

Housing Authority of the Borough of Neptune City

Financial Statements

December 31, 2012 and 2011

Housing Authority of the Borough of Neptune City

Financial Statements

December 31, 2012 and 2011

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Hutchins, Meyer & DiLieto, PA

Certified Public Accountants • Business & Financial Advisors

Robert H. Hutchins, CPA, CVA
Eugene M. Farrell, CPA, RMA (1952-2012)
Alan E. Meyer, CPA/ABV, CFF
Joann DiLieto, CPA

Glenn G. VanPell, CPA
Karen D. Davis, CPA, CVA, CFFA, CIA
Crystal L. Fitzpatrick, CPA
Hélène T. Morizzo, CPA

512 Main Street • PO Box 1778
Toms River, NJ 08754
(732) 240-5600
Fax: (732) 505-8358

INDEPENDENT AUDITOR'S REPORT

To The Board of Commissioners
Housing Authority of the Borough of Neptune City
Neptune City, New Jersey

We have audited the accompanying financial statements of the Housing Authority of the Borough of Neptune City (the "Authority"), which comprise the statements of financial position as of December 31, 2012 and 2011, and the statements of activities and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 in compliance with audit requirements 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity'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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Housing Authority of the Borough of Neptune City, as of December 31, 2012 and 2011, and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is also 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 this 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

The schedule of operating expenses is the responsibility of Management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. We have applied certain limited procedures to this accompanying 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 23, 2013 on our consideration of the Housing Authority of the Borough of Neptune City'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 Housing Authority of the Borough of Neptune City's internal control over financial reporting and compliance.

Hutchins, Meyer & DiLieto, PA

Toms River, New Jersey
April 23, 2013

Housing Authority of the Borough of Neptune City

Management's Discussion and Analysis

December 31, 2012 and 2011

The Management's Discussion and Analysis is intended to serve as an introduction to the Authority's financial statements. The Authority's financial statements and notes to the financial statements included in this report were prepared in accordance with GAAP applicable to the Governmental entities for Proprietary Fund types.

As Management of the Authority, we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal year ended December 31, 2012. We encourage readers to consider the information presented here in conjunction with the Authority's financial statements as presented elsewhere in this report.

- Financial Highlights

For the fiscal year ended December 31, 2012, the assets of the Authority exceeded its liabilities by \$2,154,452 (net position). This compares to the previous year when assets exceeded liabilities by \$2,228,322.

Total net position is comprised of the following:

- a. Net investment in capital assets of \$494,801 include property and equipment, net of accumulated depreciation and reduced for outstanding debt related to the purchase or construction of capital assets.
- b. Net position of \$527,686 is restricted by constraints imposed from outside the Authority such as debt covenants, grantors, laws, or regulations.
- c. Unrestricted net position of \$1,131,965 represents the portion available to maintain the Authority's continuing obligations to its tenants and creditors.

The Authority had total revenues of \$586,737 and total expenses and losses of \$660,607 for the year ended December 31, 2012.

The Authority's capital outlays for the fiscal year were \$40,147.

The Authority's expenditures of federal awards amounted to \$287,848 for the fiscal year.

Financial Statements

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

The Statements of Net Position present information on all the Authority's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position will serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

Housing Authority of the Borough of Neptune City
Management's Discussion and Analysis
December 31, 2012 and 2011

Financial Statements (continued)

The Statements of Revenues, Expenses and Changes in Net Position present information showing how the Authority's net position changed during the most recent fiscal year. All changes in the net position are included, regardless of when cash is received or paid.

The financial statements report on the Authority's activities. The activities are primarily supported by HUD subsidies. The Authority's function is to provide decent, safe and sanitary housing to low income, elderly and special needs populations. The financial statements can be found on pages 8 through 10 included in this report.

Notes to Financial Statements

The accompanying 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 begin on page 11 of this report.

