

HOUSING AUTHORITY OF THE BOROUGH OF HIGHLANDS

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

FOR THE YEAR ENDED JUNE 30, 2021

**WITH
REPORT OF INDEPENDENT AUDITORS**

HOUSING AUTHORITY OF THE BOROUGH OF HIGHLANDS
TABLE OF CONTENTS
FOR THE YEAR ENDED JUNE 30, 2021

<u>Contents</u>	<u>Page</u>
Report of Independent Auditors	1-3
Management's Discussion and Analysis	4-8
Financial Statements:	
Statement of Net Position	9-10
Statement of Revenues, Expenses and Changes in Net Position	11
Statement of Cash Flows	12-13
Notes to Financial Statements	14-28
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	29-30
Supplementary Information:	
Schedule of Federal Awards, Findings and Responses	31
Required Pension Information	32-33
Supplementary Data Required by HUD:	
Statement of Financial Position Data	34-35
Statement of Activities Data	36-38
Statement of Cash Flows Data	39-40
Computation of Surplus Cash and Schedule of Reserves for Replacements	41
Schedule of Changes in Fixed Asset Accounts	42
Certification of Mortgagor	43
Management Agent's Certification	44

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors of the
Housing Authority of the Borough of Highlands:

Report on the Financial Statements

We have audited the accompanying financial statements of the Housing Authority of the Borough of Highlands (the "Authority") as of and for the year ended June 30, 2021, and the related notes to the financial statements, as listed in the accompanying 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and audit requirements as 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 auditors consider 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 opinion.

Basis for Qualified Opinion

We were unable to obtain sufficient audit evidence for the balances of the net OPEB liability, deferred outflows of resources, deferred inflows of resources, and OPEB expense relating to the Authority's defined benefit OPEB plan because the OPEB plan for the year ended June 30, 2021 had not yet been audited. Accordingly, the Authority's net OPEB liability, deferred outflows of resources, deferred inflows of resources, and OPEB expense are not reported. We were unable to obtain sufficient appropriate audit evidence for the balances of the net OPEB liability, deferred outflows of resources, deferred inflows of resources, and OPEB expense relating to the defined benefit OPEB plan by other auditing procedures. Because the audited actuarial report for the OPEB plan has not been released, it is not practicable to quantify the financial effects of this matter.

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the "Basis for Qualified Opinion" paragraph, the financial statements referred to above present fairly, in all material respects, the net position of the Authority, as of June 30, 2021, and the changes in its net position and its cash flows 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 and required pension information 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 an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The schedule of federal awards, findings and responses is presented for purpose of additional analysis by management and is not a required part of the basic financial statements. The statement of financial position data, statement of activities data, statement of cash flows data, computation of surplus cash and schedule of reserve for replacements, and the schedule of changes in fixed asset accounts ("Supplementary Data Required by HUD") as required by the United States Department of Housing and Urban Development, are presented for purposes of additional analysis and are also not a required part of the financial statements.

The schedule of federal awards, findings and responses and the Supplementary Data Required by HUD are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America.

Other Matters (continued)

Other Information (continued)

In our opinion, the schedule of federal awards, findings and responses and the Supplementary Data Required by HUD are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The certification of mortgagor and the management agent's certification have not been subjected to the auditing procedures applied in the audit of the financial statements and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2022 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Novogradac & Company LLP

January 31, 2022
Toms River, New Jersey

MANAGEMENT'S DISCUSSION AND ANALYSIS

HOUSING AUTHORITY OF THE BOROUGH OF HIGHLANDS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2021

As Management of the Authority, we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal year ended June 30, 2021. We encourage readers to consider the information presented here in conjunction with the Authority's financial statements as presented elsewhere in this report.

A - Financial Highlights

- 1 – The assets of the Authority exceeded its liabilities at the close of the most recent fiscal year by \$3,239,401 (net position) as opposed to \$3,268,902 for the prior fiscal year.
- 2 – As of the close of the current fiscal year, the Authority's proprietary fund reported ending unrestricted net position of \$365,193.
- 3 – The Authority's cash and cash equivalents balance (including tenant security deposits) at June 30, 2021 was \$1,515,061 representing a decrease of \$39,688 from the prior fiscal year.
- 4 – The Authority had total operating revenues of \$1,263,299 and total operating expenses of \$1,270,949 for the year ended June 30, 2021.
- 5 – The Authority had capital outlays totaling \$242,223 for the fiscal year.
- 6 – The Authority's expenditures of federal awards amounted to \$597,596 for the fiscal year.

B – Using the Annual Report

1 – Management's Discussion and Analysis

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

HOUSING AUTHORITY OF THE BOROUGH OF HIGHLANDS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2021

B – Using the Annual Report (continued)

2 – Financial Statements

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

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

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

The Statement of Cash Flows reports the cash flows from operating, investing, capital and related financing activities.

The financial statements report on the Authority's activities. The activities are primarily supported by HUD subsidies and grants. The Authority's function is to provide decent, safe and sanitary housing to low income and special needs populations. The financial statements can be found on pages 9 through 13.

3 – Notes to Financial Statements

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

HOUSING AUTHORITY OF THE BOROUGH OF HIGHLANDS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2021

C – The Authority as a Whole

The Authority's net position increased during the fiscal year. The Authority's revenues are primarily subsidies and grants received from HUD. The Authority receives subsidies each month based on a pre-approved amount by HUD. The Authority's revenues were sufficient to cover all expenses, including depreciation during the fiscal year.

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

D – Budgetary Highlights

For the year ended June 30, 2021, an individual program budget was prepared by the Authority and was approved by the Board of Commissioners. The budget was prepared in accordance with the accounting procedures prescribed by the applicable funding agency.

As indicated by the excess of revenues over expenses, the Authority's net position increased during the fiscal year.

E – Capital Assets and Debt Administration

1 - Capital Assets

As of June 30, 2021, the Authority's net investment in capital assets for its proprietary fund was \$2,246,773 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment and construction in progress less related debt.

The Authority spent \$242,223 on capital assets during the year ended June 30, 2021.

Additional information on the Authority's capital assets can be found in Note 5 to the Financial Statements, which is included in this report.

HOUSING AUTHORITY OF THE BOROUGH OF HIGHLANDS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2021

E – Capital Assets and Debt Administration (continued)

2 – Long Term Debt

During the fiscal year ended June 30, 2019, the Authority entered into a mortgage loan with Investors Bank in the amount of \$500,000, in order to complete the rehabilitation work related to the Authority's RAD conversion. As of June 30, 2021, \$432,161 remains payable.

Further details can be found in the Note 9 to the Financial Statements.

F – Significant Changes from FYE June 30, 2020 to June 30, 2021

Cash and cash equivalents (including restricted cash) decreased by \$39,688, mainly due to the receipt of a grant from Federal Home Loan Bank in the amount of \$653,014 in FY20.

