

SAYREVILLE HOUSING AUTHORITY

Financial Statements and Supplementary Schedules

For the years ended December 31, 2016 and 2015

(With Independent Auditor's Report thereon)

SAYREVILLE HOUSING AUTHORITY
Financial Statements and Supplementary Schedules
December 31, 2016 and 2015

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INDEPENDENT AUDITOR'S REPORT

The Board of Commissioners
Sayreville Housing Authority:

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Sayreville Housing Authority as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and in compliance with audit standards prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Sayreville Housing Authority, as of December 31, 2016 and 2015, and the respective changes in financial position and cash flows thereof for the year 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, budgetary comparison schedules, Schedule of Authority's Proportionate Share of the Net Pension Liability – PERS, and Schedule of Authority Contributions – PERS, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Sayreville Housing Authority's basic financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Office of Management and Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and the financial data schedules, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

**SAYREVILLE HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2016**

As Management of the Sayreville Housing Authority (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. For the fiscal year ended December 31, 2016, the assets of the Authority exceeded its liabilities by \$26,167, (net position). This is an increase of \$123,511 from the previous year when liabilities exceeded its assets by \$97,344.
2. As of December 31, 2016 the Authority reported ending unrestricted net position of \$26,167. The unrestricted net position increased \$127,458 from the prior year.
3. The Authority had total revenues of \$2,591,354 and total expenses of \$2,467,843 for the year ended December 31, 2016.
4. The Authority had no capital outlays for the fiscal year ending December 31, 2016.
5. The Authority's expenditures of federal awards amounted to \$1,986,665 for the fiscal year.
6. For the year ended 12/31/15 the Authority was required to implement GASB 68 that required it to record its unfunded pension liability as provided by the State of New Jersey. The net pension liability as of 12/31/16 is \$0.

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 the financial statements included in this report were prepared in accordance with GAAP, applicable to the Governmental entities for Proprietary Fund types.

2. Financial Statements

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

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

**SAYREVILLE HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2016**

B – Using the Annual Report (continued)

2. Financial Statements (continued)

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

The Statements of Cash Flows presents relevant information about the Authority's cash receipts and cash payments during the year.

The financial statements report on the Authority's activities. The activities are primarily supported by HUD subsidies and grants. The Authority's purpose is to provide decent, safe and sanitary housing to low income and special needs populations. The financial statements can be found on pages 9 through 11 included in this report.

3. Notes To Financial Statements

The accompanying notes to financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to financial statements begin on page 12 of this report.

C – The Authority as a Whole

The Authority's net position increased during the fiscal year as detailed below. The Authority's revenues include subsidies received from HUD. The Authority receives subsidies each month based on a pre-authorized funding level. The Authority's revenues and operating reserves were sufficient to cover expenses during the fiscal year.

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

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total Assets	\$ <u>531,013</u>	\$ <u>351,102</u>	\$ <u>322,234</u>
Total Liabilities	<u>504,846</u>	<u>448,446</u>	<u>34,178</u>
Net Position:			
Restricted	-	3,947	-
Unrestricted	<u>26,167</u>	<u>(101,291)</u>	<u>288,056</u>
Total Net Position	<u>26,167</u>	<u>(97,344)</u>	<u>288,056</u>
Total Liabilities & Net Position	\$ <u>531,013</u>	\$ <u>351,102</u>	\$ <u>322,234</u>

**SAYREVILLE HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2016**

C – The Authority as a Whole (continued)

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

	<u>2016</u>	<u>%</u>	<u>2015</u>	<u>%</u>	<u>2014</u>	<u>%</u>
Revenues:						
HUD Operating Grants	\$ 1,986,665	76.67	\$ 1,931,816	81.79	\$ 1,805,571	85.00
Other Revenue	604,185	23.33	429,584	18.19	317,792	14.96
Investment Income	<u>504</u>	.00	<u>424</u>	.02	<u>492</u>	.04
Total Revenues	<u>2,591,354</u>	100.00	<u>2,361,824</u>	100.00	<u>2,123,855</u>	100.00
Expenses:						
General Operating Expenses	244,533	9.91	243,455	10.62	291,133	13.11
HAP Expenses	<u>2,223,310</u>	90.09	<u>2,048,353</u>	89.38	<u>1,929,935</u>	86.89
Total Expenses	<u>2,467,843</u>	100.00	<u>2,291,808</u>	100.00	<u>2,221,068</u>	100.00
Excess/(Deficiency) of Revenues						
Over/(Under) Expenses	123,511		70,016		(97,213)	
Prior Period Adjustment	0		(455,416)		0	
Beginning Net Position	<u>(97,344)</u>		<u>288,056</u>		<u>385,269</u>	
Ending Net Position	<u>\$ 26,167</u>		<u>\$ (97,344)</u>		<u>\$ 288,056</u>	

D – Capital Assets and Long-term Debt

The Authority has no capital assets or long-term debt.