The Authority as a Whole

The Authority's net position decreased during the fiscal year as detailed below. The Authority's revenues consist primarily of tenant rent and subsidies received from HUD. The Authority receives subsidies each month based on the difference between a pre-authorized fair market value rent per unit and each tenant's rent obligation based on income levels. The Authority's revenues and subsidies did not fully cover all expenses, including depreciation during the fiscal year.

The following table provides a summary of the Authority's net position:

	<u>2012</u>	<u>2011</u>
Current and other assets	1,725,020	1,808,415
Capital assets	<u>1,374,801</u>	<u>1,498,273</u>
Total assets	<u>\$ 3,099,821</u>	<u>\$ 3,306,688</u>
Long-term liabilities	775,000	880,000
Other liabilities	<u>170,369</u>	<u>198,366</u>
Total liabilities	<u>945,369</u>	<u>1,078,366</u>
Net position:		
Net investment in capital assets	494,801	518,273
Restricted for debt service	527,686	525,000
Unrestricted	<u>1,131,965</u>	<u>1,185,049</u>
Total net position	<u>2,154,452</u>	<u>2,228,322</u>
Total Liabilities and net position	<u>\$ 3,099,821</u>	<u>\$ 3,306,688</u>

Housing Authority of the Borough of Neptune City
Management's Discussion and Analysis
December 31, 2012 and 2011

The Authority as a Whole (continued)

The following table provides a summary of the Authority's changes in net assets:

	<u>2012</u>	<u>%</u>	<u>2011</u>	<u>%</u>
Revenues:				
Tenant revenue	\$ 284,550	48.50	\$ 271,246	44.73
Government operating grants	287,848	49.06	291,039	45.55
Other revenue	2,345	0.40	10,722	1.77
Unrealized gain on investment	-	0.00	16,883	2.78
Investment income	<u>11,994</u>	<u>2.04</u>	<u>16,574</u>	<u>2.73</u>
Total revenues	<u>586,737</u>	<u>100</u>	<u>606,464</u>	<u>100</u>
Expenses:				
General operating expenses	439,225	66.49	444,733	67.23
Interest expense	54,300	8.22	60,150	9.09
Unrealized loss on investment	3,463	0.52	-	0.00
Loss on sale of assets	-	0.00	7,503	1.13
Depreciation	<u>163,619</u>	<u>24.81</u>	<u>149,164</u>	<u>22.46</u>
Total expenses	<u>660,607</u>	<u>100</u>	<u>661,550</u>	<u>100</u>
Excess (deficit) of revenue over expenses	(73,870)		(55,086)	
Beginning net position	<u>2,228,322</u>		<u>2,283,408</u>	
Ending net position	<u>\$ 2,154,452</u>		<u>\$ 2,228,322</u>	

- Budgetary Highlights

For the fiscal year ended December 31, 2012, operating and capital budgets were prepared by the Authority and were approved by the Board of Commissioners. The budgets were prepared in accordance with the accounting procedures prescribed by the New Jersey Department of Community Affairs – Division of Local Government Services.

As indicated by the deficiency of revenues over expenses, the Authority's net position decreased during the fiscal year. The Authority budgeted for principal payments on debt in lieu of depreciation of \$100,000 and \$90,000 for fiscal years ended December 31, 2012 and 2011, respectively. This resulted in a budgetary deficiency of revenues over expenses of \$10,251 for fiscal year ended December 31, 2012 and excess revenue over expenses of \$4,078 for fiscal year ended December 31, 2011.

- Capital Assets and Debt Administration

Capital Assets

As of December 31, 2012, the Authority's net investment in capital assets was \$494,801 (net of accumulated depreciation and related debt). This investment in capital assets includes land, buildings, equipment and construction in progress less related debt.

Housing Authority of the Borough of Neptune City
Management's Discussion and Analysis
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Capital Assets (continued)

Major capital asset purchases of \$40,147 during the fiscal year pertained to expenditures made in accordance with the Authority's Capital Fund Program. During 2012, the Authority did not retire any capital assets.

