

Report On Audit

**HOUSING AUTHORITY OF THE
BOROUGH OF HIGHLAND PARK**

**For the Year Ended
March 31, 2014**

Housing Authority of the Borough of Highland Park
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INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Housing Authority of the Borough of Highland Park
242 South 6th Avenue
Highland Park, New Jersey 08904

Report on the Financial Statements

We have audited the accompanying financial statements of Housing Authority of the Borough of Highland Park (a nonprofit corporation) in Highland Park, New Jersey, hereafter referred to as the Authority, which comprise the statement of net position as of March 31, 2014 and 2013, and the related statement of revenue, expenses and changes in net position, statement of cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 Housing Authority of the Borough of Highland Park'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 Housing Authority of the Borough of Highland Park'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 respective financial position of Housing Authority of the Borough of Highland Park as of March 31, 2014 and 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year's then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and budgetary comparison information on pages 4 through 16 and pages 45-46 be presented to supplement the basic financial statements. Such information, although not a part of the 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 accepted in the United States of America, which consisted of inquiries of management about the method 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the financial statements. Lastly, the supplemental information on the accompanying Financial Data Schedule is presented for the purpose of additional analysis and is not a required part of the financial statements. The Schedule of Federal Awards and the Financial Data Schedule are 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. The 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 generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued reports dated September 3, 2014 on our consideration of Housing Authority of the Borough of Highland Park's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the internal control over financial reporting or on compliance. That reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Hymanson, Parnes & Giampaolo

Lincroft, New Jersey

Date: September 3, 2014

**HOUSING AUTHORITY OF THE BOROUGH OF HIGHLAND PARK
MANAGEMENT'S DISCUSSION AND ANALYSIS
AT MARCH 31, 2014**

As Management of the Housing Authority of the Borough of Highland Park (the Authority), present the following discussion and analysis which is supplementary information required by the Governmental Accounting Standards Board (GASB), and is intended to provide an easily readable explanation of the information provided in the attached financial statements. Management Discussion and Analysis is designed to focus on the current year activities, resulting changes, and current known facts. It is by necessity highly summarized, and in order to gain a thorough understanding of the Authority's financial position, the financial statements and footnotes should be viewed in their entirety beginning on page 17 of this report. New standards issued by GASB have significantly changed the format of the financial statements. 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

Net position of the Authority's enterprise fund was \$2,343,637 greater than the liabilities, an increase in the financial position of \$58,387 or 3% percent.

As noted above, the net position of the Authority exceeded its liabilities by \$2,343,637 as of March 31, 2014. Of this amount, the unrestricted position is \$384,722 representing a decrease of \$16,402 or 4% percent from the previous year. The net investment in capital assets increased \$119,882 or 7% percent for an ending balance of \$1,906,878. The restricted position decreased \$45,093 from the previous year for an ending balance of \$52,037. Additional information on the Authority's restricted and unrestricted net positions can be found in Note 16 & Note 17 to the financial statements, which is included in this report.

The Authority's unrestricted cash, and cash equivalent at March 31, 2014 is \$483,336 representing a decrease of \$27,410 or 5% percent from the prior fiscal year. Total restricted cash and cash equivalents decreased \$56,723 or 36% for an ending balance of \$101,383. The full detail of this amount can be found in the Statement of Cash Flow on page 19 of this report.

The Authority's total assets are \$2,520,696 of which capital assets net book value is \$1,906,878, leaving total current assets at \$613,818. Total current assets decreased from the previous year by \$92,230 or 13% percent. Unrestricted cash and cash equivalents decreased by \$27,410, restricted cash and cash equivalents decreased \$56,723 accounts receivables decreased by \$5,079, and prepaid expenses decreased by \$3,018.

The Authority's total liabilities are reported at \$177,059, of which noncurrent liabilities are stated at \$51,811. Total liabilities decreased during the year as compared to the prior year in the amount of \$30,735 or 15% percent. Total current liabilities decreased during the year by \$36,797 leaving non-current liabilities for an increase of \$6,062 as compared to the previous year.

**HOUSING AUTHORITY OF THE BOROUGH OF HIGHLAND PARK
MANAGEMENT'S DISCUSSION AND ANALYSIS
AT MARCH 31, 2014**

FINANCIAL HIGHLIGHTS - CONTINUED

Total current liabilities decreased from the previous year by \$36,797 or 23% percent. Accounts payables decreased by \$13,508, accrued liabilities decreased by \$4,877, tenant security deposit payable decreased by \$11,630, and unearned revenue decreased \$6,782.

Total noncurrent liabilities increased by \$6,062 or 13% percent. Long-term obligations such as noncurrent compensated absences with an ending balance of \$8,947, with no offsetting assets; decreased \$1,925 from the previous year, accrued post-employment benefits (OPEB) liabilities increased \$7,987 or 23% percent. Additional information on the Authority's accrued OPEB liability at March 31, 2014 can be found in Note 15 to the financial statements, which is included in this report.

The Authority had total operating revenue of \$2,428,441 as compared to \$2,437,742 from the prior year for a decrease of \$9,301 or less than 1% percent. Total operating expenses of \$2,604,259 as compared to \$2,669,584 from the previous year for a decrease of \$65,325 or 2% percent, resulting in a deficiency of revenue from operations in the amount of \$175,818 for the current year as compared to a deficiency from operations in the amount of \$231,842 from the prior year. This resulted in a decrease in deficit of \$56,024 or 24% percent from the previous year.