E – Budgetary Highlights

For the year ended December 31, 2016, Housing Choice Voucher program budget was prepared by the Authority and was approved by the Board of Commissioners. The budget is primarily used as a management tool and has no legal stature. Also, the Authority adopted a comprehensive annual budget for the Authority. The budget was prepared in accordance with the accounting procedures prescribed by the State of New Jersey and was introduced and adopted as required by New Jersey Fiscal Control Law. The budget is on file with the New Jersey Department of Community Affairs.

**SAYREVILLE HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2016**

F – Significant Changes From Year Ended December 31, 2016 to December 31, 2015

Account receivable-other increased \$11,954 due to the management and other fees due from the tax credit property the Housing Authority manages.

Cash and cash equivalents increased \$198,603 mainly as a result of HUD's payment of January 2017 subsidy received in December 2016.

Restricted cash and Restricted Net Position decreased \$3,947 as the Authority used all of its unexpended HAP equity in the current year.

For the year ended 12/31/15 the Authority was required to implement GASB 68 that required it to record its unfunded pension liability as provided by the State of New Jersey. The net pension liability as of 12/31/16 is \$0 which is a reduction of \$195,254 from the prior year. This decrease is attributable to the fact the Housing Authority no longer has any office staff in its employment. All staff working on behalf of the Housing Authority are employees of the Perth Amboy Housing Authority through the interlocal management agreement between the Agencies. In addition the Authority was required to record deferred outflows of \$3,985 and deferred inflows of \$323,361.

The Authority entered into an interlocal agreement with the Perth Amboy Housing Authority for the year 2015 to provide management and related services. The contract resulted in a cost savings to the Authority reducing its administrative costs. In addition there were no salary related liabilities at 12/31/16 such as accrued wages, accrued compensated absences, and accrued termination benefits.

Unearned revenue increased \$172,697 as a result of HUD's payment of the January 2017 subsidy in December 2016.

Other Revenues increased \$174,601 mostly due to the fact that the Authority administered more incoming portable vouchers than the previous year.

HUD operating grants and Housing Assistance Payments increased in 2016 as the Authority had available funds to lease additional vouchers.

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

The state of the Federal budget remains a significant factor in planning the Authority budget. The Section 8 housing assistance subsidies have been experiencing slow growth and administrative fees are being funded at a reduced level.

The Authority's unrestricted net position of \$26,167 appears sufficient to cover any shortfall that may occur in 2017. Sayreville Housing Authority has not budgeted any of its unrestricted net position to supplement their 2017 budgeted expenditures.

**SAYREVILLE HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2016**

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 Douglas Dzema, Executive Director, Sayreville Housing Authority, 650 Washington Road, Sayreville, NJ, 08872.

SAYREVILLE HOUSING AUTHORITY

**Statements of Net Position
December 31, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 507,123	\$ 308,520
Accounts receivable - other	19,905	7,951
Total current assets	<u>527,028</u>	<u>316,471</u>
Non-current assets:		
Restricted cash	-	3,947
Total non-current assets	<u>-</u>	<u>3,947</u>
Total assets	<u>527,028</u>	<u>320,418</u>
DEFERRED OUTFLOW OF RESOURCES		
Deferred outflow related to pensions	<u>3,985</u>	<u>30,684</u>
Total deferred outflow of resources	<u>3,985</u>	<u>30,684</u>
Total assets and deferred outflow of resources	<u><u>\$ 531,013</u></u>	<u><u>\$ 351,102</u></u>
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 8,788	\$ 8,170
Pensions payable	-	7,478
Unearned revenue	172,697	-
Total current liabilities	<u>181,485</u>	<u>15,648</u>
Long-term liabilities:		
Net pension liability	-	195,254
Total long-term liabilities	<u>-</u>	<u>195,254</u>
Total liabilities	<u>181,485</u>	<u>210,902</u>
DEFERRED INFLOW OF RESOURCES		
Deferred inflow related to pensions	<u>323,361</u>	<u>237,544</u>
Total deferred inflow of resources	<u>323,361</u>	<u>237,544</u>
Total liabilities and deferred inflow of resources	<u>504,846</u>	<u>448,446</u>
NET POSITION		
Net position:		
Restricted	-	3,947
Unrestricted	26,167	(101,291)
Total net position	<u>26,167</u>	<u>(97,344)</u>
Total liabilities, deferred inflow of resources and net position	<u><u>\$ 531,013</u></u>	<u><u>\$ 351,102</u></u>

