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HOUSING AUTHORITY OF THE
TOWN OF NEWTON
Newton, New Jersey

FINANCIAL STATEMENTS
For the Years Ended
December 31, 2016 and 2015

HOUSING AUTHORITY OF THE TOWN OF NEWTON
FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

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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, 2016. We encourage readers to consider the information presented here in conjunction with the Authority's financial statements as presented elsewhere in this report.

A - Financial Highlights

1 – The Authority had a total net position deficit of \$121,290 at the close of the most recent fiscal year as opposed to a \$4,909 surplus at the end of the prior fiscal year.

2 – As of the close of the current fiscal year, the Authority's Proprietary Fund reported a deficit in ending Unrestricted Net Position of \$431,730.

3 – The Authority's cash, cash equivalents and investment balance at December 31, 2016 was \$196,664 representing a decrease of \$48,040 from the prior fiscal year.

4 – The Authority had total operating revenues of \$683,015, and total operating expenses of \$841,473 (including depreciation expense of \$151,637) for the year ended December 31, 2016.

5 – The Authority's capital outlays for the fiscal year were \$32,110, all of which was funded by the Authority's capital fund programs..

6 – The Authority's expenditure of federal awards amounted to \$199,912 for the fiscal year ended December 31, 2016.

B - Using the Annual Report

1 - Management's Discussion and Analysis

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

2 - General Purpose Financial Statements

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

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

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

Housing Authority of the Town of Newton
Management's Discussion & Analysis
At December 31, 2016

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The financial statements report on the Authority's activities. The activities are ~~primarily supported~~ by HUD subsidies and grants. The Authority's function is to provide safe and sanitary housing to low income and special needs populations. The financial statements are included on pages 8 through 10.

3 – Notes to Financial Statements

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

C – The Authority as a Whole

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

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

D – Budgetary Highlights

For the year ended December 31, 2016, individual program or grant budgets were prepared by the Authority and were approved by the Board of Commissioners. The budgets were primarily used as a management tool and have no legal stature. The budgets were prepared in accordance with the accounting procedures prescribed by the applicable funding agency. As indicated by the excess of expenses over revenues, the Authority's Net Position decreased during the fiscal year.

E – Significant Changes from December 31, 2015 to December 31, 2016

Cash and cash equivalents decreased \$48,040 during the current fiscal year. Net cash used by operating activities was \$20,718, net cash used for the repayment of debt was \$25,260, and net cash used by investing activities was \$2,062.

Net fixed assets decreased \$119,527. The Authority purchased \$432,110 of capital assets and also incurred \$151,637 of depreciation expense during the current fiscal year.

Deferred outflow of resources increased \$67,177 based on the most recent Public Employees Retirement System of New Jersey actuarial valuation report dated June 30, 2016.

PILOT payable decreased \$29,404. The Authority paid the December 31, 2015 liability of \$62,563 during the current fiscal year. This \$62,563 balance represented both the 2015 and 2014 PILOT amounts. The current balance of \$33,159 represents the 2016 liability only.

Accrued pension and OPEB liabilities increased \$94,024. The Authority's OPEB liability increased \$7,368 while the pension liability increased \$86,656.

Deferred inflow of resources decreased \$12,180 based on the most recent Public Employees Retirement System of New Jersey actuarial valuation report dated June 30, 2016.

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E – Significant Changes from December 31, 2015 to December 31, 2016 (Continued)

HUD operating grants decreased \$62,162. Operating subsidy decreased \$36,638, from \$170,117 in 2015 to \$133,479 in 2016. In addition, capital grants used for operations decreased \$25,524, from \$59,847 in 2015 to \$34,323 in 2016

Total operating expenses (excluding depreciation expense of \$151,637) decreased \$48,741, primarily because administrative expenses decreased \$50,844. Administrative salaries decreased \$23,873 because an administrative employee who was full-time during the prior fiscal year is now a part-time employee. In addition, legal expenses decreased \$31,221 as the Authority is no longer involved in a lawsuit.

F – Capital Assets and Debt Administration

1 – Capital Assets

As of December 31, 2016, the Authority's investment in capital assets for its Proprietary Fund was \$425,075 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment and construction in progress.

Major capital assets purchased from grants of \$32,110 during the current fiscal year pertained to expenditures made in accordance with the Authority's Capital Fund Programs. These activities are funded by grants from HUD.

Additional information on the Authority's capital assets can be found in Note 3 to the Financial Statements which is included in this Report.

2 – Long Term Debt

During 2010 the Authority borrowed \$250,000 from Lakeland State Bank for the purpose of converting to energy efficient water closets in each apartment and the installation of two new high efficiency natural gas furnaces at Liberty Towers. The remaining balance of this loan at December 31, 2016 is \$114,635. Additional information can be found in Note 9 to the Financial Statements which is included in this report.

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

The following factors were considered in preparing the Authority's budget for the fiscal year ending December 31, 2017.

1 – The state of the economy, particularly in light of current world affairs.

2 – The need for Congress to continue the cut-back on HUD subsidies and grants due the lack of available funds.

3 – The use of the Authority's Unrestricted Net Position to fund any shortfalls rising from a possible economic downturn and reduced subsidies and grants. The Authority's Unrestricted Net Position appears sufficient to cover any shortfall.

Housing Authority of the Town of Newton
Management's Discussion & Analysis
At December 31, 2016

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H – Contacting the Authority's Financial Management

The financial report is designed to provide a general overview of the Authority's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Executive Director, Housing Authority of the Town of Newton, 32 Liberty Street, Newton, NJ 07860 or call (973) 383-5191.

Housing Authority of the Town of Newton
Management's Discussion & Analysis
At December 31, 2016

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	<u>Balance As of</u>		<u>Variance</u>	<u>% Var.</u>
	<u>Dec 2016</u>	<u>Dec 2015</u>		
Cash and Other Current Assets	\$ 208,909	\$ 256,907	\$ (47,998)	-18.68%
Net Fixed Assets	425,075	544,602	(119,527)	-21.95%
Deferred Outflow of Resources	<u>157,961</u>	<u>90,784</u>	<u>67,177</u>	<u>74.00%</u>
Total Assets	791,945	892,293	(100,348)	-11.25%
Less: Total Liabilities	(785,684)	(747,653)	(38,031)	5.09%
Less: Deferred Inflows of Resources	<u>(127,551)</u>	<u>(139,731)</u>	<u>12,180</u>	<u>-8.72%</u>
Net Position	<u>\$ (121,290)</u>	<u>\$ 4,909</u>	<u>\$ (126,199)</u>	<u>-2570.77%</u>
Net Investment in Capital Assets	310,440	404,837	(94,397)	-23.32%
Unrestricted Net Position	<u>(431,730)</u>	<u>(399,928)</u>	<u>(31,802)</u>	<u>7.95%</u>
Total Net Position	<u>\$ (121,290)</u>	<u>\$ 4,909</u>	<u>\$ (126,199)</u>	<u>-2570.77%</u>

Computations of Changes in Net Position are as follows:

