

**Housing Authority of the Borough of Neptune City**  
**Financial Statements**  
**December 31, 2013 and 2012**  
**With Independent Auditors' Reports**

**Housing Authority of the Borough of Neptune City  
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December 31, 2013 and 2012**

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## **Independent Auditors' Report**

To the Board of Commissioners  
Housing Authority of the Borough of Neptune City

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Housing Authority of the Borough of Neptune City (the "Authority"), which comprise the statements of net position as of December 31, 2013 and 2012, and the related statements of revenues, expenses and changes in net position 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.

### **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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 Authority as of December 31, 2013 and the changes in its net position and its cash flows for the year then ended in conformity 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 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 this 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***

The schedule of operating expenses is presented for purposes of additional analysis and is not a required part of the basic financial statements. This schedule 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. The 2012 comparative information was included in the financial statements audited by Hutchins, Meyer and DiLieto, PA who merged with WithumSmith+Brown P.C. as of January 16, 2014, and whose report dated April 23, 2013 did not express an opinion on this schedule.

### ***Other Matter***

The 2012 financial statements of the Housing Authority of the Borough of Neptune City were audited by Hutchins, Meyer and DiLieto, PA who merged with WithumSmith+Brown P.C. as of January 16, 2014, and whose report dated April 23, 2013 expressed an unmodified opinion on those statements.



### **Report on Other Legal and Regulatory Requirements**

In accordance with *Government Auditing Standards*, we have also issued our report dated June 4, 2014 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.

*WithumSmith+Brown, PC*

June 4, 2014

## **Management's Discussion and Analysis**

Housing Authority of the Borough of Neptune City

Management's Discussion and Analysis

December 31, 2013 and 2012

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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, 2013. 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, 2013, the assets of the Authority exceeded its liabilities by \$2,093,153 (net position). This compares to the previous year when assets exceeded liabilities by \$2,154,452.

Total net position is comprised of the following:

- a. Net investment in capital assets of \$489,727 includes 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 \$549,426 is restricted by constraints imposed from outside the Authority such as debt covenants, grantors, laws, or regulations.
- c. Unrestricted net position of \$1,054,000 represents the portion available to maintain the Authority's continuing obligations to its tenants and creditors.

The Authority had total revenues of \$623,374 and total expenses and losses of \$684,673 for the year ended December 31, 2013.

The Authority's capital outlays for the fiscal year were \$50,602.

The Authority's expenditures of federal awards amounted to \$303,499 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.

### 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 9 through 11 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 12 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:

	<b>2013</b>	<b>2012</b>
Current and other assets	\$ 1,677,502	\$ 1,725,020
Capital assets	<u>1,264,727</u>	<u>1,374,801</u>
Total assets	<u>\$ 2,942,229</u>	<u>\$ 3,099,821</u>
Long-term liabilities	\$ 665,000	\$ 775,000
Other liabilities	<u>184,076</u>	<u>170,369</u>
Total liabilities	<u>849,076</u>	<u>945,369</u>
Net investment in capital assets	489,727	494,801
Restricted net position	549,426	527,686
Unrestricted net position	<u>1,054,000</u>	<u>1,131,965</u>
Total net position	<u>2,093,153</u>	<u>2,154,452</u>
Total liabilities and net position	<u>\$ 2,942,229</u>	<u>\$ 3,099,821</u>

The Authority as a Whole (continued)

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

	<b>2013</b>	<b>%</b>	<b>2012</b>	<b>%</b>
Revenues:				
Tenant revenues	\$ 300,593	48%	\$ 284,550	48%
Government operating grants	303,499	49%	287,848	49%
Other revenue	1,104	0%	2,345	0%
Investment income	<u>18,178</u>	<u>3%</u>	<u>11,994</u>	<u>3%</u>
Total revenues	<u>623,374</u>	<u>100%</u>	<u>586,737</u>	<u>100%</u>
Expenses:				
General operating expenses	455,124	67%	439,225	66%
Interest expense	48,075	7%	54,300	8%
Unrealized loss on investments	20,798	3%	3,463	1%
Depreciation	<u>160,676</u>	<u>23%</u>	<u>163,619</u>	<u>25%</u>
Total expenses	<u>684,673</u>	<u>100%</u>	<u>660,607</u>	<u>100%</u>
Decrease in net position	(61,299)		(73,870)	
Beginning net position	<u>2,154,452</u>		<u>2,228,322</u>	
Ending net position	<u>\$ 2,093,153</u>		<u>\$ 2,154,452</u>	