Total capital improvements contributions from HUD were in the amount of \$219,481 as compared to \$97,227 from the previous year for an increase of \$122,254 or 126% percent.

The Authority's had capital outlays in the amount of \$287,148 for the fiscal year. These expenditures were funded by grants received during the year from the U.S. Department of Housing and Urban Development in the amount of \$219,481 and the remainder through management's reserves. A full detail of capital outlays can be found in the Notes to the Financial Statements section Note - 8 Fixed Assets.

The Authority's Expenditures of Federal Awards amounted to \$1,928,400 for the fiscal year 2014 as compared to \$1,859,944 for the previous fiscal year 2013 for an increase of \$68,456 or 4% percent.

**HOUSING AUTHORITY OF THE BOROUGH OF HIGHLAND PARK
MANAGEMENT'S DISCUSSION AND ANALYSIS
AT MARCH 31, 2014**

USING THIS ANNUAL REPORT

The Housing Authority's annual report consists of financial statements that show combined information about the Housing Authority's most significant programs:

1. Low Rent Public Housing
2. Housing Choice Voucher Program
3. Public Housing Capital Fund Program

The Housing Authority's auditors provided assurance in their independent auditors' report with which this MD&A is included, that the basic financial statements are fairly stated. The auditors provide varying degrees of assurance regarding the other information included in this report. A user of this report should read the independent auditors' report carefully to determine the level of assurance provided for each of the other parts of this report.

OVERVIEW OF THE FINANCIAL STATEMENT PRESENTATION

This discussion and analysis are intended to serve as an introduction to the Housing Authority's basic financial statements. The basic financial statements are prepared on an entity wide basis and consist of:

- 1) Statement of Net Position
- 2) Statement of Revenue, Expenses, and Changes in Net Position
- 3) Statement of Cash Flow
- 4) Notes to the Financial Statements

The Authority's financial statements and notes to financial statements included in this Report were prepared in accordance with generally accepted accounting principles (GAAP) applicable to governmental entities in the United States of America for the Enterprise Fund types. The Authority's activities are primarily supported by HUD subsidies and grants. The Authority's function is to provide decent, safe, and sanitary housing to low income and special needs populations. The financial statements can be found on pages 17 through 19.

Statement of Net Position – This statement presents information on the Authority's total of assets and deferred outflow of resources, and total of liabilities and deferred inflows of resources, 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.

Statement of Revenue, Expenses and Changes in Net Position – This statement presents information showing how the Authority's net position increased or decreased during the current 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 related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash inflows and cash outflows in the future periods.

**HOUSING AUTHORITY OF THE BOROUGH OF HIGHLAND PARK
MANAGEMENT'S DISCUSSION AND ANALYSIS
AT MARCH 31, 2014**

OVERVIEW OF THE FINANCIAL STATEMENT PRESENTATION - CONTINUED

Statement of Cash Flow~ This statement presents information showing the total cash receipts and cash disbursements of the Housing Authority during the current fiscal year. The statement reflects the net changes in cash resulting from operations plus any other cash requirements during the current year (i.e. capital additions, debt payments, prior period obligations, etc.). In addition, the statement reflects the receipt of cash that was obligated to the Housing Authority in prior periods and subsequently received during the current fiscal year (i.e. accounts receivable, notes receivable, etc.).

Notes to the Financial Statements - Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided. These notes give greater understanding on the overall activity of the Housing Authority and how values are assigned to certain assets and liabilities and the longevity of these values. In addition, notes reflect the impact (if any) of any uncertainties the Housing Authority may face. The Notes to Financial Statements can be found in this Report beginning on page 20 through 43.

In addition to the basic financial statements listed above, our report includes supplemental information. This information is to provide more detail on the Housing Authority's various programs and the required information mandated by regulatory bodies that fund the Housing Authority's various programs.

The Schedule of Expenditures of Federal Awards is presented for purpose of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-profit Organizations. The schedule of Expenditures of Federal Awards can be found on page 44 of this report.

- 1. Federal Awards** - Pursuant to the Single Audit Act Amendments of 1996 (Public Law 104-156) and OMB Circular A-133, federal award is defined as federal financial assistance and federal cost reimbursement contracts that non-federal agencies receive directly or indirectly from federal agencies or pass-through entities. Federal financial assistance is defined as assistance that nonfederal entities receive or administer in the form of grants, loans, loan guarantees, property, cooperative agreements, interest subsidies, insurance, direct appropriations and other assistance.
- 2. Type A and Type B Programs** - The Single Audit Act Amendments of 1996 and OMB Circular A- 133 establish the levels of expenditures or expenses to be used in defining Type A and Type B Federal financial assistance programs. Type A programs for the Housing Authority of the Borough of Highland Park are those which equal or exceeded \$300,000 in expenditures for the fiscal year ended March 31, 2014. Type B programs for the Housing Authority of the Borough of Highland Park are those which are less than \$300,000 in expenditures for the fiscal year ended March 31, 2014.