The following table provides a summary of the Authority's capital assets:

	<u>Cost of capital assets</u>	<u>Accumulated depreciation</u>	<u>Net of accum. depreciation</u>
<i>Non-depreciable assets:</i>			
Land	\$ 60,000	\$ -	\$ 60,000
<i>Depreciable assets:</i>			
Buildings and improvements	4,395,685	3,222,855	1,172,830
Site improvements	159,209	65,991	93,218
Furniture, machinery and equipment	<u>192,823</u>	<u>144,070</u>	<u>48,753</u>
Total	<u>\$ 4,807,717</u>	<u>\$ 3,432,916</u>	<u>\$ 1,374,801</u>

Long Term Debt

At the end of the fiscal year, the Authority had total bonded debt outstanding of \$880,000, with \$105,000 payable within one year. The bonded debt is supported by pledged revenues in accordance with Bond Resolution requirements. See the Notes to Financial Statements, Note 5, for additional information about the Authority's long-term debt.

Significant Changes From Year Ended December 31, 2012 to December 31, 2011

Investment income decreased nearly 30% due to investment restrictions and market conditions. Administrative salaries increased nearly 20% due to salary increases. Ground maintenance costs decreased nearly 50% due to snow removal expenses in 2011. General maintenance increased nearly 18% due to general building maintenance performed in 2012. Exterminator fees decreased nearly 50% due to the bed bug prevention in 2011. Heating and electric decreased nearly 20% each due to less usage in 2012. Depreciation costs increased 10% due to depreciation on capital asset additions.

Economic Factors and Next Year's Budgets and Rates

The following factors were considered in preparing the Authority's budget for the next fiscal year:

- The state of the economy and its effect on interest rates and housing trends.
- The need for Congress to fund national security programs and the possible adverse effect on HUD subsidies and grants.
- The use of the Authority's unrestricted net position to fund any shortfalls arising from a possible economic downturn and reduced subsidies and grants.

The Authority's unrestricted net position of \$1,131,965 appears sufficient to cover any shortfall.

Housing Authority of the Borough of Neptune City
Management's Discussion and Analysis
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Contacting the Authority's Financial Management

The financial report is designed to provide a general overview of the Authority's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Executive Director, Housing Authority of the Borough of Neptune City, 2000 Sixth Avenue, Neptune City, NJ 07753.

Housing Authority of the Borough of Neptune City

Statements of Net Position

December 31, 2012 and 2011

ASSETS

	<u>2012</u>	<u>2011</u>
Current assets		
Cash and cash equivalents	\$ 945,798 (A)	\$ 1,063,086
Accounts receivable	3,737 (B)	4,515
Accrued interest receivable	31 (C)	51
Inventory	385 (D)	385
Total current assets	<u>949,951</u>	<u>1,068,037</u>
Restricted assets		
Cash and cash equivalents	518,737 (E)	476,905
Investments	250,617 (F)	257,749
Accrued interest receivable	5,715 (G)	5,724
Total restricted assets	<u>775,069</u>	<u>740,378</u>
Non-current assets		
Capital assets		
Land	60,000 (H)	60,000
Other capital assets, net of accumulated depreciation	1,314,801 (I)	1,438,273
Total non-current assets	<u>1,374,801</u>	<u>1,498,273</u>
TOTAL ASSETS	<u><u>\$ 3,099,821</u></u>	<u><u>\$ 3,306,688</u></u>