	<u>For the Year Ended</u>		<u>Variance</u>	<u>% Var.</u>
	<u>Dec 2016</u>	<u>Dec 2015</u>		
<u>Operating Revenues</u>				
Tenant Revenues	\$ 467,961	\$ 473,363	(5,402)	-1.14%
HUD Operating Grants	167,802	229,964	(62,162)	-27.03%
Other	<u>47,252</u>	<u>49,142</u>	<u>(1,890)</u>	<u>-3.85%</u>
Total Operating Revenues	<u>683,015</u>	<u>752,469</u>	<u>(69,454)</u>	<u>-9.23%</u>
<u>Operating Expenses</u>				
Op Exps Excl. Depreciation	689,836	738,577	(48,741)	-6.60%
Depreciation Expense	<u>151,637</u>	<u>163,774</u>	<u>(12,137)</u>	<u>-7.41%</u>
Total Operating Expenses	<u>841,473</u>	<u>902,351</u>	<u>(60,878)</u>	<u>-6.75%</u>
Operating Deficit	(158,458)	(149,882)	(8,576)	5.72%
<u>Non-Operating Revenues</u>				
Interest on Investments	<u>149</u>	<u>101</u>	<u>48</u>	<u>47.52%</u>
Income/(Loss) Before Capital Grants	(158,309)	(149,781)	(8,528)	5.69%
<u>Capital Grants</u>				
HUD Capital Grants	<u>32,110</u>	<u>-</u>	<u>32,110</u>	<u>#DIV/0!</u>
Net Income/(Loss)	(126,199)	(149,781)	23,582	-15.74%
Net Position - Beginning Balance	4,909	590,018	(585,109)	-99.17%
Prior Period Adjustments	<u>-</u>	<u>(435,328)</u>	<u>435,328</u>	<u>-100.00%</u>
Net Position - Ending Balance	<u>\$ (121,290)</u>	<u>\$ 4,909</u>	<u>\$ (126,199)</u>	<u>-2570.77%</u>

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INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Housing Authority of the Town of Newton
Newton, New Jersey

Report on the Financial Statements

We have audited the accompanying Statements of Net Position of the Housing Authority of the Town of Newton, herein referred to as the Authority, as of December 31, 2016 and 2015, and the related Statements of Revenue, Expenses and Changes in Net Position and Cash Flows for the year 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 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 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 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 evidence we have obtained is sufficient and appropriate to provide a basis for our 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 Town of Newton, as of December 31, 2016 and 2015, and the changes in net position, and its cash flows for the years then ended, in accordance with the accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITOR'S REPORT
(Continued)

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Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis presented on pages 1-5 and the Supplemental Schedules pertaining to the Public Employees Retirement System presented on pages 28-29 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 financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements of the Housing Authority of the Town of Newton. The Financial Data Schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U. S. Department of Housing and Urban Development and is not a required part of the basic financial statements.

The financial data schedule and schedule of expenditures of federal awards for the years ended December 31, 2016 and 2015 are the responsibility of management and were derived from and directly relate to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards general accepted in the United States of America. In our opinion, the financial data schedule and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards* we have also issued our report dated May 15, 2017 on our consideration of the Housing Authority of the Town of Newton's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

POLCARI & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS

Wayne, New Jersey
May 15, 2017

HOUSING AUTHORITY OF THE TOWN OF NEWTON
 Newton, New Jersey
STATEMENT OF NET POSITION
 At December 31, 2016 and 2015

ASSETS AND DEFERRED OUTFLOW OF RESOURCES

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<u>CURRENT ASSETS</u>	2016	2015
Cash and Cash Equivalents - Unrestricted	\$ 141,530	\$ 187,359
Cash - Tenant Security Deposits	55,134	57,345
Prepaid Expenses	10,625	10,583
Inventories	1,620	1,620
Total Current Assets	208,909	256,907
 <u>FIXED ASSETS</u>		
Land	95,000	95,000
Buildings	3,236,219	3,236,219
Furniture & Equipment - Dwelling	34,106	34,106
Furniture & Equipment - Admin	67,600	67,600
Leasehold Improvements	368,000	368,000
Construction in Process	39,580	7,470
Total Fixed Assets	3,840,505	3,808,395
Less: Accumulated Depreciation	(3,415,430)	(3,263,793)
Net Fixed Assets	425,075	544,602
 Deferred Outflow of Resources	 157,961	 90,784
Total Assets and Deferred Outflow of Resources	\$ 791,945	\$ 892,293

LIABILITIES, NET POSITION AND DEFERRED INFLOW OF RESOURCES

<u>CURRENT LIABILITIES</u>		
Accounts Payable - Vendors	\$ 30,148	\$ 23,376
Tenant Security Deposits	55,134	57,345
Current Portion of Long Term Debt	27,229	25,617
Accrued Liabilities:		
Compensated Absences	1,450	2,039
Payment in Lieu of Taxes	33,159	62,563
Interest Payable	592	722
Total Current Liabilities	147,712	171,662
 <u>LONG TERM LIABILITIES</u>		
Compensated Absences	13,053	18,354
Long Term Debt	87,406	114,148
Accrued Pension and OPEB Liabilities	537,513	443,489
Total Long Term Liabilities	637,972	575,991
Total Liabilities	785,684	747,653
 Deferred Inflow of Resources	 127,551	 139,731
 <u>NET POSITION</u>		
Net Investment in Capital Assets	310,440	404,837
Unrestricted Net Position	(431,730)	(399,928)
Total Net Position	\$ (121,290)	\$ 4,909

See Notes to Financial Statements

HOUSING AUTHORITY OF THE TOWN OF NEWTON
 Newton, New Jersey
STATEMENT OF REVENUES EXPENSES AND CHANGES IN NET POSITION
 For the Years Ended December 31, 2016 and 2015

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	<u>2016</u>	<u>2015</u>
<u>OPERATING REVENUES</u>		
Dwelling Rentals	\$ 467,961	\$ 473,363
HUD Operating Grants	167,802	229,964
Other	<u>47,252</u>	<u>49,142</u>
Total Operating Revenues	<u>683,015</u>	<u>752,469</u>
 <u>OPERATING EXPENSES</u>		
Administration	248,095	298,939
Tenant Services	10,168	14,965
Utilities	136,348	136,492
Ordinary Maintenance & Operations	206,714	195,868
Protective Services	5,683	8,201
General Expense	75,125	74,700
Interest on Notes Payable	7,703	9,412
Depreciation Expense	<u>151,637</u>	<u>163,774</u>
Total Operating Expenses	<u>841,473</u>	<u>902,351</u>
 Operating Income/(Loss)	 (158,458)	 (149,882)
 Non Operating Revenues/(Expenses):		
Interest Income	<u>149</u>	<u>101</u>
 Net Operating Income/(Loss) Before Capital Grants	 (158,309)	 (149,781)
Capital Grants	<u>32,110</u>	<u>-</u>
 Net Income/(Loss)	 (126,199)	 (149,781)
 Beginning Net Position	 4,909	 590,018
 Prior Period Adjustments	 <u>-</u>	 <u>(435,328)</u>
 Ending Net Position	 <u>\$ (121,290)</u>	 <u>\$ 4,909</u>

See Notes to Financial Statements.