Capital assets, net decreased by \$78,110, due to depreciation expense of \$295,288 and dispositions of \$25,045 exceeding purchases of \$242,223 for the year.

Accrued pension liability decreased by \$27,909 due to changes in the assumptions and proportions of the State of New Jersey's PERS Report for year ended June 30, 2021.

HUD grants increased \$32,954, primarily due to the receipt of CARES Act grant income in the amount of \$15,800, and an increase in Section Housing Assistance Payments grant income in the amount of \$17,154 during the year.

Administrative expenses increased \$64,892 from \$304,732 in 2020 to \$369,624 in 2021, primarily due to decreases in miscellaneous administrative expenses.

HOUSING AUTHORITY OF THE BOROUGH OF HIGHLANDS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2021

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

The following factors were considered in preparing the Authority's budget for the fiscal year ending June 30, 2022.

- 1 – The state of the economy, particularly in light of current world affairs.
- 2 – The desire for Congress to reduce the national deficit through cutbacks to federal programs.
- 3 – The use of the Authority's unrestricted net position to fund any shortfalls arising from a possible economic downturn and reduced subsidies and grants. The Authority's unrestricted net position appears sufficient to cover any shortfall.

H – Contacting the Authority's Financial Management

The financial report is designed to provide a general overview of the Authority's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Executive Director, Housing Authority of the Borough of Highlands, 215 Shore Drive, Highlands, NJ 07732, or call (732) 872-2022.

FINANCIAL STATEMENTS

HOUSING AUTHORITY OF THE BOROUGH OF HIGHLANDS
STATEMENT OF NET POSITION
JUNE 30, 2021

ASSETS

Current assets:		
Cash and cash equivalents	\$	841,276
Tenant security deposits		46,350
Accounts receivable, net		<u>5,492</u>
Total current assets		<u>893,118</u>
Non-current assets:		
Restricted cash		627,435
Capital assets, net		<u>2,678,934</u>
Total non-current assets		<u>3,306,369</u>
Total assets		<u>4,199,487</u>

DEFERRED OUTFLOWS OF RESOURCES

State of New Jersey P.E.R.S.		<u>62,755</u>
Total assets and deferred outflows of resources	\$	<u><u>4,262,242</u></u>

HOUSING AUTHORITY OF THE BOROUGH OF HIGHLANDS
STATEMENT OF NET POSITION (continued)
JUNE 30, 2021

LIABILITIES

Current liabilities:	
Accounts payable	\$ 55,704
Accrued expenses	2,599
Tenant security deposits	46,350
Prepaid rent	342
Accrued compensated absences	12,566
Loan payable, current	<u>25,940</u>
Total current liabilities	<u>143,501</u>
Non-current liabilities:	
Accrued pension liability	320,140
Loan payable, non-current	<u>406,221</u>
Total non-current liabilities	<u>726,361</u>
Total liabilities	<u>869,862</u>

DEFERRED INFLOWS OF RESOURCES

State of New Jersey P.E.R.S.	<u>152,979</u>
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NET POSITION

Net position:	
Net investment in capital assets	2,246,773
Restricted	627,435
Unrestricted	<u>365,193</u>
Total net position	<u>3,239,401</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 4,262,242</u>

**HOUSING AUTHORITY OF THE BOROUGH OF HIGHLANDS
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2021**

Operating revenues:	
Tenant revenue	\$ 621,828
HUD operating grants	581,796
Other government grants	15,800
Other revenues	<u>43,875</u>
Total operating revenues	<u>1,263,299</u>
Operating expenses:	
Administrative	343,418
Utilities	223,772
Ordinary repairs and maintenance	259,682
Insurance	74,976
General	58,013
Extraordinary maintenance	15,800
Depreciation	<u>295,288</u>
Total operating expenses	<u>1,270,949</u>
Operating loss	<u>(7,650)</u>
Non-operating revenues (expenses):	
Investment income	2,623
Interest expense	<u>(24,474)</u>
Net non-operating revenues (expenses)	<u>(21,851)</u>
Change in net position	(29,501)
Total net position, beginning of year	<u>3,268,902</u>
Total net position, end of year	<u>\$ 3,239,401</u>

See accompanying notes to financial statements.

HOUSING AUTHORITY OF THE BOROUGH OF HIGHLANDS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2021

Cash Flows from Operating Activities:	
Cash received from tenants and others	\$ 644,616
Cash received from grantors	637,402
Cash paid to employees	(342,467)
Cash paid to vendors and suppliers	<u>(690,644)</u>
Net cash provided by operating activities	<u>248,907</u>
Cash Flows from Capital and Related Financing Activities:	
Principal payments of loan payable	(24,521)
Interest paid on loan payable	(24,474)
Purchase of capital assets	<u>(242,223)</u>
Net cash used in capital and related financing activities	<u>(291,218)</u>
Cash Flows from Investing Activities:	
Interest received on investments	<u>2,623</u>
Net cash provided by investing activities	<u>2,623</u>
Net decrease in cash, cash equivalents, and restricted cash	(39,688)
Cash, cash equivalents, and restricted cash, beginning of year	<u>1,554,749</u>
Cash, cash equivalents, and restricted cash, end of year	<u><u>\$ 1,515,061</u></u>
Reconciliation of cash, cash equivalents, and restricted cash to the Statement of Net Position is as follows:	
Cash and cash equivalents	\$ 841,276
Tenant security deposits	46,350
Restricted cash	<u>627,435</u>
Cash, cash equivalents, and restricted cash, end of year	<u><u>\$ 1,515,061</u></u>

See accompanying notes to financial statements.

HOUSING AUTHORITY OF THE BOROUGH OF HIGHLANDS
STATEMENT OF CASH FLOWS (continued)
FOR THE YEAR ENDED JUNE 30, 2021

Reconciliation of operating loss to net cash provided by operating activities:	
Operating loss	\$ (7,650)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation	295,288
Construction in progress - expense of soft costs	25,045
Changes in operating assets, deferred outflows of resources, liabilities, and deferred inflows of resources:	
Accounts receivable, net	993
Deferred outflows of resources	19,895
Accounts payable	(8,439)
Accrued expenses	951
Tenant security deposits	(5,988)
Prepaid rent	(16,092)
Accrued compensated absences	2,017
Accrued pension liability	(27,909)
Deferred inflows of resources	<u>(29,204)</u>
Net cash provided by operating activities	<u>\$ 248,907</u>

See accompanying notes to financial statements.

HOUSING AUTHORITY OF THE BOROUGH OF HIGHLANDS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization

The Highlands Housing Authority (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 "Borough"). The Authority is responsible for operating certain low-rent housing programs in the Borough under programs administered by the U.S. Department of Housing and Urban Development ("HUD"). These programs provide housing for eligible families under the United States Housing Act of 1937, as amended.

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

B. Basis of Accounting / Financial Statement Presentation

The Authority's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The Governmental Accounting Standards Board ("GASB") is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations).