LIABILITIES AND NET POSITION

Current liabilities		
Accounts payable	\$ 24,944 (J)	\$ 55,347
Prepaid rents	706	3,489
Total current liabilities	<u>25,650</u>	<u>58,836</u>
Liabilities payable from restricted assets		
Rent security deposits	26,519 (N)	24,830
Accrued bond interest payable	13,200 (K)	14,700
Current portion of bonds payable	105,000 (L)	100,000
Total liabilities payable from restricted assets	<u>144,719</u>	<u>139,530</u>
Non-current liabilities		
Bonds payable, less current portion	775,000 (M)	880,000
Total liabilities	<u>945,369</u>	<u>1,078,366</u>
Net position		
Net investment in capital assets	494,801	518,273
Restricted for debt service	527,686	525,000
Unrestricted net position	1,131,965	1,185,049
Total net position	<u>2,154,452</u>	<u>2,228,322</u>
TOTAL LIABILITIES AND NET POSITION	<u><u>\$ 3,099,821</u></u>	<u><u>\$ 3,306,688</u></u>

See Independent Auditor's Report and
Accompanying Notes to Financial Statements

Housing Authority of the Borough of Neptune City
 Statements of Revenues, Expenses and Changes in Net Position
 December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Operating Revenues:		
Tenant revenue	\$ 284,550	\$ 271,246
HUD rent subsidies	287,848	291,039
Other revenue	<u>2,345</u>	<u>10,722</u>
Total operating revenues	<u>574,743</u>	<u>573,007</u>
Operating Expenses:		
Administrative	155,556	139,855
Tenant services	21,916	21,557
Utilities	125,857	137,420
Ordinary maintenance	59,841	69,722
General expenses	76,055	76,179
Depreciation expense	<u>163,619</u>	<u>149,164</u>
Total operating expenses	<u>602,844</u>	<u>593,897</u>
Operating income (loss)	(28,101)	(20,890)
Non-Operating Revenues (Expenses):		
Unrealized gain (loss) on investment	(3,463)	16,883
Loss on disposal of assets	-	(7,503)
Interest income	11,994	16,574
Interest expense	<u>(54,300)</u>	<u>(60,150)</u>
Total non-operating income (expenses)	<u>(45,769)</u>	<u>(34,196)</u>
Decrease in net position	<u>(73,870)</u>	<u>(55,086)</u>
Total net position, beginning, as previously reported	2,228,322	2,303,750
Prior period adjustment	<u>-</u>	<u>(20,342)</u>
Total net position, beginning, as restated	<u>2,228,322</u>	<u>2,283,408</u>
Total net position, ending	<u>\$ 2,154,452</u>	<u>\$ 2,228,322</u>

See Independent Auditor's Report and
 Accompanying Notes to Financial Statements

Housing Authority of the Borough of Neptune City

Statements of Cash Flows

December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash Flows from Operating Activities:		
Cash received from tenants	\$ 282,545	\$ 270,220
Cash received from HUD	287,848	387,171
Other operating revenues	2,345	10,722
Cash payments to suppliers	(399,197)	(406,353)
Cash payments to employees	<u>(70,431)</u>	<u>(61,071)</u>
Net cash provided by operating activities	<u>103,110</u>	<u>200,689</u>
Cash Flows from Capital and Related Financing Activities:		
Interest on bonds	(55,800)	(61,500)
Payment of bond principal	(100,000)	(90,000)
Purchase of fixed assets	<u>(40,147)</u>	<u>(118,274)</u>
Net cash used by capital and related financing activities	<u>(195,947)</u>	<u>(269,774)</u>
Cash Flows from Investing Activities:		
Interest income	15,692	36,824
Security deposits	<u>1,689</u>	<u>(10,014)</u>
Net cash provided by investing activities	<u>17,381</u>	<u>26,810</u>
Net decrease in cash and cash equivalents	(75,456)	(42,275)
Cash and cash equivalents at beginning of year	<u>1,539,991</u>	<u>1,582,266</u>
Cash and cash equivalents at end of year	<u>\$ 1,464,535</u>	<u>\$ 1,539,991</u>
Cash and cash equivalents per statements of financial position:		
Unrestricted cash and cash equivalents	945,798	1,063,086
Restricted cash and cash equivalents	<u>518,737</u>	<u>476,905</u>
	<u>\$ 1,464,535</u>	<u>\$ 1,539,991</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Operating income (loss)	\$ (28,101)	\$ (20,890)
Adjustment to reconcile operating loss to net cash provided by operating activities		
Depreciation	163,619	149,164
Changes in operating assets and liabilities		
Accounts receivable	778	91,617
Inventory	-	(385)
Accounts payable	(30,403)	(22,306)
Prepaid rents	<u>(2,783)</u>	<u>3,489</u>
Net cash provided by operating activities	<u>\$ 103,110</u>	<u>\$ 200,689</u>

