

HOUSING AUTHORITY OF THE BOROUGH OF KEANSBURG

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

FOR THE YEAR ENDED SEPTEMBER 30, 2018

**WITH
REPORT OF INDEPENDENT AUDITORS**

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FOR THE YEAR ENDED SEPTEMBER 30, 2018**

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REPORT OF INDEPENDENT AUDITORS

To the Board of Commissioners of
Housing Authority of the Borough of Keansburg:

Report on the Financial Statements

We have audited the accompanying financial statements of the Housing Authority of the Borough of Keansburg (the "Authority") as of and for the year ended September 30, 2018, 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.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position of the Authority as of September 30, 2018, 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.

Emphasis of Matter

Change of Accounting Principle

As discussed in Note 10 to the financial statements, during the year ended September 30, 2018, the Authority adopted GASB 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pension Plans*. We did not modify our opinion regarding this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and 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 financial statements. The schedule of expenditures of federal awards is presented for the purpose 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* and is not a required part of the financial statements. The accompanying financial data schedule is also not a required part of the basic financial statements and is presented for the purposes of additional analysis as required by the U.S. Department of Housing and Urban Development.

The schedule of expenditures of federal awards and financial data schedule 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. In our opinion, the schedule of expenditures of federal awards and financial data schedule are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 30, 2019 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

July 30, 2019
Toms River, New Jersey

MANAGEMENT'S DISCUSSION AND ANALYSIS

HOUSING AUTHORITY OF THE BOROUGH OF KEANSBURG
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2018

As Management of the Housing Authority of the Borough of Keansburg (the "Authority"), we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal year ended September 30, 2018. 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 and deferred outflows of resources of the Authority exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$65,609 (net position) as opposed to \$803,845 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 (deficit) of (\$835,175), a decrease of \$633,755 from the prior fiscal year.
3. The Authority's cash and cash equivalents (including restricted cash) at September 30, 2018 totaled \$499,710 representing a decrease of \$5,955 from the prior fiscal year.
4. The Authority had total operating revenues of \$4,597,195 and total operating expenses of \$4,662,594 (including depreciation of \$98,438) for the year ended September 30, 2018.
5. The Authority's expenditures of federal awards amounted to \$4,285,438 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 basic financial statements. The Authority's basic financial statements and Notes to Financial Statements included in this Report were prepared in accordance with GAAP applicable to governmental entities in the United States of America for Proprietary Fund types.

2. Financial Statements

The financial statements are designed to provide readers with a broad overview of the Authority's finances, in a manner similar to a private-sector business.

**HOUSING AUTHORITY OF THE BOROUGH OF KEANSBURG
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2018**

B. Using the Annual Report (continued)

2. Financial Statements (continued)

They consist of 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 of resources and liabilities and deferred inflows of resources, 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 presents 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 presents relevant information about the Authority's cash receipts and cash payments during the year.

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 11 through 15.

3. Notes to Financial Statements

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

4. Supplemental Information

The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance), Audits of States, Local Governments, and Non-Profit Organizations. The Schedule of Expenditures of Federal Awards can be found on page 40 of this report.

**HOUSING AUTHORITY OF THE BOROUGH OF KEANSBURG
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2018**

C. The Authority as a Whole

The Authority's net position decreased during the fiscal year as detailed on page 7. The Authority's revenues are primarily subsidies and grants received from HUD. The Authority receives subsidies each month based on an amount pre-approved by HUD. Grants are drawn down based on need against a pre-authorized funding level.

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.

Significant Changes from September 30th, 2017 to September 30th, 2018

Cash and other current assets increased \$18,768 as the Authority's unrestricted cash and cash equivalents increased \$19,519.

Restricted cash decreased \$26,043 as the Authority was overfunded in the Section 8 Housing Choice Vouchers program during the prior fiscal year. The funds are restricted to pay tenant rents.

Capital assets, net decreased \$98,438, which represented the annual depreciation expense.

Total liabilities and deferred inflows of resources increased \$270,794, deferred outflows of resources increased \$324,543, the Authority's net pension liability decreased \$184,280, and the Authority's net OPEB liability was first recorded during FY18 in the amount of \$605,045. The changes are the result of the Authority recording the results of the State of New Jersey's actuarial valuation of the State of New Jersey Public Employees Retirement System and OPEB Plan.

HUD operating grants decreased from \$3,412,558 in 2017 to \$3,372,067 in 2018 or \$40,491. Specifically, Public and Indian Housing Program grant revenues decreased \$21,662 and; the portion of the Authority's capital fund that it uses for operations decreased \$16,932.

Other revenues increased \$47,120 from 2017 to 2018 primarily due to the Authority servicing more portable tenants in the Section 8 Housing Choice Vouchers program.

**HOUSING AUTHORITY OF THE BOROUGH OF KEANSBURG
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2018**

C. The Authority as a Whole (continued)

**Significant Changes from September 30th, 2017 to September 30th, 2018
(continued)**

Total operating expenses (excluding depreciation and housing assistance payments) decreased from \$886,524 in 2017 to \$829,297 in 2018 or \$57,227. This decrease was primarily due to decreases in office expenses (\$35,907), ordinary maintenance and operating materials (\$10,392) and ordinary maintenance and operating contracts (\$32,019), which were offset by increases in miscellaneous other administrative expenses (\$68,384).

Computation of Net Position is as follows:

	September 30,		Variance	% Change
	2018	2017		
Cash and Other Current Assets	\$ 501,523	\$ 482,755	\$ 18,768	3.89%
Restricted Cash	15,207	41,250	(26,043)	-63.13%
Capital Assets, Net	1,035,577	1,134,015	(98,438)	-8.68%
Deferred Outflows of Resources	492,553	168,010	324,543	193.17%
Total Assets and Deferred Outflows	2,044,860	1,826,030	218,830	11.98%
Less: Total Liabilities and Deferred Inflows of Resources	1,979,251	1,708,457	270,794	15.85%
Net Position	\$ 65,609	\$ 117,573	\$ (51,964)	-44.20%
Net Investment in Capital Assets	\$ 885,577	\$ 964,015	\$ (78,438)	-8.14%
Restricted Net Position	15,207	41,250	(26,043)	-63.13%
Unrestricted Net Position (Deficit)	(835,175)	(201,420)	(633,755)	314.64%
Total Net Position	\$ 65,609	\$ 803,845	\$ (738,236)	-91.84%

**HOUSING AUTHORITY OF THE BOROUGH OF KEANSBURG
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2018**

C. The Authority as a Whole (continued)

Computations of the Changes in Net position is as follows:

	September 30,		Variance	% Change
	2018	2017		
<u>Operating revenues:</u>				
Tenant Revenues	\$ 311,341	\$ 303,103	\$ 8,238	2.72%
HUD Operating Grants	3,372,067	3,412,558	(40,491)	-1.19%
Other Revenues	913,787	866,667	47,120	5.44%
Total Revenues	4,597,195	4,582,328	14,867	0.32%
<u>Operating Expenses:</u>				
Other Operating Expenses	829,297	886,524	(57,227)	-6.46%
Housing Assistance Payments	3,734,859	3,634,846	100,013	2.75%
Depreciation	98,438	98,664	(226)	-0.23%
Total Operating Expenses	4,662,594	4,620,034	42,560	0.92%
Operating Income/(Loss)	(65,399)	(37,706)	(27,693)	73.44%
<u>Other Revenues (Expense):</u>				
Interest Expense	(7,609)	(8,374)	765	-9.14%
Interest Income	1,044	933	111	11.90%
Capital Grants	20,000	34,337	(14,337)	-41.75%
Net Other Revenue	13,435	26,896	(13,461)	-50.05%
Change in Net Position	(51,964)	(10,810)	(41,154)	380.70%
Net Position, Beginning of Year	803,845	814,655	(10,810)	-1.33%
Change in Accounting Principle - Adoption of GASB 75	(686,272)	-	(686,272)	-100.00%
Net Position, Beginning of Year (as restated)	117,573	814,655	(697,082)	100.00%
Net Position, End of Year	\$ 65,609	\$ 803,845	\$ (51,964)	-6.46%

**HOUSING AUTHORITY OF THE BOROUGH OF KEANSBURG
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2018**

D. Budgetary Highlights

For the year ended September 30, 2018, individual program or grant budgets were prepared by the Authority and were approved by the Board of Commissioners. Also, the Authority adopted a comprehensive annual budget for the entity as a whole. The budgets were prepared in accordance with the accounting procedures prescribed by the applicable funding agency.

