

HOUSING AUTHORITY OF THE BOROUGH OF HIGHLANDS
(A Component Unit of the Borough of Highlands, State of New Jersey)

Financial Statements and Supplementary Schedules

For the years ended June 30, 2017 and 2016

(With Independent Auditor's Report thereon)

HOUSING AUTHORITY OF THE BOROUGH OF HIGHLANDS
Financial Statements and Supplementary Schedules
June 30, 2017 and 2016

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INDEPENDENT AUDITOR'S REPORT

The Board of Commissioners
Housing Authority of the Borough of Highlands:

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Housing Authority of the Borough of Highlands, a component unit of the Borough of Highlands, County of Monmouth, State of New Jersey, as of and for fiscal years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and in compliance with audit standards prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 auditors' 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 Authority'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 Authority'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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Housing Authority of the Borough of Highlands, County of Monmouth, State of New Jersey, as of June 30, 2017 and 2016, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of Authority's share of the net pension liability – Public Employees' Retirement System, and schedule of Authority contributions – Public Employees' Retirement System, as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Housing Authority of the Borough of Highlands' basic financial statements as a whole. The other supplementary information, such as the financial data schedules, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards, is presented for purposes 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*; the accompanying schedule of revenues and expenses compared to budget is presented for purposes of additional analysis as required by the Division of Local Government Services, Department of Community Affairs, State of New Jersey, and both are also not required parts of the basic financial statements.

The accompanying schedule of expenditures of federal awards, revenues and expenses compared to budget, and the financial data schedules are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the

accompanying schedule of expenditures of federal awards, revenues and expenses compared to budget, and the financial data schedules are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2017 on our consideration of the Housing Authority of the Borough of Highlands' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Housing Authority of the Borough of Highlands' internal control over financial reporting and compliance.

HOLMAN FRENIA ALLISON, P.C.
Certified Public Accountants

October 30, 2017
Toms River, New Jersey

**HOUSING AUTHORITY OF THE BOROUGH OF HIGHLANDS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017
UNAUDITED**

As Management of the Highlands Housing Authority ("the Authority"), we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal year ended June 30, 2017. We encourage readers to consider the information presented here in conjunction with the Authority's financial statements as presented elsewhere in this Report.

A. Financial Highlights

1. The assets of the Authority exceeded its liabilities at the close of the most recent fiscal year by \$2,578,407 (net position) as opposed to \$2,527,121 for the prior fiscal year.
2. At the close of the current fiscal year, the Authority reported ending Unrestricted Net Position of \$200,186 an increase of \$40,973 from the prior fiscal year.
3. The Authority's cash and cash equivalents balance (including restricted cash) at June 30, 2017 was \$643,315 representing a decrease of \$202,752 from the prior fiscal year.
4. The Authority had Total Operating Revenues of \$1,230,427 and Total Operating Expenses (excluding depreciation) of \$961,583 for the year ended June 30, 2017.
5. The Authority's capital outlays for the fiscal year were \$52,210.
6. The Authority's Expenditures of Federal Awards amounted to \$774,090 for the fiscal year.

**HOUSING AUTHORITY OF THE BOROUGH OF HIGHLANDS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017
UNAUDITED**

B. Using the Annual Report

1. Management's Discussion and Analysis

The Management's Discussion and Analysis is intended to serve as an introduction to the Authority's basic financial statements. The Authority's basic 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 Proprietary Fund types.

2. Basic Financial Statements

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

The Statements of Net Position present information on all the Authority's assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference between them reported as net position. Increases or decreases in net position will serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

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

The Statements of Cash Flows reports the Authority's cash flows from operating, investing, capital and non-capital activities.

The basic financial statements report on the Authority's activities. The activities are primarily supported by HUD subsidies and grants. The Authority's function is to provide decent, safe and sanitary housing to low income and special needs populations. The basic financial statements can be found on pages 10 through 13 in this Report.

**HOUSING AUTHORITY OF THE BOROUGH OF HIGHLANDS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017
UNAUDITED**

B. Using the Annual Report (continued)

3. Notes to Financial Statements

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

4. Supplemental Information

The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards. The Schedule of Expenditures of Federal Awards can be found on page 50 of this report.

C. The Authority as a Whole

The Authority's net position increased during the fiscal year as detailed on page 7. The Authority's revenues are primarily subsidies and grants received from HUD and tenant rent. 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 and reserves were sufficient to cover all expenses, excluding depreciation during the fiscal year.

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

Computations of Net Position are as follows:

	<u>6/30/2017</u>	<u>6/30/2016</u>
Cash and Other Assets	\$ 871,361	\$ 858,848
Capital Assets – Net	<u>2,703,221</u>	<u>2,722,908</u>
Total Assets	<u>3,574,582</u>	<u>3,581,756</u>
Deferred Outflows Related to Pensions	<u>182,378</u>	<u>132,131</u>
Total Assets and Deferred Outflows of Resources	<u>3,756,960</u>	<u>3,713,887</u>

**HOUSING AUTHORITY OF THE BOROUGH OF HIGHLANDS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017
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C. The Authority as a Whole (continued)

Less: Total Liabilities	994,302	1,123,546
Less: Deferred Inflows of Resources	184,251	63,220
Net Position	<u>\$ 2,578,407</u>	<u>\$ 2,527,121</u>
 Net Investment in Capital Assets	 \$ 2,378,221	 \$ 2,367,308
 Unrestricted Net Position	 208,186	 159,213
Net Position	<u>\$ 2,578,407</u>	<u>\$ 2,527,121</u>

Computations of Changes in Net Position are as follows:

	<u>Revenues</u>	
Tenant Revenues	\$ 493,217	\$ 508,159
HUD Operating Grants	512,323	437,444
Other government grants	209,557	0
Other Revenues	15,330	12,044
Total Operating Revenues	<u>1,230,427</u>	<u>957,607</u>
	<u>Expenses</u>	
Other Operating Expenses	961,583	937,578
Depreciation Expense	281,822	282,619
Total Operating Expenses	<u>1,243,405</u>	<u>1,220,197</u>
 Operating Income (Loss)	 <u>(12,978)</u>	 <u>(262,590)</u>
 Non-Operating Revenues (Expense):		
Interest Expense	(15,764)	(17,077)
Interest on Investments	3,080	2,129
HUD Capital Grants	52,210	117,004
Total Non-operating Revenues (expenses)	<u>39,526</u>	<u>102,056</u>
 Change in Net Position	 26,548	 (160,534)
Net Position, Beginning of Year	2,527,121	2,687,655
Prior Period Adjustment	<u>24,738</u>	<u>-</u>
Net Position - Beginning of Year, Restated	<u>2,551,859</u>	<u>2,687,655</u>
 Net Position - End of Year	 <u>\$ 2,578,407</u>	 <u>\$ 2,527,121</u>

**HOUSING AUTHORITY OF THE BOROUGH OF HIGHLANDS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017
UNAUDITED**

C. The Authority as a Whole (continued)

- Cash – Unrestricted decreased \$202,768 mainly due to expenses paid for the installation of a generator that will be funded from the Federal Emergency Management Administration “FEMA”
- Accounts receivable tenants decreased \$6,660 as the PHA wrote off \$4,543 in uncollectible rents.
- Accounts Receivable-other government grants-increased \$221,925 as the PHA paid for expenses for a new generator that will be reimbursed by FEMA in the next fiscal year.
- Net capital assets decreased \$19,687 due to depreciation of \$281,822 for the fiscal year ending 6/30/17 offset by capital additions of \$262,135.
- Deferred outflows, deferred inflows, and the net pension liability changed as a result of the State of New Jersey’s recalculation of the unfunded pension liability to comply with GASB 68.
- Accrued Expenses decreased \$32,653 due to the reduction of the pension payable liability.
- Long-term debt decreased \$30,000 as the Authority paid its annual debt service due on the bond leveraging bonds.
- Net investment in capital assets increased \$11,213 due to depreciation of \$281,822 offset by capital additions of \$262,135 and the principal debt payment of \$30,000.
- Unrestricted Net Position increased \$40,973 due to the Authority’s revenue exceeding expenses for the fiscal year end.
- Capital Fund Grants increased \$74,879 as the PHA expended more capital funding in the year ended 6/30/17 than 6/30/16.
- Other government grants increased \$209,557 as the PHA received a grant from FEMA for the installation of a new generator.
- Administrative expenses increased \$38,300 due to the costs associated with the PHA’s conversion to HUD’s Rental Assistance Demonstration program. “RAD”
- Utilities increased \$29,539 due to increases in both electric and gas rates.
- Maintenance decreased \$54,794 due to a reduction of repairs in the current fiscal year.

D. Budgetary Highlights

For the year ended June 30, 2017, individual program or grant budgets were prepared by the Authority and were approved by the Board of Commissioners. The budgets were required by HUD and primarily used as a management tool and have no legal stature. Also, the Authority adopted a comprehensive annual budget for the general fund. The budgets were prepared in accordance with the accounting procedures prescribed by the applicable funding agency.

**HOUSING AUTHORITY OF THE BOROUGH OF HIGHLANDS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017
UNAUDITED**

E. Capital Assets and Debt Administration

1. Capital Assets

As of June 30, 2017, the Authority's investment in capital assets, net of related debt for its Proprietary Fund was \$2,378,221. This investment in capital assets includes land, buildings, equipment and construction in progress.

Major capital assets purchased from grants of \$52,210 during the fiscal year pertained to expenditures made in accordance with the Authority's Capital Fund Program. These activities are funded by grants from HUD.

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

2. Long Term Debt

During the fiscal year ended June 30, 2005, the Authority entered into a Capital Fund Leveraging Pool. The New Jersey Housing and Mortgage Finance Agency issued the bonds and the funds were distributed to the Housing Authority. In December 2004, the Authority received \$583,608 to be used for capital improvements to its buildings. All funds have been obligated as of December 2008. Further details can be found in the Notes to the Financial Statements.

F. Economic Factors and Next Year's Budget and Rates

The following factors were considered in preparing the Authority's budget for the fiscal year ending June 30, 2017.