- Budgetary Highlights

For the fiscal year ended December 31, 2013, 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 \$105,000 and \$100,000 for fiscal years ended December 31, 2013 and 2012, respectively. This resulted in budgetary deficiencies of revenues over expenses of \$5,623 and \$10,251 for fiscal years ended December 31, 2013 and 2012, respectively.

- Capital Assets and Debt Administration

Capital Assets

As of December 31, 2013, the Authority's net investment in capital assets was \$489,727 (net of accumulated depreciation and related debt). This investment in capital assets includes land, buildings, equipment and construction in progress less related debt.

Major capital asset purchases of \$50,602 during the fiscal year pertained to expenditures made in accordance with the Authority's Capital Fund Program. During 2013 the Authority did not retire any capital assets.

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

	<b>Cost of Capital Assets</b>	<b>Accumulated Depreciation</b>	<b>Net Book Value</b>
<b>Non-depreciable assets:</b>			
Land	\$ 60,000	\$ -	\$ 60,000
<b>Depreciable assets:</b>			
Buildings and improvements	4,438,090	3,361,592	1,076,498
Site improvements	159,209	76,605	82,604
Furniture, machinery and equipment	<u>201,020</u>	<u>155,395</u>	<u>45,625</u>
Total	<u>\$ 4,858,319</u>	<u>\$ 3,593,592</u>	<u>\$ 1,264,727</u>

Long Term Debt

At the end of the fiscal year, the Authority had total bonded debt outstanding of \$775,000, with \$110,000 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, 2013 to December 31, 2012

Operating revenues increased 5% due to an increase in the approved rental rates. Investment income, including unrealized losses and interest income, decreased approximately \$11,000 due to investment restrictions and market conditions. Interest expenses decreased 11% due to pay down of principal on outstanding bonds. Utility expenses increased nearly 20% due to colder weather conditions leading to higher usage in 2013. Administrative expenses decreased nearly 6%.

### 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 \$1,054,000 appears sufficient to cover any shortfall.

### 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.

## **Financial Statements**

**Housing Authority of the Borough of Neptune City**  
**Statements of Net Position**  
**December 31, 2013 and 2012**

<b>ASSETS</b>	<b>2013</b>	<b>2012</b>
Current assets		
Cash and cash equivalents	\$ 951,059	\$ 945,798
Accounts receivable - tenants	3,851	3,737
Accounts receivable - HUD	11,210	-
Other current assets	408	416
Total current assets	<u>966,528</u>	<u>949,951</u>
Restricted assets		
Cash and cash equivalents	475,444	518,737
Investments	229,820	250,617
Accrued interest receivable	5,710	5,715
Total restricted assets	<u>710,974</u>	<u>775,069</u>
Capital assets		
Land	60,000	60,000
Other capital assets, net	1,204,727	1,314,801
Total capital assets	<u>1,264,727</u>	<u>1,374,801</u>
Total Assets	<u>\$ 2,942,229</u>	<u>\$ 3,099,821</u>
 <b>LIABILITIES AND NET POSITION</b>		
Current liabilities		
Accounts payable	\$ 33,097	\$ 24,944
Prepaid rents	5,524	706
Total current liabilities	<u>38,621</u>	<u>25,650</u>
Liabilities payable from restricted assets		
Rent security deposits	23,830	26,519
Accrued bond interest payable	11,625	13,200
Current portion of bonds payable	110,000	105,000
Total liabilities payable from restricted assets	<u>145,455</u>	<u>144,719</u>
Non-current liabilities		
Bonds payable, less current portion	<u>665,000</u>	<u>775,000</u>
Total liabilities	<u>849,076</u>	<u>945,369</u>
Net position		
Net investment in capital assets	489,727	494,801
Restricted	549,426	527,686
Unrestricted	1,054,000	1,131,965
Total net position	<u>2,093,153</u>	<u>2,154,452</u>
Total liabilities and net position	<u>\$ 2,942,229</u>	<u>\$ 3,099,821</u>

The Notes to Financial Statements are an integral part of these statements.