As indicated by the negative change in net position the Authority's net position decreased during the fiscal year.

E. Capital Assets and Debt Administration

1. Capital Assets

As of September 30, 2018, the Authority's capital assets for its Proprietary Fund totaled \$1,035,577 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment and construction in progress.

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

In December 2004, the Authority financed a portion of their future capital fund allocation through participation in a debt leveraging pool with various Housing Authorities in the State of New Jersey. The Capital Fund Program Revenue Bonds 2004 Series A "the Bonds" were sponsored by the New Jersey Housing and Mortgage Finance Agency. The leveraging provided the Authority with \$281,990 after closing costs to be used to fund various capital improvements throughout the Authority. The debt service on the bonds will be paid from future capital grants funded by the United States Department of Housing and Urban Development. The bonds began to mature in November 2005 and continue to be paid through November 2025. Bonds maturing during the fiscal year ended September 30, 2018 amounted to \$20,000.

**HOUSING AUTHORITY OF THE BOROUGH OF KEANSBURG
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2018**

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

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

1. The need for Congress to fund the war on terrorism, the Federal budget deficit and the possible cut-back on HUD subsidies and grants.
2. The availability of program reserves to fund any shortfalls rising from a possible economic turndown and reduced subsidies and grants. The Authority's liquidity in the HCV program and the LRP program 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 Dzema, Executive Director, Housing Authority of the Borough of Keansburg, 1 Church St., Keansburg, NJ 07734.

FINANCIAL STATEMENTS

HOUSING AUTHORITY OF THE BOROUGH OF KEANSBURG
STATEMENT OF NET POSITION
AS OF SEPTEMBER 30, 2018

ASSETS

Current assets:		
Cash and cash equivalents	\$	460,112
Tenant security deposits		24,391
Accounts receivable, net		2,395
Prepaid expenses		<u>14,625</u>
Total current assets		<u>501,523</u>
Non-current assets:		
Restricted cash		15,207
Capital assets, net		<u>1,035,577</u>
Total non-current assets		<u>1,050,784</u>
Total assets		<u>1,552,307</u>

DEFERRED OUTFLOWS OF RESOURCES

State of New Jersey P.E.R.S.		98,176
State of New Jersey S.H.B.P.		<u>394,377</u>
Total deferred outflows of resources		<u>492,553</u>
Total assets and deferred outflows of resources	\$	<u>2,044,860</u>

See accompanying notes to financial statements.

HOUSING AUTHORITY OF THE BOROUGH OF KEANSBURG
STATEMENT OF NET POSITION (continued)
AS OF SEPTEMBER 30, 2018

LIABILITIES

Current liabilities:	
Accounts payable	\$ 40,568
Accrued wages and payroll taxes	34,083
Accrued compensated absences, current portion	4,218
Tenant security deposits	24,391
Prepaid tenant rent	16,429
Current portion of revenue bonds	<u>20,000</u>
Total current liabilities	<u>139,689</u>
Non-current liabilities:	
Revenue bonds, net of current portion	130,000
Accrued compensated absences, net of current portion	2,697
Net OPEB liability	605,045
Net pension liability	<u>327,803</u>
Total non-current liabilities	<u>1,065,545</u>
Total liabilities	<u>1,205,234</u>

DEFERRED INFLOWS OF RESOURCES

State of New Jersey P.E.R.S.	293,102
State of New Jersey S.H.B.P.	<u>480,915</u>
Total deferred inflows of resources	<u>774,017</u>

NET POSITION

Net position (deficit):	
Net investment in capital assets	885,577
Restricted	15,207
Unrestricted (deficit)	<u>(835,175)</u>
Total net position	<u>\$ 65,609</u>

See accompanying notes to financial statements.

**HOUSING AUTHORITY OF THE BOROUGH OF KEANSBURG
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN NET POSITION
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

Operating revenues:	
Tenant revenue	\$ 311,341
HUD operating grants	3,372,067
Other revenues	<u>913,787</u>
Total operating revenue	<u>4,597,195</u>
Operating expenses:	
Administrative	328,800
Tenant services	3,094
Utilities	224,258
Ordinary repairs and maintenance	204,709
Insurance and other general	68,436
Housing assistance payments	3,734,859
Depreciation	<u>98,438</u>
Total operating expenses	<u>4,662,594</u>
Operating loss	<u>(65,399)</u>
Non-operating revenues (expenses):	
Interest expense	(7,609)
Interest income	<u>1,044</u>
Net non-operating (expenses)	<u>(6,565)</u>
Loss before capital grants	(71,964)
Capital grants	<u>20,000</u>
Change in net position	(51,964)
Total net position, beginning of year	<u>803,845</u>
Change in accounting principle - adoption of GASB 75	(686,272)
Net position, beginning of year (as restated)	<u>117,573</u>
Total net position, end of year	<u>\$ 65,609</u>

See accompanying notes to financial statements.

HOUSING AUTHORITY OF THE BOROUGH OF KEANSBURG
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 2018

Cash Flows from Operating Activities:	
Cash received from tenants	\$ 1,244,408
Cash received from grantors	3,372,067
Cash paid to employees	(339,480)
Cash paid to vendors	<u>(4,276,385)</u>
Net cash provided by operating activities	<u>610</u>
Cash Flows from Capital and Related Financing Activities:	
Interest paid on capital debt	(7,609)
Principal payments on long term debt	(20,000)
Proceeds from capital grants	<u>20,000</u>
Net cash used in capital and related financing activities	<u>(7,609)</u>
Cash Flows from Investing Activities:	
Interest received	<u>1,044</u>
Net cash provided by investing activities	<u>1,044</u>
Net decrease in cash and cash equivalents	(5,955)
Cash and cash equivalents, beginning of year	<u>505,665</u>
Cash and cash equivalents, end of year	<u><u>\$ 499,710</u></u>
Reconciliation of cash and cash equivalents to the Statement of Net Position is as follows:	
Cash and cash equivalents	\$ 460,112
Tenant security deposits	24,391
Restricted cash	<u>15,207</u>
	<u><u>\$ 499,710</u></u>

See accompanying notes to financial statements.

HOUSING AUTHORITY OF THE BOROUGH OF KEANSBURG
STATEMENT OF CASH FLOWS (continued)
FOR THE YEAR ENDED SEPTEMBER 30, 2018

Reconciliation of operating loss to net cash
provided by operating activities:

Operating loss	\$	(65,399)
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Adjustments to reconcile operating loss to net cash
provided by operating activities:

Depreciation		98,438
Bad debt expense		210

Changes in assets and liabilities:

Accounts receivable - tenants		(420)
Accounts receivable - miscellaneous		2,779
Prepaid expenses		(1,249)
Accounts payable		18,978
Accrued wages and payroll taxes		2,280
Accrued compensated absences		(17,744)
Tenant security deposits		569
Prepaid tenant rent		16,142
Deferred inflows of resources		536,076
Deferred outflows of resources		(324,543)
Net pension liability		(184,280)
Net OPEB liability		(81,227)

Net cash provided by operating activities	\$	<u>610</u>
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See accompanying notes to financial statements.

HOUSING AUTHORITY OF THE BOROUGH OF KEANSBURG
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization

The Housing Authority of the Borough of Keansburg (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 Public and Indian Housing Program and other programs with similar objectives for low and moderate income families residing in the Borough of Keansburg. 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 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 on a fund basis. Each program is accounted for by a separate set of self-balancing accounts that comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, 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* ("GASB 34"), as amended. 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 KEANSBURG
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

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*, ("GASB 33") 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.