The accompanying notes to the financial statements are an integral part of this statement.

SAYREVILLE HOUSING AUTHORITY
Statements of Revenues, Expenses, and Changes in Net Position
For the years ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Operating revenues:		
HUD operating grants	\$ 1,986,665	\$ 1,931,816
Other revenues	<u>604,185</u>	<u>429,584</u>
Total operating revenues	<u>2,590,850</u>	<u>2,361,400</u>
Operating expenses:		
Administrative	238,529	236,536
General expenses	6,004	6,919
Housing assistance payments	<u>2,223,310</u>	<u>2,048,353</u>
Total operating expenses	<u>2,467,843</u>	<u>2,291,808</u>
Operating gain/(loss)	<u>123,007</u>	<u>69,592</u>
Non-operating revenues (expenses):		
Investment income	<u>504</u>	<u>424</u>
Net non-operating revenues (expenses)	<u>504</u>	<u>424</u>
Change in net position	123,511	70,016
Net position, beginning of year (unadjusted)	(97,344)	288,056
Prior period restatement	<u>-</u>	<u>(455,416)</u>
Net position, beginning of year, restated	<u>(97,344)</u>	<u>(167,360)</u>
Net position, end of year	<u>\$ 26,167</u>	<u>\$ (97,344)</u>

The accompanying notes to the financial statements are an integral part of this statement.

SAYREVILLE HOUSING AUTHORITY
Statements of Cash Flows
For the years ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Cash received from grantors	\$ 1,986,665	\$ 1,931,816
Cash received from tenants	509,493	395,290
Cash paid to employees	172,697	(13,614)
Cash paid to vendors	<u>(2,474,703)</u>	<u>(2,304,202)</u>
Net cash flows from operating activities	<u>194,152</u>	<u>9,290</u>
Cash flows from investing activities:		
Interest received on investments	<u>504</u>	<u>424</u>
Net cash flows from investing activities	<u>504</u>	<u>424</u>
Net change in cash	194,656	9,714
Cash and cash equivalents, beginning of year	<u>312,467</u>	<u>302,753</u>
Cash and cash equivalents, end of year	<u>\$ 507,123</u>	<u>\$ 312,467</u>
Reconciliation to Statements of Net Position:		
Cash and cash equivalents	\$ 507,123	\$ 308,520
Restricted cash	<u>-</u>	<u>3,947</u>
Total cash and cash equivalents	<u>\$ 507,123</u>	<u>\$ 312,467</u>
Reconciliation of operating loss to net cash flows from operating activities:		
Operating gain/(loss)	\$ 123,007	\$ 69,592
Items which did not use cash:		
Unbudgeted pension credit	(82,738)	(45,824)
Working capital changes which (used)/provided cash:		
Accounts receivable - other	(11,954)	11,530
Accounts payable	(6,860)	1,062
Accrued wages and payroll taxes	-	(2,000)
Unearned revenue	172,697	-
Accrued compensated absences	-	(11,614)
Accrued termination benefits	<u>-</u>	<u>(13,456)</u>
Net cash flows from operating activities	<u>\$ 194,152</u>	<u>\$ 9,290</u>

The accompanying notes to the financial statements are an integral part of this statement.

SAYREVILLE HOUSING AUTHORITY
Notes to Financial Statements
For the years ended December 31, 2016 and 2015

NOTE 1: ORGANIZATION AND PURPOSE

A. Organization

The Sayreville Housing Authority (the "Authority") is a governmental, public corporation created under federal and state housing laws as defined by State statute (N.J.S.A. 4A:12A-1, et. Seq., the "Housing Authority Act") for the purpose of engaging in the development, acquisition, and administrative activities of the low-income housing program and other programs with similar objectives for low and moderate income families residing in the Sayreville, New Jersey. The Authority is responsible for operating certain low-rent housing programs administered by the U.S. Department of Housing and Urban Development ("HUD"). These programs provide housing for eligible families under the United States Housing Act of 1937, as amended.