1. The need for Congress to cut-back on HUD subsidies and grants.
2. The use of the Authority's Unrestricted Net Position of \$200,186 to fund any shortfalls rising from a possible economic downturn and reduced subsidies and grants. The Authority's Unrestricted Net Position appears sufficient to cover any shortfall

G. 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 Douglas G. Dzema, Executive Director, Housing Authority of the Borough of Highlands, 215 Shore Drive, Highlands, NJ 07732, or call (732) 872-2022.

HOUSING AUTHORITY OF THE BOROUGH OF HIGHLANDS

Statements of Net Position

June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 642,477	\$ 845,245
Accounts receivable - tenants, net	6,121	12,781
Accounts receivable - other government grants	221,925	-
Total current assets	<u>870,523</u>	<u>858,026</u>
Non-current assets:		
Restricted cash	838	822
Capital assets, net	2,703,221	2,722,908
Total non-current assets	<u>2,704,059</u>	<u>2,723,730</u>
Total assets	<u>3,574,582</u>	<u>3,581,756</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows related to pensions	182,378	132,131
Total deferred outflow of resources	<u>182,378</u>	<u>132,131</u>
Total assets and deferred outflow of resources	<u>\$ 3,756,960</u>	<u>\$ 3,713,887</u>
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 58,431	\$ 48,474
Accrued expenses	2,500	6,507
Accrued compensated absences, current	9,791	10,303
Tenant security deposits	37,877	42,333
Unearned revenues	4,163	3,776
Other current liabilities	25,030	57,683
Current portion of long-term debt	40,000	30,000
Total current liabilities	<u>177,792</u>	<u>199,076</u>
Non-current liabilities:		
Long-term debt, net of current portion	285,000	325,000
Net pension liability	531,510	599,470
Total non-current liabilities	<u>816,510</u>	<u>924,470</u>
Total liabilities	<u>994,302</u>	<u>1,123,546</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows related to pensions	184,251	63,220
Total deferred inflow of resources	<u>184,251</u>	<u>63,220</u>
Total liabilities and deferred inflow of resources	<u>1,178,553</u>	<u>1,186,766</u>
NET POSITION		
Net position:		
Net investment in capital assets	2,378,221	2,367,908
Unrestricted	200,186	159,213
Total net position	<u>2,578,407</u>	<u>2,527,121</u>
Total liabilities, deferred inflow of resources and net position	<u>\$ 3,756,960</u>	<u>\$ 3,713,887</u>

The accompanying notes to the financial statements are an integral part of this statement.

HOUSING AUTHORITY OF THE BOROUGH OF HIGHLANDS
Statements of Revenues, Expenses, and Changes in Net Position
For the years ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Operating revenues:		
Tenant revenue	\$ 493,217	\$ 508,159
HUD operating grants	512,323	437,444
Other government grants	209,557	-
Other revenues	<u>15,330</u>	<u>12,004</u>
Total operating revenues	<u>1,230,427</u>	<u>957,607</u>
Operating expenses:		
Administrative	343,542	305,242
Tenant services	2,345	1,371
Utilities	242,914	213,375
Ordinary repairs and maintenance	287,532	342,326
General expenses	85,250	75,264
Depreciation	<u>281,822</u>	<u>282,619</u>
Total operating expenses	<u>1,243,405</u>	<u>1,220,197</u>
Operating loss	<u>(12,978)</u>	<u>(262,590)</u>
Non-operating revenues (expenses):		
Interest expense	(15,764)	(17,077)
Investment income	<u>3,080</u>	<u>2,129</u>
Net non-operating expenses	<u>(12,684)</u>	<u>(14,948)</u>
Net loss before capital grants	<u>(25,662)</u>	<u>(277,538)</u>
Capital grants	<u>52,210</u>	<u>117,004</u>
Change in net position	26,548	(160,534)
Net position, beginning	2,527,121	2,687,655
Prior period restatement (see Note 16)	24,738	-
Net position, beginning, as restated	<u>2,551,859</u>	<u>2,687,655</u>
Net position, ending	<u>\$ 2,578,407</u>	<u>\$ 2,527,121</u>

The accompanying notes to the financial statements are an integral part of this statement.

HOUSING AUTHORITY OF THE BOROUGH OF HIGHLANDS

Statements of Cash Flows

For the years ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Cash received from tenants	\$ 515,594	\$ 522,196
Cash received from grantors	512,325	475,944
Cash paid to employees	(194,874)	(187,945)
Cash paid to vendors	<u>(807,926)</u>	<u>(731,545)</u>
Net cash flows from operating activities	<u>25,119</u>	<u>78,650</u>
Cash flows from capital activities:		
Purchases of capital assets	(237,397)	(91,157)
Interest paid on debt	(15,764)	(17,077)
Principal payments on long term debt	(30,000)	(30,000)
Proceeds from capital grants	<u>52,210</u>	<u>117,004</u>
Net cash flows from capital activities	<u>(230,951)</u>	<u>(21,230)</u>
Cash flows from investing activities:		
Interest received on investments	<u>3,080</u>	<u>2,129</u>
Net cash flows from investing activities	<u>3,080</u>	<u>2,129</u>
Net change in cash	(202,752)	59,549
Cash and cash equivalents, beginning of year	<u>846,067</u>	<u>786,518</u>
Cash and cash equivalents, end of year	<u><u>\$ 643,315</u></u>	<u><u>\$ 846,067</u></u>
Reconciliation to Statements of Net Position:		
Cash and cash equivalents	\$ 642,477	\$ 845,245
Restricted cash	<u>838</u>	<u>822</u>
Total cash and cash equivalents	<u><u>\$ 643,315</u></u>	<u><u>\$ 846,067</u></u>

The accompanying notes to the financial statements are an integral part of this statement.

HOUSING AUTHORITY OF THE BOROUGH OF HIGHLANDS
Statements of Cash Flows (continued)
For the years ended June 30, 2017 and 2016

	2017	2016
Reconciliation of operating loss to net cash flows from operating activities:		
Operating loss	\$ (12,978)	\$ (262,590)
Items which did not use cash:		
Depreciation	281,822	282,619
Bad debts	4,544	3,882
Unbudgeted pension expense	2,824	15,624
Working capital changes which (used)/provided cash:		
Accounts receivable - HUD	-	38,500
Accounts receivable - tenants	2,116	(3,717)
Accounts receivable - other government grants	(221,925)	-
Accounts payable	9,957	2,390
Accrued wages and payroll taxes	(4,007)	(3,784)
Accrued compensated absences	(512)	1,041
Tenant security deposits	(4,456)	987
Unearned revenues	387	1,868
Other current liabilities	(32,653)	1,830
Net cash flows from operating activities	\$ 25,119	\$ 78,650

The accompanying notes to the financial statements are an integral part of this statement.

HOUSING AUTHORITY OF THE BOROUGH OF HIGHLANDS
Notes to Financial Statements (continued)
For the years ended June 30, 2017

NOTE 1: ORGANIZATION AND PURPOSE

The Housing Authority of the Borough of Highlands (the “Authority”) is a governmental, public corporation created under federal and state housing laws as defined by State statute (N.J.S.A. 4A:12A-1, et. Seq., 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 Highlands. The Authority is responsible for operating certain low-rent housing programs administered by the U.S. Department of Housing and Urban Development (“HUD”). These programs provide housing for eligible families under the United States Housing Act of 1937, as amended.

The Authority is governed by a board of commissioners which is essentially autonomous but is responsible to HUD and the State of New Jersey Department of Community Affairs. An executive director is appointed by the Authority’s Board to manage the day-to-day operations of the Authority.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of Programs

Low Rent Public Housing Program

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

Public Housing Capital Fund Program

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

B. Reporting Entity

The primary criterion for including activities within the Authority’s reporting entity, as set forth in Section 2100 of the GASB *Codification of Governmental Accounting and Financial Reporting Standards*, is whether:

- ◆ the organization is legally separate (can sue or be sued in their own name);
- ◆ the Authority holds the corporate powers of the organization;
- ◆ the Authority appoints a voting majority of the organization’s board
- ◆ the Authority is able to impose its will on the organization;
- ◆ the organization has the potential to impose a financial benefit/burden on the Authority
- ◆ there is a fiscal dependency by the organization on the Authority.

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

HOUSING AUTHORITY OF THE BOROUGH OF HIGHLANDS
Notes to Financial Statements (continued)
For the years ended June 30, 2017 and 2016

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Accounting

The financial statements of the Authority have been prepared on the accrual basis of accounting and in accordance with generally accepted accounting principles (“GAAP”) applicable to enterprise funds of state and local governments.

All activities of the Authority are accounted for within a single proprietary (enterprise) fund. Proprietary funds are used to account for operations that are (a) financed and operated in a manner similar to private business enterprise where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The accounting and financial reporting treatment applied to the Authority is determined by its measurement focus. The transactions of the Authority are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets, liabilities and deferred inflow or outflow of resources associated with the operations are included on the statement of net position. Net position (i.e., total assets net of total liabilities) are segregated into invested in capital assets, net of related debt and unrestricted components.

D. Use of Management Estimates

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

E. Cash and Cash Equivalents

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 of America 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. N.J.S.A. 17:9-42 requires governmental units to deposit public funds only in public depositories located in New Jersey, when the funds are secured in accordance with the Act.

HUD requires housing authorities to invest excess funds in obligations of the United States of America, certificates of deposit, or any other federally insured investment. HUD also requires that deposits be fully collateralized at all times. Acceptable collateralization includes FDIC insurance and the market value of securities purchased and pledged to the political subdivision. Pursuant to

HOUSING AUTHORITY OF THE BOROUGH OF HIGHLANDS

Notes to Financial Statements (continued)

For the years ended June 30, 2017 and 2016

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Cash and Cash Equivalents (continued)

HUD restrictions, obligations of the United States of America are allowed as security for deposits. Obligations furnished as security must be held by the Authority or with an unaffiliated bank or trust company for the account of the Authority.