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

Both administrative fee and HAP revenue continue to be recognized under the guidelines set forth in GASB 33. Accordingly, both the time and purpose restrictions, as defined by GASB 33, are met when these funds are available and measurable, not when these funds are expended. The Section 8 Housing Choice Vouchers program is no longer a cost reimbursement grant; therefore, the Authority recognizes unspent administrative fee and HAP revenue in the reporting period as revenue for financial statement reporting.

In accordance with 2 CFR 200.305(b)(9), any investment income earned up to \$500 on these funds may be retained by the Authority. Amounts in excess of \$500 must be remitted annually to the Department of Health and Human Services, Payment Management System.

The Authority adopted GASB 68, *Accounting and Financial Reporting for Pensions* ("GASB 68"). GASB 68 established standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenditures associated with pension plans of State and Local Governments. For defined benefit pensions, GASB 68 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 68 details the recognition and disclosure requirements for employers with liabilities to a defined benefit pension plan and for employers whose employees are provided with defined contribution pensions.

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.

HOUSING AUTHORITY OF THE BOROUGH OF KEANSBURG
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Reporting Entity

In accordance with GASB 61, *The Financial Reporting Entity Omnibus - An Amendment of GASB Statements No. 14 and No. 34*, the Authority's basic financial statements include those of the Authority and any component units. Component units are legally separate 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 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.

D. Description of Programs

The Authority maintains its accounting records by program. A summary of the significant programs operated by the Authority is as follows:

Public and Indian Housing Program

The Public and Indian Housing program is designed to provide low-cost housing within the Borough of Keansburg. 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.

Section 8 Housing Choice Vouchers

The Authority administers a program of rental assistance payments to private owners on behalf of eligible low-income families under Section 8 of the Housing and Urban Development Act of 1974. The program provides payments covering the difference between the maximum rental on a dwelling unit, as approved by HUD, and the amount of rent contribution by a participating family.

Public Housing Capital Fund Program

The purpose of the Public Housing 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.

HOUSING AUTHORITY OF THE BOROUGH OF KEANSBURG
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. 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 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 and other liabilities, depreciable lives of properties and equipment, and contingencies. Actual results could differ significantly from these estimates.

F. 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 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 GUDPA.

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.

For the Statement of Cash Flows, cash and cash equivalents include all cash balances and highly liquid investments with a maturity of three months or less at time of purchase.

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

HOUSING AUTHORITY OF THE BOROUGH OF KEANSBURG
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

G. Accounts Receivable, Net

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. Also included on accounts receivable are those amounts that tenants owe the Authority as payment for committing fraud or misrepresentation. These charges usually consist of retroactive rent and other amounts that may be determined by a formal written agreement or by a court order. An allowance for doubtful accounts is established to provide for all accounts, which may not be collected in the future for any reason.

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

H. 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.

I. Prepaid Expenses

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

J. 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 is 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, Fixtures and Equipment	3 - 10 Years
♦	Site Improvements	15 Years
♦	New Buildings	40 Years

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

K. 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 impairment is significant and other-than-temporary, then an impairment loss will be recorded in the Authority's financial statements.

HOUSING AUTHORITY OF THE BOROUGH OF KEANSBURG
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

L. Accrued Compensated Absences

Accrued compensated absences represent amounts to which employees are entitled 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 their current salary. Accumulated sick leave will be paid up to 50% of an employee's accumulated sick days up to \$7,500.

M. Prepaid Tenant Rent

The Authority's prepaid tenant rent primarily consists of the prepayment of rent by residents applicable to future periods.

N. Inter-Program Receivables and Payables

Inter-program receivables and payables are current, and are the result of the use of the Public and Indian 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 34, inter-program receivables and payables are eliminated for financial statement purposes, however they are reflected in the accompanying FDS as required by HUD.

O. 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 and expenses as non-operating.

P. Taxes

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

Q. Deferred Outflows / 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.

HOUSING AUTHORITY OF THE BOROUGH OF KEANSBURG
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Q. Deferred Outflows / Inflows of Resources (continued)

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.

R. 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 State of New Jersey, 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.

S. 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.

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."

T. Budgets and Budgetary Accounting

The Authority is required by contractual agreements to adopt annual, appropriated operating budgets for all its programs receiving federal expenditure awards. The Authority also adopts an annual entity wide budget which is filed with the State of New Jersey Department of Community Affairs.

HOUSING AUTHORITY OF THE BOROUGH OF KEANSBURG
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 2. CASH DEPOSITS

As of September 30, 2018, the carrying amount of the Authority's cash deposits was \$499,710, and the bank balances approximated \$504,528.

Of the bank balances, \$250,149 was covered by federal depository insurance and the remaining \$254,379 was collateralized with the pledging financial institution as of September 30, 2018.

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. As of September 30, 2018, the Authority's bank balances were not exposed to custodial credit risk.

NOTE 3. ACCOUNTS RECEIVABLE, NET

Accounts receivable, net consisted of the following at September 30, 2018:

<u>Description</u>	<u>Amount</u>
Accounts receivable - tenants, net	\$ <u>2,395</u>

A. Accounts receivable - tenants

Accounts receivable - tenants is recorded net of an allowance for doubtful accounts of \$2,396 as of September 30, 2018.

NOTE 4. RESTRICTED DEPOSITS

Restricted deposits consist of the following as of September 30, 2018:

<u>Description</u>	<u>Amount</u>
Housing assistance payment reserves	\$ 15,058
Tenant security deposits	24,391
Series A Capital Fund Revenue Bond interest	<u>149</u>
	\$ <u>39,598</u>

HOUSING AUTHORITY OF THE BOROUGH OF KEANSBURG
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 4. RESTRICTED DEPOSITS (continued)

Housing assistance payment reserves are restricted for use only in the Section 8 Housing Choice Vouchers Program for future housing assistance payments.

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

Series A Capital Fund Revenue Bond interest is restricted for certain capital improvements in accordance with the Authority's approved annual plan.

NOTE 5. 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 payment in lieu of taxes ("PILOT") in accordance with the provisions of its Cooperation Agreement with the Borough of Keansburg. Under the Cooperation Agreement, the Authority must pay the Borough of Keansburg the lesser of 10% of its net shelter rent or the approximate full real property taxes. For the year ended September 30, 2018, the Authority incurred PILOT expense in the amount of \$7,953, which is included in accounts payable in the Statement of Net Position.

NOTE 6. CAPITAL ASSETS, NET

A summary of the changes in capital assets for the year ended September 30, 2018 is as follows:

Description	September 30, 2017	Additions	Disposals	Transfers	September 30, 2018
<u>Non-depreciable capital assets:</u>					
Land	\$ 61,690	\$ -	\$ -	\$ -	\$ 61,690
Construction in Progress	19,337	-	-	-	19,337
Total	<u>81,027</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>81,027</u>
<u>Depreciable capital assets:</u>					
Buildings and Improvements	3,356,748	-	-	-	3,356,748
Furniture and Equipment	269,067	-	-	-	269,067
Total	<u>3,625,815</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,625,815</u>
Less: accumulated depreciation	<u>(2,572,827)</u>	<u>(98,438)</u>	<u>-</u>	<u>-</u>	<u>(2,671,265)</u>
Net capital assets	<u>\$ 1,134,015</u>	<u>\$ (98,438)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,035,577</u>

Depreciation expense for the year ended September 30, 2018 amounted to \$98,438.

HOUSING AUTHORITY OF THE BOROUGH OF KEANSBURG
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 7. PENSION PLAN

A. 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 the Division's Comprehensive Annual Financial Report ("CAFR"), which can be found at www.nj.gov/treasury/pensions/financial-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 1 and 2 before reaching age 60, tiers 3 and 4 before age 62 with 25 years or more of service credit before age 62, and tier 5 with 30 years or more 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 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.

C. 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.

HOUSING AUTHORITY OF THE BOROUGH OF KEANSBURG
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 7. PENSION PLAN (continued)

C. Contributions (continued)

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.

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

At September 30, 2018, the Authority reported a liability of \$327,803 for its proportionate share of the net pension liability. The net pension liability was measured as of July 1, 2017, and rolled forward to June 30, 2018.