**HOUSING AUTHORITY OF THE BOROUGH OF HIGHLAND PARK
MANAGEMENT'S DISCUSSION AND ANALYSIS
AT MARCH 31, 2014**

OVERVIEW OF THE FINANCIAL STATEMENT PRESENTATION - CONTINUED

The budget comparison of actual results to the Authority's adopted budget for the Low Income Public Housing Program found on page 45 the Section Eight Housing Choice Voucher Program on page 46.

FINANCIAL ANALYSIS OF THE AUTHORITY (ENTITY WIDE)

The following summarizes the computation of Net Position between March 31, 2014 and March 31, 2013.

	<u>Year Ended</u>		Increase
	March-14	March-13	(Decrease)
Cash	\$ 584,719	\$ 668,852	\$ (84,133)
Other Current Assets	29,099	37,196	(8,097)
Capital Assets - Net	1,906,878	1,786,996	119,882
Total Assets	2,520,696	2,493,044	27,652
Less: Current Liabilities	(125,248)	(162,045)	36,797
Less: Non Current Liabilities	(51,811)	(45,749)	(6,062)
Net Position	<u>\$ 2,343,637</u>	<u>\$ 2,285,250</u>	<u>\$ 58,387</u>
Net Investment in Capital Assets	\$ 1,906,878	\$ 1,786,996	\$ 119,882
Restricted Net Position	52,037	97,130	(45,093)
Unrestricted Net Position	384,722	401,124	(16,402)
	<u>\$ 2,343,637</u>	<u>\$ 2,285,250</u>	<u>\$ 58,387</u>

Cash decreased by \$84,133 or 13% percent. Net cash used by operating activities was \$19,560, net cash used for capital and related financing activities was \$79,297, and net cash provided by investing activities was \$14,724. The full detail of this amount can be found in the Statement of Cash Flow on page 19 of this audit report.

Other current assets decreased \$8,097. Accounts receivable decreased \$5,079, which was mainly due to the receipt of a HUD receivable from the prior year. Prepaid expenses decreased \$3,018 from the prior year.

Capital assets reported an increase in the net book value of the capital assets in the amount of \$119,882 or 7% percent. The major factor that contributed for the increase was the purchase of fixed assets in the amount of \$287,148, less the recording of depreciation expense in the amount of \$167,266. A full detail of capital outlays can be found in the Notes to the Financial Statements section Note - 8 Fixed Assets.

**HOUSING AUTHORITY OF THE BOROUGH OF HIGHLAND PARK
MANAGEMENT'S DISCUSSION AND ANALYSIS
AT MARCH 31, 2014**

FINANCIAL ANALYSIS OF THE AUTHORITY (ENTITY WIDE) - CONTINUED

Total current liabilities decreased from the previous year by \$36,797 or 23% percent. Accounts payables decreased by \$13,508, accrued liabilities decreased by \$4,877, tenant security deposit payable decreased by \$11,630, and unearned revenue decreased \$6,782.

Total noncurrent liabilities increased by \$6,062 or 13% percent. Long-term obligations such as noncurrent compensated absences with an ending balance of \$8,947, with no offsetting assets; decreased \$1,925 from the previous year, accrued post-employment benefits (OPEB) liabilities increased \$7,987 or 23% percent.

The Authority's reported net position of \$2,343,637 is made up of three categories. The net investment in capital assets in the amount of \$1,906,878 represents 81% percent of the total account balance. The net investment in capital assets (e.g., land, buildings, vehicles, equipment, and construction in process); less any related debt used to acquire those assets that are still outstanding. The Authority uses these capital assets to provide housing services to the tenants; consequently, these assets are not available for future spending. The schedule below reflects the activity in this account for the current fiscal year:

Balance March 31, 2013	\$ 1,786,996
Fixed Asset Acquisitions	287,148
Depreciation Expense	<u>(167,266)</u>
Balance March 31, 2014	<u><u>\$ 1,906,878</u></u>

The second largest portion of the Authority's net position reflects its unrestricted position in the amount of \$384,722 followed by restricted position in the amount of \$52,037.

The Housing Authority of the Borough of Highland Park operating results for March 31, 2014 reported a decrease in unrestricted position of \$16,402 or 4% percent for an ending balance of \$384,722. The Authority reported restricted position in the amount of \$52,037 which decreased \$45,093 or 46% percent compared to the prior fiscal year. A full detail of these accounts can be found in the Notes to the Financial Statements section Notes - 16 & 17.

**HOUSING AUTHORITY OF THE BOROUGH OF HIGHLAND PARK
MANAGEMENT'S DISCUSSION AND ANALYSIS
AT MARCH 31, 2014**

FINANCIAL ANALYSIS OF THE AUTHORITY (ENTITY WIDE) - CONTINUED

At the end of the current year, the Authority is able to report positive balances in all three categories of net position. The same held true for the prior year.