See Independent Auditor's Report and
Accompanying Notes to Financial Statements

Housing Authority of the Borough of Neptune City

Notes to Financial Statements

December 31, 2012 and 2011

Note 1: Nature of Organization and Summary of Significant Accounting Policies

Nature of Organization

The Authority was created through a resolution of the Borough of Neptune City with respect to acquisition, construction and operation of an elderly housing project. It was organized as a public housing authority as defined by State Statute (N.J.S.A 40A:12A-1, et seq., the "Housing Authority Act"). The Authority functions under the supervision of the Department of Housing and Urban Development (HUD), the New Jersey Department of Community Affairs – Division of Local Government Services (DCA) and in accordance with a resolution authorizing the issuance of serial bonds dated August 22, 1977, as supplemented on September 7, 1977.

Upon completion of the project, a contract for Section 8 Housing Assistance Payments on behalf of eligible families was executed by HUD and the Authority providing payments over forty (40) years under the United States Housing Act of 1937, as amended, and further amended by the Housing and Community Development Act of 1974.

In addition, the Bond Resolution authorizing the project has several covenants including the pledging of all revenues, rentals, and moneys including Federal Housing Assistance Payments to the payment of the revenue bond principal and interest. The Bond Resolution requires a series of sinking fund installments as well as a call for the redemption of bonds, by lottery, each year equal to that year's sinking fund installment.

The Authority has not identified any entities which should be subject to evaluation for inclusion in the Authority's reporting entity. The Authority has concluded that it is excluded from the Borough's reporting entity since the Borough does not designate management, does not influence operations, does not have responsibility for fiscal matters and does not have a funding relationship with the Authority.

Activities

During 2012 and 2011, the only federal program administered by the Authority was Section 8 Rental Assistance for 60 elderly housing project units. The program provides rental assistance payments to the Authority on behalf of eligible low-income, elderly and special needs tenants 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 the participating tenant.

Significant Accounting Policies

Basis of Accounting - The proprietary accrual basis of accounting is used for measuring financial position and operating results of the Authority. Under the accrual basis of accounting, revenue is recognized when it is earned regardless of when received and expenditures are recognized when incurred regardless of when paid.

Housing Authority of the Borough of Neptune City

Notes to Financial Statements

December 31, 2012 and 2011

Note 1: Nature of Organization and Summary of Significant Accounting Policies (continued)

Significant Accounting Policies (continued)

Report Presentation - The basic financial statements included in this report were prepared in accordance with generally accepted accounting principles (GAAP) applicable to governmental entities for proprietary fund types, using the economic resources measurement focus and the accrual basis of accounting.

The Authority applies all relevant Governmental Accounting Standards Board (GASB) Pronouncements and has adopted the provisions of Governmental Accounting Standards Board Statement No. 33, Accounting and Financial Reporting of Nonexchange Transactions and Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments.

The enterprise fund, a proprietary fund type, is used for activities which are financed and operated in a manner similar to private business enterprises where the intent of the Authority is that the costs (expenses, including depreciation) of providing goods or services to its clients on a continuing basis be financed or recovered primarily through user charges or operating subsidies.

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

Effective January 1, 2012, the Authority retroactively adopted GASB Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position and Concepts Statements 4*. These statements, assuming other things, change the use of the term "net assets" to "net position" and identifies net position as the residual of all other elements presented in the statements of net position.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassification

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform to the presentation in the current year financial statements.