The Authority is governed by a board of commissioners which is essentially autonomous but is responsible to HUD and the State of New Jersey Department of Community Affairs. An executive director is appointed by the Authority's Board to manage the day-to-day operations of the Authority.

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

Housing Assistance Payments Program – Section 8

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

In accordance with Statement No. 39 of the Government Accounting Standards Board ("GASB"), the Authority's financial statements include those of the Authority and any component units. Component units are legally separate, tax-exempt organizations that meet all of the following criteria:

- The economic resources received by the separate organization are almost entirely for the direct benefit of the Authority,
- The Authority has the ability to access a majority of the economic resources held by the separate organization,
- The economic resources referred to above are significant to the Authority.

Based upon the application of these criteria, this report includes all programs and activities operated by the Authority. There were no additional entities required to be included in the reporting entity under these criteria in the current fiscal year. Furthermore, the Authority is not included in any other reporting entity on the basis of such criteria.

SAYREVILLE HOUSING AUTHORITY
Notes to Financial Statements (continued)
For the years ended December 31, 2016

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

B. Basis of Accounting

The Authority's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) applicable to enterprise funds of State and Local Governments on a going concern basis. The focus of enterprise funds is the measurement of economic resources, that is, the determination of operating income, changes in net position (or cost recovery), financial position and cash flows. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements.

For the year ended December 31, 2015, the Authority implemented the provisions of GASB Statement No. 68, Accounting and Financial Reporting for Pensions, as amended by GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date. GASB Statement Nos. 68 and 71 establish standards for measuring and recognizing net pension liabilities, deferred outflows of resources, deferred inflows of resources, and expenses/expenditures related to pension benefits provided through defined benefit pension plans. In addition, Statement No. 68 requires disclosure of information related to pension benefits.

C. Use of Management Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates include the allowance for doubtful accounts, accrued expenses, depreciable lives of properties and equipment, amortization of leasehold improvements and contingencies. Actual results could differ significantly from these estimates.

D. Cash and Cash Equivalents

New Jersey Authorities are required by N.J.S.A. 40A:5-14 to deposit public funds in a bank or trust company having its place of business in the State of New Jersey and organized under the laws of the United States of America or State of New Jersey or the New Jersey Cash Management Fund.

N.J.S.A. 40A:5-15.1 provides a list of securities which may be purchased by New Jersey Authorities. The Authority is required to deposit funds in public depositories protected from loss under the provisions of the Governmental Unit Deposit Protection Act ("GUDPA"). GUDPA was enacted in 1970 to protect governmental units from a loss of funds on deposit with a failed banking institution in New Jersey.

N.J.S.A. 17:9-42 requires governmental units to deposit public funds only in public depositories located in New Jersey, when the funds are secured in accordance with the Act.

HUD requires housing authorities to invest excess funds in obligations of the United States of America, certificates of deposit, or any other federally insured investment.

HUD also requires that deposits be fully collateralized at all times. Acceptable collateralization includes FDIC insurance and the market value of securities purchased and pledged to the political subdivision. Pursuant to HUD restrictions, obligations of the United States of America are allowed

SAYREVILLE HOUSING AUTHORITY
Notes to Financial Statements (continued)
For the years ended December 31, 2016 and 2015

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Cash and Cash Equivalents (continued)

as security for deposits. Obligations furnished as security must be held by the Authority or with an unaffiliated bank or trust company for the account of the Authority.

For the Statements of Cash Flows, cash and cash equivalents include all cash balances and highly liquid investments with an original maturity of three months or less at time of acquisition.

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

E. Accounts Receivable - Other

Accounts receivable – other consist of the amount owed from the Sayreville Housing for Seniors Corporation for prior year management fees. An allowance for doubtful accounts was established to provide for the accumulation of prior year management fees that the Corporation was unable to pay due to lack of cash flows. The Authority has not written off the balance because they intend to collect the balance in future years as the Corporation builds a stronger net position.

D. Unearned Revenue

Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied and is recorded as a liability until the revenue is both measureable and the Authority is eligible to realize the revenue.