**Housing Authority of the Borough of Neptune City**  
**Statements of Revenues, Expenses and Changes in Net Position**  
**Years Ended December 31, 2013 and 2012**

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	<b>2013</b>	<b>2012</b>
Operating revenues		
Tenant revenues - rental income	\$ 283,753	\$ 268,552
Tenant revenues - miscellaneous	16,840	15,998
HUD rent subsidies	303,499	287,848
Other revenues	<u>1,104</u>	<u>2,345</u>
Total operating revenues	<u>605,196</u>	<u>574,743</u>
Operating expenses		
Administrative	146,597	155,556
Tenant services	23,120	21,916
Utilities	148,164	125,857
Ordinary maintenance	58,851	59,841
General expenses	78,392	76,055
Depreciation expense	<u>160,676</u>	<u>163,619</u>
Total operating expenses	<u>615,800</u>	<u>602,844</u>
Operating loss	<u>(10,604)</u>	<u>(28,101)</u>
Non-operating revenues (expenses)		
Net decrease in the fair value of investments	(20,798)	(3,463)
Interest income	18,178	11,994
Interest expense	<u>(48,075)</u>	<u>(54,300)</u>
Net non-operating revenues (expenses)	<u>(50,695)</u>	<u>(45,769)</u>
Decrease in net position	(61,299)	(73,870)
Total net position, beginning	<u>2,154,452</u>	<u>2,228,322</u>
Total net position, ending	<u>\$ 2,093,153</u>	<u>\$ 2,154,452</u>

The Notes to Financial Statements are an integral part of these statements.

**Housing Authority of the Borough of Neptune City**  
**Statements of Cash Flows**  
**Years Ended December 31, 2013 and 2012**

	<b>2013</b>	<b>2012</b>
<b>Cash flows from operating activities</b>		
Cash received from tenants	\$ 302,607	\$ 284,234
Cash received from HUD	292,289	287,848
Other operating revenues	1,104	2,345
Cash payments to suppliers	(374,269)	(399,197)
Cash payments to employees	<u>(72,701)</u>	<u>(70,431)</u>
Net cash provided by operating activities	<u>149,030</u>	<u>104,799</u>
<b>Cash flows from capital and related financing activities</b>		
Interest on bonds	(49,650)	(55,800)
Payment of bond principal	(105,000)	(100,000)
Purchase of fixed assets	<u>(50,602)</u>	<u>(40,147)</u>
Net cash used by capital and related financing activities	<u>(205,252)</u>	<u>(195,947)</u>
<b>Cash flows from investing activities</b>		
Interest income	<u>18,190</u>	<u>15,692</u>
Net cash provided by investing activities	<u>18,190</u>	<u>15,692</u>
Net decrease in cash and cash equivalents	(38,032)	(75,456)
Cash and cash equivalents, beginning of year	<u>1,464,535</u>	<u>1,539,991</u>
Cash and cash equivalents, end of year	<u>\$ 1,426,503</u>	<u>\$ 1,464,535</u>
Cash and cash equivalents - Statements of Financial Position		
Cash and cash equivalents	951,059	945,798
Cash and cash equivalents - restricted	<u>475,444</u>	<u>518,737</u>
	<u>\$ 1,426,503</u>	<u>\$ 1,464,535</u>
<b>Reconciliation of Operating Loss to Net Cash</b>		
<b>Provided by Operating Activities</b>		
Operating loss	\$ (10,604)	\$ (28,101)
Adjustments to Reconcile Operating Loss To		
Net Cash Provided by Operating Activities		
Depreciation	160,676	163,619
Changes in operating assets and liabilities:		
Accounts receivable - tenants	(114)	778
Accounts receivable - HUD	(11,210)	-
Accounts payable	8,153	(30,403)
Prepaid rents	4,818	(2,783)
Rent security deposits	<u>(2,689)</u>	<u>1,689</u>
Net cash provided by operating activities	<u>\$ 149,030</u>	<u>\$ 104,799</u>

The Notes to Financial Statements are an integral part of these statements.