Housing Authority of the Borough of Neptune City

Notes to Financial Statements

December 31, 2012 and 2011

Note 1: Nature of Organization and Summary of Significant Accounting Policies (continued)

Cash and Cash Equivalents

The Authority considers all highly liquid investments, including restricted assets, with an original maturity of three months or less when purchased to be cash equivalents.

Deposits – New Jersey statutes permit the deposit of public funds in institutions located in New Jersey which are insured by the Federal Deposit Insurance Corporation (FDIC), or any other agencies of the United States that insures deposits or the State of New Jersey Cash Management Fund.

In addition, New Jersey statutes permit authorities to deposit funds in Government Money Market Funds purchased through state registered brokers/dealers and banks.

Each depository participating in the Governmental Unit Deposit Protection Act (GUDPA) system must pledge collateral equal to at least 5% of the average amount of its public deposits and 100% of the average amount of its public funds in excess of the lesser of 75% of its capital funds or \$200 million. The minimum 5% pledge applies to institutions that are categorized as “well capitalized” by Federal banking standards. The percentage of the required pledge will increase for institutions that are less than “well capitalized”.

No collateral is required for amounts covered by FDIC or NCUSIF Insurance. The collateral which may be pledged to support these deposits includes obligations of the state and federal governments, insured securities and other collateral approved by the Department. When the capital position of the depository deteriorates or the depository takes an unusually large amount of public deposits, the New Jersey Department of Banking and Insurance requires additional collateral to be pledged.

Risk Category - Bank deposits are classified as to credit risk by three categories described below:

Category 1 - Insured or collateralized with securities held by the Authority or by its agent in the Authority’s name.

Category 2 - Collateralized with securities held by the pledging public depository’s trust department or agent in the Authority’s name.

Category 3 - Uncollateralized, including any deposits that are collateralized with securities held by the pledging public depository, or by its trust department or agent, but not in the Authority’s name.

As of December 31, 2012, the Authority had funds on deposit in money market, savings and checking accounts. These funds constitute “deposits with financial institutions” as defined by GASB Statement No. 3 and are summarized as follows:

Housing Authority of the Borough of Neptune City

Notes to Financial Statements

December 31, 2012 and 2011

Note 1: Nature of Organization and Summary of Significant Accounting Policies (continued)

Cash and Cash Equivalents (continued)

<u>Category</u>	<u>Amount</u>
1	\$ 545,048
2	-
3	<u>1,172,938</u>
	<u>\$ 1,717,986</u>

Note 2: Investments

New Jersey statutes permit the purchase of the following types of securities:

- Bonds or other obligations of the United States of America or obligations guaranteed by the United States of America. This includes instruments such as Treasury bills, notes and bonds.
- Government money market mutual funds.
- Any federal agency or instrumentality obligation authorized by Congress that matures within 397 days from the date of purchase, and has a fixed rate of interest not dependent on any index or external factors.
- Bonds or other obligations of the local unit or school districts of which the local unit is a part.
- Any other obligations with maturities not exceeding 397 days, as permitted by the Division of Investments.
- Local government investment pools, such as New Jersey CLASS, and the New Jersey Arbitrage Rebate Management Program.
- New Jersey State Cash Management Fund.
- Repurchase agreements of fully collateralized securities, subject to special conditions.

Investments in marketable debt securities held by the Authority are stated at market value. The investments held by the Authority consist of U.S. Treasury obligations.

Note 3: Restricted Assets

Certain assets of the Authority are legally restricted for specific uses. Those restrictions include debt service and tenant security deposits. When an expense is incurred for purposes for which there are both restricted and unrestricted net assets available, it is the Authority's policy to apply those expenses to restricted net assets to the extent such are available and then to unrestricted net assets.

Housing Authority of the Borough of Neptune City

Notes to Financial Statements

December 31, 2012 and 2011

Note 4: Capital Assets

Capital assets primarily consist of expenditures to acquire, construct, place in operations and improve facilities of the Authority and are stated at cost.