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

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

The Authority's financial statements are prepared in accordance with GASB 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, as amended ("GASB 34"). GASB 34 requires the basic financial statements to be prepared using the economic resources measurement focus and the accrual basis of accounting and requires the presentation of a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Net Position and Statement of Cash Flows. GASB 34 also requires the Authority to include Management's Discussion and Analysis as part of the Required Supplementary Information.

HOUSING AUTHORITY OF THE BOROUGH OF HIGHLANDS
NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2021

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Accounting / Financial Statement Presentation (continued)

The Authority's primary source of non-exchange revenue relates to grants and subsidies. In accordance with GASB 33, *Accounting and Financial Reporting for Non-exchange Transactions*, grant and subsidy revenue are recognized at the time eligible program expenditures occur and/or the Authority has complied with the grant and subsidy requirements.

The Authority adopted GASB 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions ("GASB 75")*. GASB 75 established standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenditures associated with post employment benefits other than pensions ("OPEB") of State and Local Governments. For defined benefit OPEB, GASB 75 identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actual present value, and attribute that present value to periods of employee service. In addition, GASB 75 details the recognition and disclosure requirements for employers with liabilities to a defined benefit OPEB plan and for employers whose employees are provided with defined contribution OPEB.

During fiscal year 2019, the Authority converted its Public and Indian Housing program to Section 8 Project Based Rental Assistance through HUD's Rental Assistance Demonstration ("RAD") program. As a result of the conversion, the Authority's ninety (90) unit housing complex known as Ptak Towers and thirty (30) unit complex known as Jennie Parker Manor ("the Projects"), now receive project based rental assistance from HUD. Pursuant to the terms and conditions of the Housing Assistance Payment ("HAP") contract, HUD agreed to make housing assistance payments monthly to the Projects, on behalf of each eligible tenant, in the amount equal to the difference between the amount specified in the HAP contract as the rental for the leased unit occupied by said tenant and that portion of such rental which is payable by the tenant in accordance with prescribed formulas, but which shall not exceed 30% of the tenant's adjusted gross income. HUD has notified the Projects that it has reserved its annual commitment for housing assistance payments under the HAP contract and the amount is based upon the initial schedule of approved contract rents. The terms of the HAP contract will provide for increases and decreases in contract rents and subsidies thereto subject to certain conditions.

C. Reporting Entity

In accordance with GASB 61, *The Financial Reporting Entity Omnibus - An Amendment of GASB 14 and 34*, the Authority's basic financial statements include those of the Authority and any component units. Component units are legally separate, tax-exempt organizations whose majority of officials are appointed by the primary government or the organization is fiscally dependent on the primary government and there is a potential for those organizations either to provide specific financial benefits to, or impose specific financial burdens on, the primary government. An organization has a financial benefit or burden relationship with the primary government if any one of the following conditions exist:

1. The primary government (Authority) is legally entitled to or can otherwise access the organization's resources.
2. The primary government is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide financial support to, the organization.
3. The primary government is obligated in some manner for the debt of the organization.

Based on the application of the above criteria, this report does not include any component units.

HOUSING AUTHORITY OF THE BOROUGH OF HIGHLANDS
NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2021

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Use of Management Estimates

The preparation of financial statements in accordance 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, deferred outflows of resources, liabilities and deferred inflows of resources, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates include the allowance for doubtful accounts, accrued expenses and other liabilities, depreciable lives of properties and equipment, and contingencies. Actual results could differ significantly from these estimates.

E. Cash, Cash Equivalents and Restricted Cash

New Jersey Authorities are required by N.J.S.A. 40A:5-14 to deposit public funds in a bank or trust company having its place of business in the State of New Jersey and organized under the laws of the United States, or the 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, Certificates of Deposit, or any other federally insured investment. HUD also requires that deposits be fully collateralized at all times. Acceptable collateralization includes FDIC insurance and the market value of securities purchased and pledged to the political subdivision. Pursuant to HUD restrictions, obligations of the United States are allowed as security for deposits. Obligations furnished as security must be held by the Authority or with an unaffiliated bank or trust company for the account of the Authority.

It is the Authority's policy to maintain collateralization in accordance with state and HUD requirements.

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

F. Accounts Receivable

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

The Authority also recognizes a receivable from other governmental agencies for amounts earned and billed but not received and for amounts unbilled, but earned as of year end.

HOUSING AUTHORITY OF THE BOROUGH OF HIGHLANDS
NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2021

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

G. Allowance for Doubtful Accounts

The Authority periodically reviews all accounts receivable to determine the amount, if any, that may be uncollectable. If it is determined that an account or accounts may be uncollectable, the Authority prepares an analysis of such accounts and records an appropriate allowance against such amounts.

H. Prepaid Expenses

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

I. Capital Assets, Net

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 capital 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:

- | | |
|---------------------------|-------------|
| • Buildings | 40 Years |
| • Building Improvements | 15 Years |
| • Furniture and Equipment | 3 - 5 Years |
| • Machinery | 3 - 5 Years |

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

J. Impairment of Long Lived Assets

The Authority evaluates events or changes in circumstances affecting long-lived assets to determine whether an impairment of its assets has occurred. If the Authority determines that a capital asset is impaired, and that the impairment is significant and other-than-temporary, then an impairment loss will be recorded in the Authority's financial statements. For the year ended June 30, 2021 there were no impairment losses incurred.

K. Accounts Payable and Accrued Liabilities

The Authority recognizes a liability for goods and services received but not paid for as of year-end. It also recognizes a liability for wages and fringe benefits related to services performed at year-end but not yet paid to employees or taxing authorities.

L. Prepaid Rent

The Authority recognizes a liability for prepaid rents, which consists of the prepayment of rent by residents applicable to future periods.

HOUSING AUTHORITY OF THE BOROUGH OF HIGHLANDS
NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2021

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

M. Compensated Absences

Compensated absences are those absences for which employees will be paid in accordance with the Authority's Personnel Policy. A liability for compensated absences that is attributable to services already rendered and that are not contingent on a specific event that is outside the control of the Authority and its employees, is accrued as employees earn the rights to the benefits. Compensated absences that relate to future services or that are contingent on a specific event that is outside the control of the Authority and its employees are accounted for in the period in which such services are rendered or in which such event take place.

N. Pensions

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 fiduciary net position of the Public Employees Retirement System ("PERS") and additions to/deductions from PERS's fiduciary net position have been determined on the same basis as they are reported by PERS. 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.

O. Other Post Employment Benefits ("OPEB")

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to the net OPEB, OPEB expense, and information about the fiduciary net position of the State Health Benefits Plan ("SHBP") and additions to/deductions from SHBP's fiduciary net position have been determined on the same basis as they are reported by SHBP. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms.

P. Deferred Outflows of Resources 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 represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources until that time.

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 represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources until that time.

Q. Equity Classifications

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

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.