**Housing Authority of the Borough of Neptune City**  
**Notes to Financial Statements**  
**December 31, 2013 and 2012**

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**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 2013 and 2012, 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.

**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, 2013 and 2012**

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**1. Nature of Organization and Summary of Significant Accounting Policies (continued)**

**Report Presentation**

The basic financial statements included in this report were prepared in accordance with accounting principles generally accepted in the United States of America (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.

**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.

**Investments**

Investments in marketable securities and debt securities are valued at their fair values based on quoted market prices or prices which are provided by investment managers in the statements of net position. Realized and unrealized gains and losses are included in the statements of revenues, expenses and changes in net position.

Deposits held by trustee are stated at fair value and represent amounts held by the trustee in connection with the bond indenture agreement

**Operating Revenues and Accounts Receivable**

HUD rent subsidies are recorded under the accrual method of accounting and are recognized in the period earned in accordance with applicable HUD guidelines. Tenant rental charges are determined and billed monthly and are recognized as revenue when billed as they are measurable and collectible within the current period. Rent is due within the first 5 days of each month. Interest earned on receivables is recorded as revenue when received. The Authority has determined that substantially all amounts recorded as accounts receivable will be collected and, accordingly, a provision for bad debts is not necessary.

**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.

**Housing Authority of the Borough of Neptune City**  
**Notes to Financial Statements**  
**December 31, 2013 and 2012**

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**1. Nature of Organization and Summary of Significant Accounting Policies (continued)**

**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, 2013 and 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:

<u>Category</u>	<u>Bank Balances</u>	
	<u>12/31/2013</u>	<u>12/31/2012</u>
1	\$ 349,789	\$ 316,443
2	-	-
3	1,081,919	1,172,938
	<u>\$ 1,431,708</u>	<u>\$ 1,489,381</u>

**Reclassifications**

Certain reclassifications have been made to the 2012 financial statement presentation to correspond to the current year's format. Net position and changes in net position are unchanged due to these reclassifications.

**Housing Authority of the Borough of Neptune City**  
**Notes to Financial Statements**  
**December 31, 2013 and 2012**

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**1. Nature of Organization and Summary of Significant Accounting Policies (continued)**

**Net Position**

Net position is identified as the residual of all other elements presented in a statement of financial position. Net position is classified in the following three components:

*Net Investment in Capital Assets* - This component of net position consists of capital assets, net of accumulated depreciation reduced by the outstanding balances of any bonds, notes or other borrowings and deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt. If there are significant unspent related debt proceeds or deferred inflows of resources at year-end, the portion of the debt or deferred inflows of resources attributable to the unspent amount should not be included in the calculation of net investment in capital assets. Instead, that portion of the debt or deferred inflows of resources should be included in the same net position component as the unspent amount.

*Restricted* - This component of net position consists of external constraints imposed by creditors (such as through debt covenants), grantors, contributors, laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation that restricts the use of net position.

*Unrestricted* - This component of net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

**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.

**Fair Value Measurements**

The Financial Accounting Standards Board established a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

**Housing Authority of the Borough of Neptune City**  
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**Fair Value Measurements (continued)**

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Cemetery has the ability to access. Such inputs include quoted prices in active markets for identical assets or liabilities.

Level 2 - Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are financial instruments whose values are determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant judgment or estimation.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following table sets forth by level, within the fair value hierarchy, the Authority's assets at fair value as of December 31:

	<b>2013</b>	<b>2012</b>	<b>Hierarchy</b>
U.S. Treasury Notes	<u>\$ 229,820</u>	<u>\$ 250,617</u>	Level 2

**3. Restricted Assets**

Certain assets of the Authority are legally restricted for specific uses. Those restrictions include debt service cash and investments 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 assets to the extent such are available and then to unrestricted assets.