The following summarizes the changes in Net Position between March 31, 2014 and March 31, 2013:

	<u>Year Ended</u>		Increase
	March-14	March-13	(Decrease)
<u>Revenues</u>			
Tenant Revenues	\$ 588,145	\$ 571,091	\$ 17,054
HUD Subsidies	1,708,919	1,762,717	(53,798)
Other Government Grants	5,000	648	4,352
Other Revenues	126,377	103,286	23,091
Total Operating Income	<u>2,428,441</u>	<u>2,437,742</u>	<u>(9,301)</u>
<u>Expenses</u>			
Operating Expenses	2,436,993	2,495,722	(58,729)
Depreciation Expense	167,266	173,862	(6,596)
Total Operating Expenses	<u>2,604,259</u>	<u>2,669,584</u>	<u>(65,325)</u>
Operating Deficit Before Non Operating Income	(175,818)	(231,842)	56,024
Interest Income	2,839	4,647	(1,808)
HUD Capital Grants	219,481	97,227	122,254
Change in Net Position	46,502	(129,968)	176,470
Net Position Prior Year	2,285,250	2,415,218	(129,968)
Prior Period Adjustment	11,885	-	11,885
Total Net Position	<u>\$ 2,343,637</u>	<u>\$ 2,285,250</u>	<u>\$ 58,387</u>

**HOUSING AUTHORITY OF THE BOROUGH OF HIGHLAND PARK
MANAGEMENT'S DISCUSSION AND ANALYSIS
AT MARCH 31, 2014**

FINANCIAL ANALYSIS OF THE AUTHORITY (ENTITY WIDE) - CONTINUED

Approximately 70% percent of the Authority's total revenue was provided by HUD operating subsidy, while 24% percent resulted from tenant revenue. Charges for various services and fraud recovery provided 6% percent of the total income. The Housing Authority of the Borough of Highland Park received capital fund improvement grant money during the year in the amount of \$219,481 as compared to \$97,227 for the previous year.

The Authority operating expenses cover a range of expenses. The largest expense was for Housing Assistance Payments representing 50% percent of total operating expenses. Administrative expenses accounted for 14% percent, utilities expense accounted for 14% percent, maintenance expense accounted for 12% percent, other operating expenses accounted for 4% percent, and depreciation accounted for the remaining 6% percent of the total operating expenses.

The Authority operating expenses exceeded its operating revenue resulting in a deficit from operations in the amount of \$175,818 from operations as compared to deficit from operations of \$231,842 for the previous year. The key element for the decrease in deficit in comparison to the prior year is as follow:

- The Authority reported a decrease in HUD operating grants in the amount of \$53,798 or 3% percent due to continued cutbacks to HUD by the United States Congress.
- The Authority saw increases in tenant rental revenue in the amount of \$17,054 or 3% percent, due to increased tenant rental charge thru a through income verification. Other revenue also increased in the amount of \$23,091 or 22% percent.
- In order to combat the decrease in subsidies the Authority cut some key expenses as listed below:
 - Tenant services decreased \$4,154 or 35% percent.
 - Maintenance decreased \$38,049 or 11% percent.
 - Other operating expenses decreased \$16,405 or 16% percent.
 - Housing assistance payments decreased \$51,276 or 4% percent.
- Utility expenses increased in the amount of \$25,080 or 7% percent, mainly due to increases in utility rates combined with a harsh winter.

Total net cash used by operating activities during the year was \$19,560 as opposed to the prior year where operating activities provided \$6,043. A full detail of this amount can be found on the Statement of Cash Flow on page 19 of this report.

**HOUSING AUTHORITY OF THE BOROUGH OF HIGHLAND PARK
MANAGEMENT'S DISCUSSION AND ANALYSIS
AT MARCH 31, 2014**

FINANCIAL ANALYSIS OF THE AUTHORITY (ENTITY WIDE) - CONTINUED

The following are financial highlights of significant items for a four year period of time ending on March 31, 2014:

	March-14	March-13	March-12	March-11
Significant Income				
Total Tenant Revenue	\$ 588,145	\$ 571,091	\$ 580,641	\$ 558,952
HUD Operating Grants	1,708,919	1,762,717	1,659,619	1,829,970
HUD Capital Grants	219,481	97,227	50,490	311,545
Other Government Grants	5,000	648	12,221	3,051
Investment Income	2,839	4,647	6,109	6,248
Other Income	126,377	103,286	124,835	93,119
Total	\$ 2,650,761	\$ 2,539,616	\$ 2,433,915	\$ 2,802,885
Payroll Expense				
Administrative Salaries	\$ 43,546	\$ 55,695	\$ 176,065	\$ 177,772
Utilities Labor	19,540	22,890	20,105	21,665
Maintenance Labor	88,776	79,135	68,020	66,056
Tenant Service Salaries	537	5,148	-	2,647
Employee Benefits Expense	125,045	71,550	121,497	190,466
Total Payroll Expense	\$ 277,444	\$ 234,418	\$ 385,687	\$ 458,606
Other Significant Expenses				
Other Administrative Expenses	\$ 305,517	\$ 266,108	\$ 186,919	\$ 164,670
Utilities Expense	326,283	305,803	326,309	307,679
Maintenance Supplies	32,747	36,137	24,436	20,817
Maintenance Contract Cost	113,341	206,151	81,310	90,928
Insurance Premiums	33,867	39,890	45,891	39,621
Severance Expense	8,246	8,575	14,908	-
Housing Assistance Payments	1,291,290	1,342,566	1,303,111	1,208,997
Total	\$ 2,111,291	\$ 2,205,230	\$ 1,982,884	\$ 1,832,712
Total Operating Expenses	\$ 2,604,259	\$ 2,669,584	\$ 2,667,324	\$ 2,549,593
Total of Federal Awards	\$ 1,928,400	\$ 1,859,944	\$ 1,710,109	\$ 2,141,515

**HOUSING AUTHORITY OF THE BOROUGH OF HIGHLAND PARK
MANAGEMENT'S DISCUSSION AND ANALYSIS
AT MARCH 31, 2014**

THE AUTHORITY AS A WHOLE

The Authority's revenues consist primarily of rents and subsidies and grants received from HUD. The Authority receives subsidies each month based on a pre-approved amount by HUD. Grants are drawn down based on need against a pre-authorized funding level. The Authority's revenues were not sufficient to cover all expenses excluding depreciation expense. The Authority's unrestricted net position appears sufficient to cover any foreseeable shortfall rising from a possible economic turndown and reduced subsidies and grants.