For the year ended September 30, 2018 the Authority recognized pension expense of \$59,285. At September 30, 2018 the Authority reported deferred outflows of resources and deferred inflows of resources from the following sources.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of assumptions	\$ 54,017	\$ 104,814
Changes in proportion	37,908	183,523
Differences between expected and actual experience	6,251	1,690
Net differences between actual and projected earnings on pension plan investments	<u>-</u>	<u>3,075</u>
Total	<u>\$ 98,176</u>	<u>\$ 293,102</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:

HOUSING AUTHORITY OF THE BOROUGH OF KEANSBURG
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 7. PENSION PLAN (continued)

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

Year ending September 30:

2019	\$	(147,574)
2020		(222,693)
2021		(134,941)
2022		179,471
2023		<u>130,811</u>
	\$	<u>(194,926)</u>

E. Changes in Proportion

The previous amounts do not include employer specific deferred outflows of resources and deferred inflows of resources related to changes in proportion. These amounts should be recognized (amortized) by each employer over the average of the expected remaining service lives of all plan members, which is 5.63, 5.48, 5.57, 5.72, and 6.44 years for the 2018, 2017, 2016, 2015, and 2014 amounts, respectively.

F. Actuarial Assumptions

The collective total pension liability for the June 30, 2018 measurement date was determined by an actuarial valuation as of July 1, 2017, which was rolled forward to June 30, 2018. This actuarial valuation used the following assumptions:

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

Preretirement 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. Postretirement mortality rates were based on the RP-2000 Combined Healthy Male and Female Mortality Tables (set back 1 year for males and females) for service retirements and beneficiaries of former members and one-year static projection based on mortality improvement Scale AA. In addition, the tables for service retirements and beneficiaries of former members provide for future improvements in mortality from the base year of 2013 using a generational approach based on the plan actuary's modified MP-2014 projection scale.

HOUSING AUTHORITY OF THE BOROUGH OF KEANSBURG
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 7. PENSION PLAN (continued)

F. Actuarial Assumptions (continued)

Disability retirement rates used to value disabled retirees were based on the RP-2000 Disabled Mortality Table (set back 3 years for males and set forward 1 year for females).

The actuarial assumptions used in the July 1, 2017 valuation were based on the results of an actuarial experience study for the period July 1, 2011 to June 30, 2017. 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.

G. Long-term Expected Rate of Return

In accordance with State statute, the long-term expected rate of return on plan investments (7% at June 30, 2018) is determined by the State Treasurer, after consultation with the Directors of the Division of Investment and Division of Pensions and Benefits, the board of trustees and actuaries. Best estimates of arithmetic rates of return for each major asset class included in PERS's target asset allocation as of June 30, 2018 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Absolute return/risk mitigation	5.00%	5.51%
Cash equivalents	5.50%	1.00%
U.S. Treasuries	3.00%	1.87%
Investment grade credit	10.00%	3.78%
High yield	2.50%	6.82%
Global diversified credit	5.00%	7.10%
Credit oriented hedge funds	1.00%	6.60%
Debt related private equity	2.00%	10.63%
Debt related real estate	1.00%	6.61%
Private real asset	2.50%	11.83%
Equity related real estate	6.25%	9.23%
U.S. equity	30.00%	8.19%
Non-U.S. developed markets equity	11.50%	9.00%
Emerging markets equity	6.50%	11.64%
Buyouts/venture capital	8.25%	13.08%

HOUSING AUTHORITY OF THE BOROUGH OF KEANSBURG
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 7. PENSION PLAN (continued)

H. Discount Rate

The discount rate used to measure the total pension liability was 5.66% as of June 30, 2018. This single blended discount rate was based on the long-term expected rate of return on pension plan investments of 7.00% and a municipal bond rate of 3.87% as of June 30, 2018 based on the Bond Buyer Go 20-Bond Municipal Bond Index, which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. The projection of cash flows used to determine the discount rate assumed that contributions from the 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 50% of the actuarially determined contributions and the local employers contributed 100% of their actuarially determined contributions. Based on those assumptions, the plan's fiduciary net position was projected to be available to make projected future benefit payments of current plan members through June 30, 2046. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through June 30, 2046 and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liability.

I. Sensitivity of the Collective Net Pension Liability to Changes in the Discount Rate

The following presents the collective net pension liability of the participating employers as of June 30, 2018, calculated using a discount rate as disclosed above as well as what the collective net pension liability would be if it was calculated using a discount rate that is 1 percentage point lower (4.66 percent) or 1 percentage point higher (6.66 percent) than the current rate.

	1% Decrease (4.66%)	Discount Rate (5.66%)	1% Increase (6.66%)
Authority's proportionate share of the net pension liability	\$ <u>412,174</u>	\$ <u>327,803</u>	\$ <u>257,020</u>

NOTE 8. OTHER POST-RETIREMENT BENEFITS PLAN

A. Plan Description

The State Health Benefit Local Government Retired Employees Plan ("SHBP") is a cost-sharing multiple-employer defined benefit OPEB plan administered by the State of New Jersey, Division of Pensions and Benefits (the "Division"). It covers employees of local government employers that have adopted a resolution to participate in the SHBP. For additional information about SHBP, please refer to the Division's Comprehensive Annual Financial Report ("CAFR"), which can be found at <https://www.state.nj.us/treasury/pension/financial-reports.shtml>.

HOUSING AUTHORITY OF THE BOROUGH OF KEANSBURG
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 8. OTHER POST-RETIREMENT BENEFITS PLAN (continued)

B. Benefits

SHBP provides medical and prescription drug to retirees and their covered dependents of the employers. Under Chapter 88, local employers elect to provide benefit coverage based on the eligibility rules and regulations promulgated by the State Health Benefits Commission. Chapter 48 allows local employers to establish their own age and service eligibility for employer paid health benefits coverage for retired employees. Under Chapter 48, the employer may assume the cost of postretirement medical coverage for employees and their dependents who: 1) retired on a disability pension; or 2) retired with 25 or more years of services credit in a State of locally administered retirement system and a period of service of up to 25 years with the employer at the time of retirement as established by the employer; or 3) retired and reached the age of 65 with 25 or more years of service credit in a State or locally administered retirement system and a period of service of up to 25 years with the employer at the time of retirement as established by the employer; or 4) retired and reached age 62 with at least 15 years of service with the employer. Further, the law provides that the employer paid obligations for retiree coverage may be determined by means of a collective negotiations agreement.

Pursuant to Chapter 78, P.L., 2011, future retirees eligible for postretirement medical coverage who have less than 20 years of creditable service on June 28, 2011 will be required to pay a percentage of the cost of their health care coverage in retirement provided they retire with 25 or more years of pension service credit. The percentage of the premium for which the retiree will be responsible will be determined based on the retiree's annual retirement benefit and level of coverage.

C. OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At September 30, 2018, the Authority reported a liability of \$605,045, for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2017, and rolled forward to June 30, 2018.

For the year ended September 30, 2018, the Authority recognized OPEB expense of \$25,836. At September 30, 2018, the Authority reported deferred outflows of resources and deferred inflows of resources from the following sources.