F. Operating Revenues and Expenses

The Authority defines its operating revenues as income derived from charges to residents and others for services provided as well as government subsidies and grants used for operating purposes. Operating expenses are costs incurred in the operation of its program activities to provide services to residents and others. The Authority classifies all other revenues as non-operating.

G. Taxes

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

H. Equity Classifications

Equity is classified as net assets and displayed in two components as follows:

Restricted net position - Consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

Unrestricted net position - All other net position that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

SAYREVILLE HOUSING AUTHORITY
Notes to Financial Statements (continued)
For the years ended December 31, 2016 and 2015

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

I. Economic Dependency

The Section 8 program of the Authority is economically dependent on operating grants and subsidies from HUD. The program operates at a loss prior to receiving the grants.

J. Budgets and Budgetary Accounting

The Authority is required by contractual agreements to adopt annual, appropriated operating budgets for all its Enterprise Funds receiving federal expenditure awards. All budgets are prepared on a HUD basis, which is materially consistent with accounting principles generally accepted in the United States of America. All appropriations lapse at HUD's program year-end or at the end of grant periods.

K. Deferred Outflows and Deferred Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future periods and so will not be recognized as an inflow of resources (revenue) until that time.

L. Pensions Section

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the pension plan's fiduciary net position and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by the plan. 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.

M. Impact of Recently Issued Accounting Principles

Adopted Accounting Pronouncements

Adopted Accounting Pronouncements

For the year ended December 31, 2016, the Authority implemented GASB Statement No. 72, *Fair Value Measurement and Application*. As a result of implementing this statement, the Authority is required to measure certain investments at fair value for financial reporting purposes. In addition, the Authority is required to measure donated capital assets at acquisition value (an entry price); these assets were previously required to be measured at fair value. Statement No. 72 requires disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques. Implementation of this Statement did not impact the Authority's financial statements.

SAYREVILLE HOUSING AUTHORITY
Notes to Financial Statements (continued)
For the years ended December 31, 2016 and 2015

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

M. Impact of Recently Issued Accounting Principles (continued)

The Authority implemented GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Implementation of this Statement did not impact the Authority's financial statements.

The Authority implemented GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. Implementation of this Statement did not impact the Authority's financial statements.

Recently Issued and Adopted Accounting Pronouncements

The GASB has issued the following Statements which will become effective in future fiscal years as shown below:

Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement will be effective for the year ended December 31, 2017. Management does not expect this Statement to impact the Authority's financial statements.

Statement No. 75, *Accounting and Financial Reporting for Post-employment Benefits Other than Pensions*. This Statement replaces the requirements of Statement No. 45, *Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agency Employers and Agent Multi-Employer Plans*, for OPEB Statement No. 74, *Financial Reporting for Post-employment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB Plans. This Statement will be effective for the year ended December 31, 2018. Management has not yet determined the potential impact on the Authority's financial statements.

Statement No. 77, *Tax Abatement Disclosures*. This Statement requires governments that enter into tax abatement agreements to disclose information about those agreements. This Statement will be effective for the year ended December 31, 2017. Management does not expect this Statement to impact the Authority's financial statements.

Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. The objective of this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This Statement will be effective for the year ended December 31, 2017. Management does not expect this Statement to impact the Authority's financial statements.

Statement No. 79, *Certain External Investment Pools and Pool Participants*. This Statement addresses accounting and financial reporting for certain external investment pools and pool

SAYREVILLE HOUSING AUTHORITY
Notes to Financial Statements (continued)
For the years ended December 31, 2016 and 2015

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

M. Impact of Recently Issued Accounting Principles (continued)

participants. This Statement will be effective for the year ended December 31, 2017. Management does not expect this Statement to impact the Authority's financial statements.

Statement No. 80, *Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14*. The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity, as amended*. This Statement will be effective for the year ended December 31, 2018. Management does not expect this Statement to impact the Authority's financial statements.

Statement No. 81, *Irrevocable Split-Interest Agreements*. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. This Statement will be effective for the year ended December 31, 2018. Management does not expect this Statement to impact the Authority's financial statements.

Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, 68 and No. 73*. The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. This Statement will be effective for the year ended June 30, 2018. Management has not yet determined the potential impact on the Authority's financial statements.

N. Subsequent Events

Sayreville Housing Authority has evaluated subsequent events occurring after December 31, 2016 through the date of June 6, 2017, which is the date the financial statements were available to be issued.