For the Statements of Cash Flows, cash and cash equivalents include all cash balances and highly liquid investments with an original maturity of three months or less at time of acquisition. It is the Authority's policy to maintain collateralization in accordance with state and HUD requirements.

F. Accounts Receivable - Tenants

Rents are due from tenants on the first day of each month. As a result, tenants' receivable balances primarily consist of rents past due and vacated tenants. An allowance for doubtful accounts is established to provide for all accounts which may not be collected in the future for any reason. Collection losses on accounts receivable are charged against the allowance for doubtful accounts.

G. Accounts Receivable - HUD

The Authority periodically draws down from a preauthorized amount of grant funds available through HUD's Line of Credit Control System (LOCCS). HUD grant funds that are earned by the Authority at year end which have not yet been received are recorded as accounts receivable – HUD. No allowance for doubtful accounts is established, as amounts have been preauthorized by HUD.

H. Prepaid Expenses

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

I. Capital Assets

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

Furniture and equipment	3 – 5 years
Site improvements	15 years
New buildings	40 years

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

J. Compensated Absences

Compensated absences represent amounts to which employees are entitled to based on accumulated leave earned in accordance with the Authority's Personnel Policy. Employees may be compensated for accumulated vacation leave in the event of retirement or termination from service at the current salary. Accumulated leave will be paid up to 50% of an employee's accumulated vacation days, up

HOUSING AUTHORITY OF THE BOROUGH OF HIGHLANDS
Notes to Financial Statements (continued)
For the years ended June 30, 2017 and 2016

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

J. Compensated Absences (continued)

to \$7,500. For the years ended June 30, 2017 and 2016, the Authority accrued compensated absences in the amount of \$9,791 and \$10,303, respectively.

K. Unearned Revenue

The Authority's unearned revenue primarily consists of the prepayment of rent by residents and the receipt of HUD and other governmental program funding applicable to future periods.

L. Inter-Program Receivables and Payables

Inter-program receivables/payables are current, and are the result of the use of the Public Housing Program as the common paymaster for shared costs of the Authority. Cash settlements are made periodically, and all inter-program balances net to zero. In accordance with GASB Statement No. 34, inter-program receivables and payables are eliminated for financial statement purposes, however they are reflected in the accompanying financial data schedule as required by HUD.

M. Operating Revenues and Expenses

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

N. Taxes

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

O. Equity Classifications

Equity is classified as net position and can be displayed in three components as follows:

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

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

Unrestricted net position - All other net position that do not meet the definition of "restricted" or "net investment in capital assets".

HOUSING AUTHORITY OF THE BOROUGH OF HIGHLANDS
Notes to Financial Statements (continued)
For the years ended June 30, 2017 and 2016

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

P. Budgets and Budgetary Accounting

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

Q. Deferred Outflows and Deferred Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future periods and so will not be recognized as an inflow of resources (revenue) until that time.

R. Pensions Section

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the pension plan's fiduciary net position and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by the plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

S. Impact of Recently Issued Accounting Principles

Adopted Accounting Pronouncements

The Authority implemented GASB Statement No. 72, *Fair Value Measurement and Application*. As a result of implementing this statement, the Authority is required to measure certain investments at fair value for financial reporting purposes. In addition, the Authority is required to measure donated capital assets at acquisition value (an entry price); these assets were previously required to be measured at fair value. Statement No. 72 requires disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques. Implementation of this Statement did not impact the Authority's financial statements.

The Authority implemented GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Implementation of this Statement did not impact the Authority's financial statements.

The Authority implemented GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. Implementation of this Statement did not impact the Authority's financial statements.

HOUSING AUTHORITY OF THE BOROUGH OF HIGHLANDS
Notes to Financial Statements (continued)
For the years ended June 30, 2017 and 2016

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

S. Impact of Recently Issued Accounting Principles (continued)

The Authority implemented GASB Statement No. 77, *Tax Abatement Disclosures*. This Statement requires governments that enter into tax abatement agreements to disclose information about those agreements. Implementation of this Statement did not impact the Authority's financial statements.

The Authority implemented GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. The objective of this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. Implementation of this Statement did not impact the Authority's financial statements.

The Authority implemented GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*. This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Implementation of this Statement did not impact the Authority's financial statements.

Recently Issued Accounting Pronouncements

The GASB has issued the following Statements which will become effective in future fiscal years as shown below:

Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement will be effective for the year ended June 30, 2018. Management does not expect this Statement to impact the Authority's financial statements.

Statement No. 75, *Accounting and Financial Reporting for Post-employment Benefits Other than Pensions*. This Statement replaces the requirements of Statement No. 45, *Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agency Employers and Agent Multi-Employer Plans*, for OPEB Statement No. 74, *Financial Reporting for Post-employment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB Plans. This Statement will be effective for the year ended June 30, 2018. Management has not yet determined the potential impact on the Authority's financial statements.

Statement No. 80, *Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14*. The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity, as amended*. This Statement will be effective for the year ended June

HOUSING AUTHORITY OF THE BOROUGH OF HIGHLANDS
Notes to Financial Statements (continued)
For the years ended June 30, 2017 and 2016

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

S. Impact of Recently Issued Accounting Principles (continued)

30, 2018. Management does not expect this Statement to impact the Authority's financial statements.

Statement No. 81, *Irrevocable Split-Interest Agreements*. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. This Statement will be effective for the year ended June 30, 2018. Management does not expect this Statement to impact the Authority's financial statements.

Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67, 68 and No. 73*. The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. This Statement will be effective for the year ended June 30, 2018. Management has not yet determined the potential impact on the Authority's financial statements.

Statement No. 83, *Certain Asset Retirement Obligations*. This Statement addresses accounting and financial reporting requirements for certain asset retirement obligations and establishes the timing and pattern of recognition of a liability and corresponding deferred outflow of resources. This Statement will be effective for the year ended June 30, 2019. Management does not expect this Statement to impact the Authority's financial statements.

Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement will be effective for the year ended June 30, 2019. Management does not expect this Statement to impact the Authority's financial statements.

Statement No. 85, *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). This Statement will be effective for the year ended June 30, 2018. Management has not yet determined the potential impact on the Authority's financial statements.

T. Subsequent Events

Housing Authority of the Borough of Highlands has evaluated subsequent events occurring after June 30, 2017 through the date of October 30, 2017, which is the date the financial statements were available to be issued.

HOUSING AUTHORITY OF THE BOROUGH OF HIGHLANDS

Notes to Financial Statements (continued)

For the years ended June 30, 2017 and 2016

NOTE 3: CASH AND CASH EQUIVALENTS

At June 30, 2017 and 2016, the Authority had funds on deposit in checking and escrow accounts. All bank deposits as of the balance sheet date are covered by the Government Unit Depository Protection Act of the State of New Jersey, which requires the institution to pool collateral for all governmental deposits and have the collateral held by an approved custodian in the Authority's name.

For the fiscal year ended June 30, 2017 and 2016, the carrying amount of the Authority's cash and cash equivalents (including restricted cash) was \$643,315 and \$846,067 and the bank balances totaled \$647,810 and \$796,246, respectively.

At June 30, 2017 and 2016, cash and cash equivalents consisted of the following:

	<u>2017</u>	<u>2016</u>
Unrestricted cash	\$ 597,599	\$ 802,912
Tenant security deposits	44,878	42,333
Restricted cash	<u>838</u>	<u>822</u>
Total cash and cash equivalents	<u>\$ 643,315</u>	<u>\$ 846,067</u>

NOTE 4: ACCOUNTS RECEIVABLE – OTHER GOVERNMENT GRANTS

Accounts receivable – other government grants consists of amounts due from the U.S. Department of Homeland Security for a Disaster Housing Assistance Grant. For the fiscal year ended June 30, 2017 and 2016, the Authority had accounts receivable from the U.S. Department of Homeland Security totaling \$221,925 and \$-0-.

NOTE 5: ACCOUNTS RECEIVABLE - TENANTS, NET

Tenant receivables consist of rental money due to the Authority for providing housing, and are shown net of an allowance established by the Authority. At June 30, 2017 and 2016, tenant accounts receivable consisted of the following:

	<u>2017</u>	<u>2016</u>
Tenant receivables	\$ 7,103	\$ 15,977
Allowance for doubtful accounts	<u>(982)</u>	<u>(3,196)</u>
Total accounts receivable – tenants, net	<u>\$ 6,121</u>	<u>\$ 12,781</u>

NOTE 6: RESTRICTED CASH

Restricted cash consists of Capital Fund Program Revenue Bonds proceeds from the 2004 Series A Capital Fund Program Revenue Bonds and are restricted for certain capital improvements in accordance with the Authority's approved annual plan. As of June 30, 2017 and 2016, the carrying amount of the Authority's restricted cash was \$838 and \$822, respectively.

HOUSING AUTHORITY OF THE BOROUGH OF HIGHLANDS
Notes to Financial Statements (continued)
For the years ended June 30, 2017 and 2016

NOTE 7: CAPITAL ASSETS, NET

A summary of the changes in capital assets during 2017 and 2016 is shown below.