	Deferred Outflows of <u>Resources</u>	Deferred Inflows of <u>Resources</u>
Changes of assumptions	\$ -	\$ 153,478
Changes in proportion	389,092	204,591
Differences between expected and actual experience	-	122,846
Net differences between projected and actual investment earnings on OPEB plan investments	320	-
Contributions made subsequent to the measurement date	<u>4,965</u>	<u>-</u>
Total	\$ <u>394,377</u>	\$ <u>480,915</u>

HOUSING AUTHORITY OF THE BOROUGH OF KEANSBURG
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 8. OTHER POST-RETIREMENT BENEFITS PLAN (continued)

C. OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (continued)

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

Year ending September 30:	<u>Amount</u>
2019	\$ (12,982)
2020	(12,982)
2021	(12,982)
2022	(12,982)
2023	(13,019)
Thereafter	<u>(26,556)</u>
	<u>\$ (91,503)</u>

D. Actuarial Assumptions

The total OPEB liability for the June 30, 2018 measurement date was determined by an actuarial valuation as of June 30, 2017, which was rolled forward to June 30, 2018. This actuarial valuation used the following assumptions:

Inflation Rate	2.50%
Salary increases:	
Through 2026	1.65 - 8.98%, based on age
Thereafter	2.65 - 9.98%, based on age

Preretirement mortality rates were based on the RP-2006 Headcount-Weighted Healthy Employee Male/Female mortality table with fully generational mortality improvement projections from the central year using the MP-2017 scale. Postretirement mortality rates were based on the RP-2006 Headcount-Weighted Healthy Annuitant Male/Female mortality table with fully generational improvement projections from the central year using the MP-2017 scale. Disability mortality was based on the RP-2006 Headcount-Weights Disabled Male/Female mortality table with fully generational improvement projections from the central year using the MP-2017 scale.

Certain actuarial assumptions used in the July 1, 2017 valuation were based on the results of the pension plans' experience studies for which the members are eligible for coverage under the Public Employees' Retirement System ("PERS").

100% of active members are considered to participate in the Plan upon retirement.

HOUSING AUTHORITY OF THE BOROUGH OF KEANSBURG
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 8. OTHER POST-RETIREMENT BENEFITS PLAN (continued)

E. Discount Rate

The discount rate used to measure the total OPEB liability was 3.87% as of June 30, 2018. This represents the municipal bond return rate chosen by the State. The source is the Bond Buyer Go 20-Bond Municipal Bond Index, which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. As the long-term rate of return is less than the municipal bond rate, it is not considered in the calculation of the discount rate, rather the discount rate is set at the municipal bond rate.

F. Sensitivity of the Authority's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate

The following presents the Authority's proportionate share of the net OPEB liability calculated using the discount rate of 3.87%, 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 (2.87%) or 1 percentage point higher (4.87%) than the current rate.

	1% Decrease (2.87%)	Discount Rate (3.87%)	1% Increase (4.87%)
Authority's proportionate share of the net OPEB liability	\$ <u>709,878</u>	\$ <u>605,045</u>	\$ <u>521,307</u>

G. Health Care Trend Assumptions

For pre-Medicare preferred provider organization ("PPO") and health maintenance organization ("HMO") medical benefits, the trend rate is initially 5.9% and decreases to a 5.0% long-term trend rate after nine years. For self-insured post-65 PPO and HMO medical benefits, the trend rate is 4.5%. For prescription drug benefits, the initial trend rate is 10.5% decreasing to a 5.0% trend rate after eight years. For the Medicare Part B reimbursement, the trend rate is 5.0%. The Medicare Advantage trend rate is 4.5% and will continue in all future years.

H. Sensitivity of the Authority's Proportionate Share of the Net OPEB Liability to Changes in the Health Care Trend Rate

The following presents the Authority's proportionate share of the net OPEB liability calculated using the healthcare trend rate as disclosed above, as well as what the Authority's proportionate share of the net pension liability would be if it were calculated using a healthcare trend rate that is 1 percentage point lower or 1 percentage point higher than the current rate.

	1% Decrease	Discount Rate	1% Increase
Authority's proportionate share of the net OPEB liability	\$ <u>504,704</u>	\$ <u>605,045</u>	\$ <u>734,900</u>

HOUSING AUTHORITY OF THE BOROUGH OF KEANSBURG
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 9. NON-CURRENT LIABILITIES

During 2004, the Authority entered into a Capital Fund leveraging pool. The New Jersey Housing and Mortgage Finance Agency issued tax exempt, twenty year Capital Fund Program Revenue Bonds, 2004 Series A on December 23, 2004. The Authority's share of funds from the bond issue pool amounted to \$290,000. Interest accrues at 4.418% and is payable semi-annually on May 1st and November 1st. Repayment of the funds are collateralized by and shall be paid solely from Capital Fund allocations received by the Authority from HUD.

Outstanding balances at September 30, 2018 totaled \$150,000. Annual debt service for principal and interest over the next five years and thereafter is as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 20,000	\$ 6,734	\$ 26,734
2020	20,000	5,859	25,859
2021	20,000	4,935	24,935
2022	20,000	3,765	23,765
2023	20,000	3,229	23,229
2024 - 2026	<u>50,000</u>	<u>3,561</u>	<u>53,561</u>
	<u>\$ 150,000</u>	<u>\$ 28,083</u>	<u>\$ 178,083</u>

Non-current liabilities activity for the year ended September 30, 2018 consisted of the following:

<u>Description</u>	<u>September 30, 2017</u>	<u>Additions</u>	<u>Reductions</u>	<u>September 30, 2018</u>	<u>Amounts due within one year</u>
Capital fund revenue bonds	\$ 170,000	\$ -	\$ (20,000)	\$ 150,000	\$ 20,000
Net pension liability	512,083	-	(184,280)	327,803	-
Net OPEB liability	-	605,045	-	605,045	-
Accrued compensated absences	<u>24,659</u>	<u>24,673</u>	<u>(42,417)</u>	<u>6,915</u>	<u>4,218</u>
Total	<u>\$ 706,742</u>	<u>\$ 629,718</u>	<u>\$ (246,697)</u>	<u>\$ 1,089,763</u>	<u>\$ 24,218</u>

NOTE 10. CHANGE IN ACCOUNTING PRINCIPLE

During the year ended September 30, 2018, the Authority adopted GASB 75. As a result of adopting GASB 75, the Authority recorded an OPEB liability of \$404,685, deferred outflows of resources of \$67, deferred inflows of resources of \$281,654 and a charge to unrestricted net position of 686,272 as of October 1, 2017.

NOTE 11. ECONOMIC DEPENDENCY

The Section 8 Housing Choice Vouchers and Public and Indian Housing Programs are economically dependent on annual grants from HUD.

HOUSING AUTHORITY OF THE BOROUGH OF KEANSBURG
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 12. 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). 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 previous three years.

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 September 30, 2018, the Authority estimates that no material liabilities will result from such audits.

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 July 30, 2019 (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 Commissioners of
Housing Authority of the Borough of Keansburg:

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 Keansburg (the "Authority"), which comprise the statement of financial position as of September 30, 2018, and the related statements of revenues, expenses, and changes in net position, and cash flow for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated July 30, 2019.

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 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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Novogradac & Company LLP

July 30, 2019
Toms River, New Jersey

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE AND THE
STATE OF NEW JERSEY OMB CIRCULAR 15-08**

To the Board of Commissioners of
Housing Authority of the Borough of Keansburg:

Report on Compliance for the Major Federal Program

We have audited the Housing Authority of the Borough of Keansburg's (the "Authority") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* and the State of New Jersey OMB Circular 15-08 that could have a direct and material effect on the Authority's major federal programs for the year ended September 30, 2018. The Authority's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for the Authority's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and the State of New Jersey OMB Circular 15-08. 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 the 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 Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2018.

Other Matters

The results of our auditing procedures disclosed one instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as items 2018-001. Our opinion on the major federal programs is not modified with respect to this matter.

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

Report on Internal Control Over Compliance

Management of the Authority 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 the federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the 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 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.

Report on Internal Control Over Compliance (continued)

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, we identified deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2018-001, that we consider to be a significant deficiency.