NOTE 3: CASH AND CASH EQUIVALENTS

For the fiscal years ended December 31, 2016 and 2015, the carrying amount of the Authority's cash and cash equivalents (including restricted cash) was \$507,123, and \$312,467 and the bank balances totaled \$515,351 and \$335,214, respectively.

At December 31, 2016 and 2015, cash and cash equivalents consisted of the following:

	<u>2016</u>	<u>2015</u>
Unrestricted cash	\$ 507,123	\$ 308,520
Restricted cash	-	3,947
Total cash and cash equivalents	<u>\$ 507,123</u>	<u>\$ 312,467</u>

SAYREVILLE HOUSING AUTHORITY
Notes to Financial Statements (continued)
For the years ended December 31, 2016 and 2015

NOTE 3: CASH AND CASH EQUIVALENTS (continued)

Of the bank balances, \$500,000 and \$330,799 were covered by federal depository insurance and the remaining \$15,351 and \$4,415 were collateralized with the pledging financial institution for the fiscal years ended December 31, 2016 and 2015, respectively.

<u>Cash Account</u>	<u>2016</u>	<u>2015</u>
Insured:		
FDIC	\$ 500,000	\$ 330,799
Collateralized:		
Collateralized amount held by pledging		
Financial institution	<u>15,351</u>	<u>4,415</u>
	<u>\$ 515,351</u>	<u>\$ 335,214</u>

Custodial Credit Risk – Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. As of December 31, 2016 the Authority was not exposed to custodial credit risk.

All bank deposits as of the balance sheet date are covered by the Government Unit Depository Protection Act of the State of New Jersey, which requires the institution to pool collateral for all governmental deposits and have the collateral held by an approved custodian in the Authority's name.

NOTE 4: RESTRICTED CASH

Restricted cash consists of the following at December 31, 2016 and 2015:

<u>Cash Category</u>	<u>2016</u>	<u>2015</u>
Section 8 HAP Equity	<u>\$ -</u>	<u>\$ 3,947</u>

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

NOTE 5: ACCOUNTS RECEIVABLE - OTHER

Accounts receivable – other consist of amounts owed from managed properties. As of December 31, 2016 and 2015, accounts receivable - other consisted of the following:

	<u>2016</u>	<u>2015</u>
A/R – Tenant receivable	\$ 360,412	\$ 342,062
A/R - HUD	405	6,801
Allowance	<u>(340,912)</u>	<u>(340,912)</u>
Total accounts receivable – tenants, net	<u>\$ 19,905</u>	<u>\$ 7,951</u>

SAYREVILLE HOUSING AUTHORITY
Notes to Financial Statements (continued)
For the years ended December 31, 2016 and 2015

NOTE 6: UNEARNED HUD REIMBURSEMENT REVENUE

The Authority receives HUD reimbursements on a monthly basis. Appropriately, The Authority received a HUD reimbursement in December for the following month which is included in the Authority's liabilities as unearned revenue and not recognized as revenue until the following year. Total unearned revenue was \$172,697 and \$ -0- for the fiscal years ended December 31, 2016 and 2015, respectively.

NOTE 7: PENSION OBLIGATIONS

A. Public Employees' Retirement System (PERS)

Plan Description - The State of New Jersey, Public Employees' Retirement System (PERS) is a cost-sharing multiple-employer defined benefit pension plan administered by the State of New Jersey, Division of Pensions and Benefits (the Division). For additional information about PERS, please refer to Division's Comprehensive Annual Financial Report (CAFR) which can be found at www.state.nj.us/treasury/pensions/annrpts.shtml.

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:

<u>Tier</u>	<u>Definition</u>
1	Members who were enrolled prior to July 1, 2007
2	Members who were eligible to enroll on or after July 1, 2007 and prior to November 2, 2008
3	Members who were eligible to enroll on or after November 2, 2008 and prior to May 22, 2010
4	Members who were eligible to enroll on or after May 22, 2010 and prior to June 28, 2011
5	Members who were eligible to enroll on or after June 28, 2011

Service retirement benefits of 1/55th 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 retirement 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 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 with 25 or more years of service credit before age 62 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 the service retirement age for the respective tier.