**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:

	<b>12/31/2012</b>			<b>12/31/2013</b>
	<b>Beginning</b>	<b>Additions</b>	<b>Retirements</b>	<b>Ending</b>
	<b>Balance</b>			<b>Balance</b>
Land	\$ 60,000	\$ -	\$ -	\$ 60,000
Building and improvements	4,395,685	42,405	-	4,438,090
Site improvements	159,209	-	-	159,209
Furniture and fixtures	<u>192,823</u>	<u>8,197</u>	-	<u>201,020</u>
Total Capital Assets	4,807,717	50,602	-	4,858,319
Less: Accumulated Depreciation	<u>(3,432,916)</u>	<u>(160,676)</u>	-	<u>(3,593,592)</u>
Net Capital Assets	<u>\$ 1,374,801</u>	<u>\$ (110,074)</u>	<u>\$ -</u>	<u>\$ 1,264,727</u>

**Housing Authority of the Borough of Neptune City**  
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**4. Capital Assets (continued)**

	12/31/2011 Beginning Balance	Additions	Retirements	12/31/2012 Ending Balance
Land	\$ 60,000	\$ -	\$ -	\$ 60,000
Building and improvements	4,375,310	20,375	-	4,395,685
Site improvements	148,373	10,836	-	159,209
Furniture and fixtures	183,887	8,936	-	192,823
Total Capital Assets	4,767,570	40,147	-	4,807,717
Less: Accumulated Depreciation	<u>(3,269,297)</u>	<u>(163,619)</u>	-	<u>(3,432,916)</u>
Net Capital Assets	<u>\$ 1,498,273</u>	<u>\$ (123,472)</u>	<u>\$ -</u>	<u>\$ 1,374,801</u>

Depreciation expense was \$160,676 and \$163,619 for the years ended December 31, 2013 and 2012, respectively.

**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:

	Principal	Interest	Total
2014	\$ 110,000	\$ 43,200	\$ 153,200
2015	120,000	36,300	156,300
2016	125,000	28,950	153,950
2017	135,000	21,150	156,150
2018	140,000	12,900	152,900
2019	145,000	4,050	149,050
	<u>\$ 775,000</u>	<u>\$ 146,550</u>	<u>\$ 921,550</u>

**6. Pension Plan**

Substantially all Authority employees participate in the Public Employees' Retirement System ("PERS" or "System") which has been established by State statute. The Division of Pensions and Benefits ("Division") within the Treasury Department of the State of New Jersey is the administrator of the plan. According to the State of New Jersey Administrative Code, all obligations of the System will be assumed by the State of New Jersey should the System terminate. The PERS is considered a cost-sharing multiple-employer plan.

The Public Employees' Retirement System was established in January 1955 and significantly amended on May 21, 2010 under the provisions of N.J.S.A. 43:15A to provide coverage including post-retirement health care to substantially all full time employees of the State or any county, municipality, school district or public agency provided the employee is not a member of another State-administered retirement system. The 2010 legislation implemented the "tiered" system whereby employees are eligible for benefits based upon their date of hire, number of weekly hours worked and annual salary.

**Housing Authority of the Borough of Neptune City  
Notes to Financial Statements  
December 31, 2013 and 2012**

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**6. Pension Plan (continued)**

Vesting for pension benefits occurs after 10 years of service and 25 years for health care coverage. Members are eligible for retirement at age 60 for Tier 1 and Tier 2 employees, at age 62 for Tier 3 and Tier 4 employees and at age 65 for Tier 5 employees with an annual benefit generally determined to be 1/55<sup>th</sup> of the final average salary multiplied by the years of service for Tier 1, 2 and 3 employees and 1/60<sup>th</sup> of the final average salary multiplied by the years of service for Tier 4 and 5 employees. Early retirement is available to those under normal retirement age with 25 or more years of credited service, but at a reduced rate.

