492%
Housing Authority's proportionate share of the net pension liability	\$ 610,032	\$ 758,843	\$ 556,806	\$ 519,540
Housing Authority's covered employee payroll	\$ 241,813	\$ 219,971	\$ 222,546	\$ 221,180
Housing Authority's proportionate share of the net pension liability as a percentage of its covered-employee payroll	252.27%	344.97%	250.20%	234.89%
Plan fiduciary net position as a percentage of the total pension liability	48.01%	59.86%	52.07%	52.08%

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

HOUSING AUTHORITY OF THE BOUROUGH OF HIGHTSTOWN

Schedule of Proportionate Share of the Net Pension Liability
Of the Public Employee Retirement System (PERS)

December 31, 2017

REQUIRED SUPPLEMENTAL INFORMATION - CONTINUED

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

	2017	2016	2015	2014
Contractually required contribution	\$ 24,277	\$ 22,762	\$ 21,325	\$ 22,876
Contribution in relation to the contractually required contribution	(24,277)	(22,762)	(21,325)	(22,876)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
Authority's covered payroll	\$ 241,813	\$ 219,971	\$ 222,546	\$ 221,180
Contribution as a percentage of covered employee payroll	10.04%	10.35%	9.58%	10.34%

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

Entity Wide Balance Sheet Summary

Submission Type: Audited/Non Single Audit

Fiscal Year End: 12/31/2017

	Project Total	Subtotal	Total
111 Cash - Unrestricted	\$782,099	\$782,099	\$782,099
112 Cash - Restricted - Modernization and Development			
113 Cash - Other Restricted			
114 Cash - Tenant Security Deposits	\$40,333	\$40,333	\$40,333
115 Cash - Restricted for Payment of Current Liabilities			
100 Total Cash	\$822,432	\$822,432	\$822,432
121 Accounts Receivable - PHA Projects			
122 Accounts Receivable - HUD Other Projects			
124 Accounts Receivable - Other Government			
125 Accounts Receivable - Miscellaneous			
126 Accounts Receivable - Tenants	\$916	\$916	\$916
126.1 Allowance for Doubtful Accounts - Tenants	-\$916	-\$916	-\$916
126.2 Allowance for Doubtful Accounts - Other			
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	\$0	\$0	\$0
131 Investments - Unrestricted			
132 Investments - Restricted			
135 Investments - Restricted for Payment of Current			
142 Prepaid Expenses and Other Assets	\$19,705	\$19,705	\$19,705
143 Inventories			
143.1 Allowance for Obsolete Inventories			
144 Inter Program Due From			
145 Assets Held for Sale			
150 Total Current Assets	\$842,137	\$842,137	\$842,137
161 Land	\$336,630	\$336,630	\$336,630
162 Buildings	\$7,266,626	\$7,266,626	\$7,266,626
163 Furniture, Equipment & Machinery - Dwellings	\$118,008	\$118,008	\$118,008
164 Furniture, Equipment & Machinery - Administration	\$152,380	\$152,380	\$152,380
165 Leasehold Improvements			
166 Accumulated Depreciation	-\$6,462,233	-\$6,462,233	-\$6,462,233
167 Construction in Progress	\$165,473	\$165,473	\$165,473
168 Infrastructure			
160 Total Capital Assets, Net of Accumulated Depreciation	\$1,576,884	\$1,576,884	\$1,576,884
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	\$1,576,884	\$1,576,884	\$1,576,884
200 Deferred Outflow of Resources	\$162,237	\$162,237	\$162,237

See notes to accompanying financial statements

Entity Wide Balance Sheet Summary

Submission Type: Audited/Non Single Audit

Fiscal Year End: 12/31/2017

	Project Total	Subtotal	Total
290 Total Assets and Deferred Outflow of Resources	\$2,581,258	\$2,581,258	\$2,581,258
311 Bank Overdraft			
312 Accounts Payable <= 90 Days	\$13,814	\$13,814	\$13,814
313 Accounts Payable >90 Days Past Due			
321 Accrued Wage/Payroll Taxes Payable	\$202	\$202	\$202
322 Accrued Compensated Absences - Current Portion	\$2,453	\$2,453	\$2,453
324 Accrued Contingency Liability			
325 Accrued Interest Payable			
331 Accounts Payable - HUD PHA Programs			
332 Account Payable - PHA Projects			
333 Accounts Payable - Other Government	\$35,981	\$35,981	\$35,981
341 Tenant Security Deposits	\$40,333	\$40,333	\$40,333
342 Unearned Revenue	\$3,739	\$3,739	\$3,739
343 Current Portion of Long-term Debt - Capital Projects/Mortgage Revenue			
344 Current Portion of Long-term Debt - Operating Borrowings			
345 Other Current Liabilities			
346 Accrued Liabilities - Other			
347 Inter Program - Due To			
348 Loan Liability - Current			
310 Total Current Liabilities	\$96,522	\$96,522	\$96,522
351 Long-term Debt, Net of Current - Capital Projects/Mortgage Revenue			
352 Long-term Debt, Net of Current - Operating Borrowings			
353 Non-current Liabilities - Other			
354 Accrued Compensated Absences - Non Current	\$22,074	\$22,074	\$22,074
355 Loan Liability - Non Current			
356 FASB 5 Liabilities			
357 Accrued Pension and OPEB Liabilities	\$766,830	\$766,830	\$766,830
350 Total Non-Current Liabilities	\$788,904	\$788,904	\$788,904
300 Total Liabilities	\$885,426	\$885,426	\$885,426
400 Deferred Inflow of Resources	\$182,356	\$182,356	\$182,356
508.4 Net Investment in Capital Assets	\$1,576,884	\$1,576,884	\$1,576,884
511.4 Restricted Net Position	\$0	\$0	\$0
512.4 Unrestricted Net Position	-\$63,408	-\$63,408	-\$63,408
513 Total Equity - Net Assets / Position	\$1,513,476	\$1,513,476	\$1,513,476
600 Total Liabilities, Deferred Inflows of Resources and Equity - Net	\$2,581,258	\$2,581,258	\$2,581,258