HOUSING AUTHORITY OF THE BOROUGH OF HIGHLANDS
NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2021

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Q. Equity Classifications (continued)

Restricted net position - Consists of resources 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 resources that do not meet the definition of "restricted" or "net investment in capital assets".

R. 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. The Authority receives annual operating subsidies from HUD, subject to limitations prescribed by HUD. Operating subsidies from HUD are recorded in accordance with GASB 33 and are accounted for as revenue. 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 and expenses as non-operating.

S. Taxes

The Authority is a unit of local government under the New Jersey law and is exempt from real estate, sales and income taxes by both the federal and state governments. However, the Authority will pay a payment in lieu of taxes to cover municipal services provided by the local government for certain properties owned throughout the Borough.

T. Economic Dependency

The Authority is economically dependent on subsidies from HUD. The Section 8 Project Based Rental Assistance program operates at a loss prior to receiving the grants.

U. Budgets and Budgetary Accounting

The Authority adopts an annual operating budget which is used as a management tool throughout the accounting cycle. All budgets are prepared on a HUD basis, which differs 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.

Pursuant to N.J.S.A 40A:5A-10 and N.J.A.C. 5:31, the Authority is also required to submit an authority wide budget for each fiscal year to the Director of the Division of Local Government Services sixty (60) days prior to the end of the fiscal year.

V. Risk Management

The Authority is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority is a member of the New Jersey Public Housing Authorities Joint Insurance Fund ("JIF").

HOUSING AUTHORITY OF THE BOROUGH OF HIGHLANDS
NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2021

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

V. Risk Management (continued)

The joint insurance pool is both an insured and self-administered group of housing authorities established for the purpose of insuring against property damage, general liability, motor vehicles and equipment liability and workmen's compensation. The JIF will be self-sustaining through member premiums. There have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the past three years.

NOTE 2. CASH, CASH EQUIVALENTS AND RESTRICTED CASH

As of June 30, 2021, the Authority had funds on deposit in checking, savings, and money market accounts. The carrying amount of the Authority's cash, cash equivalents and restricted cash was \$1,515,061, and the bank balances approximated \$1,523,289.

<u>Cash Category</u>	<u>Amount</u>
Unrestricted	\$ 841,276
Tenant security deposits	46,350
Restricted	<u>627,435</u>
Total cash and cash equivalents	<u>\$ 1,515,061</u>

Of the bank balances, \$256,976 was covered by federal depository insurance and the remaining \$1,266,313 was collateralized by GUDPA as of June 30, 2021.

Custodial credit risk is the risk that, in the event of a bank failure, the government's deposits may not be returned to it. The Authority does not have a formal policy for custodial credit risk. As of June 30, 2021, the Authority's bank balances were not exposed to custodial credit risk.

NOTE 3. ACCOUNTS RECEIVABLE, NET

Accounts receivable, net consists of the following at June 30, 2021:

<u>Description</u>	<u>Amount</u>
Accounts receivable - tenants, net	<u>\$ 5,492</u>

Accounts Receivable - Tenants, Net

Tenant accounts receivable represents amounts owed to the Authority by tenants for outstanding rent. The balance is shown net of an allowance for doubtful accounts of \$0.

NOTE 4. RESTRICTED DEPOSITS

As of June 30, 2021, restricted deposits consisted of the following:

<u>Cash Category</u>	<u>Amount</u>
Debt service escrows	\$ 2,038
Reserve for replacements escrows	625,397
Tenant security deposits	<u>46,350</u>
Total restricted deposits	<u>\$ 673,785</u>

HOUSING AUTHORITY OF THE BOROUGH OF HIGHLANDS
NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2021

NOTE 4. RESTRICTED DEPOSITS (continued)

Debt service escrows are required to be set aside for future debt payments.

Reserve for replacements escrows are required to be set aside for future project expenditures in accordance with the Authority's RAD Conversion Commitment.

Tenant security deposits represent amounts held by the Authority on behalf of tenants. Upon termination from the Authority, the tenant is due amounts deposited plus interest earned less any amounts charged for damage to the unit.

NOTE 5. CAPITAL ASSETS, NET

The following is a summary of the changes in capital assets for the year ended June 30, 2021:

Description	June 30, 2020	Additions	Dispositions	Transfers	June 30, 2021
<u>Non-depreciable:</u>					
Land	\$ 54,433	\$ -	\$ -	\$ -	\$ 54,433
<u>Depreciable:</u>					
Buildings and improvements	10,171,149	242,223	(25,045)	-	10,388,327
Furniture and equipment	124,464	-	-	-	124,464
Subtotal	<u>10,295,613</u>	<u>242,223</u>	<u>(25,045)</u>	<u>-</u>	<u>10,512,791</u>
Less: accumulated depreciation	<u>7,593,002</u>	<u>295,288</u>	<u>-</u>	<u>-</u>	<u>7,888,290</u>
Net capital assets	<u>\$ 2,757,044</u>	<u>\$ (53,065)</u>	<u>\$ (25,045)</u>	<u>\$ -</u>	<u>\$ 2,678,934</u>

Depreciation expense for the year ended June 30, 2021 amounted to \$295,288.

NOTE 6. ACCOUNTS PAYABLE

As of June 30, 2021, accounts payable consisted of the following:

<u>Description</u>	<u>Amount</u>
Accounts payable - vendors	\$ 15,898
Accounts payable - other governments	<u>39,806</u>
Total accounts payable	<u>\$ 55,704</u>

Accounts Payable - Vendors

Accounts payable - vendors represents the amounts payable to contractors and vendors for materials received or services rendered.

Accounts Payable - Other Governments

Accounts payable - other governments represents amounts due to the Borough for payments in lieu of taxes ("PILOT").

HOUSING AUTHORITY OF THE BOROUGH OF HIGHLANDS
NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2021

NOTE 7. PAYMENTS 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 PILOT for Authority owned properties in accordance with the provisions of its Cooperation Agreement with the Borough. 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. During the year ended June 30, 2021, the Authority incurred PILOT expense in the amount of \$39,806.

NOTE 8. NON-CURRENT LIABILITIES

Non-current liabilities activity during the year ended June 30, 2021 consisted of the following:

Description	June 30, 2020	Additions	Reductions	June 30, 2021	Amounts due within one Year
Accrued pension liability	\$ 348,049	\$ -	\$ (27,909)	\$ 320,140	\$ -
Loans payable	<u>456,682</u>	<u>-</u>	<u>(24,521)</u>	<u>432,161</u>	<u>25,940</u>
Total non-current liabilities	<u>\$ 804,731</u>	<u>\$ -</u>	<u>\$ (52,430)</u>	<u>\$ 752,301</u>	<u>\$ 25,940</u>

NOTE 9. LOANS PAYABLE

Loans payable as of June 30, 2021 consisted of the following:

<u>Description</u>	<u>Amount</u>
Loan payable to Investors Bank in monthly payments of \$4,174 including interest at 5.41%. The loan matures on July 1, 2033 and is secured by real property owned by the Authority.	\$ 432,161
Less: current portion	<u>25,940</u>
Loans payable, net of current portion	<u>\$ 406,221</u>

Annual debt service for principal and interest over the next five years and in five-year increments thereafter is as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	\$ 25,940	\$ 23,055	\$ 48,995
2023	27,399	21,596	48,995
2024	29,308	19,687	48,995
2025	30,565	18,430	48,995
2026	32,284	16,711	48,995
2027-2031	195,222	52,396	247,618
2032-2033	<u>91,443</u>	<u>3,943</u>	<u>95,386</u>
	<u>\$ 432,161</u>	<u>\$ 155,818</u>	<u>\$ 587,979</u>

Interest expense for the year ended June 30, 2021 totaled \$24,474.