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

Purpose of this Report

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

Novogradac & Company LLP

July 30, 2019
Toms River, New Jersey

**HOUSING AUTHORITY OF THE BOROUGH OF KEANSBURG
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

Federal Grantor/Program Title	Federal CFDA Number	State Pass-through Number	Grant Period		Grant Award	Fiscal Year Expenditures	Cumulative Expenditures
			From	To			
<u>U.S. Department of Housing and Urban Development</u>							
Public and Indian Housing Program	14.850	N/A	1/1/17	12/31/18	\$ 544,590	\$ 245,507	\$ 441,830
Section 8 Housing Choice Vouchers Program	14.871	N/A	10/1/17	09/30/18	3,992,132	3,992,132	3,992,132
Public Housing Capital Fund Program	14.872	N/A	4/13/15	8/15/21	<u>190,194</u>	<u>47,799</u>	<u>139,590</u>
Total U.S. Department of Housing and Urban Development					<u>4,726,916</u>	<u>4,285,438</u>	<u>4,573,552</u>
Total expenditures of federal awards					<u>\$ 4,726,916</u>	<u>\$ 4,285,438</u>	<u>\$ 4,573,552</u>

See accompanying notes to the Schedule of Expenditures of Federal Awards

**HOUSING AUTHORITY OF THE BOROUGH OF KEANSBURG
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

NOTE 1. BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal grant activity of the Authority under programs of the federal government for the year ended September 30, 2018. The information in the Schedule is presented in accordance with the requirements of Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of operations of the Authority, it is not intended to and does not present the financial position, changes in net position or cash flows of the Authority. Therefore, some amounts presented in the Schedule may differ from amounts presented in, or used in the preparation of the financial statements.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the principles contained in the Uniform Guidance, OMB Circular A-133, and the State of New Jersey OMB Circular 15-08, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

NOTE 3. INDIRECT COST RATE

The Authority has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

HOUSING AUTHORITY OF THE BOROUGH OF KEANSBURG
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (continued)
FOR THE YEAR ENDED SEPTEMBER 30, 2018

NOTE 4. STATEMENT AND CERTIFICATION OF ACTUAL CAPITAL FUND PROGRAM COSTS

The total amounts of Capital Fund Program Costs and Advances incurred and earned by the Authority as of and for the year ended September 30, 2018 are provided herein.

	<u>501-15</u>	<u>501-16</u>	<u>501-17</u>	<u>Totals</u>
Budget	\$ <u>61,469</u>	\$ <u>63,557</u>	\$ <u>65,168</u>	\$ <u>190,194</u>
<u>Advances:</u>				
Cumulative through 9/30/17	\$ 59,469	\$ 32,319	\$ -	\$ 91,788
Current Year	<u>-</u>	<u>31,238</u>	<u>16,564</u>	<u>47,802</u>
Cumulative through 9/30/18	<u>59,469</u>	<u>63,557</u>	<u>16,564</u>	<u>139,590</u>
<u>Costs:</u>				
Cumulative through 9/30/17	59,469	32,319	-	91,788
Current Year	<u>-</u>	<u>31,238</u>	<u>16,564</u>	<u>47,802</u>
Cumulative through 9/30/18	<u>59,469</u>	<u>63,557</u>	<u>16,564</u>	<u>139,590</u>
Excess / (Deficiency)	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>

**HOUSING AUTHORITY OF THE BOROUGH OF KEANSBURG
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

I. Summary of Auditors' Results

Financial Statements

- | | | |
|----|---|------------|
| 1. | Type of auditors' report issued: | Unmodified |
| 2. | Internal control over financial reporting | |
| a. | Material weakness(es) identified? | No |
| b. | Significant deficiency(ies) identified | No |
| 3. | Noncompliance material to the financial statements? | No |

Federal Awards

- | | | | | | | |
|--------------------|---|--------------------|--------------------------------|--------|-----------------------------------|--|
| 1. | Internal control over compliance: | | | | | |
| a. | Material weakness(es) identified? | No | | | | |
| b. | Significant deficiency(ies) identified? | Yes | | | | |
| 2. | Type of auditors' report on compliance
for major programs: | Unmodified | | | | |
| 3. | Any audit findings disclosed that are required
to be reported in accordance with 2 CFR 200.516(a)? | Yes | | | | |
| 4. | Identification of major programs: | | | | | |
| | <table border="0" style="width: 100%;"> <tr> <td style="text-align: center;"><u>CFDA Number</u></td> <td style="text-align: center;"><u>Name of Federal Program</u></td> </tr> <tr> <td style="text-align: center;">14.871</td> <td style="text-align: center;">Section 8 Housing Choice Vouchers</td> </tr> </table> | <u>CFDA Number</u> | <u>Name of Federal Program</u> | 14.871 | Section 8 Housing Choice Vouchers | |
| <u>CFDA Number</u> | <u>Name of Federal Program</u> | | | | | |
| 14.871 | Section 8 Housing Choice Vouchers | | | | | |
| 5. | Dollar threshold used to distinguish between
Type A and Type B Programs: | \$750,000 | | | | |
| 6. | Auditee qualified as low-risk Auditee? | No | | | | |

**HOUSING AUTHORITY OF THE BOROUGH OF KEANSBURG
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

II. Financial Statement Findings

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

III. Federal Award Findings and Questioned Costs

Finding 2018-001

Federal Agency: U.S. Department of Housing and Urban Development

Federal Program Titles: Section 8 Housing Choice Vouchers Program

Federal Catalog Numbers: 14.871

Noncompliance – N. Special Tests and Provisions – Housing Quality Standards

Non Compliance Material to the Financial Statements: No

Significant Deficiency in Internal Control over Compliance for Special Tests and Provisions

Criteria: Housing Quality Standards Inspections. The PHA must inspect the unit leased to a family at least annually to determine if the unit meets the Housing Quality Standards (HQS) and the PHA must conduct quality control re-inspections. The PHA must prepare a unit inspection report (24 CFR sections 982.158(d) and 982.405(b)). For units that fail inspection, the PHA must correct all life threatening HQS deficiencies within 24 hours and all other deficiencies within 30 days.

Condition: Based upon inspection of the Authority's files and on discussions with management, there were units that had not passed re-inspection within the required thirty day period and abatements had not been processed for those units.

Context: Of a sample size of seven (7) units that had initially failed inspection, six (6) units did not pass re-inspection within 30 days. HAP abatements were either not processed or not processed in accordance with program compliance requirements for those six (6) units. Our sample size is statistically valid.

Known Questioned Costs: \$7,441

Likely Questioned Costs: \$64,012

Cause: There is a significant deficiency in internal controls over the compliance for the special tests and provisions type of compliance related to HQS inspections. The Authority has not properly considered, designed, implemented, maintained and monitored a system of internal controls that reasonably assures the program is in compliance.

Effect: The Section 8 Housing Choice Vouchers program is not in compliance with the special tests and provisions type of compliance related to HQS inspections.

**HOUSING AUTHORITY OF THE BOROUGH OF KEANSBURG
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

III.

Federal Award Findings and Questioned Costs (continued):

Finding 2018-001 (continued)

Recommendation: We recommend the Authority design and implement internal control procedures that will reasonably assure compliance with the Uniform Guidance and the compliance supplement.

Views of responsible officials and planned corrective action: The Authority adopted a corrective action plan in July 2016 that requires the third party vendor to perform all re-inspections for the failed HQS within the 30-day requirement, and provide the Authority with a report to document such work was performed. Subsequent to the plan's adoption the third-party vendor failed to meet the requirements set forth and was later replaced by another vendor. Prior to the change the previous vendor failed to send inspection reports to the landlords of the failed units so the unit did not pass until it was re-inspected by the new vendor which took place 30 days after the initial failure. Since the landlord was not given the 30-day notice to correct the deficiencies, the rent was not abated. The current vendor has been adhering to the action plan and all failed inspections are undertaken within the 30-day period.

IV.

Schedule of Prior Year Federal Audit Findings

Finding: 2017-001:

Observation: During review of the Section 8 Housing Choice Vouchers Program failed inspections, we noted that four (4) out of twenty (20) units tested did not pass re-inspection within 30 days. HAP abatements were either not processed or not processed in accordance with program compliance requirements for those four (4) units.

Status: The finding remains open. See Finding 2018-001.