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

THE HOUSING AUTHORITY OF THE BOROUGH OF HIGHLAND PARK PROGRAMS

Public Housing Program:

Under the Public Housing Program, the Authority rents units that it owns to low-income households. This program is operated under an Annual Contributions Contract (ACC) with HUD. HUD's rent subsidy program provides housing assistance to low income families so that they are able to lease "decent, safe, and sanitary" housing for specific eligible tenants. The rent paid by the tenant is a percentage of tenant gross income subject to a \$50 minimum; it cannot exceed the greater of the following amounts: (a) 30% of the family's adjusted monthly income, (b) 10% of the family's monthly income, or (c) the Housing Authority of the Borough of Highland Park flat rent amount.

Housing Choice Voucher Program:

Under the Housing Choice Voucher Program, the Authority administers contracts with independent landlords to provide housing to Section 8 tenants. The Authority subsidizes the tenant's rent through Housing Assistance Payment made to the landlord. This program is also administered under an Annual Contributions Contract (ACC) with HUD. HUD provides annual contributions funding to enable the Authority to structure a lease that sets the participants' rent at approximately 30% of household income subject to certain restrictions.

Capital Fund Program:

The public Housing Capital Fund was established under the Quality Housing & Work Responsibility Act of 1998 (QHWRA). This fund is used for repairs, major replacements, upgrading and other non-routine maintenance work that needs to be done on the Authority's apartments and homes to keep them clean, safe and in good condition.

**HOUSING AUTHORITY OF THE BOROUGH OF HIGHLAND PARK
MANAGEMENT'S DISCUSSION AND ANALYSIS
AT MARCH 31, 2014**

BUDGETARY HIGHLIGHTS

For the year ended March 31, 2014, individual program or grant budgets were prepared by the Authority and adopted 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.

The budget for the Low Rent Public Housing was adopted on the basis of accounting practices prescribed by the U.S. Department of Housing and Urban Development (HUD), which differ in some respects from generally accepted accounting principles. The full detail can be found in the Budget comparison to actual results for the Low Rent Public Housing Program on page 45 of this report.

The budget for the Housing Choice Voucher Program was adopted on the basis of accounting practices prescribed by the U.S. Department of Housing and Urban Development (HUD), which differ in some respects from generally accepted accounting principles. The Housing Choice Voucher program Housing Assistance Payments (HAP) funds were approved by the U.S. Department of Housing and Urban Development (HUD) on a basis consistent with the grant application covering HAP programs. The full detail can be found in the Budget comparison to actual results for the Housing Choice Voucher Program on page 46 of this report.

NEW INITIATIVES

For the year 2014 the Housing Authority's primary focus has been on funding and accountability. As a public entity that derives approximately 73% percent of its revenue from the Department of Housing and Urban Development, (2013 was 73% percent), the Authority are constantly monitoring for any appropriation changes especially since it appears the nation is continuing an era of need for additional public assistance to help families meet the challenges of a very tumultuous economy.

The current administration of the Authority is determined to improve the financial results of the Authority's operations. The Authority has made steady progress in various phases of our operations, all the while maintaining a strong occupancy percentage in the public housing units and a high utilization rate in Housing Assistance Programs. Interactions with the residents are a constant reminder of the need of the services. Regardless of the constraints (financial or regulatory) placed on this Housing Authority, the Authority will continuously look for ways to better provide or expand housing and housing assistance to qualified residents of the Borough of Highland Park all the while being mindful of their responsibility to be good stewards of the public's tax dollars.

For 2013 due to budget cuts once again by Congress, HUD prorated everyone's eligibility for operating funds at 81.86%. For calendar year 2013 the Authority was eligible for \$390,207, after the proration the Authority was only able to receive \$320,327, which is a decrease in funding of \$69,880.

**HOUSING AUTHORITY OF THE BOROUGH OF HIGHLAND PARK
MANAGEMENT'S DISCUSSION AND ANALYSIS
AT MARCH 31, 2014**

CAPITAL ASSETS AND DEBT ADMINISTRATION

1 - Capital Assets

The Authority's investment in capital assets as of March 31, 2014 was \$1,906,878 (net of accumulated depreciation). This investment in capital assets includes land, buildings, vehicles, equipment, and construction in progress. The total increased during the year in the Authority's investment in capital assets was \$119,882 or 7% percent. Major capital expenditures of \$287,148 were made during the year. Major capital assets events during the fiscal year included the following:

- Kitchen Cabinets
- Elevator Repairs
- A/C Units
- Heating and Cooling Units

	March-14	March-13	Increase (Decrease)
Land	\$ 93,550	\$ 93,550	\$ -
Building	4,627,269	4,502,558	124,711
Furniture, Equipment - Dwelling	303,571	287,230	16,341
Furniture, Equipment - Administration	303,094	301,796	1,298
Construction in Process	342,834	198,036	144,798
Total Fixed Assets	<u>\$ 5,670,318</u>	<u>\$ 5,383,170</u>	<u>\$ 287,148</u>
Accumulated Depreciation	<u>(3,763,440)</u>	<u>(3,596,174)</u>	<u>(167,266)</u>
Net Book Value	<u>\$ 1,906,878</u>	<u>\$ 1,786,996</u>	<u>\$ 119,882</u>

Additional information on the Authority's capital assets can be found in Note 8 to the financial statements, which is included in this report.