HOUSING AUTHORITY OF THE BOROUGH OF HIGHLANDS
NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2021

NOTE 10. PENSION PLAN

A. Plan Description

The 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 the Division's Comprehensive Annual Financial Report, which can be found at <https://www.state.nj.us/treasury/pensions/annual-reports.shtml>.

B. Benefits

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:

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 $1/55^{\text{th}}$ 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 $1/60^{\text{th}}$ 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 one and two before reaching age 60, tiers 3 and 4 before age 62 with 25 years or more 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 a member retires prior to the age at which a member 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.

C. Contributions

The contribution policy for PERS is set by N.J.S.A. 43:15A and requires contributions by all 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.

The local employers' contribution amounts are based on the 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 full payment and any such amounts will not be included in their unfunded liability. The actuaries will determine the unfunded liability of those retirement systems, by employer, for the reduced normal and accrued liability contributions provided under this law. This unfunded liability will be paid by the employer in level annual payments over a period of 15 years beginning with the payments due in the fiscal year ended June 30, 2012 and will be adjusted by the rate of return on the actuarial value of the assets.

HOUSING AUTHORITY OF THE BOROUGH OF HIGHLANDS
NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2021

NOTE 10. PENSION PLAN (continued)

D. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2021, the Authority reported a liability of \$320,140, for its proportionate share of the net pension liability. The net pension liability was measured as of July 1, 2019, and rolled forward to June 30, 2020.

For the year ended June 30, 2021, the Authority recorded a pension expense in the amount of \$21,476. At June 30, 2021, the Authority reported deferred outflows of resources and deferred inflows of resources from the following sources.

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes of Assumptions	\$ 10,386	\$ 134,046
Changes in Proportion	17,611	17,801
Differences between expected and actual experience	5,829	1,132
Net differences between actual and projected earnings on pension plan investments	10,943	-
Payment made Subsequent to Measurement Date	<u>17,986</u>	<u>-</u>
Total	<u>\$ 62,755</u>	<u>\$ 152,979</u>

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ending June 30:	<u>Amount</u>
2022	\$ (33,553)
2023	(30,591)
2024	(17,482)
2025	(7,069)
2026	<u>(1,529)</u>
	<u>\$ (90,224)</u>

E. Actuarial Assumptions

The collective total pension liability at the June 30, 2020 measurement date was determined by an actuarial valuation as of July 1, 2019, which was rolled forward to June 30, 2020. This actuarial valuation used the following assumptions.

HOUSING AUTHORITY OF THE BOROUGH OF HIGHLANDS
NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2021

NOTE 10. PENSION PLAN (continued)

E. Actuarial Assumptions (continued)

Inflation Rate:	
Price	2.75%
Wage	3.25%
Salary increases:	
Through 2026	2.00 - 6.00% based on years of service
Thereafter	3.00 - 7.00% based on years of service
Investment rate of return	7.00%

Pre-mortality rates were based on the Pub-2010 General Below-Median Income Employee mortality table with an 82.2% adjustment for males and 101.4% adjustment for females, and with future improvement from the base year of 2010 on a generational basis. Post-retirement mortality rates were based on the Pub-2010 General Below-Median Income Healthy Retiree mortality table with a 91.4% adjustment for males and 99.7% adjustment for females, and with future improvement from the base year of 2010 on a generational basis. Disability retirement rates used to value disabled retirees were based on the Pub-2010 Non-Safety Disabled Retiree mortality table with a 127.7% adjustment for males and 117.2% adjustment for females, and with future improvement from the base year of 2010 on a generational basis. Mortality improvement is based on Scale MP-2020.

The actuarial adjustments used in the July 1, 2019 valuation were based on the results of an actuarial experience study for the period July 1, 2014 to June 30, 2018.

F. Long-Term Expected Rate of Return

The long-term expected rate of return is determined by the State Treasurer, after consultation with the Directors of the Division of Investments and the Division of Pensions and Benefits, the board of trustees and the actuaries. Best estimates of arithmetic real rates of return for each major asset class, including the PERS's target asset allocation as of June 30, 2020, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Rate of Return</u>
U.S. Equity	27.00%	7.71%
Non-U.S. Developed Markets Equity	13.50%	8.57%
Emerging Markets Equity	5.50%	10.23%
Private Equity	13.00%	11.42%
Real Assets	3.00%	9.73%
Real Estate	8.00%	9.56%
High Yield	2.00%	5.95%
Private Credit	8.00%	7.59%
Investment Grade Credit	8.00%	2.67%
Cash Equivalents	4.00%	0.50%
U.S. Treasuries	5.00%	1.94%
Risk Mitigation Strategies	3.00%	3.40%

HOUSING AUTHORITY OF THE BOROUGH OF HIGHLANDS
NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2021

NOTE 10. PENSION PLAN (continued)

G. Discount Rate

The discount rate used to measure the total pension liability was 7.00% as of June 30, 2020. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contributions from employers and the nonemployer contributing entity will be based on 78% of the actuarially determined contributions for the State employer and 100% of the actuarially determined contributions for the local employers. Based on those assumptions, the plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all projected benefit payments to determine the total pension liability.

H. 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 calculated using the discount rate of 7 percent, 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 (6 percent) or 1 percentage point higher (8 percent) than the current rate.

	1% Decrease <u>(6.00%)</u>	Discount Rate <u>(7.00%)</u>	1% Increase <u>(8.00%)</u>
Authority's proportionate share of the net pension liability	\$ <u>406,172</u>	\$ <u>320,140</u>	\$ <u>251,793</u>

NOTE 11. OTHER POST EMPLOYMENT BENEFITS PLAN

The information required to present the schedule of changes in net OPEB liability was not available as of June 30, 2021 and the date of this report. The net OPEB liability and deferred inflow and outflow amounts have not been accrued for the current fiscal year. The information needed in order to reflect the June 30, 2021 balances for the net OPEB liability, deferred inflows, and deferred outflows was unavailable as of the date of this report.

In September 2019, the Authority elected to have retirees participate in the New Jersey State Health Benefits Program (the "SHBP"). The SHBP qualifies as a cost-sharing, multiple-employer plan in accordance with GASB 75. The SHBP is administered by the State of New Jersey, Department of Treasury, Division of Pension and Benefits.