HOUSING AUTHORITY OF THE BOROUGH OF KEANSBURG
REQUIRED PENSION INFORMATION
FOR THE YEAR ENDED SEPTEMBER 30, 2018

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

	September 30, 2014	September 30, 2015	September 30, 2016	September 30, 2017	September 30, 2018
Contractually required contribution	\$ 25,410	\$ 16,404	\$ 17,423	\$ 20,379	\$ 16,560
Contributions in relation to the contractually required contribution	<u>25,410</u>	<u>16,404</u>	<u>17,423</u>	<u>20,379</u>	<u>16,560</u>
(Over) / under funded	\$ -	\$ -	\$ -	\$ -	\$ -
Authority's covered-employee payroll	<u>\$ 220,927</u>	<u>\$ 185,789</u>	<u>\$ 214,601</u>	<u>\$ 175,866</u>	<u>\$ 195,565</u>
Contributions as a percentage of covered- employee payroll	<u>11.50 %</u>	<u>8.83 %</u>	<u>8.12 %</u>	<u>11.59 %</u>	<u>8.47 %</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 KEANSBURG
REQUIRED PENSION INFORMATION (continued)
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

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

	September 30, 2014	September 30, 2015	September 30, 2016	September 30, 2017	September 30, 2018
Authority's proportion of the net pension liability	<u>0.0031 %</u>	<u>0.0019 %</u>	<u>0.0020 %</u>	<u>0.0022 %</u>	<u>0.0017 %</u>
Authority's proportionate share of the net pension liability	<u>\$ 577,090</u>	<u>\$ 428,316</u>	<u>\$ 580,851</u>	<u>\$ 512,083</u>	<u>\$ 327,803</u>
Authority's covered-employee payroll	<u>\$ 220,927</u>	<u>\$ 185,789</u>	<u>\$ 214,601</u>	<u>\$ 175,866</u>	<u>\$ 195,565</u>
Authority's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	<u>261.21 %</u>	<u>230.54 %</u>	<u>270.67 %</u>	<u>291.18 %</u>	<u>167.62 %</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>52.08 %</u>	<u>47.93 %</u>	<u>45.35 %</u>	<u>48.10 %</u>	<u>53.60 %</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 KEANSBURG
REQUIRED OTHER POST EMPLOYMENT BENEFITS INFORMATION
YEAR ENDED SEPTEMBER 30, 2018**

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

	September 30, <u>2017</u>	September 30, <u>2018</u>
Statutorily required contribution	\$ 25,796	\$ 25,012
Contributions in relation to the statutorily required contribution	<u>25,796</u>	<u>25,012</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Authority's covered-employee payroll	<u>\$ 184,084</u>	<u>\$ 196,814</u>
Contributions as a percentage of covered- employee payroll	<u>14.01 %</u>	<u>12.71 %</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 KEANSBURG
REQUIRED OTHER POST EMPLOYMENT BENEFITS INFORMATION
YEAR ENDED SEPTEMBER 30, 2018**

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

	September 30, 2017	September 30, 2018
Authority's proportion of the net OPEB liability	<u>0.0191 %</u>	<u>0.0039 %</u>
Authority's proportionate share of the net OPEB liability	<u>\$ 389,125</u>	<u>\$ 605,045</u>
Authority's covered-employee payroll	<u>\$ 184,084</u>	<u>\$ 196,814</u>
Authority's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	<u>211.38 %</u>	<u>307.42 %</u>
Plan fiduciary net position as a percentage of the total OPEB liability	<u>1.03 %</u>	<u>1.97 %</u>

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

Keansburg Housing Authority									
NJ060									
Financial Data Schedule (FDS)									
September 30, 2018									
Line Item #		Account Description	PROJECTS	14,871 Housing Choice Vouchers	ELIM		TOTAL		
		ASSETS:							
		CURRENT ASSETS:							
		Cash:							
111		Cash - unrestricted	\$ 222,772	\$ 237,340	\$ -		\$ 460,112		
112		Cash - restricted - modernization and development	-	-	-		-		
113		Cash - other restricted	149	15,058	-		15,207		
114		Cash - tenant security deposits	24,391	-	-		24,391		
115		Cash - restricted for payment of current liabilities	-	-	-		-		
100		Total cash	247,312	252,398	-		499,710		
		Accounts and notes receivables:							
121		Accounts receivable - PHA projects	-	-	-		-		
122		Accounts receivable - HUD other projects	-	-	-		-		
124		Accounts receivable - other government	-	-	-		-		
125		Accounts receivable - miscellaneous	-	-	-		-		
126		Accounts receivable- tenants	4,791	-	-		4,791		
126.1		Allowance for doubtful accounts - tenants	(2,396)	-	-		(2,396)		
126.2		Allowance for doubtful accounts - other	-	-	-		-		
127		Notes and mortgages receivable- current	-	-	-		-		
128		Fraud recovery	-	13,259	-		13,259		
128.1		Allowance for doubtful accounts - fraud	-	(13,259)	-		(13,259)		
129		Accrued interest receivable	-	-	-		-		
120		Total receivables, net of allowances for doubtful accounts	2,395	-	-		2,395		
		Current investments							
131		Investments - unrestricted	-	-	-		-		
132		Investments - restricted	-	-	-		-		
135		Investments - restricted for payment of current liability	-	-	-		-		
142		Prepaid expenses and other assets	14,625	-	-		14,625		
143		Inventories	-	-	-		-		
143.1		Allowance for obsolete inventories	-	-	-		-		
144		Interprogram - due from	-	-	-		-		
145		Assets held for sale	-	-	-		-		
150		TOTAL CURRENT ASSETS	264,332	252,398	-		516,730		
		NONCURRENT ASSETS:							
		Fixed assets:							
161		Land	61,690	-	-		61,690		
162		Buildings	3,031,590	-	-		3,031,590		
163		Furniture, equipment & machinery - dwellings	-	-	-		-		
164		Furniture, equipment & machinery - administration	269,067	-	-		269,067		
165		Leasehold improvements	325,158	-	-		325,158		
166		Accumulated depreciation	(2,671,265)	-	-		(2,671,265)		
167		Construction in Progress	19,337	-	-		19,337		
168		Infrastructure	-	-	-		-		
160		Total fixed assets, net of accumulated depreciation	1,035,577	-	-		1,035,577		
		Other non-current assets:							
171		Notes and mortgages receivable - non-current	-	-	-		-		
172		Notes and mortgages receivable-non-current - past due	-	-	-		-		
174		Other assets	-	-	-		-		
176		Investment in joint ventures	-	-	-		-		
180		TOTAL NONCURRENT ASSETS	1,035,577	-	-		1,035,577		
200		DEFERRED OUTFLOWS OF RESOURCES	258,091	234,462	-		492,553		
290		TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 1,558,000	\$ 486,860	\$ -		\$ 2,044,860		

Keansburg Housing Authority					
NJ060					
Financial Data Schedule (FDS)					
September 30, 2018					
Line Item #	Account Description	PROJECTS	14,871 Housing Choice Vouchers	ELIM	TOTAL
LIABILITIES AND EQUITY:					
Liabilities:					
Current Liabilities:					
311	Bank overdraft	\$ -	\$ -	\$ -	\$ -
312	Accounts payable ≤ 90 days	16,047	9,659	-	25,706
313	Accounts payable > 90 days past due	-	-	-	-
321	Accrued wage/payroll taxes payable	1,553	-	-	1,553
322	Accrued compensated absences - current portion	1,393	2,825	-	4,218
324	Accrued contingency liability	-	-	-	-
325	Accrued interest payable	-	-	-	-
331	Accounts payable - HUD PHA programs	-	-	-	-
332	Accounts payable - PHA projects	-	-	-	-
333	Accounts payable - other government	14,088	774	-	14,862
341	Tenant security deposits	24,391	-	-	24,391
342	Unearned revenue	373	16,056	-	16,429
343	Current portion of L-T debt - capital projects	20,000	-	-	20,000
344	Current portion of L-T debt - operating borrowings	-	-	-	-
345	Other current liabilities	-	-	-	-
346	Accrued liabilities - other	32,530	-	-	32,530
347	Interprogram - due to	-	-	-	-
310	TOTAL CURRENT LIABILITIES	110,375	29,314	-	139,689
NONCURRENT LIABILITIES:					
351	Long-term debt, net of current - capital projects	130,000	-	-	130,000
352	Long-term debt, net of current - operating borrowings	-	-	-	-
353	Non-current liabilities- other	-	-	-	-
354	Accrued compensated absences - noncurrent	839	1,858	-	2,697
355	Loan Liability - Non Current	-	-	-	-
357	Accrued pension and OPEB liabilities	500,677	432,171	-	932,848
350	TOTAL NONCURRENT LIABILITIES	631,316	434,029	-	1,065,345
300	TOTAL LIABILITIES	741,891	463,343	-	1,205,234
400	Deferred Inflows	399,432	374,585	-	774,017
EQUITY:					
508.1	Invested in Capital Assets, Net of Related Debt	885,577	-	-	885,577
511.1	Restricted Net Assets	149	15,058	-	15,207
512.1	Unrestricted Net Assets	(469,049)	(366,126)	-	(835,175)
513	TOTAL EQUITY	416,677	(351,068)	-	65,609
600	TOTAL LIABILITIES, DEFERRED INFLOWS AND EQUITY	\$ 1,558,000	\$ 486,860	\$ -	\$ 2,044,860
Proof of concept					
		-	-	-	-