2 - Debt Administration

The Authority does not have any long-term debt at this time.

**HOUSING AUTHORITY OF THE BOROUGH OF HIGHLAND PARK
MANAGEMENT'S DISCUSSION AND ANALYSIS
AT MARCH 31, 2014**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Housing Authority of Borough of Highland Park is primarily dependent upon HUD for the funding of operations; therefore, the Housing Authority is affected more by Federal budget than by local economic conditions. The need for Congress to fund the war on terrorism and other impending military activities, and the impact these activities may have on federal funds available for HUD subsidies and grants.

The capital budgets for the 2014 fiscal year have already been submitted to HUD for approval and no major changes are expected. The Capital fund programs are multiple year budgets and have remained relatively stable. Capital Funds are used for the modernization of public housing property including administrative fees involved in the modernization.

The following factors were considered in preparing the Authority's budget for the fiscal year ending March 31, 2014.

- State of New Jersey economy including the impact on tenant income. Local inflationary, recessionary and employment trends, which can affect resident incomes and therefore the amount of rental income. Tenant rental payments are based on tenant income.
- The need for Congress to fund the war on terrorism and other impending military activities, and the impact these activities may have on federal funds available for HUD subsidies and grants.
- Continued increases in health care insurance are expected to impact employee benefits cost over the next several years.
- Inflationary pressure on utility rates, supplies and other cost.
- Trends in the housing market which affect rental housing available for the Section 8 tenants, along with the amount of the rents charged by the private landlords, are expected to have a continued impact on Section 8 HAP payments.

The Authority's Unrestricted Net Position appears sufficient to cover any foreseeable shortfall rising from a possible economic turndown and reduced subsidies and grants

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 Ms. Donna Brightman, Executive Director, Housing Authority of the Borough of Highland Park, 242 South 6th Street Highland Park, New Jersey 08904, or call (732) 572-4421.

HOUSING AUTHORITY OF THE BOROUGH OF HIGHLAND PARK
STATEMENT OF NET POSITION
AS MARCH 31, 2014 AND 2013

	MARCH 31,	
	2014	2013
Assets		
Current Assets:		
Cash and Cash Equivalents - Unrestricted	\$ 483,336	\$ 510,746
Cash, Cash Equivalents - Restricted	101,383	158,106
Accounts Receivables, Net of Allowances	2,722	7,801
Prepaid Expenses	26,377	29,395
Total Current Assets	613,818	706,048
Noncurrent Assets		
Capital Assets		
Land	93,550	93,550
Building	4,627,269	4,502,558
Furniture, Equipment - Dwelling	303,571	287,230
Furniture, Equipment - Administration	303,094	301,796
Construction in Process	342,834	198,036
Total Capital Assets	5,670,318	5,383,170
Less: Accumulated Depreciation	(3,763,440)	(3,596,174)
Net Book Value	1,906,878	1,786,996
Total Assets	2,520,696	2,493,044
Deferred Outflow of Resources		
Total Deferred Outflows of Resources	-	-
Total Assets and Deferred Outflow of Resources	\$ 2,520,696	\$ 2,493,044
Liabilities		
Current Liabilities:		
Accounts Payable	\$ 25,568	\$ 39,076
Accrued Liabilities	47,730	52,607
Tenant Security Deposit Payable	49,346	60,976
Unearned Revenue	2,604	9,386
Total Current Liabilities	125,248	162,045
Noncurrent Liabilities		
Accrued Compensated Absences - Long-Term	8,947	10,872
Accrued Other Post-Employment Benefits Liabilities	42,864	34,877
Total Noncurrent Liabilities	51,811	45,749
Total Liabilities	177,059	207,794
Deferred Inflow of Resources		
Total Deferred Inflow of Resources	-	-
Net Position:		
Net Investment in Capital Assets	1,906,878	1,786,996
Restricted	52,037	97,130
Unrestricted	384,722	401,124
Total Net Position	2,343,637	2,285,250
Total Liabilities, Deferred Inflow of Resources, and Net Position	\$ 2,520,696	\$ 2,493,044

See accompanying notes to the financial statements.