Entity Wide Revenue and Expense Summary

Submission Type: Audited/Non Single Audit

Fiscal Year End: 12/31/2017

	Project Total	Subtotal	Total
70300 Net Tenant Rental Revenue	\$561,814	\$561,814	\$561,814
70400 Tenant Revenue - Other	\$10,194	\$10,194	\$10,194
70500 Total Tenant Revenue	\$572,008	\$572,008	\$572,008
70600 HUD PHA Operating Grants	\$270,991	\$270,991	\$270,991
70610 Capital Grants	\$106,659	\$106,659	\$106,659
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	\$1,198	\$1,198	\$1,198
71200 Mortgage Interest Income			
71300 Proceeds from Disposition of Assets Held for Sale			
71310 Cost of Sale of Assets			
71400 Fraud Recovery			
71500 Other Revenue	\$9,967	\$9,967	\$9,967
71600 Gain or Loss on Sale of Capital Assets			
72000 Investment Income - Restricted			
70000 Total Revenue	\$960,823	\$960,823	\$960,823
91100 Administrative Salaries	\$173,562	\$173,562	\$173,562
91200 Auditing Fees	\$7,335	\$7,335	\$7,335
91300 Management Fee			
91310 Book-keeping Fee			
91400 Advertising and Marketing			
91500 Employee Benefit contributions - Administrative	\$68,206	\$68,206	\$68,206
91600 Office Expenses	\$28,239	\$28,239	\$28,239
91700 Legal Expense	\$5,985	\$5,985	\$5,985
91800 Travel	\$7,612	\$7,612	\$7,612
91810 Allocated Overhead			
91900 Other	\$33,963	\$33,963	\$33,963
91000 Total Operating - Administrative	\$324,902	\$324,902	\$324,902
92000 Asset Management Fee			
92100 Tenant Services - Salaries			
92200 Relocation Costs			
92300 Employee Benefit Contributions - Tenant Services			
92400 Tenant Services - Other	\$2,000	\$2,000	\$2,000
92500 Total Tenant Services	\$2,000	\$2,000	\$2,000
93100 Water	\$76,670	\$76,670	\$76,670
93200 Electricity	\$67,233	\$67,233	\$67,233
93300 Gas	\$48,324	\$48,324	\$48,324
93400 Fuel			
93500 Labor	\$14,573	\$14,573	\$14,573
93600 Sewer			
93700 Employee Benefit Contributions - Utilities	\$5,401	\$5,401	\$5,401

See notes to accompanying financial statements

Entity Wide Revenue and Expense Summary

Submission Type: Audited/Non Single Audit

Fiscal Year End: 12/31/2017

	Project Total	Subtotal	Total
93800 Other Utilities Expense			
93000 Total Utilities	\$212,201	\$212,201	\$212,201
94100 Ordinary Maintenance and Operations - Labor	\$53,678	\$53,678	\$53,678
94200 Ordinary Maintenance and Operations - Materials and Other	\$34,026	\$34,026	\$34,026
94300 Ordinary Maintenance and Operations Contracts	\$84,098	\$84,098	\$84,098
94500 Employee Benefit Contributions - Ordinary Maintenance	\$20,702	\$20,702	\$20,702
94000 Total Maintenance	\$192,504	\$192,504	\$192,504
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
96110 Property Insurance	\$23,157	\$23,157	\$23,157
96120 Liability Insurance	\$7,910	\$7,910	\$7,910
96130 Workmen's Compensation	\$11,363	\$11,363	\$11,363
96140 All Other Insurance	\$2,237	\$2,237	\$2,237
96100 Total insurance Premiums	\$44,667	\$44,667	\$44,667
96200 Other General Expenses	\$37,241	\$37,241	\$37,241
96210 Compensated Absences	\$1,608	\$1,608	\$1,608
96300 Payments in Lieu of Taxes	\$35,981	\$35,981	\$35,981
96400 Bad debt - Tenant Rents	\$1,544	\$1,544	\$1,544
96500 Bad debt - Mortgages			
96600 Bad debt - Other			
96800 Severance Expense			
96000 Total Other General Expenses	\$76,374	\$76,374	\$76,374
96710 Interest of Mortgage (or Bonds) Payable			
96720 Interest on Notes Payable (Short and Long Term)			
96730 Amortization of Bond Issue Costs			
96700 Total Interest Expense and Amortization Cost	\$0	\$0	\$0
96900 Total Operating Expenses	\$852,648	\$852,648	\$852,648
97000 Excess of Operating Revenue over Operating Expenses	\$108,175	\$108,175	\$108,175
97100 Extraordinary Maintenance	\$32,739	\$32,739	\$32,739
97200 Casualty Losses - Non-capitalized			
97300 Housing Assistance Payments			
97350 HAP Portability-In			
97400 Depreciation Expense	\$145,211	\$145,211	\$145,211
97500 Fraud Losses			
97600 Capital Outlays - Governmental Funds			
97700 Debt Principal Payment - Governmental Funds			
97800 Dwelling Units Rent Expense			
90000 Total Expenses	\$1,030,598	\$1,030,598	\$1,030,598