Under the SHBP, retirees may continue the health benefits programs in which they are enrolled at the time of retirement, provided the retiree pays the costs of the benefits (at group rates) for themselves and their eligible dependents.

A retiree may also receive Authority-paid health benefits in accordance with labor agreements if they have twenty-five (25) or more years enrolled in the pension system.

HOUSING AUTHORITY OF THE BOROUGH OF HIGHLANDS
NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2021

NOTE 11. OTHER POST EMPLOYMENT BENEFITS PLAN (continued)

The State of New Jersey, Department of the Treasury, Division of Pensions and Benefits, issues publicly available financial reports that include the financial statements and required supplementary information of the SHBP. The financial reports may be obtained by writing to the State of New Jersey, Department of the Treasury, Division of Pensions and Benefits, P.O. Box 295, Trenton, New Jersey 08625-0295.

The SHBP is established under the authority of N.J.S.A. 52:14-17.25 et seq. and regulations adopted by the State Health Benefits Commission. As previously disclosed in Note 1, since the Authority elected to permit retirees to participate in the plan in September 2019, there was no Postemployment liability attributed to the Authority as of June 30, 2020.

NOTE 12. RESTRICTED NET POSITION

As of June 30, 2021, restricted net position consisted of the following:

<u>Description</u>	<u>Amount</u>
Debt service escrows	\$ 2,038
Reserve for replacements escrows	<u>625,397</u>
Total restricted net position	<u>\$ 627,435</u>

Debt service escrows are required to be set aside for future debt payments.

Reserve for replacements escrows are required to be set aside for future project expenditures in accordance with the Authority's RAD Conversion Commitment.

NOTE 13. CONTINGENCIES

The Authority receives financial assistance from HUD in the form of grants and subsidies. Entitlement to the funds is generally conditional upon compliance with terms and conditions of the grant agreements and applicable regulations, including the expenditure of the funds for eligible purposes. Substantially all grants, entitlements and cost reimbursements are subject to financial and compliance audits by HUD. As a result of these audits, costs previously reimbursed could be disallowed and require payments to HUD.

As of June 30, 2021, the Authority estimates that no material liabilities will result from such audits.

Vulnerability – Impact of COVID-19

The severity of the impact of COVID-19 on the Authority's operations will depend on a number of factors, including, but not limited to, the duration and severity of the pandemic and the extent and severity of the impact on the Authority's tenants, all of which are uncertain and cannot be predicted. The Authority's future results could be adversely impacted by delays in rent collections as well as grant reimbursements. Management is unable to predict with absolute certainty the impact of COVID-19 on its financial condition, results of operations or cash flows.

HOUSING AUTHORITY OF THE BOROUGH OF HIGHLANDS
NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2021

NOTE 14. SUBSEQUENT EVENTS

Events that occur after the financial statement date but before the financial statements were available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the financial statement date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the financial statement date require disclosure in the accompanying notes to the financial statements. Management evaluated the activity of the Authority through January 31, 2022 (the date the financial statements were available to be issued) and concluded that no subsequent events have occurred that would require recognition in the financial statements or disclosure in the notes to the financial statements.

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

To the Board of Directors of the
Housing Authority of the Borough of Highlands:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States 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 (the "Authority"), as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated January 31, 2022.

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) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the 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. 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Novogradac & Company LLP

January 31, 2022
Toms River, New Jersey

SUPPLEMENTARY INFORMATION

**HOUSING AUTHORITY OF THE BOROUGH OF HIGHLANDS
SCHEDULE OF FEDERAL AWARDS, FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2021**

I. Federal Awards

For the year ended June 30, 2021, the Authority received federal funding under the following programs:

<u>Federal Grantor / Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass- through Identifying Number</u>	<u>Grant Expenditures</u>
U.S. Department of Housing and Urban Development:			
Section 8 Project-Based Cluster:			
Section 8 Housing Assistance Payments Program	14.195	N/A	\$ 581,796
Moderate Rehabilitation - CARES Act	14.MRC	N/A	<u>15,800</u>
Total Expenditures of Federal Awards			<u>\$ 597,596</u>

II. Financial Statement Findings

There were no findings relating to the financial statements which are required to be reported in accordance with *Government Auditing Standards*.

III. Schedule of Prior Year Audit Findings

There were no findings or questioned costs in the prior year.

**HOUSING AUTHORITY OF THE BOROUGH OF HIGHLANDS
REQUIRED PENSION INFORMATION
FOR THE YEAR ENDED JUNE 30, 2021**

SCHEDULE OF AUTHORITY CONTRIBUTIONS FOR THE LAST TEN FISCAL YEARS***

	June 30, <u>2014</u>	June 30, <u>2015</u>	June 30, <u>2016</u>	June 30, <u>2017</u>	June 30, <u>2018</u>
Contractually required contribution	\$ 20,650	\$ 19,241	\$ 22,959	\$ 15,943	\$ 17,239
Contributions in relation to the contractually required contribution	<u>20,650</u>	<u>19,241</u>	<u>22,959</u>	<u>15,943</u>	<u>17,239</u>
(Over) / under funded	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Authority's covered-employee payroll	<u>\$ 181,398</u>	<u>\$ 120,702</u>	<u>\$ 126,674</u>	<u>\$ 134,475</u>	<u>\$ 137,256</u>
Contributions as a percentage of covered-employee payroll	<u>11.38 %</u>	<u>15.94 %</u>	<u>18.12 %</u>	<u>11.86 %</u>	<u>12.56 %</u>
	June 30, <u>2019</u>	June 30, <u>2020</u>	June 30, <u>2021</u>		
Contractually required contribution	\$ 19,060	\$ 18,789	\$ 21,476		
Contributions in relation to the contractually required contribution	<u>19,060</u>	<u>18,789</u>	<u>21,476</u>		
(Over) / under funded	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>		
Authority's covered-employee payroll	<u>\$ 199,202</u>	<u>\$ 201,795</u>	<u>\$ 213,879</u>		
Contributions as a percentage of covered-employee payroll	<u>9.57 %</u>	<u>9.31 %</u>	<u>10.04 %</u>		

*** = Until a full 10 year trend is compiled the Authority is presenting information for those years that are available.

**HOUSING AUTHORITY OF THE BOROUGH OF HIGHLANDS
REQUIRED PENSION INFORMATION (continued)
FOR THE YEAR ENDED JUNE 30, 2021**