<u>Description</u>	June 30, <u>2016</u>	<u>Additions</u>	<u>Deletions</u>	June 30, <u>2017</u>
Non-depreciable:				
Land	\$ 54,433	\$ -	\$ -	\$ 54,433
Construction in progress	<u>111,453</u>	<u>262,135</u>	<u>(87,146)</u>	<u>286,442</u>
Total	<u>165,886</u>	<u>262,135</u>	<u>(87,146)</u>	<u>340,875</u>
Depreciable:				
Buildings	7,700,881	76,850	-	7,777,731
Furniture and equipment	124,465	-	-	124,465
Leasehold improvements	<u>1,183,273</u>	<u>10,296</u>	<u>-</u>	<u>1,193,569</u>
Total	<u>9,008,619</u>	<u>87,146</u>	<u>-</u>	<u>9,095,765</u>
Less: accumulated depreciation	<u>(6,451,597)</u>	<u>(281,822)</u>	<u>-</u>	<u>(6,733,419)</u>
Capital assets, net	<u>\$ 2,722,908</u>	<u>\$ 67,459</u>	<u>\$ (87,146)</u>	<u>\$ 2,703,221</u>
<u>Description</u>	June 30, <u>2015</u>	<u>Additions</u>	<u>Deletions</u>	June 30, <u>2016</u>
Non-depreciable:				
Land	\$ 54,433	\$ -	\$ -	\$ 54,433
Construction in progress	<u>64,363</u>	<u>91,157</u>	<u>(44,067)</u>	<u>111,453</u>
Total	<u>118,796</u>	<u>91,157</u>	<u>(44,067)</u>	<u>165,886</u>
Depreciable:				
Buildings	7,677,443	23,438	-	7,700,881
Furniture and equipment	118,547	5,918	-	124,465
Leasehold improvements	<u>1,168,562</u>	<u>14,711</u>	<u>-</u>	<u>1,183,273</u>
Total	<u>8,964,552</u>	<u>44,067</u>	<u>-</u>	<u>9,008,619</u>
Less: accumulated depreciation	<u>(6,168,978)</u>	<u>(282,619)</u>	<u>-</u>	<u>(6,451,597)</u>
Capital assets, net	<u>\$ 2,914,370</u>	<u>\$ (147,395)</u>	<u>\$ (44,067)</u>	<u>\$ 2,722,908</u>

NOTE 8: OTHER CURRENT LIABILITIES

Other current liabilities consist of a payment in lieu of taxes. 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 Highlands. Under the Cooperation Agreement, the Authority must pay the Borough the lesser of 10% of its net shelter rent or the approximate full real property taxes. For the years ended June 30, 2017 and 2016, the Authority incurred PILOT expenses in the amount of \$25,030 and \$57,683, respectively.

HOUSING AUTHORITY OF THE BOROUGH OF HIGHLANDS

Notes to Financial Statements (continued)

For the years ended June 30, 2017 and 2016

NOTE 9: LONG TERM OBLIGATION ACTIVITY

During 2004, the Authority entered into a Capital Fund leveraging pool. The New Jersey Housing and Mortgage Finance Agency issued tax exempt, twenty year Capital Fund Program Revenue Bonds, 2004 Series A, on December 23, 2004. The Authority's share of funds from the bond issue pool amounted to \$600,000. Interest accrues at 4.418% and is payable semi-annually on May 1st and November 1st. Repayment of the funds shall be paid solely from Capital Fund allocations received by the Authority from the Department of Housing and Urban Development.

The Authority's long-term debt at June 30, 2017 and 2016 consisted of the following:

	<u>2017</u>	<u>2016</u>
Capital fund revenue bonds	\$ 325,000	\$ 355,000
Less: current portion	<u>(40,000)</u>	<u>(30,000)</u>
Long-term debt, net of current portion	<u>\$ 285,000</u>	<u>\$ 325,000</u>

Future maturities of debt service are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 40,000	\$ 14,561	\$ 54,561
2019	30,000	12,921	42,921
2020	35,000	11,608	46,608
2021	40,000	9,870	49,870
2022	40,000	7,990	47,990
2023-2025	<u>140,000</u>	<u>13,160</u>	<u>153,160</u>
	<u>\$ 325,000</u>	<u>\$ 70,110</u>	<u>\$ 395,110</u>

During the fiscal years ended June 30, 2017 and 2016 the following changes occurred in liabilities reported in the long-term obligations:

	June 30, 2016	Accrued/ Increases	Retired/ Decreases	June 30, 2017	Due Within One Year
Capital fund revenue bond	\$ 355,000	\$ -	\$ (30,000)	\$ 325,000	\$ 40,000
Net pension liability	599,470	-	(67,960)	531,510	-
Total	<u>\$ 954,470</u>	<u>\$ -</u>	<u>\$ (97,960)</u>	<u>\$ 856,510</u>	<u>\$ 40,000</u>

	June 30, 2015	Accrued/ Increases	Retired/ Decreases	June 30, 2016	Due Within One Year
Capital fund revenue bond	\$ 385,000	\$ -	\$ (30,000)	\$ 355,000	\$ 30,000
Net pension liability	436,985	162,485	-	599,470	-
Total	<u>\$ 821,985</u>	<u>\$ 162,485</u>	<u>\$ (30,000)</u>	<u>\$ 954,470</u>	<u>\$ 30,000</u>

HOUSING AUTHORITY OF THE BOROUGH OF HIGHLANDS
Notes to Financial Statements (continued)
For the years ended June 30, 2017 and 2016

NOTE 10: PENSION OBLIGATIONS

A. Public Employees' Retirement System (PERS)

Plan Description - 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.us/treasury/pensions/annrprts.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 following represents the membership tiers for PERS:

<u>Tier</u>	<u>Definition</u>
1	Members who were enrolled prior to July 1, 2007
2	Members who were eligible to enroll on or after July 1, 2007 and prior to November 2, 2008
3	Members who were eligible to enroll on or after November 2, 2008 and prior to May 22, 2010
4	Members who were eligible to enroll on or after May 22, 2010 and prior to June 28, 2011
5	Members who were eligible to enroll on or after June 28, 2011

Service retirement benefits of 1/55th of final average salary for each year of service credit is available to tiers 1 and 2 members upon reaching age 60 and to tier 3 members upon reaching age 62. Service retirement benefits of 1/60th of final average salary for each year of service credit is available to tier 4 members upon reaching age 62 and tier 5 members upon reaching age 65. Early retirement benefits are available to tiers 1 and 2 members before reaching age 60, tiers 3 and 4 before age 62 with 25 or more years of service credit and tier 5 with 30 or more years of service credit before age 65. Benefits are reduced by a fraction of a percent for each month that a member retires prior to the age at which a member can receive full early retirement benefits in accordance with their respective tier. Tier 1 members can receive an unreduced benefit from age 55 to age 60 if they have at least 25 years of service. Deferred retirement is available to members who have at least 10 years of service credit and have not reached the service retirement age for the respective tier.

Contributions - The contribution policy for PERS is set by *N.J.S.A. 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 includes 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 2016, the State's pension contribution was less than the actuarial determined amount.

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

HOUSING AUTHORITY OF THE BOROUGH OF HIGHLANDS
Notes to Financial Statements (continued)
For the years ended June 30, 2017 and 2016

NOTE 10: PENSION OBLIGATIONS (continued)

A. Public Employees' Retirement System (PERS) (continued)

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.

Pension Liability, Pension Expense and Deferred Outflows/Inflows of Resources - At June 30, 2017, the Authority reported a liability of \$531,510 for its proportionate share of the PERS net pension liability. The net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension liability was determined using update procedures to roll forward the total pension liability from an actuarial valuation as of July 1, 2015, to the measurement date of June 30, 2016. The Authority's proportion of the net pension liability was based on the Authority's actual contributions to the plan relative to the total of all participating employers' contributions for the year ended June 30, 2016. The Authority's proportion measured as of June 30, 2016, was .00179%, which was a decrease of .00088 from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the Authority recognized full accrual pension expense of \$2,824 in the financial statements. This pension expense was based on the pension plans June 30, 2016 measurement date. At June 30, 2017 the Authority reported deferred outflows of resources and deferred inflows of resources related to PERS from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between Expected and Actual Experience	\$ 9,884	\$ -
Changes of Assumptions	110,100	-
Net Difference between Projected and Actual Earnings on Pension Plan Investments	20,267	-
Changes in Proportion and Differences between Authority Contributions and Proportionate Share of Contributions	42,127	184,251
	<u>\$ 182,378</u>	<u>\$ 184,251</u>

The amount of \$15,943 resulting from the Authority's contributions subsequent to the measurement date (i.e. for the fiscal year ending June 30, 2017, the plan measurement date is June 30, 2016) will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

HOUSING AUTHORITY OF THE BOROUGH OF HIGHLANDS
Notes to Financial Statements (continued)
For the years ended June 30, 2017 and 2016

NOTE 10: PENSION OBLIGATIONS (continued)

A. Public Employees' Retirement System (PERS) (continued)

Year Ending		
<u>June 30,</u>		
2018	\$	4,268
2019		4,266
2020		10,779
2021		5,863
2022		<u>(27,049)</u>
	<u>\$</u>	<u>(1,873)</u>

The amortization of the above other deferred outflows of resources and deferred inflows of resources related to pensions will be over the following number of years:

	<u>Deferred</u>	<u>Deferred</u>
	<u>Outflow of</u>	<u>Inflow of</u>
	<u>Resources</u>	<u>Resources</u>
Differences between Expected and Actual Experience		
Year of Pension Plan Deferral:		
June 30, 2014	-	-
June 30, 2015	5.72	-
June 30, 2016	5.57	-
Changes of Assumptions		
Year of Pension Plan Deferral:		
June 30, 2014	6.44	-
June 30, 2015	5.72	-
June 30, 2016	5.57	-
Net Difference between Projected and Actual Earnings on Pension Plan Investments		
Year of Pension Plan Deferral:		
June 30, 2014	-	5.00
June 30, 2015	-	5.00
June 30, 2016	5.00	-
Changes in Proportion and Differences between Authority Contributions and Proportionate Share of Contributions		
Year of Pension Plan Deferral:		
June 30, 2014	6.44	6.44
June 30, 2015	5.72	5.72
June 30, 2016	5.57	5.57

Actuarial Assumptions – The collective total pension liability for the June 30, 2016 measurement date was determined by an actuarial valuation as of July 1, 2015, which was rolled forward to June 30, 2016. This actuarial valuation used the following assumptions:

HOUSING AUTHORITY OF THE BOROUGH OF HIGHLANDS
Notes to Financial Statements (continued)
For the years ended June 30, 2017 and 2016

NOTE 10: PENSION OBLIGATIONS (continued)

A. Public Employees' Retirement System (PERS) (continued)

Inflation Rate	3.08%
Salary Increases:	
Through 2026	1.65% - 4.15% Based on Age
Thereafter	2.65% - 5.15% Based on Age
Investment Rate of Return	7.65%

Pre-retirement mortality rates were based on the RP-2000 Employee Preretirement Mortality Table for male and female active participants. For State employees, mortality tables are set back 4 years for males and females. 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-retirement mortality rate 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 the 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 scales. 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, 2015 valuation 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 may be higher or lower than anticipated. The more the experience deviates, the larger the impact on future financial statements.