See notes to accompanying financial statements

Entity Wide Revenue and Expense Summary

Submission Type: Audited/Non Single Audit

Fiscal Year End: 12/31/2017

	Project Total	Subtotal	Total
10010 Operating Transfer In			
10020 Operating transfer Out			
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
10000 Excess (Deficiency) of Total Revenue Over (Under)	-\$69,775	-\$69,775	-\$69,775
Total Expenses			
11020 Required Annual Debt Principal Payments	\$0	\$0	\$0
11030 Beginning Equity	\$1,583,251	\$1,583,251	\$1,583,251
11040 Prior Period Adjustments, Equity Transfers and Correction of Errors			
11050 Changes in Compensated Absence Balance			
11060 Changes in Contingent Liability Balance			
11070 Changes in Unrecognized Pension Transition Liability			
11080 Changes in Special Term/Severance Benefits Liability			
11090 Changes in Allowance for Doubtful Accounts - Dwelling Rents			
11100 Changes in Allowance for Doubtful Accounts - Other			
11170 Administrative Fee Equity			
11180 Housing Assistance Payments Equity			
11190 Unit Months Available	1200	1200	1200
11210 Number of Unit Months Leased	1191	1191	1191
11270 Excess Cash	\$656,347	\$656,347	\$656,347
11610 Land Purchases	\$0	\$0	\$0
11620 Building Purchases	\$27,611	\$27,611	\$27,611
11630 Furniture & Equipment - Dwelling Purchases	\$0	\$0	\$0
11640 Furniture & Equipment - Administrative Purchases	\$0	\$0	\$0
11650 Leasehold Improvements Purchases	\$79,048	\$79,048	\$79,048
11660 Infrastructure Purchases	\$0	\$0	\$0
13510 CFFP Debt Service Payments	\$0	\$0	\$0
13901 Replacement Housing Factor Funds	\$0	\$0	\$0



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Certified Public Accountants

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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 Borough of Hightstown
131 Rogers Avenue
Hightstown, New Jersey 08520

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 Borough of Hightstown as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise Housing Authority of the Borough of Hightstown's basic financial statements, and have issued our report thereon dated May 9, 2018.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Housing Authority of the Borough of Hightstown's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed 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 9, 2018

HOUSING AUTHORITY OF THE BOROUGH OF HIGHTSTOWN

Schedule of Findings and Questioned Cost

Year Ended December 31, 2017

Prior Audit Findings

None reported

Summary of Auditor's Results

1. The auditor's report expresses an unmodified opinion on the financial statement of the Housing Authority of the Borough of Hightstown.
2. No significant deficiencies relating to the audit of the financial statements are reported in the INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*.
3. No instances of noncompliance material to the financial statements of the Housing Authority of the Borough of Hightstown were disclosed during the audit.
4. The threshold used for distinguishing between Type A and B programs was \$750,000.
5. Housing Authority of the Borough of Hightstown qualified as a low risk Auditee.

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 Borough of Hightstown
131 Rogers Avenue
Hightstown, New Jersey 08520

We have performed the procedure described in the second paragraph of this report, which was agreed to by Housing Authority of the Borough of Hightstown 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. Housing Authority of the Borough of Hightstown 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 on the financial statements of the Housing Authority of the Borough of Hightstown as of and for the year ended December 31, 2017, and have issued our reports thereon dated May 9, 2018. 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 December 31, 2017, was expressed in relation to the basic financial statements of Housing Authority of the Borough of Hightstown taken as a whole.

A copy of the financial statement package and the FDS, which includes the auditor's report, is available in its entirety from the Housing Authority. We have not performed any additional auditing procedures since the date of the aforementioned audit report. Further, we take no responsibility for the security of the information transmitted electronically to the U.S. Department of Housing and Urban Development, REAC.

This report is intended solely for the information and use of Housing Authority of the Borough of Hightstown 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 9, 2018

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

PROCEDURE	UFRS RULE INFORMATION	HARD COPY DOCUMENTS	AGREES	DOES NOT AGREE
1	Balance Sheet and Revenue and Expense (data line items 111 to 13901)	Financial Data Schedule,all CFDAs	<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	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"/>