HOUSING AUTHORITY OF THE TOWN OF NEWTON
 Newton, New Jersey
STATEMENT OF CASH FLOWS
 For the Years Ended December 31, 2016 and 2015

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	<u>2016</u>	<u>2015</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Cash Received:		
From Tenants for Rental & Other Income	\$ 467,961	\$ 473,363
From Government Agencies for Operating Grants	167,802	229,964
From Other Operating Revenues	47,252	49,142
Cash Paid		
To Employees for Operations	(162,146)	(222,792)
To Suppliers for Operations	<u>(541,717)</u>	<u>(479,786)</u>
Net Cash Provided by Operating Activities	<u>(20,848)</u>	<u>49,891</u>
<u>CASH FLOWS FROM CAPITAL & RELATED FINANCING ACTIVITIES</u>		
Capital Grants Received	32,110	-
Acquisition of Property & Equipment	(32,110)	-
Repayment of Long Term Debt	<u>(25,130)</u>	<u>(24,102)</u>
Net Cash Provided by Capital & Related Financing Activities	<u>(25,130)</u>	<u>(24,102)</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Investment Income	149	101
Receipt of Tenant Security Deposits and FSS Escrows	<u>(2,211)</u>	<u>1,174</u>
Net Cash Provided by Investing Activities	<u>(2,062)</u>	<u>1,275</u>
Net Increase (Decrease) in Cash & Cash Equivalents	(48,040)	27,064
Cash & Equivalents at Beginning of Period	<u>244,704</u>	<u>217,640</u>
Cash & Equivalents at End of Period	<u>\$ 196,664</u>	<u>\$ 244,704</u>

Reconciliation of Operating Income/(Loss) to Net Cash Provided/(Used) in Operations

Operating Income/(Loss)	\$ (158,458)	\$ (149,882)
Adjustments to reconcile Operating Income/(Loss) to net Cash Provided/(Used) in Operating Activities:		
Depreciation	151,637	163,774
Decrease/(Increase) in Assets		
Prepaid Expenses	(42)	(2,073)
Deferred Outflow of Resources	(67,177)	(90,784)
Increase/(Decrease) in Liabilities		
Accounts Payable	6,772	11,763
Compensated Absences	(5,890)	(22,223)
PILOT Payable	(29,404)	33,687
Accrued Interest	(130)	180
Accrued Pension & OPEB	94,024	(28,678)
Accrued Liabilities - Other	-	(5,604)
Deferred Inflow of Resources	<u>(12,180)</u>	<u>139,731</u>
Net Cash Provided to Operating Activities	<u>\$ (20,848)</u>	<u>\$ 49,891</u>

HOUSING AUTHORITY OF THE TOWN OF NEWTON
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

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NOTE 1 – Summary of Organization, Activities and Significant Accounting Policies:

A. Organization – The Housing Authority of the Town of Newton (The Authority) is a governmental, public corporation created under the laws of the state of New Jersey to provide housing for qualified individuals in accordance with rules and regulations prescribed by the United States Department of Housing and Urban Development. The Authority is governed by a board of Commissioners which is essentially autonomous but is responsible to the N.J. Department of Community Affairs. An Executive Director is appointed by the Housing Authority's Board to manage the day-to-day operations of the Authority. The Authority is responsible for the development, maintenance and management of public housing for low and moderate income families residing in the Town of Newton. Operating and modernization subsidies are provided to the Authority by the federal government.

B. Activities – The combined financial statements include all the accounts of the Authority. The Authority is the lowest level of government over which the Authority's Board of Commissioners and Executive Director exercise oversight responsibility. The Authority is not included in any Governmental "reporting entity" since its board members, while they are appointed primarily by the mayor, have decision making authority, the power to designate management, the responsibility to significantly influence operations, and primary responsibility for accounting and fiscal matters. The Authority has not identified any entities which should be subject to evaluation for inclusion in the Authority's reporting entity.

2. Significant Accounting Policies

a. Basis of Accounting – The financial statements of the Authority are prepared using the accrual basis of accounting in order to recognize the flow of economic resources. Under the accrual basis of accounting, transactions are recognized when they occur, regardless of when cash is received or disbursed. Revenues are recognized in the accounting period in which they are earned and become measurable, and expenses recognized in the period incurred, if measurable. Operating revenues and expenses consist of those revenues and expenses that result from the ongoing principal operations of the Authority. Non-operating revenues and expenses consist of those revenues and expenses that are related to financing and investing types of activities and result from non-exchange transactions or ancillary activities. All assets, liabilities, net position, revenue and expenses are accounted for using a single enterprise fund for the primary government.

Revenue – The major sources of revenue are various subsidies and grants received from the United States Department of Housing and Urban Development, charges to tenants and other miscellaneous revenues discussed below.

Federal Grant Revenue – Operating subsidies, Section Eight housing assistance grants, and Capital Fund Program revenue received from HUD are recorded under the accrual method of accounting and recognized in the period earned in accordance with applicable HUD guidelines. The Authority is generally entitled to receive funds from HUD under an established payment schedule or as expenditures are made under the Capital Fund Program or Comprehensive Improvements Assistance Program. Under the Section Eight Program, a year-end settlement is computed, and the underfunded or overfunded amount, if any, is considered due to or from HUD. Advance payments received for the subsequent fiscal year are recorded as deferred revenue.

Tenant Charges – Rental charges to tenants are determined and billed monthly and are recognized as revenue when billed since they are measurable and collectible within the current period. Amounts not collected at year-end are included in the balance sheet as accounts receivable, and amounts paid by tenants for the subsequent fiscal year are recorded as deferred revenue.

HOUSING AUTHORITY OF THE TOWN OF NEWTON
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

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NOTE 1 – Summary of Organization, Activities and Significant Accounting Policies
(Continued):

Other Revenue – Other revenue is recorded as earned since it is measurable and available.

b. Report Presentation – The financial statements included in this Report were prepared in accordance with generally accepted accounting principles (GAAP) in the United States of America applicable to governmental entities for Proprietary Fund Types. The Authority implemented the provisions of Governmental Accounting Standards Board Statement No. 34 “Basic Financial Statements and Management’s Discussion and Analysis for State and Local Governments” (Statement No. 34). The Authority also adopted the provisions of Statement No. 37 “Basic Financial Statements and Management’s Discussion and Analysis for State and Local Governments: Omnibus” and Statement No. 38 “Certain Financial Statement Note Disclosures”, which supplement Statement No. 34.

Statement No. 34 established standards for all state and local governmental entities that includes a statement of net position, a statement of activities and a statement of cash flows. It requires the classification of net position into three components – Net Investment in Capital Assets, Net Position and Unrestricted Net Position. These classifications are defined as follows:

Net Investment in Capital Assets – This component consists of land, construction in progress and depreciable assets, net of accumulated depreciation and net of the related debt outstanding. If there are significant unspent related debt proceeds as of year-end, the portion of the debt related to the unspent proceeds is not included in the calculation of Invested in Net Fixed Assets Net of Related Debt. Rather, that portion of the debt is included in the same net asset component as the unspent proceeds.

Restricted Net Position – This component includes net assets subject to restrictions placed on net asset use through external constraints imposed by creditors (such as debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by the law through constitutional provisions or enabling legislation.

Unrestricted Net Position – This component consists of net position that does not meet the definition of Restricted Net Position or Net Investment in capital Assets.

The adoption of Governmental Accounting Standards Board Statements 34, 37 and 38 have no significant effect on the basic financial statements, except for the classification of net position in accordance with Statement No. 34.

Significant accounting policies are as follows:

1 – Cash and cash equivalents are stated at cost, which approximates market. Cash and cash equivalents include cash in banks, petty cash and certificates of deposit, and other investments with original maturities of less than three months from the date of purchase. Investments are recorded at fair value based on quoted market prices. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties.

2 – Accounts receivable collection losses are charged against allowance for doubtful accounts.

3 – Buildings and equipment are recorded at cost for all programs and depreciation is computed on the straight line basis.

4 – Repairs funded out of operations, such as painting, roofing and plumbing, are charged against income for all programs.

HOUSING AUTHORITY OF THE TOWN OF NEWTON
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

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NOTE 1 – Summary of Organization, Activities and Significant Accounting Policies
(Continued)

5 – The Authority is subsidized by the Federal Government. The Authority is not subject to Federal or State income taxes, nor is it required to file Federal and State income tax returns.