**SCHEDULE OF THE AUTHORITY'S PROPORTIONATE SHARE OF THEIR NET PENSION LIABILITY
FOR THE LAST TEN FISCAL YEARS*****

	June 30, <u>2014</u>	June 30, <u>2015</u>	June 30, <u>2016</u>	June 30, <u>2017</u>	June 30, <u>2018</u>
Authority's proportion of the net pension liability	<u>0.0027</u> %	<u>0.0023</u> %	<u>0.0027</u> %	<u>0.0018</u> %	<u>0.0019</u> %
Authority's proportionate share of the net pension liability	\$ <u>523,787</u>	\$ <u>436,985</u>	\$ <u>599,470</u>	\$ <u>531,510</u>	\$ <u>433,181</u>
Authority's covered-employee payroll	\$ <u>181,398</u>	\$ <u>120,702</u>	\$ <u>126,674</u>	\$ <u>134,475</u>	\$ <u>137,256</u>
Authority's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	<u>288.75</u> %	<u>362.04</u> %	<u>473.24</u> %	<u>395.25</u> %	<u>315.60</u> %
Plan fiduciary net position as a percentage of the total pension liability	<u>48.72</u> %	<u>52.08</u> %	<u>47.93</u> %	<u>40.14</u> %	<u>47.93</u> %
	June 30, <u>2019</u>	June 30, <u>2020</u>	June 30, <u>2021</u>		
Authority's proportion of the net pension liability	<u>0.0019</u> %	<u>0.0019</u> %	<u>0.0020</u> %		
Authority's proportionate share of the net pension liability	\$ <u>377,290</u>	\$ <u>348,049</u>	\$ <u>320,140</u>		
Authority's covered-employee payroll	\$ <u>199,202</u>	\$ <u>201,795</u>	\$ <u>213,879</u>		
Authority's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	<u>189.40</u> %	<u>172.48</u> %	<u>149.68</u> %		
Plan fiduciary net position as a percentage of the total pension liability	<u>48.10</u> %	<u>56.30</u> %	<u>42.51</u> %		

*** = Until a full 10 year trend is compiled the Authority is presenting information for those years that are available.

See Report of Independent Auditors.

SUPPLEMENTARY DATA REQUIRED BY HUD

HOUSING AUTHORITY OF THE BOROUGH OF HIGHLANDS
STATEMENT OF FINANCIAL POSITION DATA
JUNE 30, 2021

Account
Number

ASSETS

CURRENT ASSETS

1120	Cash	\$ 841,276
1130	Tenant accounts receivable	<u>5,492</u>
1100T	Total current assets	<u>846,768</u>
1191	Tenant deposits held in trust	<u>46,350</u>

RESTRICTED DEPOSITS

1310	Escrow deposits	2,038
1320	Replacement reserve	<u>625,397</u>
1300T	Total deposits	<u>627,435</u>

PROPERTY AND EQUIPMENT

1410	Land	54,433
1420	Building	10,388,327
1460	Furnishings	<u>124,464</u>
1400T	Total fixed assets	10,567,224
1495	Accumulated depreciation	<u>(7,888,290)</u>
1400N	Net fixed assets	<u>2,678,934</u>
1590	Miscellaneous other assets	<u>62,755</u>
1500T	Total other assets	<u>62,755</u>
1000T	Total assets	<u>\$ 4,262,242</u>

HOUSING AUTHORITY OF THE BOROUGH OF HIGHLANDS
STATEMENT OF FINANCIAL POSITION DATA (continued)
JUNE 30, 2021

Account
Number

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

2110	Accounts payable - operations	\$	15,898
2120	Accrued wages		15,165
2150	Accrued property taxes		39,806
2160	Loan payable - short term		25,940
2210	Prepaid revenue		<u>342</u>
2122T	Total current liabilities		<u>97,151</u>
2191	Tenant deposits held in trust		<u>46,350</u>
2310	Loan payable - long term		406,221
2390	Miscellaneous long-term liabilities		<u>473,119</u>
2300T	Total long term liabilities		<u>879,340</u>
2000T	Total liabilities		<u>1,022,841</u>

NET ASSETS

3131	Net assets without donor restrictions		<u>3,239,401</u>
3130	Total net assets		<u>3,239,401</u>
2033T	Total liabilities and net assets	\$	<u><u>4,262,242</u></u>

HOUSING AUTHORITY OF THE BOROUGH OF HIGHLANDS
STATEMENT OF ACTIVITIES DATA
FOR THE YEAR ENDED JUNE 30, 2021

Account
Number

REVENUES

5120	Rent revenue - gross potential	\$ 621,828
5121	Tenant assistance payments	<u>581,796</u>
5100T	Total rent revenue	<u>1,203,624</u>
5410	Financial revenue - operations	1,613
5440	Revenue from investments - reserve for replacements	<u>1,010</u>
5400T	Total financial revenue	<u>2,623</u>
5910	Laundry and vending revenue	5,033
5920	Tenant charges	7,042
5990	Miscellaneous	<u>47,600</u>
5900T	Total other revenue	<u>59,675</u>
5000T	Total revenue	<u>1,265,922</u>

EXPENSES

6210	Advertising and marketing	476
6250	Other renting expenses	1,045
6310	Office salaries	116,887
6311	Office expenses	15,530
6320	Management fee	52,402
6340	Legal expense - project	11,110
6350	Audit expense	8,500
6351	Bookkeeping fee / accounting services	22,003
6390	Miscellaneous administrative expenses	<u>132,310</u>
6263T	Total administrative expenses	<u>360,263</u>

HOUSING AUTHORITY OF THE BOROUGH OF HIGHLANDS
STATEMENT OF ACTIVITIES DATA (continued)
FOR THE YEAR ENDED JUNE 30, 2021

Account
Number

EXPENSES (continued)

6450	Electricity	\$ 54,512
6451	Water	34,278
6452	Gas	62,992
6453	Sewer	<u>71,990</u>
6400T	Total utilities expense	<u>223,772</u>
6510	Payroll	96,992
6515	Supplies	2,186
6520	Contracts	101,715
6525	Garbage and trash	1,272
6546	Heating repairs and maintenance	34,589
6548	Snow removal	429
6570	Vehicle and maintenance equipment	1,088
6590	Miscellaneous operating and maintenance	<u>21,411</u>
6500T	Total operating and maintenance expenses	<u>259,682</u>
6710	Real estate taxes	39,806
6711	Payroll taxes	17,162
6720	Property and liability insurance	20,846
6721	Fidelity bond	1,459
6722	Workmen's compensation	1,252
6723	Health insurance and other benefits	26,206
6790	Miscellaneous, taxes, licenses, permits and insurance	<u>25,213</u>
6700T	Total taxes and insurance	<u>131,944</u>
6840	Interest on notes payable	<u>24,474</u>
6800T	Total financial expenses	<u>24,474</u>
6000T	Total cost of operations before depreciation	<u>1,000,135</u>
5060T	Profit before depreciation	265,787
6600	Depreciation expense	<u>295,288</u>
5060N	Operating profit	<u>(29,501)</u>
3247	Change in net assets without donor restrictions	<u>(29,501)</u>
3250	Change in total net assets from operations	<u>\$ (29,501)</u>