In accordance with State statute, the long-term expected rate of return on plan investments (7.65% at June 30, 2016) 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, 2016 are summarized in the following table:

HOUSING AUTHORITY OF THE BOROUGH OF HIGHLANDS
Notes to Financial Statements (continued)
For the years ended June 30, 2017 and 2016

NOTE 10: PENSION OBLIGATIONS (continued)

A. Public Employees' Retirement System (PERS) (continued)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash	5.00%	0.87%
U.S. Treasuries	1.50%	1.74%
Investment grade credit	8.00%	1.79%
Mortgages	2.00%	1.67%
High Yield Bonds	2.00%	4.56%
Inflation-Indexed Bonds	1.50%	3.44%
Broad U.S. Equities	26.00%	8.53%
Developed Foreign Equities	13.25%	6.83%
Emerging Market Equities	6.50%	9.95%
Private Equity	9.00%	12.40%
Hedge Funds/Absolute Return	12.50%	4.68%
Real Estate (Property)	2.00%	6.91%
Commodities	0.50%	5.45%
Global debt ex U.S.	5.00%	-0.25%
REIT	5.25%	5.63%

Discount Rate - The discount rate used to measure the total pension liability was 3.98% as of June 30, 2016. The single blended discount rate was based on long-term expected rate of return on pension plan investments of 7.65%, and a municipal bond rate of 2.85% as of June 30, 2016 based on the Bond Buyer Go 20-Bond Municipal Bond Index, which includes tax-exempt general obligation municipals bonds with an average rating of AA/Aa or higher.

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 contribution rate in the most recent fiscal year. The State employer contributed 30% 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 2034. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2034 and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liability.

Sensitivity of the Authority's proportionate share of the Net Pension Liability to Changes in the Discount Rate - The following presents the Authority's proportionate share of the net pension liability as of June 30, 2016, calculated using the discount rate of 3.98% as well as what the Authority's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

HOUSING AUTHORITY OF THE BOROUGH OF HIGHLANDS
Notes to Financial Statements (continued)
For the years ended June 30, 2017 and 2016

NOTE 10: PENSION OBLIGATIONS (continued)

A. Public Employees' Retirement System (PERS) (continued)

	At 1% Decrease <u>(2.98%)</u>	At Current Discount Rate <u>(3.98%)</u>	At 1% Increase <u>(4.98%)</u>
Authority's Proportionate Share of the Net Pension Liability	<u>\$ 651,304</u>	<u>\$ 531,510</u>	<u>\$ 432,610</u>

Additional Information - The following is a summary of the collective balances of the local group at June 30, 2017 and 2016:

	<u>6/30/2017</u>	<u>6/30/2016</u>
Collective Deferred Outflows of Resources	\$ 7,815,204,785	\$ 2,946,265,815
Collective Deferred Inflows of Resources	\$ -	\$ 360,920,604
Collective Net Pension Liability	\$ 29,617,131,759	\$ 22,447,996,119
 Authority's portion	 0.00179%	 0.00267%

NOTE 11: CONSTRUCTION COMMITMENTS

At June 30, 2017 and 2016, the Authority retained outstanding construction commitments pertaining to its capital and operating fund. The costs pertaining to such commitments will be paid by grants approved and committed to the Authority by the U.S. Department of Housing and Urban Development and the U.S. Department of Homeland Security.

NOTE 12: ECONOMIC DEPENDENCY

The Low Rent Public Housing programs are economically dependent on annual subsidies from HUD.

NOTE 13: RISK MANAGEMENT

The Authority is exposed to various risks related to lawsuits, torts, theft of, damage to and destruction of assets; error and omission, injuries to employees; and natural disaster. Significant losses are covered by commercial insurance for all major programs; there have been no significant reductions in insurance coverage. Claims expenditures and liabilities are reported when it is probable that a loss has occurred, the amount of the loss can be reasonably estimated, and said amount exceeds insurance coverage.

Settlement amounts have not exceeded insurance coverage except for deductibles for the past three years.

HOUSING AUTHORITY OF THE BOROUGH OF HIGHLANDS

Notes to Financial Statements (continued)

For the years ended June 30, 2017 and 2016

NOTE 14: CONTINGENT LIABILITIES

The Authority receives financial assistance from HUD in the form of grants and subsidies. Entitlement to the funds is generally conditional upon compliance with terms and conditions of the grant agreements and applicable regulations, including the expenditure of the funds for eligible purposes. Substantially all grants, entitlements and cost reimbursements are subject to financial and compliance audits by HUD. As a result of these audits, costs previously reimbursed could be disallowed and require payments to HUD. As of June 30, 2017 and 2016, the Authority estimates that no material liabilities will result from such audits.

NOTE 15: PRIOR PERIOD ADJUSTMENT/RESTATEMENT OF NET POSITION

Net position as of July 1, 2016, has been restated for an understatement of accounts receivables and a corresponding understatement of government grant revenue during the year ended June 30, 2016. Construction in progress was also understated and expenditures were overstated due to expensing construction related expenditures that should have been recorded as construction in progress. Net position as of July 1, 2016, has been restated as follows:

Net Position as previously reported at June 30, 2016	\$ 2,527,121
Prior period adjustment -	
Understatement of accounts receivable - other government grants and understatement of other government grant revenue	12,368
Understatement of construction in progress and overstatement of expenditures	<u>12,370</u>
Total prior period adjustment	<u>24,738</u>
Net Position as restated, July 1, 2016	<u><u>\$ 2,551,859</u></u>

NOTE 16: OTHER GOVERNMENT GRANT REVENUE

In August 2015, the Authority was awarded a grant from the U.S. Department of Homeland Security, Federal Emergency Management Agency (FEMA) in the amount of \$274,000 for the purchase and installation of a generator. As of June 30, 2017 and 2016, the Authority has recognized \$209,557 and \$12,368 of other government grant revenues, respectively. The cumulative project expenditures of \$221,925 are included in the construction in progress balance as of June 30, 2017. The project was completed in September 2017 and receipt of the grant monies is pending as of the date of this report.

NOTE 17: RAD PROGRAM EXPENSES

The Highlands Housing Authority "HHA" is in the process of converting its entire public housing portfolio of 123 units to HUD's Rental Assistance Demonstration Program. "RAD" The RAD program allows PHA's to change from its current Section 9 funding platform to Section 8 Project Based Assistance. The HHA has chosen to move to Section 8 Project Based Rental Assistance. "PBRA" The RAD Program releases the HUD declaration of trust on the properties and allows the HHA to use its properties as collateral to finance capital improvements throughout the Authority.

HOUSING AUTHORITY OF THE BOROUGH OF HIGHLANDS
Notes to Financial Statements (continued)
For the years ended June 30, 2017 and 2016

NOTE 17: RAD PROGRAM EXPENSES (continued)

The HHA performed a physical condition assessment to identify what the capital needs of the Authority are over the next 20 years. Based on that assessment the HHA has prepared a plan to finance the program. The HHA is currently seeking a conventional mortgage along with a grant from the Federal Home Loan Bank and its current operating reserves to fund the immediate capital needs over the next 18-24 months. The HHA will also contribute to a reserve for replacement reserve each year to cover the needs over the remaining 18 years. In order to help in the conversion, the HHA has contracted with various firms including a financial consultant, a RAD Consultant, an engineering firm, and an attorney to help in this endeavor. During the fiscal year ended June 30th, 2017 the HHA spent \$62,635.57 for services rendered for the RAD Program. It is the HHA's hope they will be able to convert to RAD sometime in the upcoming year.

HOUSING AUTHORITY OF THE BOROUGH OF HIGHLANDS
SCHEDULE OF THE AUTHORITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
LAST TEN FISCAL YEARS

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Authority's proportion of the net pension liability (asset)	0.00179%	0.00267%	0.00233%	0.00274%
Authority's proportionate share of the net pension liability (asset)	\$ 531,510	\$ 599,470	\$ 436,985	\$ 523,787
Authority's covered-employee payroll	\$ 134,475	\$ 126,674	\$ 120,702	\$ 181,398
Authority's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	395.25%	473.24%	362.04%	288.75%
Plan fiduciary net position as a percentage of the total pension liability	40.14%	47.93%	52.08%	48.72%

**This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.

**HOUSING AUTHORITY OF THE BOROUGH OF HIGHLANDS
SCHEDULE OF AUTHORITY CONTRIBUTIONS
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
LAST TEN FISCAL YEARS**

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 15,943	\$ 22,959	\$ 19,241	\$ 20,650
Contributions in relation to the contractually required contribution	<u>15,943</u>	<u>22,959</u>	<u>19,241</u>	<u>20,650</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Authority's covered-employee payroll	\$ 134,475	\$ 126,674	\$ 120,702	\$ 181,398
Contributions as a percentage of covered-employee payroll	11.86%	18.12%	15.94%	11.38%

**This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.

HOUSING AUTHORITY OF THE BOROUGH OF HIGHLANDS

Notes to the Required Supplementary Information

For the year ended June 30, 2017

Public Employees' Retirement System (PERS)

Basis of Presentation. The amounts presented in the Schedules were prepared in accordance with U.S. generally accepted accounting principles. The numbers were derived in a report provided by KPMG dated April 6, 2017. The full report is available by the State of New Jersey, Division of Pension and Benefits. Such preparation requires management of PERS to make a number of estimates and assumptions relating to the reported amounts. Due to the inherent nature of these estimates, actual results could differ from those estimates.

Changes of benefit terms. 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.

Changes of assumptions. Pre-retirement mortality rates were based on the RP-2000 Employee Pre-Retirement Mortality Table for male and female active participants. For State employees, mortality tables are set back 4 years for males and females. 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-retirement 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 the 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 scales. 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).