6 – Operating subsidies received from HUD are recorded as income when earned.

7 – The cost of accumulated unpaid compensated absences, including fringe benefits, is reported in the period earned rather than in the period paid.

8 – Prepaid expenses represent payments made by the Authority in the current year to provide services occurring in the subsequent fiscal year.

9 – Inventories in the Proprietary Fund consist of supplies and are recorded at the lower of first-in first-out, cost or market.

10 – The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and reported amounts of revenues and expenses during the reporting period.

11 – 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.

12 – The Authority does not have any infrastructure assets for its Proprietary Fund.

13 – Inter-fund receivables and payables arise from inter-fund transactions and are recorded by all funds affected in the period in which the transactions are executed.

14 – Long-lived assets to be held and used are tested for recoverability whenever events of changes in circumstances indicate that the carrying amount may not be recoverable. When required, impairment losses on assets to be held and used are recognized based on the fair value of the asset and long-lived assets to be disposed of by sale are reported at the lower of carrying amount or fair value less cost to sell. As of December 31, 2016 and 2015, the Authority has not recognized any reduction in the carrying value of its fixed assets when considering AU 360.

15 – The Authority implemented GASB Statement No. 65. Under GASB 65, debt issuance costs are expensed in the period incurred. This represents a significant change from the previous practice which was to record these costs as assets and amortize them over the life of the related debt.

c. Budgetary Policy and Control – The housing authority submits its annual operating and capital budgets to the State of New Jersey Department of Community Affairs in accordance with New Jersey statute. After the New Jersey Department of Community Affairs approves the budget, it is formally adopted by resolution of the Housing Authority's Board of Commissioners. Once adopted, the Board of Commissioners may amend the legally adopted budget when unexpected modifications are required in estimated revenues and expenses. Each fund's budget is prepared on a detailed line item basis. Revenues are budgeted by source and expenditures are budgeted by expense classification within each revenue source.

HOUSING AUTHORITY OF THE TOWN OF NEWTON
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2016

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NOTE 1 – Summary of Organization, Activities and Significant Accounting Policies
(Continued):

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

NOTE 2 – Cash and Cash Equivalents

The Authority maintains cash and investments in local banks. These funds are covered by the Governmental Unit Deposit Protection Act of the state of New Jersey, which requires the institutions to pool collateral for all of governmental deposits and have the collateral held by an approved custodian in the authority's name.

Cash and cash equivalents of \$196,664 and \$244,704 at December 31, 2016 and 2015, respectively, consisted of the following:

	<u>2016</u>	<u>2015</u>
Checking and Savings Accounts	\$ 77,337	\$ 123,280
Security Deposits	55,134	57,345
Money Market Account	63,818	63,704
Petty Cash and Change Fund	375	375
Total Cash	\$ 196,664	\$ 244,704

The carrying amount of the Authority's cash and cash equivalents on deposit at banks as of December 31, 2016 was \$196,664 and the bank balances were \$212,632. Of the bank balances, all \$212,632 was covered by FDIC insurance and \$0 was covered by a collateral pool maintained by the banks as required by New Jersey statutes. Cash equivalents, except petty cash, are held in the Authority's name. As described above, none of the authority's deposits exceeded FDIC insurance and are covered under New Jersey's Governmental Unit Deposit Protection Act (GUDPA) which collateralizes securities held by the pledging institutions trust department but are not in the Authority's name.

NOTE 3 - Fixed Assets

Fixed assets consist primarily of expenditures to acquire, construct, place in operation and improve the facilities of the Authority and are stated at cost less accumulated depreciation. The following is a summary of the changes in fixed assets for the fiscal years ended December 31, 2016 and 2015:

	<u>Jan. 1, 2016</u>	<u>Additions</u>	<u>Disposals</u>	<u>Other</u>	<u>Dec. 31, 2016</u>
Land	\$ 95,000	\$ -	\$ -	\$ -	\$ 95,000
Buildings & Improvements	3,604,219	-	-	-	3,604,219
Furniture & Equipment	101,706	-	-	-	101,706
Construction in Progress	7,470	32,110	-	-	39,580
Total Fixed Assets	3,808,395	32,110	-	-	3,840,505
Accumulated Depreciation	(3,263,793)	(151,637)	-	-	(3,415,430)
Net Fixed Assets	\$ 544,602	\$ (119,527)	\$ -	\$ -	\$ 425,075

HOUSING AUTHORITY OF THE TOWN OF NEWTON
NOTES TO FINANCIAL STATEMENTS
 December 31, 2016

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NOTE 3 - Fixed Assets (Continued)

	<u>Jan. 1, 2015</u>	<u>Additions</u>	<u>Disposals</u>	<u>Other</u>	<u>Dec. 31, 2015</u>
Land	\$ 95,000	\$ -	\$ -	\$ -	\$ 95,000
Buildings & Improvements	3,604,219	-	-	-	3,604,219
Furniture & Equipment	101,706	-	-	-	101,706
Construction in Progress	7,470	-	-	-	7,470
Total Fixed Assets	<u>3,808,395</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,808,395</u>
Accumulated Depreciation	<u>(3,100,019)</u>	<u>(163,774)</u>	<u>-</u>	<u>-</u>	<u>(3,263,793)</u>
Net Fixed Assets	<u>\$ 708,376</u>	<u>\$ (163,774)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 544,602</u>

Depreciation expense for the fiscal years ended December 31, 2016 and 2015 was \$151,637 and \$163,774, respectively. Expenditures are capitalized when they meet the Authority's Capitalization policy. Under that policy, assets purchased or constructed at a cost not exceeding \$1,000 are expenses when incurred. Depreciation of Fixed Assets is provided using the straight-line method for reporting purposes at rates based upon the following estimated useful lives:

	<u>Years</u>
Buildings and Improvements	40
Site Improvements	40
Furniture	5
Equipment	10
Vehicles	5
Computers	3

NOTE 4 – Payment in Lieu of Taxes (PILOT)

Under Federal, State and local law, the Authority's programs are exempt from income, property and excise taxes. However, the Authority is required to make a payment in lieu of taxes (PILOT) for the PHA Owned Program in accordance with the provisions of its Cooperation Agreement with the Township. Under this Agreement, the Authority must pay the Town the lesser of 10% of net shelter rent or the approximate full real property taxes. During the fiscal years ended December 31, 2016 and 2015, PILOT expense was \$33,159 and \$33,687, respectively.

NOTE 5 – Accrued Compensated Absences

Accrued compensated absences of \$14,503 and \$20,393 at December 31, 2016 and 2015 represents amounts to which employees are entitled to based on accumulated leave earned in accordance with the authority's Personnel Policy. Employees may be compensated for accumulated vacation leave in the event of retirement or termination from service at the current salary. Vacation leave may be carried for a maximum of one year. Sick leave may be accumulated without limit and employees may be paid at a rate of 100% to a maximum of \$15,000 beginning with the change incorporated in 2008. The current portion of compensated absences at December 31, 2016 and 2015 was \$1,450 and \$2,039, respectively.

NOTE 6 – Risk Management

The Authority is exposed to various risks of loss related to torts, theft, damage to and destruction of assets, errors and omissions, and natural disasters for which the Authority carries commercial insurance. During the year ended December 31, 2016 and 2015, the Authority's risk management program, in order to deal with potential liabilities, consisted of various insurance policies for fire, general liability, crime, auto and public-officials errors and omissions. Periodically, but not than annually, the Authority conducts a physical inspection of its Projects for the purpose of determining potential liability issues. Liabilities are reported when it is probable that a loss has

HOUSING AUTHORITY OF THE TOWN OF NEWTON
NOTES TO FINANCIAL STATEMENTS
 December 31, 2016

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NOTE 6 – Risk Management (Continued)

occurred and the amount of the loss can be reasonably estimated. Settled claims relating to the commercial insurance have not exceeded the amount of insurance in any of the past three fiscal years.