HOUSING AUTHORITY OF THE BOROUGH OF HIGHLANDS
STATEMENT OF ACTIVITIES DATA (continued)
FOR THE YEAR ENDED JUNE 30, 2021

<u>Account Number</u>		
S1000-010	Total loan principal payments required during the year.	\$ <u>24,521</u>
S1000-020	Total of 12 monthly deposits during the year into the replacement reserve account, as required by the regulatory agreement.	\$ <u>44,650</u>
S1000-030	Replacement reserve or residual receipts releases, which are included as expense items on this profit and loss statement.	\$ <u>-</u>
S1000-040	Project improvement reserve releases under the flexible subsidy program that are included as expense items on this profit and loss statement.	\$ <u>-</u>
S1100-060 3247	Previous year net assets without donor restrictions Change in net assets without donor restrictions	\$ 3,268,902 <u>(29,501)</u>
3131	Net assets without donor restrictions	\$ <u>3,239,401</u>
S1100-050 3250	Previous year total net assets Change in total net assets from operations	\$ 3,268,902 <u>(29,501)</u>
3130	Total net assets	\$ <u>3,239,401</u>

**HOUSING AUTHORITY OF THE BOROUGH OF HIGHLANDS
STATEMENT OF CASH FLOWS DATA
FOR THE YEAR ENDED JUNE 30, 2021**

Account
Number

Cash flows from operating activities:

S1200-010	Rental receipts	\$ 1,188,525
S1200-020	Interest receipts	2,623
S1200-030	Other operating receipts	<u>59,675</u>
S1200-040	Total receipts	<u>1,250,823</u>
S1200-050	Administrative	(257,575)
S1200-070	Management fees	(52,402)
S1200-090	Utilities	(223,772)
S1200-100	Salaries and wages	(115,936)
S1200-110	Operating and maintenance	(259,682)
S1200-120	Real estate taxes	(17,162)
S1200-140	Property insurance	(20,846)
S1200-150	Miscellaneous taxes and insurance	(54,130)
S1200-170	Other operating expenses	(16,845)
S1200-180	Interest on mortgage	<u>(24,474)</u>
S1200-230	Total disbursements	<u>(1,042,824)</u>
S1200-240	Net cash provided by operating activities	<u>207,999</u>

Cash flows from investing activities:

S1200-245	Net deposits to the mortgage escrow account	542
S1200-250	Net deposits to the reserve for replacements	(45,660)
S1200-330	Purchases of property and equipment	<u>(217,178)</u>
S1200-350T	Net cash used in investing activities	<u>(262,296)</u>

Cash flows from financing activities:

S1200-360	Principal payments - mortgage	<u>(24,521)</u>
S1200-460	Net cash used in financing activities	<u>(24,521)</u>
S1200-470	Net decrease in cash and cash equivalents	(78,818)
S1200-480	Cash - beginning of period	<u>920,094</u>
S1200T	Cash - end of period	<u>\$ 841,276</u>

HOUSING AUTHORITY OF THE BOROUGH OF HIGHLANDS
STATEMENT OF CASH FLOWS DATA (continued)
FOR THE YEAR ENDED JUNE 30, 2021

<u>Account Number</u>			
	Reconciliation of change in net assets to net cash provided by operating activities:		
3250	Change in net assets	\$	(29,501)
	Adjustments used to reconcile the change in net assets to net cash provided by operating activities:		
6600	Depreciation expense		295,288
S1200-500	Account receivable		993
S1200-530	Tenant security deposits		5,988
S1200-540	Accounts payable		(8,439)
S1200-560	Accrued expenses		2,968
	Miscellaneous current liabilities		(37,218)
S1200-580	Decrease in tenant security deposits held in trust		(5,988)
S1200-590	Deferred rent		<u>(16,092)</u>
S1200-610	Net cash provided by operating activities	\$	<u><u>207,999</u></u>

**HOUSING AUTHORITY OF THE BOROUGH OF HIGHLANDS
COMPUTATION OF SURPLUS CASH AND
SCHEDULE OF RESERVES FOR REPLACEMENTS
FOR THE YEAR ENDED JUNE 30, 2021**

Computation of Surplus Cash

S1300-010	Cash	\$ <u>887,626</u>
S1300-040	Total cash	<u>887,626</u>
	Current obligations:	
S1300-075	Accounts payable due within 30 days	16,274
S1300-100	Accrued expenses	54,971
2210	Prepaid revenue	342
2191	Tenant security deposits	<u>46,350</u>
S1300-140	Total current obligations	<u>117,937</u>
S1300-210	Surplus cash	<u>\$ 769,689</u>

Schedule of Reserves for Replacements

1320P	Balance at the beginning of year	\$ 579,737
1320DT	Total monthly deposits	44,650
1320INT	Interest income	<u>1,010</u>
1320	Balance at end of year	<u>\$ 625,397</u>
1320R	Deposits Suspended or Waived Indicator	<u>No</u>

**HOUSING AUTHORITY OF THE BOROUGH OF HIGHLANDS
SCHEDULE OF CHANGES IN FIXED ASSET ACCOUNTS
FOR THE YEAR ENDED JUNE 30, 2021**

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>
Land	\$ 54,433	\$ -	\$ -	\$ 54,433
Building	10,171,149	242,223	(25,045)	10,388,327
Furnishings	<u>124,464</u>	<u>-</u>	<u>-</u>	<u>124,464</u>
Total	10,350,046	242,223	(25,045)	10,567,224
Accumulated depreciation	<u>7,593,002</u>	<u>295,288</u>	<u>-</u>	<u>7,888,290</u>
Net book value	<u>\$ 2,757,044</u>	<u>\$ (53,065)</u>	<u>\$ (25,045)</u>	<u>\$ 2,678,934</u>

See Report of Independent Auditors.

**HOUSING AUTHORITY OF THE BOROUGH OF HIGHLANDS
CERTIFICATION OF MORTGAGOR
FOR THE YEAR ENDED JUNE 30, 2021**

I hereby certify that I have examined the accompanying financial statements and supplementary information of the Housing Authority of the Borough of Highlands and, to the best of my knowledge and belief, the same are accurate and complete.



Douglas Dzema, Executive Director
Housing Authority of the Borough of Highlands
January 31, 2022



Tom Furlong
Housing Authority of the Borough of Highlands
January 31, 2022

Federal ID No.: 21-6001673

**HOUSING AUTHORITY OF THE BOROUGH OF HIGHLANDS
MANAGEMENT AGENT'S CERTIFICATION
FOR THE YEAR ENDED JUNE 30, 2021**

I hereby certify that I have examined the accompanying financial statements and supplementary information of the Housing Authority of the Borough of Highlands and, to the best of my knowledge and belief, the same are accurate and complete.



Douglas Dzernia, Executive Director
Housing Authority of the Borough of Highlands
January 31, 2022



Renee DeMarco, Property Manager
Housing Authority of the Borough of Highlands
January 31, 2022

Federal ID No.: 21-6001673