HOUSING AUTHORITY OF THE BOROUGH OF HIGHLANDS
 Budgetary Comparison Schedule
 For the year ended June 30, 2017
 (With comparative totals for the year ended June 30, 2016)

	June 30, 2017				June 30, 2016			
	ORIGINAL BUDGET	MODIFIED BUDGET	ACTUAL	VARIANCE	ORIGINAL BUDGET	MODIFIED BUDGET	ACTUAL	VARIANCE
Revenues:								
Dwelling rental	\$ 520,570	\$ 520,570	\$ 487,182	\$ (33,388)	\$ 518,300	\$ 518,300	\$ 501,923	\$ (16,377)
Excess utilities	7,800	7,800	6,035	(1,765)	8,400	8,400	6,236	(2,164)
HUD operating grants	374,280	374,280	512,323	138,043	419,180	419,180	437,444	18,264
Interest on investments	1,350	1,350	3,080	1,730	1,400	1,400	2,129	729
Other government grants	-	-	209,557	209,557	-	-	-	-
Other operating revenues	82,600	82,600	15,330	(67,270)	25,000	25,000	12,004	(12,996)
Other non-operating revenues	10,000	10,000	52,210	42,210	10,000	10,000	117,004	107,004
	<u>996,600</u>	<u>996,600</u>	<u>1,285,717</u>	<u>289,117</u>	<u>982,280</u>	<u>982,280</u>	<u>1,076,740</u>	<u>94,460</u>
Expenses:								
Cost of providing service:								
Salaries and wages	90,160	90,160	83,701	6,459	82,760	82,760	77,410	5,350
Fringe benefits	44,850	44,850	53,249	(8,399)	42,100	42,100	43,373	(1,273)
Tenant services	3,100	3,100	2,345	755	3,100	3,100	1,371	1,729
Utilities	231,860	231,860	242,914	(11,054)	262,010	262,010	213,375	48,635
Maintenance and operation	175,000	175,000	150,582	24,418	170,000	170,000	214,303	(44,303)
Insurance	39,000	39,000	37,958	1,042	37,000	37,000	34,292	2,708
Payment in lieu of taxes	29,650	29,650	25,030	4,620	26,470	26,470	29,479	(3,009)
Collection losses	5,000	5,000	4,544	456	5,000	5,000	3,882	1,118
Extraordinary maintenance	60,000	60,000	-	60,000	-	-	-	-
Replacement of non-expendable equipment	5,000	5,000	-	5,000	5,000	5,000	-	5,000
Other cost of providing services	-	-	17,718	(17,718)	-	-	6,570	(6,570)
	<u>683,620</u>	<u>683,620</u>	<u>618,041</u>	<u>65,579</u>	<u>633,440</u>	<u>633,440</u>	<u>624,055</u>	<u>9,385</u>
Administrative and general expenses:								
Salaries and wages	113,090	113,090	106,654	6,436	110,970	110,970	107,792	3,178
Fringe benefits	25,650	25,650	19,914	5,736	19,400	19,400	21,982	(2,582)
Legal	22,000	22,000	15,286	6,714	22,000	22,000	12,950	9,050
Staff training	6,000	6,000	3,054	2,946	6,000	6,000	9,165	(3,165)
Travel	6,000	6,000	4,629	1,371	6,000	6,000	4,074	1,926
Accounting fees	18,400	18,400	18,201	199	17,870	17,870	17,783	87
Auditing fees	7,200	7,200	7,261	(61)	7,200	7,200	6,638	562
Other administrative	97,000	97,000	165,719	(68,719)	90,150	90,150	117,515	(27,365)
	<u>295,340</u>	<u>295,340</u>	<u>340,718</u>	<u>(45,378)</u>	<u>279,590</u>	<u>279,590</u>	<u>297,899</u>	<u>(18,309)</u>
Non-operating expenses:								
Interest paid	17,295	17,295	15,764	1,531	18,573	18,573	17,077	1,496
Total costs funded by operating revenues	<u>996,255</u>	<u>996,255</u>	<u>974,523</u>	<u>21,732</u>	<u>931,603</u>	<u>931,603</u>	<u>939,031</u>	<u>(7,428)</u>
Surplus (deficiency)	<u>\$ 345</u>	<u>\$ 345</u>	<u>\$ 311,194</u>	<u>\$ 310,849</u>	<u>\$ 50,677</u>	<u>\$ 50,677</u>	<u>\$ 137,709</u>	<u>\$ 87,032</u>
Reconciliation of change in net position to Statements of Revenues, Expenses and Changes in Net Position:								
Less: unbudgeted GASB 68 pension expense			(2,824)				(15,624)	
Less: depreciation expense			(281,822)				(282,619)	
Change in net position per Statements of Revenues, Expenses and Changes in Net Position			<u>\$ 26,548</u>				<u>\$ (160,534)</u>	

Highlands Housing Authority (NJ041)
HIGHLANDS, NJ

Entity Wide Balance Sheet Summary

Submission Type: Audited/Single Audit

Fiscal Year End: 06/30/2017

	Project Total	97.109 Disaster Housing Assistance Grant	Subtotal	Total
111 Cash - Unrestricted	\$605,438		\$605,438	\$605,438
112 Cash - Restricted - Modernization and Development				
113 Cash - Other Restricted				
114 Cash - Tenant Security Deposits	\$37,877		\$37,877	\$37,877
115 Cash - Restricted for Payment of Current Liabilities				
100 Total Cash	\$643,315	\$0	\$643,315	\$643,315
121 Accounts Receivable - PHA Projects				
122 Accounts Receivable - HUD Other Projects				
124 Accounts Receivable - Other Government		\$221,925	\$221,925	\$221,925
125 Accounts Receivable - Miscellaneous				
126 Accounts Receivable - Tenants	\$7,103		\$7,103	\$7,103
126.1 Allowance for Doubtful Accounts - Tenants	-\$982		-\$982	-\$982
126.2 Allowance for Doubtful Accounts - Other		\$0	\$0	\$0
127 Notes, Loans, & Mortgages Receivable - Current				
128 Fraud Recovery				
128.1 Allowance for Doubtful Accounts - Fraud				
129 Accrued Interest Receivable				
120 Total Receivables, Net of Allowances for Doubtful Accounts	\$6,121	\$221,925	\$228,046	\$228,046
131 Investments - Unrestricted				
132 Investments - Restricted				
135 Investments - Restricted for Payment of Current Liability				
142 Prepaid Expenses and Other Assets				
143 Inventories				

Highlands Housing Authority (NJ041)
HIGHLANDS, NJ

Entity Wide Balance Sheet Summary

Submission Type: Audited/Single Audit

Fiscal Year End: 06/30/2017

	Project Total	97,109 Disaster Housing Assistance Grant	Subtotal	Total
143.1 Allowance for Obsolete Inventories				
144 Inter Program Due From	\$221,925		\$221,925	\$221,925
145 Assets Held for Sale				
150 Total Current Assets	\$871,361	\$221,925	\$1,093,286	\$1,093,286
161 Land	\$54,433		\$54,433	\$54,433
162 Buildings	\$7,777,731		\$7,777,731	\$7,777,731
163 Furniture, Equipment & Machinery - Dwellings				
164 Furniture, Equipment & Machinery - Administration	\$124,464		\$124,464	\$124,464
165 Leasehold Improvements	\$1,193,570		\$1,193,570	\$1,193,570
166 Accumulated Depreciation	-\$6,733,419		-\$6,733,419	-\$6,733,419
167 Construction in Progress	\$286,442		\$286,442	\$286,442
168 Infrastructure				
160 Total Capital Assets, Net of Accumulated Depreciation	\$2,703,221	\$0	\$2,703,221	\$2,703,221
171 Notes, Loans and Mortgages Receivable - Non-Current				
172 Notes, Loans, & Mortgages Receivable - Non Current - Past				
173 Grants Receivable - Non Current				
174 Other Assets				
176 Investments in Joint Ventures				
180 Total Non-Current Assets	\$2,703,221	\$0	\$2,703,221	\$2,703,221
200 Deferred Outflow of Resources	\$182,378		\$182,378	\$182,378
290 Total Assets and Deferred Outflow of Resources	\$3,756,960	\$221,925	\$3,978,885	\$3,978,885

Highlands Housing Authority (NJ041)
HIGHLANDS, NJ

Entity Wide Balance Sheet Summary

Submission Type: Audited/Single Audit

Fiscal Year End: 06/30/2017

	Project Total	97,109 Disaster Housing Assistance Grant	Subtotal	Total
311 Bank Overdraft				
312 Accounts Payable <= 90 Days	\$30,580		\$30,580	\$30,580
313 Accounts Payable >90 Days Past Due				
321 Accrued Wage/Payroll Taxes Payable				
322 Accrued Compensated Absences - Current Portion	\$9,791		\$9,791	\$9,791
324 Accrued Contingency Liability				
325 Accrued Interest Payable	\$2,500		\$2,500	\$2,500
331 Accounts Payable - HUD PHA Programs				
332 Account Payable - PHA Projects				
333 Accounts Payable - Other Government	\$25,030		\$25,030	\$25,030
341 Tenant Security Deposits	\$37,877		\$37,877	\$37,877
342 Unearned Revenue	\$4,163		\$4,163	\$4,163
343 Current Portion of Long-term Debt - Capital	\$40,000		\$40,000	\$40,000
344 Current Portion of Long-term Debt - Operating Borrowings				
345 Other Current Liabilities				
346 Accrued Liabilities - Other	\$27,851		\$27,851	\$27,851
347 Inter Program - Due To		\$221,925	\$221,925	\$221,925
348 Loan Liability - Current				
310 Total Current Liabilities	\$177,792	\$221,925	\$399,717	\$399,717
351 Long-term Debt, Net of Current - Capital Projects/Mortgage	\$285,000		\$285,000	\$285,000
352 Long-term Debt, Net of Current - Operating Borrowings				
353 Non-current Liabilities - Other				
354 Accrued Compensated Absences - Non Current				
355 Loan Liability - Non Current				
356 FASB 5 Liabilities				