Expenditures are capitalized when they meet the capitalization policy requirements.

Depreciation is computed using the straight-line method for financial reporting purposes.

Capital assets are summarized by major classifications as follows:

	Beginning Balance	Additions	Retirements	Ending Balance	Depreciable Lives
Building and improvements	\$ 4,375,310	\$ 20,375	\$ -	\$ 4,395,685	10 - 50 Years
Site improvements	148,373	10,836	-	159,209	15 Years
Furniture and equipment	183,887	8,936	-	192,823	5 - 10 Years
Land	60,000	-	-	60,000	
	<u>4,767,570</u>	<u>40,147</u>	<u>-</u>	<u>4,807,717</u>	
Less accumulated depreciation	<u>(3,269,297)</u>	<u>(163,619)</u>	<u>-</u>	<u>(3,432,916)</u>	
Net property and equipment	<u>\$ 1,498,273</u>	<u>\$ (123,472)</u>	<u>\$ -</u>	<u>\$ 1,374,801</u>	

Depreciation expense was \$163,619 and \$149,164 for the years ended December 31, 2012 and 2011, respectively.

Note 5: Bonds Payable

On August 22, 1977 the Authority authorized the issuance of Senior Citizen's Housing Project Revenue Serial Bonds. The issuance included \$1,875,000 of 6% term bonds maturing April 1, 2019. \$10,000 of the term bonds were retired on January 8, 1986. The term bonds are subject to mandatory sinking fund installments. The debt service requirements in the next five years and thereafter are as follows:

	<u>Principal</u>	<u>Interest</u>
2013	\$ 105,000	\$ 49,650
2014	110,000	43,200
2015	120,000	36,300
2016	125,000	28,950
2017	135,000	21,150
2018 – 2019	285,000	16,950

Note 6: Pension Plan

All employees participate in the Public Employees' Retirement System ("PERS"). The Division of Pensions within the Treasury Department of the State of New Jersey is the administrator of the funds and charges the Authority annually for its respective contributions. The plan is a cost-sharing, multiple-employer defined benefit plan and as such does not

Housing Authority of the Borough of Neptune City

Notes to Financial Statements

December 31, 2012 and 2011

Note 6: Pension Plan (continued)

maintain separate records for each Authority in the State and, therefore, the actuarial data for the Authority is not available.

The plan provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. The Division of Pensions issues publicly-available financial reports for the plan that includes financial statements and required supplementary information. The reports may be obtained by writing the State of New Jersey, Division of Pensions, P.O. Box 295, Trenton, New Jersey 08625-0295.

Covered employees are required by State statute to contribute a certain percentage of their salary to the plan. Each member's percentage is based on age determined at the effective date of enrollment. In addition, the PERS may bill the Authority annually at an actuarially-determinable rate for its required contribution. The current employee rate was increased from 6.5% to 7% of base salary effective July 1, 2012. In addition the employees percentage contribution will increase an additional 1% prorated over the next seven years which started July 1, 2012.

The contribution requirements of plan members and the Authority are established and may be amended by the PERS Board of Trustees. For the years ended December 31, the Authority made their annual required contributions in its entirety as follows:

<u>PERS</u>		
2012	\$	7,023
2011	\$	6,884
2010	\$	5,368

Note 7: 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 payments in lieu of taxes (PILOT) for the low-income housing program in accordance with the provisions of a Cooperative Agreement. Under the Cooperative Agreement, the Authority must pay the municipality 10% of the gross rents received.

Note 8: Risk Management

The Authority carries commercial insurance for all risks of loss, including general liability, property, worker's compensation, unemployment and disability insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

There are no known liabilities, contingent or otherwise, which would not be covered by insurance protection.