NOTE 7 – Construction Commitments

At December 31, 2016 and 2015, the Authority's outstanding construction commitments pertaining to its Comprehensive Grant Programs and Capital Fund Programs were not material. The costs pertaining to such commitments will be paid by grants approved and committed to the Authority by the U.S. Department of Housing and Urban Development.

NOTE 8 – Economic Dependency

For the year ended December 31, 2016 and 2015, a substantial portion of the Authority's revenues were received from the United States Department of Housing and Urban Development, which are subject to availability of funds and Congressional approval, as well as the Authority's compliance with Federal rules and regulations.

NOTE 9 – Notes Payable

In order to fund the acquisition of a geothermal hot water system, the Authority borrowed \$150,000 from Lakeland State Bank. The loan has a fixed interest rate of 5.5% and is payable in 60 equal monthly installments of \$2,870 including principal and interest beginning October 20, 2009. The loan was paid in full during the year ended December 31, 2014.

In May of 2010, the Authority borrowed \$250,000 from Lakeland State Bank for the purpose of converting to energy efficient water closets in each apartment and the installation of two new high efficiency natural gas furnaces at Liberty Towers. The loan had a fixed interest rate of 5.95% and was paid in monthly installments of \$2,781 until November 2015. In November 2015, the interest was adjusted and monthly installments are now \$2,747. The note is collateralized by a mortgage lien and an assignment of rents and leases on the Authority's building in Newton, New Jersey, and a security interest in all building appurtenances of the mortgaged premises. The portion due in one year is \$27,229 and is included in the current portion of long term debt on the Comparative Statement of Net Position.

<u>Date</u>	<u>Principal Payment</u>	<u>Interest Payment</u>	<u>Total Payment</u>
2017	\$ 27,229	\$ 5,735	\$ 32,964
2018	28,416	4,548	32,964
2019	30,168	2,796	32,964
2020	<u>28,822</u>	<u>1,675</u>	<u>30,497</u>
TOTAL	<u>\$ 114,635</u>	<u>\$ 14,754</u>	<u>\$ 129,389</u>

NOTE 10 – Other Post Employee Retirement Benefits (OPEB)

ANNUAL OPEB COST AND NET OPEB OBLIGATION

The Authority's annual other postemployment benefit ("OPEB") cost (expense) is calculated based on the annual required contribution of the employer ("ARC"), an amount actuarially determined in accordance with parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty (30) years. The

HOUSING AUTHORITY OF THE TOWN OF NEWTON
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2016

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NOTE 10 – Other Post Employee Retirement Benefits (OPEB) (Continued)

following table shows the components of the Authority's annual OPEB costs for the fiscal year, the amount actually contributed to the plan and changes in the Authority's net OPEB obligation to the plan:

Annual Required Contribution	\$7,368
Interest on Net OPEB Obligation	\$0
Adjustment to Annual Required Contribution	\$0
Annual OPEB cost (expense)	\$7,368
Contributions made	\$0
Increase in Net OPEB obligation	\$7,368
Net OPEB Obligation – beginning of year	\$44,208
Net OPEB Obligation – end of year	\$51,576

The Authority's annual OPEB cost, percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the 2016 fiscal year and the two preceding years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/2016	\$7,368	0.00%	\$51,576
12/31/2015	\$7,368	0.00%	\$44,208
12/31/2014	\$7,368	0.00%	\$36,840

FUNDED STATUS AND FUNDING PROGRESS

As of January 1, 2014, the most recent valuation date, the plan was 0.0% funded. The actuarial liability for benefits was \$60,151 and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAL) of \$60,151. The covered payroll (annual payroll of active employees covered by the plan) was \$170,923 and the ratio of the UAL to covered payroll was not computed since benefit and retiree rates were not based on payroll.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrences of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contribution of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented in the required supplementary information following the financial statements, presents multiyear trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

ACTUARIAL METHODS AND ASSUMPTIONS

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by employer and plan members) and include the types of benefits provided at the time each valuation and the historical pattern of sharing benefit costs between employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

HOUSING AUTHORITY OF THE TOWN OF NEWTON
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

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NOTE 11 – Pension

General Information about the Pension Plan

Plan Description - The Authority participates in the New Jersey Public Employees Retirement System (PERS) which is sponsored and administered by the New Jersey Division of Pensions and Benefits. PERS is a cost-sharing, multiple-employer defined benefits pension plan administered by the State of New Jersey, Division of Pensions and Benefits (the Division). PERS issues a publicly available report that can be obtained at the following website: www.state.nj.us/terasury/pensions/annrpts.shtml.

Benefits Provided - The vesting and benefit provisions are set by N.J.S.A. 43:15A. PERS provides retirement, death and disability benefits. All benefits vest after ten years of service, except for medical benefits which vest after 25 years of service or under the disability provisions of PERS. The following represents the membership tiers for PERS:

- Tier 1 – Members who were enrolled by July 1, 2007.
- Tier 2 – Members who were eligible to enroll on or after July 1, 2007 and prior to November 2, 2008.
- Tier 3 – Members who were eligible to enroll on or after November 2, 2008 and prior to May 22, 2010.
- Tier 4 – Members who were eligible to enroll on or after May 22, 2010 and prior to June 28, 2011.
- Tier 5 – Members who were eligible to enroll on or after June 28, 2011.

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

Contributions - The contribution policy for PERS is set by N.J.S.A. 15A and requires contributions by active members and contributing employers. Plan member and employer contributions may be amended by state of New Jersey legislation. PERS provided for employee contributions of 6.5% of employees' annual compensation, as defined. The employee rate was increased from 6.5% to 7.0% of base salary effective July 1, 2012 plus an additional 1% phased in over 7 years beginning in fiscal year 2013. The housing authority's contribution amounts are based on an actuarially determined rate which includes the normal cost and unfunded accrued liability. The actuarially determined contribution includes funding for cost of living adjustments and a noncontributory death benefit. Chapter 9, P.L. 2009 provided an option for local employers of PERS to contribute 50% of the normal and accrued liability contribution amounts certified for payments due in 2009. Such employers will be credited with the full payment and any such amounts will not be included in their unfunded liability. The actuaries will determine the unfunded liability of those retirement systems, by employer, for the reduced normal and accrued liability contributions provided under this law. The unfunded liability will be paid by the employer in level annual payments over a period of 15 years beginning with the payments due in the fiscal year ended June 30, 2012 and will be adjusted by the rate of return on the actuarial value of assets.

HOUSING AUTHORITY OF THE TOWN OF NEWTON
NOTES TO FINANCIAL STATEMENTS
 December 31, 2016

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NOTE 11 – Pension (Continued)

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

At the June 30, 2016 and June 30, 2015 measurement dates, the Authority reported \$485,937 and \$399,281, respectively, for its proportionate share of the net pension liability. The Authority's portion of the net pension liability was based on a projection of the Authority's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. The Authority's allocation percentages as of June 30, 2016 and June 30, 2015 were 0.00164% and 0.00178%, respectively.