HOUSING AUTHORITY OF THE BOROUGH OF HIGHLAND PARK
STATEMENT OF REVENUE, EXPENSES AND
CHANGES IN NET POSITION
FOR THE TWELVE MONTHS ENDED MARCH 31, 2014 AND 2013

	MARCH 31,	
	2014	2013
Revenue:		
Tenant Rental Revenue	\$ 588,145	\$ 571,091
HUD PHA Operating Grants	1,708,919	1,762,717
Other Government Grants	5,000	648
Other Revenue	126,377	103,286
Total Revenue	2,428,441	2,437,742
Operating Expenses:		
Administrative Expense	377,195	351,120
Tenant Services	7,820	11,974
Utilities Expense	362,783	337,703
Maintenance Expense	314,345	352,394
Other Operating Expenses	83,560	99,965
Housing Assistance Payments	1,291,290	1,342,566
Depreciations Expense	167,266	173,862
Total Operating Expenses	2,604,259	2,669,584
Excess Expenses Over Revenue From Operations	(175,818)	(231,842)
Non Operating Income and (Expenses):		
Investment Income	2,839	4,647
Total Non Operating Income	2,839	4,647
Capital Grants	219,481	97,227
Change in Net Position	46,502	(129,968)
Beginning Net Position	2,285,250	2,415,218
Prior Period Adjustment	11,885	-
Beginning Net Position, Restated	2,297,135	2,415,218
Ending Net Position	\$ 2,343,637	\$ 2,285,250

See accompanying notes to the financial statements.

HOUSING AUTHORITY OF THE BOROUGH OF HIGHLAND PARK
STATEMENT OF CASH FLOW
FOR THE TWELVE MONTHS ENDED MARCH 31, 2014 AND 2013

	MARCH 31,	
	2014	2013
Cash Flow From Operating Activities		
Receipts from Tenants	\$ 585,887	\$ 576,672
Receipts from Federal Grants	1,715,819	1,791,028
Receipts from Misc. Sources	131,377	103,934
Payments to Vendors and Suppliers	(557,626)	(582,804)
Payments for Housing Assistance Payments	(1,291,290)	(1,342,566)
Payments to Employees	(152,399)	(162,868)
Payment of Employee Benefits	(125,045)	(71,550)
Payments for Utilities	(326,283)	(305,803)
Net Cash (Used) Provided by Operating Activities	(19,560)	6,043
Cash Flow From Capital and Related Financing Activities		
Receipts from Capital Grants	219,481	97,227
Acquisitions and Construction of Capital Assets	(287,148)	(144,998)
(Payment) Receipt of Tenant Security Deposits	(11,630)	959
Net Cash (Used) by Capital and Related Financing Activities	(79,297)	(46,812)
Cash Flow From Investing Activities		
Interest Income	2,839	4,647
Prior Period Adjustment	11,885	-
Net Cash Provided by Investing Activities	14,724	4,647
Net (Decrease) in Cash and Cash Equivalents	(84,133)	(36,122)
Beginning Cash	668,852	704,974
Ending Cash	\$ 584,719	\$ 668,852
Reconciliation of Cash Balances:		
Cash and Cash Equivalents - Unrestricted	\$ 483,336	\$ 510,746
HCV HAP Reserves	52,037	97,130
Tenant Security Deposits	49,346	60,976
Total Ending Cash	\$ 584,719	\$ 668,852
Reconciliation of Operating Income to Net Cash		
(Used) by Operating Activities		
Excess of Expenses Over Revenue	\$ (175,818)	\$ (231,842)
Adjustments to reconcile excess revenue over expenses to net cash provided by operating activities:		
Depreciation Expense - net of adjustments	167,266	173,862
(Increase) Decrease in:		
Accounts Receivables	5,079	38,883
Prepaid Expenses	3,018	2,255
Increase (Decrease) in:		
Accounts Payable	(13,508)	(22,540)
Accrued Liabilities	(4,877)	45,097
Unearned Revenue	(6,782)	6,832
Compensated Absences - Non-Current	(1,925)	(15,090)
Accrued Other Post-Employment Benefits Liabilities	7,987	8,586
Net Cash (Used) Provided by Operating Activities	\$ (19,560)	\$ 6,043

See accompanying notes to the financial statements.

HOUSING AUTHORITY OF THE BOROUGH OF HIGHLAND PARK

Notes to Financial Statements

March 31, 2014

NOTE 1 - SUMMARY OF ORGANIZATION, ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

1. Organization - The Authority is a non-profit corporation which was organized under the laws public corporation created under federal and state housing laws as defined by State statute (N.J., S.A. 4A: 12A-1, et. Seq. the Housing Authority Act) for the purpose of engaging in the development, acquisition and administrative activities of the low-income housing program and other programs with similar objectives for low and moderate income families residing in the Borough of Highland Park in accordance with the rules and regulations prescribed by the Department of Housing and Urban Development (HUD).

The Authority is governed by a Board of Commissioners which is essentially autonomous but is responsible to the U.S. Department of Housing and Urban Development and the State of New Jersey 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.

Operating and modernization subsidies are provided to the Authority by the federal government.

The 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 of Highland Park and Borough Council, the Board of Commissioners 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 also concluded that it is excluded from the Borough of Highland Park reporting entity.

Based on the following criteria, the Authority has not identified any entities which should be subject to evaluation for inclusion in the Authority's reporting entity. The criteria for including or excluding a component unit relationship as set forth in Section 2100 of GASB's Codification of governmental Accounting and Financial Reporting Standards, include whether:

- A. The organization is legally separate.
- B. The primary government holds the corporate powers of the organization.
- C. The primary government appoints a voting majority of the organization's board.
- D. The primary government is able to impose its will on the organization.
- E. There is calendar dependency by the organization on the primary government.
- F. The organization has potential to impose a financial benefit or burden on the primary government.