The State of New Jersey, Department of the Treasury, Division of Pensions and Benefits, issues publicly available financial reports that include the financial statements and required supplementary information for PERS. As of July 1, 2012 the aggregate funded ratio and unfunded accrued liability for local PERS obligations was 74.5% and \$6.635 billion, respectively. The financial reports may be obtained by writing to the State of New Jersey, Department of the Treasury, Division of Pensions and Benefits, P.O. Box 295, Trenton, New Jersey, 08625-0295.

**Funding Policy**

The contribution policy is set by the New Jersey State Statutes and contributions are required by active members and contributing employers. Plan member and employer contributions may be amended by State of New Jersey legislation. PERS required employee contributions of 6.5% of employees' annual compensation, as defined. This current employee rate was increased from 6.5% to 7% of base salary effective July 1, 2012 plus an additional 1% phased in over 7 years beginning in fiscal year 2013. Employers are required to contribute at an actuarially determined rate. The member contribution rate was 6.64% - 6.78% and 6.50% in fiscal years 2013 and 2012, respectively. The actuarially determined contribution includes funding for cost of living adjustments, noncontributory death benefits and post-retirement medical premiums.

In accordance with the provisions of N.J.S.A. 43:15A, the contribution policy requires State related employers and the State of New Jersey to make a normal contribution and an accrued liability contribution, if applicable, determined by a qualified actuary. The Authority's total payroll for the years ended December 31, 2013 and 2012 for all employees was \$72,701 and \$71,837, respectively. For the years ended December 31, 2013 and 2012 there were no employees required to pay into the PERS.

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:

2013	\$	4,570
2012	\$	7,023
2011	\$	6,884

**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.

**Housing Authority of the Borough of Neptune City**  
**Notes to Financial Statements**  
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**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.

**9. Subsequent Events**

The Authority has evaluated subsequent events occurring after December 31, 2013 for possible adjustment to or disclosure in the financial statements through June 4, 2014, the date on which the financial statements were available to be issued. Based on this evaluation, the Authority has determined that no subsequent events have occurred that require recognition or disclosure in the financial statements.

## **Supplementary Information**

**Housing Authority of the Borough of Neptune City  
Schedule of Operating Expenses  
Years Ended December 31, 2013 and 2012**

	2013	2012
Administrative		
Salaries	\$ 72,701	\$ 71,837
Professional fees	36,270	37,373
Employee benefits	9,163	12,921
Payroll taxes	7,028	9,297
Training and meetings	4,613	7,566
Bank and trustee fees	8,071	6,303
Office expenses	4,588	5,899
Telephone	4,067	4,065
Legal notices	96	236
Tenant administration	-	59
Total Administrative	<u>146,597</u>	<u>155,556</u>
Tenant Services		
Cable television	21,430	19,781
Tenant Services	1,690	2,135
Total Tenant Services	<u>23,120</u>	<u>21,916</u>
Utilities		
Electric	60,212	49,747
Heat	40,031	34,515
Sewer	27,450	24,400
Water	18,272	17,195
Gas	2,199	-
Total Utilities	<u>148,164</u>	<u>125,857</u>
Ordinary Maintenance		
General maintenance	33,014	35,249
Elevator maintenance	5,863	6,930
Exterminator	6,129	6,440
Ground maintenance	5,128	5,504
Alarm maintenance	5,100	4,620
Boiler maintenance	2,891	855
Cleaning supplies	726	243
Total Ordinary Maintenance	<u>58,851</u>	<u>59,841</u>
General Expenses		
Payment in lieu of taxes	58,720	55,640
Insurance	19,672	20,415
Total General Expenses	<u>78,392</u>	<u>76,055</u>
Depreciation expense	<u>160,676</u>	<u>163,619</u>
Total Operating Expenses	<u>\$ 615,800</u>	<u>\$ 602,844</u>

See Independent Auditors' Report.



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**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***

The Board of Commissioners  
Housing Authority of the Borough of Neptune City

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, 2013, 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 June 4, 2014.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered 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 Housing Authority of the Borough of Neptune City's internal control. Accordingly, we do not express an opinion on the effectiveness of 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 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 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.

*William Smith + Brown, PC*

June 4, 2014