The components of the Authority's net pension liability as of June 30, 2016 and 2015, the most recent evaluation dates, are as follows:

	<u>2016</u>	<u>2015</u>
Total Pension Liability	\$ 811,746	\$ 766,788
Plan Fiduciary Net Position	<u>325,809</u>	<u>367,507</u>
Net Pension Liability	<u>\$ 485,937</u>	<u>\$ 399,281</u>

Detailed information about the pension plan's fiduciary net position is available in the separately issued PERS financial report.

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

Inflation Rate	3.08%
Salary Increases	
Through 2026	1.65% - 4.15% based on age
Thereafter	2.65% - 5.15% based on age
Investment Rate of Return	7.65%

Mortality rates were based on the RP-2000 Combined Healthy Male and Female Mortality Tables (setback 2 years for males and 7 years for females) for service retirement and beneficiaries of former members with adjustments for mortality improvements from the base year of 2013 based on projection Scale AA. The RP-2000 Disabled Mortality Tables (setback 3 years for males and setback 1 year for females) are used to value disabled retirees. The actuarial assumptions used in the July 1, 2014 valuation were based on the results of an actuarial experience study for the period July 1, 2011 to June 30, 2014. It is likely that future experience will not exactly conform to these assumptions. To the extent that actuarial experience deviates from these assumptions, the emerging liabilities may be higher or lower than anticipated. The more the experience deviates, the larger the impact will be on future financial statements. In accordance with State statute, the long-term expected rate of return on plan investments (7.65% at June 30, 2016) is determined by the State Treasurer after consultation with the Director of the Division of Pensions and Benefits, the board of trustees and the actuaries. Best estimates of arithmetic real rates of return for each major asset class included in the PERS's target allocation as of June 30, 2016 are summarized in the following table:

HOUSING AUTHORITY OF THE TOWN OF NEWTON
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2016

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NOTE 11 – Pension (Continued)

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

Discount Rate - The discount rate used to measure the total pension liability was 3.98% as of June 30, 2016. This single blended discount rate was based on the long-term expected rate of return on pension plan investments of 7.65%, and a municipal rate of 2.85% as of June 30, 2016 based on the Bond Buyer Go 20-Bond Municipal Bond Index, which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made based on the contribution rate in the most recent fiscal year. Based on those assumptions, the plan's fiduciary net position was projected to be available to make future projected future benefit payments of current plan members through 2034. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2034, and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liability.

Sensitivity of the Authority's proportionate share of the net pension liability to changes in the discount rate - The following presents the collective net pension liability of the Authority as of June 30, 2016 and June 30, 2015, respectively, calculated using the discount rate as disclosed above as well as what the collective net pension liability would be if it was calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	At 1% <u>Decrease</u>	At June 30 Discount <u>Rate</u>	At 1% <u>Increase</u>
2016	\$ 595,459	\$ 485,937	\$ 395,517
2015	\$ 496,257	\$ 399,281	\$ 317,977

At June 30, 2016 and 2015, the Authority reported deferred outflows inflows of resources related to pensions from the following sources:

HOUSING AUTHORITY OF THE TOWN OF NEWTON
NOTES TO FINANCIAL STATEMENTS
 December 31, 2016

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NOTE 11 – Pension (Continued)

	2016 Deferred Outflows of Resources	2016 Deferred Inflows of Resources	2015 Deferred Outflows of Resources	2015 Deferred Inflows of Resources
Changes of assumptions	\$ 9,037	\$ -	\$ 42,880	\$ -
Differences between expected and actual experience	100,660	-	9,525	-
Net differences between projected and actual earnings on plan investments	18,529	-	-	6,420
Changes in proportion	29,735	127,551	38,379	133,311
Authority's contributions subsequent to the measurement date	-	-	-	-
TOTAL	\$ 157,961	\$ 127,551	\$ 90,784	\$ 139,731

The amounts reported as deferred outflows of resources and deferred inflows of resources (excluding employer specific amounts) relate to pensions will be recognized in pension expense as shown in the below chart. The amounts do not include employer specific deferred outflows of resources and deferred inflows of resources related to changes in proportion. These amounts should be recognized (amortized) over the average of the expected remaining service lives which is 5.57 and 5.72 for the years 2016 and 2015, respectively

Year ended June 30:

2017	\$	35,563
2018		35,563
2019		41,201
2020		34,615
2021		11,017
Total	\$	157,961

NOTE 12 – Prior Period Adjustments

There is no prior period adjustment during the fiscal year ending December 31, 2016. A \$423,091 prior period adjustment was recorded during the fiscal year ended December 31, 2015. This adjustment was required to initially record the GASB 45 pension liability and reduced net position by \$423,091.

NOTE 13 – Subsequent Events

Events that occur after the balance sheet date but before the financial statements were available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the balance sheet date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the balance sheet date require disclosure in the accompanying notes. Management has evaluated subsequent events through May 15, 2017, the date on which the financial statements were available to be issued and concluded that no subsequent events have occurred that would require recognition in the financial statements or disclosure in the notes to the financial statements.

HOUSING AUTHORITY OF THE TOWN OF NEWTON
 Newton, New Jersey
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the Year Ended December 31, 2016

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	Beginning Balance	Revenue Recognized	Expenditures	Ending Balance
<u>LOW INCOME HOUSING PROGRAM</u>				
Operating Subsidy (CFDA #14.850)	-	133,479	133,479	-
Capital Fund Program (CFDA #14.872)	-	66,433	66,433	-
Total Federal Financial Assistance	<u>\$ -</u>	<u>\$ 199,912</u>	<u>\$ 199,912</u>	<u>\$ -</u>

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

1. Basis of Presentation - The Schedule of Expenditures of Federal Awards is presented in accordance with generally accepted accounting principles and is presented in accordance with the requirements of the Uniform Guidance. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the general purpose financial statements.
2. There were no subrecipient activities during the audit period.
3. The Authority has elected not to use the 10% de minimis cost rate.
4. The Authority received no non-cash assistance.

Newton Housing Authority (NJ076)

NEWTON, NJ

Entity Wide Balance Sheet Summary

Submission Type: Audited/Non Single Audit

Fiscal Year End: 12/31/2016

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	Project Total	1 Business Activities	Subtotal	Total
111 Cash - Unrestricted	\$138,162	\$3,368	\$141,530	\$141,530
112 Cash - Restricted - Modernization and Development				
113 Cash - Other Restricted				
114 Cash - Tenant Security Deposits	\$55,134		\$55,134	\$55,134
115 Cash - Restricted for Payment of Current Liabilities				
100 Total Cash	\$193,296	\$3,368	\$196,664	\$196,664
121 Accounts Receivable - PHA Projects				
122 Accounts Receivable - HUD Other Projects				
124 Accounts Receivable - Other Government				
125 Accounts Receivable - Miscellaneous				
126 Accounts Receivable - Tenants				
126.1 Allowance for Doubtful Accounts - Tenants				
126.2 Allowance for Doubtful Accounts - Other				
127 Notes, Loans, & Mortgages Receivable - Current				
128 Fraud Recovery				
128.1 Allowance for Doubtful Accounts - Fraud				
129 Accrued Interest Receivable				
120 Total Receivables, Net of Allowances for Doubtful Accounts	\$0	\$0	\$0	\$0
131 Investments - Unrestricted				
132 Investments - Restricted				
135 Investments - Restricted for Payment of Current Liability				
142 Prepaid Expenses and Other Assets	\$10,625		\$10,625	\$10,625
143 Inventories	\$3,951		\$3,951	\$3,951
143.1 Allowance for Obsolete Inventories	-\$2,331		-\$2,331	-\$2,331
144 Inter Program Due From				
145 Assets Held for Sale				
150 Total Current Assets	\$205,541	\$3,368	\$208,909	\$208,909
161 Land	\$95,000		\$95,000	\$95,000
162 Buildings	\$3,236,219		\$3,236,219	\$3,236,219
163 Furniture, Equipment & Machinery - Dwellings	\$34,106		\$34,106	\$34,106
164 Furniture, Equipment & Machinery - Administration	\$67,600		\$67,600	\$67,600
165 Leasehold Improvements	\$368,000		\$368,000	\$368,000
166 Accumulated Depreciation	-\$3,415,430		-\$3,415,430	-\$3,415,430
167 Construction in Progress	\$39,580		\$39,580	\$39,580
168 Infrastructure				
160 Total Capital Assets, Net of Accumulated Depreciation	\$425,075	\$0	\$425,075	\$425,075
171 Notes, Loans and Mortgages Receivable - Non-Current				
172 Notes, Loans, & Mortgages Receivable - Non Current - Past Due				
173 Grants Receivable - Non Current				
174 Other Assets				
176 Investments in Joint Ventures				
180 Total Non-Current Assets	\$425,075	\$0	\$425,075	\$425,075