HOUSING AUTHORITY OF THE BOROUGH OF HIGHLAND PARK

Notes to Financial Statements

March 31, 2014

2. Significant Accounting Policies

The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The accompanying financial statements are presented in conformity with accounting principles generally accepted in the United States of America for governmental units as prescribed by the Governmental Accounting Standards Board (GASB) and other authoritative sources. The Authority has determined that the applicable measurement focus (flow of economic resources) and accounting basis (accrual) is similar to that of a commercial enterprise. As such, the use of proprietary funds best reflects the activities of the Authority. Entities using this method observe all Financial Accounting Standards Board (FASB) Statements and Interpretations in the preparation of financial statements, unless the GASB has specifically addressed the accounting issue in one of its own pronouncements. GASB-20-“Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting” addresses the applicability of the various FASB’s, and allows several options in the use of the FASB’s. The Authority has elected to use Alternative 2 of GASB-20 which states that “a proprietary activity may also apply all FASB Statements and Interpretations issued after November 30, 1989, except for those that conflict with or contradict GASB pronouncements”. Also, the Authority has elected to not follow FASB-106, FASB-112, and FASB-132, which all deal with pension reporting. Instead, the Authority follows GASB-45-“Accounting for Pensions by State and Local Governmental Employers.”

Basis of Accounting –

The financial statements of the Authority are prepared under 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 and expenses are recognized on the accrual basis, with revenues recognized in the accounting period in which they are earned and become measurable, and expenses recognized in the period incurred, if measurable. Operating revenue and expenses consist of those revenue and expenses that result from ongoing principal operations of the Authority. Non-operating revenue and expenses consist of those revenues and expenses that are related to financing and investing activities and result from non-exchange transactions or ancillary activities. All assets, liabilities, net position, revenue, and expenses are accounting for through a single enterprise fund for the primary government.

The major sources of revenue are tenants dwelling rentals, HUD operating subsidy, capital grants, and other revenue.

HOUSING AUTHORITY OF THE BOROUGH OF HIGHLAND PARK

Notes to Financial Statements

March 31, 2014

Basis of Accounting – Continued

HUD's rent subsidy program provides housing to low income families so that they are able to lease "decent, safe, and sanitary" housing for specific eligible tenants. The rent paid by the tenant is a percentage of tenant gross income subject to a \$50 minimum; it cannot exceed the greater of the following amounts:

- (a) 30% of the family's adjusted monthly income,
- (b) 10% of the family's monthly income, or
- (c) Housing Authority of the Borough of Highland Park's flat rent amount.

Tenants dwelling rental charges are determined and billed monthly and are recognized as revenue when assessed because they are measurable and are collectible within the current period. The amounts not received by March 31, are considered to be accounts receivable and any amounts received for subsequent period are recorded as deferred revenue.

HUD operating, capital grants which finance capital and current operations are susceptible to accrual and recognized during the year earned in accordance with applicable HUD program guidelines. The Capital Fund Grant program of the Authority is entitled to receive advances as expenditures are incurred.

HUD Section 8 Housing Choice Voucher Assistance Program receives from HUD an Annual Budget Amount (ABA) during the year in accordance with applicable HUD program guidelines. As of January 1, 2005 excess funds disbursed by HUD to the Authority for the payment of HAP's that are not utilized are not returned to HUD, but become part of the undesignated fund balance and may only be used to assist additional families up to the number of units under contract.

In November 2007, HUD amended this notice and stated that HAP equity account is restricted. The Authority followed HUD direction and transfer the excess funds from unrestricted to restricted net assets during the year. Administrative fee paid by HUD to the Authority in excess of administrative expenses are a part of the undesignated fund balance and are considered to be administrative fee reserves.

HOUSING AUTHORITY OF THE BOROUGH OF HIGHLAND PARK

Notes to Financial Statements

March 31, 2014

Basis of Accounting - Continued

Financial transactions are recorded and organized in accordance with the purpose of the transaction. Each program is an independent fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. All material inter-program accounts and transactions are eliminated in the preparation of the basic financial statements. Because the Authority's activity is considered self-financing and does not rely on specific taxes or fines (i.e. property taxes, sales and use tax etc.) no activity will be maintained as governmental funds but will be recorded as proprietary funds under the Enterprise Fund.

In enterprise funds, activity is recorded using the accrual basis of accounting. Under the accrual basis of accounting revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. This requires the Housing Authority to account for operations in a manner similar to private business or where the Board has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

Report Presentation -

The Authority's basic financial statements are presented on an entity-wide basis consisting of various housing programs. The financial statements included in this report were prepared in accordance with generally accepted accounting principles (GAAP) in the United States of America. In accordance with GASB Statement No. 34, the report includes Management's Discussion and Analysis. The Authority has implemented the general provisions of GASB Statement No. 34.

Also the Authority adopted the provisions of Statement No. 37 "Basic Financial Statement and Management's Discussion and Analysis for State and Local Governments" Statement No.38 "Certain Financial Statement Note Disclosures", and Statement No. 63 "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position" which supplements GASB Statement No. 34.

GASB Statement No. 34 established standards for external financial reporting for all State and Local Governments entities that includes a statement of net assets, a statement of revenue, expenses, and changes in net assets, and a statement of cash flow.

GASB Statement No. 63 requires the classification of "net assets" into "net position" which consists of three components, Net Investment in Capital Assets, Restricted, and Unrestricted.