Highlands Housing Authority (NJ041)
HIGHLANDS, NJ

Entity Wide Balance Sheet Summary

Submission Type: Audited/Single Audit

Fiscal Year End: 06/30/2017

	Project Total	97.109 Disaster Housing Assistance Grant	Subtotal	Total
357 Accrued Pension and OPEB Liabilities	\$531,510		\$531,510	\$531,510
350 Total Non-Current Liabilities	\$816,510	\$0	\$816,510	\$816,510
300 Total Liabilities	\$994,302	\$221,925	\$1,216,227	\$1,216,227
400 Deferred Inflow of Resources	\$184,251		\$184,251	\$184,251
508.4 Net Investment in Capital Assets	\$2,378,221		\$2,378,221	\$2,378,221
511.4 Restricted Net Position				
512.4 Unrestricted Net Position	\$200,186	\$0	\$200,186	\$200,186
513 Total Equity - Net Assets / Position	\$2,578,407	\$0	\$2,578,407	\$2,578,407
600 Total Liabilities, Deferred Inflows of Resources and Equity -	\$3,756,960	\$221,925	\$3,978,885	\$3,978,885

Highlands Housing Authority (NJ041)
HIGHLANDS, NJ

Entity Wide Revenue and Expense Summary

Submission Type: Audited/Single Audit

Fiscal Year End: 06/30/2017

	Project Total	97,109 Disaster Housing Assistance Grant	Subtotal	Total
70300 Net Tenant Rental Revenue	\$487,182		\$487,182	\$487,182
70400 Tenant Revenue - Other	\$6,035		\$6,035	\$6,035
70500 Total Tenant Revenue	\$493,217	\$0	\$493,217	\$493,217
70600 HUD PHA Operating Grants	\$512,323		\$512,323	\$512,323
70610 Capital Grants	\$52,210		\$52,210	\$52,210
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		\$209,557	\$209,557	\$209,557
71100 Investment Income - Unrestricted	\$3,080		\$3,080	\$3,080
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	\$15,330		\$15,330	\$15,330
71600 Gain or Loss on Sale of Capital Assets				
72000 Investment Income - Restricted				
70000 Total Revenue	\$1,076,160	\$209,557	\$1,285,717	\$1,285,717
91100 Administrative Salaries	\$106,654		\$106,654	\$106,654

Highlands Housing Authority (NJ041)
HIGHLANDS, NJ

Entity Wide Revenue and Expense Summary

Submission Type: Audited/Single Audit

Fiscal Year End: 06/30/2017

	Project Total	97.109 Disaster Housing Assistance Grant	Subtotal	Total
91200 Auditing Fees	\$7,261		\$7,261	\$7,261
91300 Management Fee	\$43,428		\$43,428	\$43,428
91310 Book-keeping Fee				
91400 Advertising and Marketing				
91500 Employee Benefit contributions - Administrative	\$22,738		\$22,738	\$22,738
91600 Office Expenses	\$57,090		\$57,090	\$57,090
91700 Legal Expense	\$15,286		\$15,286	\$15,286
91800 Travel	\$4,629		\$4,629	\$4,629
91810 Allocated Overhead				
91900 Other	\$86,456		\$86,456	\$86,456
91000 Total Operating - Administrative	\$343,542	\$0	\$343,542	\$343,542
92000 Asset Management Fee				
92100 Tenant Services - Salaries				
92200 Relocation Costs				
92300 Employee Benefit Contributions - Tenant Services				
92400 Tenant Services - Other	\$2,345		\$2,345	\$2,345
92500 Total Tenant Services	\$2,345	\$0	\$2,345	\$2,345
93100 Water	\$27,995		\$27,995	\$27,995
93200 Electricity	\$76,922		\$76,922	\$76,922
93300 Gas	\$64,977		\$64,977	\$64,977
93400 Fuel				
93500 Labor				
93600 Sewer				
93700 Employee Benefit Contributions - Utilities	\$71,120		\$71,120	\$71,120

Highlands Housing Authority (NJ041)
HIGHLANDS, NJ

Entity Wide Revenue and Expense Summary

Submission Type: Audited/Single Audit

Fiscal Year End: 06/30/2017

	Project Total	97.109 Disaster Housing Assistance Grant	Subtotal	Total
93800 Other Utilities Expense	\$1,900		\$1,900	\$1,900
93000 Total Utilities	\$242,914	\$0	\$242,914	\$242,914
94100 Ordinary Maintenance and Operations - Labor	\$83,701		\$83,701	\$83,701
94200 Ordinary Maintenance and Operations - Materials and	\$40,095		\$40,095	\$40,095
94300 Ordinary Maintenance and Operations Contracts	\$110,487		\$110,487	\$110,487
94500 Employee Benefit Contributions - Ordinary Maintenance	\$53,249		\$53,249	\$53,249
94000 Total Maintenance	\$287,532	\$0	\$287,532	\$287,532
95100 Protective Services - Labor				
95200 Protective Services - Other Contract Costs	\$17,718		\$17,718	\$17,718
95300 Protective Services - Other				
95500 Employee Benefit Contributions - Protective Services				
95000 Total Protective Services	\$17,718	\$0	\$17,718	\$17,718
96110 Property Insurance				
96120 Liability Insurance				
96130 Workmen's Compensation				
96140 All Other Insurance	\$37,958		\$37,958	\$37,958
96100 Total insurance Premiums	\$37,958	\$0	\$37,958	\$37,958
96200 Other General Expenses				
96210 Compensated Absences				
96300 Payments in Lieu of Taxes	\$25,030		\$25,030	\$25,030
96400 Bad debt - Tenant Rents	\$4,544		\$4,544	\$4,544
96500 Bad debt - Mortgages				

Highlands Housing Authority (NJ041)
HIGHLANDS, NJ

Entity Wide Revenue and Expense Summary

Submission Type: Audited/Single Audit

Fiscal Year End: 06/30/2017

	Project Total	97.109 Disaster Housing Assistance Grant	Subtotal	Total
96600 Bad debt - Other				
96800 Severance Expense				
96000 Total Other General Expenses	\$29,574	\$0	\$29,574	\$29,574
96710 Interest of Mortgage (or Bonds) Payable	\$15,764		\$15,764	\$15,764
96720 Interest on Notes Payable (Short and Long Term)				
96730 Amortization of Bond Issue Costs				
96700 Total Interest Expense and Amortization Cost	\$15,764	\$0	\$15,764	\$15,764
96900 Total Operating Expenses	\$977,347	\$0	\$977,347	\$977,347
97000 Excess of Operating Revenue over Operating Expenses	\$98,813	\$209,557	\$308,370	\$308,370
97100 Extraordinary Maintenance				
97200 Casualty Losses - Non-capitalized				
97300 Housing Assistance Payments				
97350 HAP Portability-In				
97400 Depreciation Expense	\$281,822		\$281,822	\$281,822
97500 Fraud Losses				
97600 Capital Outlays - Governmental Funds				
97700 Debt Principal Payment - Governmental Funds				
97800 Dwelling Units Rent Expense				
90000 Total Expenses	\$1,259,169	\$0	\$1,259,169	\$1,259,169
10010 Operating Transfer In	\$93,149		\$93,149	\$93,149
10020 Operating transfer Out	-\$93,149		-\$93,149	-\$93,149

Highlands Housing Authority (NJ041)
HIGHLANDS, NJ

Entity Wide Revenue and Expense Summary

Fiscal Year End: 06/30/2017

Submission Type: Audited/Single Audit

	Project Total	97.109 Disaster Housing Assistance Grant	Subtotal	Total
10030 Operating Transfers from/to Primary Government				
10040 Operating Transfers from/to Component Unit				
10050 Proceeds from Notes, Loans and Bonds				
10060 Proceeds from Property Sales				
10070 Extraordinary Items, Net Gain/Loss				
10080 Special Items (Net Gain/Loss)				
10091 Inter Project Excess Cash Transfer In				
10092 Inter Project Excess Cash Transfer Out				
10093 Transfers between Program and Project - In				
10094 Transfers between Project and Program - Out				
10100 Total Other financing Sources (Uses)	\$0	\$0	\$0	\$0
10000 Excess (Deficiency) of Total Revenue Over (Under) Total	-\$183,009	\$209,557	\$26,548	\$26,548
11020 Required Annual Debt Principal Payments	\$30,000	\$0	\$30,000	\$30,000
11030 Beginning Equity	\$2,527,121	\$0	\$2,527,121	\$2,527,121
11040 Prior Period Adjustments, Equity Transfers and Correction	\$234,295	-\$209,557	\$24,738	\$24,738
11050 Changes in Compensated Absence Balance				
11060 Changes in Contingent Liability Balance				
11070 Changes in Unrecognized Pension Transition Liability				
11080 Changes in Special Term/Severance Benefits Liability				
11090 Changes in Allowance for Doubtful Accounts - Dwelling				
11100 Changes in Allowance for Doubtful Accounts - Other				
11170 Administrative Fee Equity				
11180 Housing Assistance Payments Equity				

Highlands Housing Authority (NJ041)
HIGHLANDS, NJ

Entity Wide Revenue and Expense Summary

Submission Type: Audited/Single Audit

Fiscal Year End: 06/30/2017

	Project Total	97.109 Disaster Housing Assistance Grant	Subtotal	Total
11190 Unit Months Available	1476		1476	1476
11210 Number of Unit Months Leased	1442		1442	1442
11270 Excess Cash	\$614,669		\$614,669	\$614,669
11610 Land Purchases	\$0		\$0	\$0
11620 Building Purchases	\$40,210		\$40,210	\$40,210
11630 Furniture & Equipment - Dwelling Purchases	\$0		\$0	\$0
11640 Furniture & Equipment - Administrative Purchases	\$0		\$0	\$0
11650 Leasehold Improvements Purchases	\$0		\$0	\$0
11660 Infrastructure Purchases	\$0		\$0	\$0
13510 CFFP Debt Service Payments	\$46,695		\$46,695	\$46,695
13901 Replacement Housing Factor Funds	\$0		\$0	\$0



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**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***

The Board of Commissioners
Housing Authority of the Borough of Highlands:

We have audited, in accordance with the auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and audit requirements as prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey, the financial statements of the Housing Authority of the Borough of Highlands (herein referred to as “the Authority”), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Authority’s basic financial statements, and have issued our report thereon dated October 30, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority'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 the Authority’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority’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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority'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* and audit requirements as prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey.