Newton Housing Authority (NJ076)

NEWTON, NJ

Entity Wide Balance Sheet Summary

Submission Type: Audited/Non Single Audit

Fiscal Year End: 12/31/2016

DRAFT

	Project Total	1 Business Activities	Subtotal	Total
200 Deferred Outflow of Resources	\$157,961		\$157,961	\$157,961
290 Total Assets and Deferred Outflow of Resources	\$788,577	\$3,368	\$791,945	\$791,945
311 Bank Overdraft				
312 Accounts Payable <= 90 Days	\$22,898		\$22,898	\$22,898
313 Accounts Payable >90 Days Past Due				
321 Accrued Wage/Payroll Taxes Payable				
322 Accrued Compensated Absences - Current Portion	\$1,450		\$1,450	\$1,450
324 Accrued Contingency Liability				
325 Accrued Interest Payable	\$592		\$592	\$592
331 Accounts Payable - HUD PHA Programs				
332 Account Payable - PHA Projects				
333 Accounts Payable - Other Government	\$33,159		\$33,159	\$33,159
341 Tenant Security Deposits	\$55,134		\$55,134	\$55,134
342 Unearned Revenue				
343 Current Portion of Long-term Debt - Capital Projects/Mortgage Revenue	\$27,229		\$27,229	\$27,229
344 Current Portion of Long-term Debt - Operating Borrowings				
345 Other Current Liabilities				
346 Accrued Liabilities - Other	\$7,250		\$7,250	\$7,250
347 Inter Program - Due To				
348 Loan Liability - Current				
310 Total Current Liabilities	\$147,712	\$0	\$147,712	\$147,712
351 Long-term Debt, Net of Current - Capital Projects/Mortgage Revenue	\$87,406		\$87,406	\$87,406
352 Long-term Debt, Net of Current - Operating Borrowings				
353 Non-current Liabilities - Other				
354 Accrued Compensated Absences - Non Current	\$13,053		\$13,053	\$13,053
355 Loan Liability - Non Current				
356 FASB 5 Liabilities				
357 Accrued Pension and OPEB Liabilities	\$537,513		\$537,513	\$537,513
350 Total Non-Current Liabilities	\$637,972	\$0	\$637,972	\$637,972
300 Total Liabilities	\$785,684	\$0	\$785,684	\$785,684
400 Deferred Inflow of Resources	\$127,551		\$127,551	\$127,551
508.4 Net Investment in Capital Assets	\$310,440		\$310,440	\$310,440
511.4 Restricted Net Position	\$0		\$0	\$0
512.4 Unrestricted Net Position	-\$435,098	\$3,368	-\$431,730	-\$431,730
513 Total Equity - Net Assets / Position	-\$124,658	\$3,368	-\$121,290	-\$121,290
600 Total Liabilities, Deferred Inflows of Resources and Equity - Net	\$788,577	\$3,368	\$791,945	\$791,945

Newton Housing Authority (NJ076)

NEWTON, NJ

Entity Wide Revenue and Expense Summary

Submission Type: Audited/Non Single Audit

Fiscal Year End: 12/31/2016

DRAFT

	Project Total	1 Business Activities	Subtotal	Total
70300 Net Tenant Rental Revenue	\$444,970		\$444,970	\$444,970
70400 Tenant Revenue - Other	\$22,991		\$22,991	\$22,991
70500 Total Tenant Revenue	\$467,961	\$0	\$467,961	\$467,961
70600 HUD PHA Operating Grants	\$167,802		\$167,802	\$167,802
70610 Capital Grants	\$32,110		\$32,110	\$32,110
70710 Management Fee				
70720 Asset Management Fee				
70730 Book Keeping Fee				
70740 Front Line Service Fee				
70750 Other Fees				
70700 Total Fee Revenue				
70800 Other Government Grants				
71100 Investment Income - Unrestricted	\$149		\$149	\$149
71200 Mortgage Interest Income				
71300 Proceeds from Disposition of Assets Held for Sale				
71310 Cost of Sale of Assets				
71400 Fraud Recovery				
71500 Other Revenue	\$46,698	\$554	\$47,252	\$47,252
71600 Gain or Loss on Sale of Capital Assets				
72000 Investment Income - Restricted				
70000 Total Revenue	\$714,720	\$554	\$715,274	\$715,274
91100 Administrative Salaries	\$139,708		\$139,708	\$139,708
91200 Auditing Fees	\$7,250		\$7,250	\$7,250
91300 Management Fee				
91310 Book-keeping Fee				
91400 Advertising and Marketing	\$220		\$220	\$220
91500 Employee Benefit contributions - Administrative	\$53,518		\$53,518	\$53,518
91600 Office Expenses				
91700 Legal Expense	\$7,699		\$7,699	\$7,699
91800 Travel				
91810 Allocated Overhead				
91900 Other	\$39,292	\$408	\$39,700	\$39,700
91000 Total Operating - Administrative	\$247,687	\$408	\$248,095	\$248,095
92000 Asset Management Fee				
92100 Tenant Services - Salaries	\$2,788		\$2,788	\$2,788
92200 Relocation Costs				
92300 Employee Benefit Contributions - Tenant Services	\$2,537		\$2,537	\$2,537
92400 Tenant Services - Other	\$4,843		\$4,843	\$4,843
92500 Total Tenant Services	\$10,168	\$0	\$10,168	\$10,168
93100 Water	\$26,008		\$26,008	\$26,008
93200 Electricity	\$63,042		\$63,042	\$63,042
93300 Gas	\$32,197		\$32,197	\$32,197

Newton Housing Authority (NJ076)