Housing Authority of the Borough of Neptune City

Notes to Financial Statements

December 31, 2012 and 2011

Note 9: Prior Period Adjustment

During the current year, the Authority implemented GASB Statement No 65, *Items Previously Reported as Assets and Liabilities*, by the Government Accounting Standards Board. Accounting changes adopted to conform to the provisions of GASB No. 65 are to be applied retroactively by restating all prior periods presented. As a result, an adjustment of \$20,342 was made to the January 1, 2011 opening balance of net position, which reflects the unamortized debt issuance costs as of that date. In addition, the prior period financial statements have been restated from those previously issued by removal of deferred bond issue cost expense from the books and records of the Authority. This results in an increase to net income of \$2,466 for bond issue costs recognized during 2011.

Note 10: Subsequent Events - Date of Management Evaluation

Management has evaluated events occurring after December 31, 2012 for possible adjustment to or disclosure in the financial statements through April 23, 2013, the date on which the financial statements were available to be issued.

No subsequent events requiring recognition or disclosure in the financial statements were identified by management.

Housing Authority of the Borough of Neptune City

Schedule of Operating Expenses

December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Administrative		
Salaries	\$ 71,837	\$ 60,954
Professional fees	37,373	41,050
Employee benefits	12,921	10,178
Payroll taxes	9,297	6,478
Training and meetings	7,566	5,962
Bank and trustee fees	6,303	5,952
Office expenses	5,899	5,921
Telephone	4,065	3,000
Legal notices	236	328
Tenant administration	59	32
Total Administrative	<u>155,556</u>	<u>139,855</u>
Tenant Services		
Cable television	19,781	19,457
Tenant Services	<u>2,135</u>	<u>2,100</u>
Total Tenant Services	<u>21,916</u>	<u>21,557</u>
Utilities		
Electric	49,747	59,596
Heat	34,515	40,005
Sewer	24,400	24,400
Water	<u>17,195</u>	<u>13,419</u>
Total Utilities	<u>125,857</u>	<u>137,420</u>
Ordinary Maintenance		
General maintenance	35,249	30,035
Elevator maintenance	6,930	6,290
Exterminator	6,440	12,060
Ground maintenance	5,504	11,353
Alarm maintenance	4,620	7,442
Boiler maintenance	855	1,104
Cleaning supplies	243	1,438
Total Ordinary Maintenance	<u>59,841</u>	<u>69,722</u>
General Expenses		
Payment in lieu of taxes	55,640	55,337
Insurance	<u>20,415</u>	<u>20,842</u>
Total General Expenses	<u>76,055</u>	<u>76,179</u>
Depreciation expense	<u>163,619</u>	<u>149,164</u>
Total Operating Expenses	<u>\$ 602,844</u>	<u>\$ 593,897</u>

Hutchins, Meyer & DiLieto, PA

Certified Public Accountants • Business & Financial Advisors

Robert H. Hutchins, CPA, CVA
Eugene M. Farrell, CPA, RMA (1952-2012)
Alan E. Meyer, CPA/ABV, CFF
Joann DiLieto, CPA

Glenn G. VanPell, CPA
Karen D. Davis, CPA, CVA, CFFA, CIA
Crystal L. Fitzpatrick, CPA
Hélène T. Morizzo, CPA

512 Main Street • PO Box 1778
Toms River, NJ 08754
(732) 240-5600
Fax: (732) 505-8358

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

To the Board of Commissioners
Housing Authority of the Borough of Neptune City
Neptune City, New Jersey

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Housing Authority of the Borough of Neptune City, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise Housing Authority of the Borough of Neptune City's basic financial statements, and have issued our report thereon dated April 23, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Housing Authority of the Borough of Neptune City'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 Housing Authority of the Borough of Neptune City's internal control. Accordingly, we do not express an opinion on the effectiveness of the Housing Authority of the Borough of Neptune City'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 Housing Authority of the Borough of Neptune City'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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that were reported to the Board of Commissioners and management of the Housing Authority of the Borough of Neptune City in a separate letter dated April 23, 2013.

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 result 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.

Hutchins, Meyer & DiLieto, PA

Toms River, New Jersey
April 23, 2013