Keansburg Housing Authority						
NJ060						
Financial Data Schedule (FDS)						
September 30, 2018						
Line Item #	Account Description	OPERATING	CAPITAL	14,871 Housing Choice Vouchers	ELIM	TOTAL
REVENUE:						
70300	Net tenant rental revenue	\$ 306,991	\$ -	\$ -	\$ -	\$ 306,991
70400	Tenant revenue - other	4,350	-	-	-	4,350
70500	Total tenant revenue	311,341	-	-	-	311,341
70600	HUD PHA grants	245,507	27,799	3,098,761	-	3,372,067
70610	Capital grants	-	20,000	-	-	20,000
70710	Management fee	-	-	-	-	-
70720	Asset management fee	-	-	-	-	-
70730	Book keeping fee	-	-	-	-	-
70750	Other fees	-	-	-	-	-
70800	Other government grants	-	-	-	-	-
71100	Investment income - unrestricted	314	-	727	-	1,041
71200	Mortgage interest income	-	-	-	-	-
71300	Proceeds from disposition of assets held for sale	-	-	-	-	-
71301	Cost of sale of assets	-	-	-	-	-
71400	Fraud recovery	-	-	3,006	-	3,006
71500	Other revenue	6,405	-	904,376	-	910,781
71600	Gain or loss on sale of fixed assets	-	-	-	-	-
72000	Investment income - restricted	-	3	-	-	3
70000	TOTAL REVENUE	563,567	47,802	4,006,870	-	4,618,239
EXPENSES:						
Administrative						
91100	Administrative salaries	15,348	-	97,869	-	113,217
91200	Auditing fees	2,886	-	4,514	-	7,400
91300	Outside management fees	12,741	-	20,109	-	32,850
91310	Book-keeping fee	-	-	-	-	-
91400	Advertising and marketing	320	-	-	-	320
91500	Employee benefit contributions- administrative	1,605	-	33,177	-	34,782
91600	Office expenses	7,772	-	17,611	-	25,383
91700	Legal expenses	7,182	-	9,480	-	16,662
91800	Travel	-	-	-	-	-
91810	Allocated overhead	-	-	-	-	-
91900	Other	37,828	318	60,040	-	98,186
91000	Total operating - administrative	85,682	318	242,800	-	328,800
92000	Asset Management Fee	-	-	-	-	-
Tenant services						
92100	Tenant services - salaries	-	-	-	-	-
92200	Relocation costs	-	-	-	-	-
92300	Employee benefit contributions- tenant services	-	-	-	-	-
92400	Tenant services - other	3,094	-	-	-	3,094
92500	Total Tenant Services	3,094	-	-	-	3,094
Utilities						
93100	Water	21,204	-	-	-	21,204
93200	Electricity	56,989	-	-	-	56,989
93300	Gas	59,585	-	-	-	59,585
93400	Fuel	-	-	-	-	-
93500	Labor	20,899	-	-	-	20,899
93600	Sewer	64,181	-	-	-	64,181
93700	Employee benefit contributions- utilities	-	-	-	-	-
93800	Other utilities expense	1,400	-	-	-	1,400
93000	Total Utilities	224,258	-	-	-	224,258
Ordinary maintenance & operation						
94100	Ordinary maintenance and operations - labor	62,698	-	-	-	62,698
94200	Ordinary maintenance and operations - materials & other	15,971	-	-	-	15,971
94300	Ordinary maintenance and operations - contract costs	121,278	-	-	-	121,278
94500	Employee benefit contributions- ordinary maintenance	4,762	-	-	-	4,762
94000	Total Maintenance	204,709	-	-	-	204,709
Protective services						
95100	Protective services - labor	-	-	-	-	-
95200	Protective services- other contract costs	-	-	-	-	-
95300	Protective services - other	-	-	-	-	-
95500	Employee benefit contributions- protective services	-	-	-	-	-
95000	Total Protective Services	-	-	-	-	-

Keansburg Housing Authority						
NJ060						
Financial Data Schedule (FDS)						
September 30, 2018						
Line Item #	Account Description	OPERATING	CAPITAL	14,871 Housing Choice Vouchers	ELIM	TOTAL
	General expenses					
96140	Insurance premiums	-	-	-	-	-
96130	Workmen's compensation	-	-	-	-	-
96140	All other insurance	45,800	-	11,451	-	57,251
96200	Other general expenses	-	-	3,022	-	3,022
96210	Compensated absences	-	-	-	-	-
96300	Payments in lieu of taxes	7,953	-	-	-	7,953
96400	Bad debt - tenant rents	210	-	-	-	210
96500	Bad debt- mortgages	-	-	-	-	-
96600	Bad debt - other	-	-	-	-	-
96700	Interest of mortgage (or bonds) payable	-	7,609	-	-	7,609
96710	Amortization of bond issue costs	-	-	-	-	-
96800	Severance expense	-	-	-	-	-
96000	Total other general expenses	53,963	7,609	14,473	-	76,045
96900	TOTAL OPERATING EXPENSES	571,706	7,927	257,273	-	836,906
97000	EXCESS OPERATING REVENUE OVER OPERATING EXPENSES	(8,139)	39,875	3,749,597	-	3,781,333
97100	Extraordinary maintenance	-	-	-	-	-
97200	Casualty losses - non capitalized	-	-	-	-	-
97300	Housing assistance payments	-	-	2,871,468	-	2,871,468
97350	HAP Portability - in	-	-	863,391	-	863,391
97400	Depreciation expense	98,438	-	-	-	98,438
97500	Fraud losses	-	-	-	-	-
97800	Dwelling units rent expense	-	-	-	-	-
90000	TOTAL EXPENSES	670,144	7,927	3,992,132	-	4,670,203
	OTHER FINANCING SOURCES (USES)					
10010	Operating transfers in	19,875	-	-	(19,875)	-
10020	Operating transfers out	-	(19,875)	-	19,875	-
10093	Transfers between program and project in	-	-	-	-	-
10094	Transfers between program and project out	-	-	-	-	-
10100	TOTAL OTHER FINANCING SOURCES (USES)	19,875	(19,875)	-	-	-
10000	EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES	(86,702)	20,000	14,738	-	(51,964)
MEMO ACCOUNT INFORMATION:						
11020	Required annual debt principal payments	-	-	-	-	-
11030	Beginning equity	828,391	-	(24,546)	-	803,845
11040	Prior period adjustments and equity transfers	(325,012)	(20,000)	(341,260)	-	(686,272)
11170	Administrative fee equity	-	-	(49,235)	-	(49,235)
11180	Housing assistance payments equity	-	-	15,058	-	15,058
		-	-	(34,177)	-	(34,177)
11190	Unit months available	960	-	2,988	-	3,948
11210	Number of unit months leased	943	-	2,911	-	3,854
	Equity Roll Forward Test:					
	Calculation from R/E Statement	\$ 416,677	\$ -	\$ (351,068)	\$ -	\$ 65,609
	B/S Line 513	\$ 416,677	\$ -	\$ (351,068)	\$ -	\$ 65,609
		\$ -	\$ -	\$ -	\$ -	\$ -