NEWTON, NJ

Entity Wide Revenue and Expense Summary

Submission Type: Audited/Non Single Audit

Fiscal Year End: 12/31/2016

DRAFT

	Project Total	1 Business Activities	Subtotal	Total
93400 Fuel				
93500 Labor	\$11,266		\$11,266	\$11,266
93600 Sewer				
93700 Employee Benefit Contributions - Utilities	\$3,835		\$3,835	\$3,835
93800 Other Utilities Expense				
93000 Total Utilities	\$136,348	\$0	\$136,348	\$136,348
94100 Ordinary Maintenance and Operations - Labor	\$17,161		\$17,161	\$17,161
94200 Ordinary Maintenance and Operations - Materials and Other	\$67,212		\$67,212	\$67,212
94300 Ordinary Maintenance and Operations Contracts	\$100,143	\$15,143	\$115,286	\$115,286
94500 Employee Benefit Contributions - Ordinary Maintenance	\$7,055		\$7,055	\$7,055
94000 Total Maintenance	\$191,571	\$15,143	\$206,714	\$206,714
95100 Protective Services - Labor				
95200 Protective Services - Other Contract Costs				
95300 Protective Services - Other	\$5,683		\$5,683	\$5,683
95500 Employee Benefit Contributions - Protective Services				
95000 Total Protective Services	\$5,683	\$0	\$5,683	\$5,683
96110 Property Insurance	\$27,484		\$27,484	\$27,484
96120 Liability Insurance				
96130 Workmen's Compensation	\$13,207		\$13,207	\$13,207
96140 All Other Insurance	\$1,275		\$1,275	\$1,275
96100 Total insurance Premiums	\$41,966	\$0	\$41,966	\$41,966
96200 Other General Expenses				
96210 Compensated Absences				
96300 Payments in Lieu of Taxes	\$33,159		\$33,159	\$33,159
96400 Bad debt - Tenant Rents				
96500 Bad debt - Mortgages				
96600 Bad debt - Other				
96800 Severance Expense				
96000 Total Other General Expenses	\$33,159	\$0	\$33,159	\$33,159
96710 Interest of Mortgage (or Bonds) Payable	\$7,703		\$7,703	\$7,703
96720 Interest on Notes Payable (Short and Long Term)				
96730 Amortization of Bond Issue Costs				
96700 Total Interest Expense and Amortization Cost	\$7,703	\$0	\$7,703	\$7,703
96900 Total Operating Expenses	\$674,285	\$15,551	\$689,836	\$689,836
97000 Excess of Operating Revenue over Operating Expenses	\$40,435	-\$14,997	\$25,438	\$25,438
97100 Extraordinary Maintenance				
97200 Casualty Losses - Non-capitalized				
97300 Housing Assistance Payments				
97350 HAP Portability-In				

Newton Housing Authority (NJ076)
 NEWTON, NJ
 Entity Wide Revenue and Expense Summary

Submission Type: Audited/Non Single Audit

Fiscal Year End: 12/31/2016

DRAFT

	Project Total	1 Business Activities	Subtotal	Total
97400 Depreciation Expense	\$151,637		\$151,637	\$151,637
97500 Fraud Losses				
97600 Capital Outlays - Governmental Funds				
97700 Debt Principal Payment - Governmental Funds				
97800 Dwelling Units Rent Expense				
90000 Total Expenses	\$825,922	\$15,551	\$841,473	\$841,473
10010 Operating Transfer In				
10020 Operating transfer Out				
10030 Operating Transfers from/to Primary Government				
10040 Operating Transfers from/to Component Unit				
10050 Proceeds from Notes, Loans and Bonds				
10060 Proceeds from Property Sales				
10070 Extraordinary Items, Net Gain/Loss				
10080 Special Items (Net Gain/Loss)				
10091 Inter Project Excess Cash Transfer In				
10092 Inter Project Excess Cash Transfer Out				
10093 Transfers between Program and Project - In				
10094 Transfers between Project and Program - Out				
10100 Total Other financing Sources (Uses)	\$0	\$0	\$0	\$0
10000 Excess (Deficiency) of Total Revenue Over (Under) Total Expenses	-\$111,202	-\$14,997	-\$126,199	-\$126,199
11020 Required Annual Debt Principal Payments	\$25,617	\$0	\$25,617	\$25,617
11030 Beginning Equity	-\$13,456	\$18,365	\$4,909	\$4,909
11040 Prior Period Adjustments, Equity Transfers and Correction of Errors				
11050 Changes in Compensated Absence Balance				
11060 Changes in Contingent Liability Balance				
11070 Changes in Unrecognized Pension Transition Liability				
11080 Changes in Special Term/Severance Benefits Liability				
11090 Changes in Allowance for Doubtful Accounts - Dwelling Rents				
11100 Changes in Allowance for Doubtful Accounts - Other				
11170 Administrative Fee Equity				
11180 Housing Assistance Payments Equity				
11190 Unit Months Available	960	0	960	960
11210 Number of Unit Months Leased	960	0	960	960
11270 Excess Cash	-\$9,008		-\$9,008	-\$9,008
11610 Land Purchases	\$0		\$0	\$0
11620 Building Purchases	\$0		\$0	\$0
11630 Furniture & Equipment - Dwelling Purchases	\$0		\$0	\$0
11640 Furniture & Equipment - Administrative Purchases	\$0		\$0	\$0
11650 Leasehold Improvements Purchases	\$32,110		\$32,110	\$32,110
11660 Infrastructure Purchases	\$0		\$0	\$0
13510 CFFP Debt Service Payments	\$0		\$0	\$0
13901 Replacement Housing Factor Funds	\$0		\$0	\$0

Housing Authority of the Town of Newton
 Schedule of Proportionate Share of the Net Pension Liability
 of the Public Employees Retirement System (PERS)
 For the Year Ended December 31, 2016



Housing Authority's Proportion of the Net Pension Liability		0.00220%	0.00178%
Housing Authority's Proportionate Share of the Net Pension Liability	\$ 491,738	\$ 399,281	
Housing Authority's Covered Employee Payroll	\$ 170,923	\$ 222,792	
Housing Authority's Proportionate Share of the Net Pension Liability as a Percentage of Its Covered Employee Payroll		287.70%	179.22%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability		40.14%	47.93%

The amounts determined for each fiscal year were determined as of June 30.

Housing Authority of the Town of Newton
 Schedule of Authority Contributions to the
 Public Employees Retirement System (PERS)
 For the Year Ended December 31, 2016

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Contractually Required Contribution	\$	<u>2016</u> 14,576	\$	<u>2015</u> 15,292
Contribution in Relation to the Contractually Required Contribution	\$	(14,576)	\$	(15,292)
Contribution Deficiency/(Excess)	\$	-	\$	-
Authority's Covered Payroll	\$	170,923	\$	222,792
Contribution as a Percentage of Covered Employee Payroll		8.53%		6.86%

The amounts determined for each fiscal year were determined as of June 30.

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

Board of Commissioners
Housing Authority of the Town of Newton
Newton, New Jersey

We have audited, 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 Controller General of the United States, the financial statements of the Housing Authority of the Town of Newton as of and for the year ended December 31, 2016 and have issued our report thereon dated May 15, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Housing Authority of the Town of Newton's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or 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.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING
STANDARDS
(Continued)

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Housing Authority of the Town of Newton's financial statements are free of 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.

POLCARI & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS

Wayne, New Jersey
May 15, 2017

HOUSING AUTHORITY OF THE TOWN OF NEWTON
Newton, New Jersey
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
December 31, 2016

DRAFT

PRIOR AUDIT FINDINGS

The prior audit contained no findings.

CURRENT AUDIT FINDINGS

SECTION 1 - SUMMARY OF AUDIT RESULTS

1. The auditor's report expressed an unqualified opinion on the financial statements of the Housing Authority of the Town of Newton.
2. No significant deficiencies relating to the audit of the financial statements are reported in the Housing Authority of the Town of Newton's financial statements for the year ended December 31, 2016.
3. No instances of noncompliance material to the financial statements of the Housing Authority of the Town of Newton were disclosed during the audit.
4. The Housing Authority of the Town of Newton was determined to be a low-risk auditee.

SECTION 2 – FINANCIAL STATEMENT FINDINGS

None.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None.