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* and audit requirements as prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

HOLMAN FRENIA ALLISON, P.C.
Certified Public Accountants

October 30, 2017
Toms River, New Jersey



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

To the Board of Commissioners of the
Housing Authority of the Borough of Highlands
County of Monmouth
Highlands, New Jersey

Report on Compliance for Each Major Federal Program

We have audited the Housing Authority of the Borough of Highlands' compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Authority's major federal programs for the fiscal year ended June 30, 2017. The Housing Authority of the Borough of Highlands' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Housing Authority of the Borough of Highlands' major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance); and the audit requirements prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey. Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the Housing Authority of the Borough of Highlands complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

Report on Internal Control Over Compliance

Management of the Housing Authority of the Borough of Highlands is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

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

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

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

HOLMAN FRENIA ALLISON, P.C.
Certified Public Accountants

October 30, 2017
Toms River, New Jersey

HOUSING AUTHORITY OF THE BOROUGH OF HIGHLANDS
Schedule of Expenditures of Federal Awards
For the year ended June 30, 2017

Federal Grantor/Pass Through Grantor/ Program Title or Cluster	Federal CFDA Number	Federal Award Identification Number	Pass Through Entity Identifying Number	Program or Award Amount	Grant Period	Balance at June 30, 2016	Cash Received	Current Year Expenditures	Passed Through To Subrecipients	Balance, June 30, 2017 (Accounts Receivable)	Due to Grantor	Unearned Revenue
U.S. Department of Housing and Urban Development:												
Public and Indian Housing	14.850	Unavailable	Not Applicable	\$ 512,323	07/1/2016-06/30/2017	\$ -	\$ 512,323	\$ 512,323	\$ -	\$ -	\$ -	\$ -
Public Housing Capital Fund Program	14.872	Unavailable	Not Applicable	52,210	07/1/2016-06/30/2017	-	52,210	52,210	-	-	-	-
Total U.S. Department of Housing and Urban Development												
U.S. Department of Homeland Security:												
Disaster Housing Assistance Grant	97.109	FEMA-DR-4086-NJ-367-R	Not Applicable	274,900	06/12/2015-06/12/2018	12,368	-	209,557	-	221,925	-	-
Total U.S. Department of Homeland Security												
Total Expenditures of Federal Awards												
						\$ 12,368	\$ 564,533	\$ 774,090	\$ -	\$ 221,925	\$ -	\$ -

HOUSING AUTHORITY OF THE BOROUGH OF HIGHLANDS
Notes to Schedule of Expenditures of Federal Awards
For the year ended June 30, 2017

NOTE 1: GENERAL

The accompanying schedule of expenditures of federal awards presents the activity of all federal financial assistance programs of the Housing Authority of the Borough of Highlands. The Authority is defined in Note 1 of the general purpose financial statements. All federal awards received directly from federal agencies, as well as federal awards passed through other government agencies, is included on the schedule of federal awards.

NOTE 2: BASIS OF ACCOUNTING

The accompanying schedule of expenditures of federal awards is presented on the budgetary basis of accounting. This basis of accounting is described in Note 2 to the Authority's basic financial statements.

Housing Authority of the Borough of Highlands has not elected to use the 10% de minimis cost rate allowed by the Uniform Guidance.

NOTE 3: RELATIONSHIP TO THE BASIC FINANCIAL STATEMENTS

The accompanying schedule of federal awards reflects expenditures that occurred in the current fiscal year. The amounts reported in the accompanying schedule agree with the amounts reported in the Authority's financial statements:

	Recognized in Current Year Financial Statements	Recognized in Prior Year Financial Statements	Total
Public and Indian Housing	\$ 512,323	\$ -0-	\$ 512,323
Public Housing Capital Fund	52,210	-0-	52,210
Disaster Housing Assistance Grant	<u>209,557</u>	<u>-0-</u>	<u>209,557</u>
Total Financial Awards	<u>\$ 774,090</u>	<u>\$ -0-</u>	<u>\$ 774,090</u>

NOTE 4: RELATIONSHIP TO THE FEDERAL FINANCIAL REPORTS

Amounts reported in the accompanying schedule agree with amounts reported in the related Federal financial reports.

NOTE 5: NON-CASH FEDERAL ASSISTANCE

The Authority did not receive any non-cash Federal assistance for the year ended June 30, 2017.

HOUSING AUTHORITY OF THE BOROUGH OF HIGHLANDS
Notes to Schedule of Expenditures of Federal Awards (continued)
For the year ended June 30, 2017

NOTE 6: LOAN GUARANTEES

At June 30, 2017, the Authority is not the guarantor of any loans outstanding.

HOUSING AUTHORITY OF THE BOROUGH OF HIGHLANDS
Schedule of Findings and Questioned Costs
For the year ended June 30, 2017

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued:	<u>Unmodified</u>
Internal control over financial reporting:	
1) Material weakness(es) identified?	None Reported
2) Significant deficiencies identified that are not considered to be material weaknesses?	None Reported
Noncompliance material to basic financial statements noted?	None Reported

Federal Awards

Dollar threshold used to distinguish between type A and type B programs:	\$750,000
Auditee qualified as low-risk auditee?	Yes
Type of auditor’s report issued on compliance for major programs:	<u>Unmodified</u>
Internal Control over major programs:	
1) Material weakness(es) identified?	None Reported
2) Significant deficiencies identified that are not considered to be material weaknesses?	None Reported
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200 - Uniform Guidance § 200-516?	None Reported

Identification of major programs

CFDA Number(s)	FAIN Number(s)	Name of Federal Program or Cluster
97.109	FEMA-DR-4086-NJ-367-R	Disaster Housing Assistance Grant

HOUSING AUTHORITY OF THE BOROUGH OF HIGHLANDS
Schedule of Findings and Questioned Costs (continued)
For the year ended June 30, 2017

Section II – Financial Statement Findings

This schedule identifies the significant deficiencies, material weaknesses and instances of noncompliance related to the basic financial statements that are required to be reported in accordance with Chapter 5.18 of *Government Auditing Standards*.

No Current Year Findings

Section III – Federal Expenditures and Findings and Questioned Costs

This section identifies the reportable conditions, material weaknesses and instances of noncompliance, including questioned costs, related to the audit of major federal programs, as required by Uniform Guidance.

No Current Year Findings

HOUSING AUTHORITY OF THE BOROUGH OF HIGHLANDS
Summary Schedule of Prior Year Audit Findings and Questioned Costs
For the year ended June 30, 2017

This section identifies the reportable conditions, material weaknesses and instances of noncompliance, including questioned costs, related to the audit of major federal and state programs, as required by Uniform Guidance.

Not applicable.



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To the Board of Commissioners
Housing Authority of the Borough of Highlands
Highlands, New Jersey 07732

We have audited the financial accounts and transactions of the Housing Authority of the Borough of Highlands in the County of Monmouth, State of New Jersey for the year ended June 30, 2017. In accordance with requirements prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey, the following are the *General Comments* and *Recommendations* for the year then ended.

GENERAL COMMENTS AND RECOMMENDATIONS

Contracts and Agreements Required to be Advertised by (N.J.S.A.40A:11-4)

N.J.S.A.40A:11-4 - Every contract or agreement, for the performance of any work or furnishing or hiring of any materials or supplies, the cost or the contract price whereof is to be paid with or out of public funds not included within the terms of Section 3 of this act, shall be made or awarded only by the governing body of the contracting unit after public advertising for bids and bidding therefore, except as is provided otherwise in this act or specifically by any other Law. No work, materials or supplies shall be undertaken, acquired or furnished for a sum exceeding in the aggregate \$40,000 except by contract or agreement.

It is pointed out that the Members of the Authority have the responsibility of determining whether the expenditures in any category will exceed the statutory minimum within the fiscal year. Where question arises as to whether any contract or agreement might result in violation of the statute, the solicitor's opinion should be sought before a commitment is made.

The minutes indicate that resolutions were adopted authorizing the awarding of contracts or agreements for "Professional Services," per *N.J.S.A.40A:11-5*.

Contracts and Agreements Requiring Solicitation of Quotations

The Authority has the responsibility of determining whether the expenditures in any category will exceed the statutory thresholds within the fiscal year. Where question arises as to whether any contract or agreement might result in violation of the statute, the Solicitor's opinion should be sought before a commitment is made.

Inasmuch as the system of records did not provide for an accumulation of payments for categories for the performance of any work or the furnishing or hiring of any materials or supplies, the results of such an accumulation could not reasonably be ascertained. Disbursements were reviewed, however, to determine whether any clear-cut violations existed.

The examination of expenditures revealed individual payments, contracts or agreements in excess of \$6,000 "for the performance of any work or the furnishing or hiring of any materials or supplies", other than those where bids had been previously sought by public advertisement or where a resolution had been previously adopted under the provision of *N.J.S.A.40A:11-6.1*.

Examination of Bills

A test check of paid bills was made and each bill, upon proper approval, was considered as a separate and individual contract unless the records disclosed it to be a part payment or estimate. The results of the examination did not disclose any discrepancies with respect to signatures, certification or supporting documentation.

Payroll Fund

The examination of the payroll account included the detailed computation of various deductions or other credits from the payroll of the Authority employees and ascertained that the accumulated withholdings were disbursed to the proper agencies.

Property, Plant and Equipment

The property, plant and equipment subsidiary ledger was maintained properly and a reconciliation between the physical and perpetual inventory records was performed at year-end.

Acknowledgment

We received the complete cooperation of all the Authority officials and employees and we greatly appreciate the courtesies extended to the members of the audit team.

Any problems and weaknesses noted in our audit were not of such magnitude that they would affect our ability to express an opinion on the financial statements taken as a whole.

Should you have any questions or should you desire any additional assistance, please call us.

HOLMAN FRENIA ALLISON, P.C.
Certified Public Accountants

October 30, 2017
Toms River, New Jersey