Basis of Presentation - The schedules of employer allocations and the schedules of pension amounts by employer (collectively, the Schedules) present amounts that are considered elements of the financial statements of PERS or its participating employers. Accordingly, they do not purport to be a complete presentation of the financial position or changes in financial position of PERS or the participating employers. The accompanying Schedules were prepared in accordance with U.S. generally accepted accounting principles. Such preparation requires management of PERS to make a number of estimates and assumptions relating to the reported amounts. Due to the inherent nature of these estimates, actual results could differ from those estimates.

SAYREVILLE HOUSING AUTHORITY
Notes to Financial Statements (continued)
For the years ended December 31, 2016 and 2015

NOTE 7: PENSION OBLIGATIONS (continued)

A. Public Employees' Retirement System (PERS) (continued)

Contributions - The contribution policy for PERS is set by *N.J.S.A. 43:15A* and requires contributions by active members and contributing employers. State legislation has modified the amount that is contributed by the State. The State's pension contribution is based on an actuarially determined amount, which includes the employer portion of the normal cost and an amortization of the unfunded accrued liability. Funding for noncontributory group insurance benefits is based on actual claims paid. For the fiscal year 2016, the State's pension contribution was less than the actuarial determined amount. The local employers' contribution amounts are based on an actuarially determined rate, which includes the normal cost and unfunded accrued liability. Chapter 19, P.L. 2009 provided an option for local employers of PERS to contribute 50% of the normal and accrued liability contribution amounts certified for payments due in State fiscal year 2009. Such employers will be credited with 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. This unfunded liability will be paid by the employer in level annual payments over a period of 15 years beginning with the payments due in the fiscal year ended June 30, 2012 and will be adjusted by the rate of return on the actuarial value of assets.

Components of Net Pension Liability - At December 31, 2016, the Authority reported a liability of \$-0- for its proportionate share of the PERS net pension liability. The net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension liability was determined using update procedures to roll forward the total pension liability from an actuarial valuation as of July 1, 2015, which was rolled forward to June 30, 2016. The Authority's proportion of the net pension liability was based on the Authority's actual contributions to the plan relative to the total of all participating employers' contributions for the year ended June 30, 2016. The Authority's proportion measured as of June 30, 2016, was .00000%, which was a decrease of .00087% from its proportion measured as of June 30, 2015.

Collective Balances at December 31, 2016 and December 31, 2015

	<u>12/31/2016</u>	<u>12/31/2015</u>
Actuarial valuation date (including roll forward)	June 30, 2016	June 30, 2015
Deferred Outflows of Resources	\$ 3,985	\$ 30,684
Deferred Inflows of Resources	\$ 323,361	\$ 237,544
Net Pension Liability	\$ -	\$ 195,254
Authority's portion of the Plan's total net pension Liability	0.00000%	0.00087%

Pension Expense and Deferred Outflows/Inflows of Resources - For the year ended December 31, 2016, the Authority recognized a pension credit of \$82,739. At December 31, 2016, the Authority reported deferred outflows of resources and deferred inflows of resources related to PERS from the following sources:

SAYREVILLE HOUSING AUTHORITY
Notes to Financial Statements (continued)
For the years ended December 31, 2016 and 2015

NOTE 7: PENSION OBLIGATIONS (continued)

A. Public Employees' Retirement System (PERS) (continued)

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
	<u>PERS</u>	<u>PERS</u>
Differences between Expected and Actual Experience	\$ -	\$ -
Changes of Assumptions	-	-
Net Difference between Projected and Actual Earnings on Pension Plan Investments	-	-
Changes in Proportion and Differences between Authority Contributions and Proportionate Share of Contributions	3,985	323,361
	<u>\$ 3,985</u>	<u>\$ 323,361</u>

The \$3,985 reported as deferred outflows of resources related to pensions resulting from the Authority's contributions subsequent to the measurement date (i.e. for the fiscal year ending December 31, 2016, the plan measurement date is June 30, 2016) will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending <u>Dec 31,</u>	<u>PERS</u>
2017	\$ (78,197)
2018	(78,199)
2019	(75,861)
2020	(49,415)
2021	(37,704)
	<u>\$ (319,376)</u>

SAYREVILLE HOUSING AUTHORITY
Notes to Financial Statements (continued)
For the years ended December 31, 2016 and 2015

NOTE 7: PENSION OBLIGATIONS (continued)

A. Public Employees' Retirement System (PERS) (continued)

	PERS	
	<u>Deferred Outflow of Resources</u>	<u>Deferred Inflow of Resources</u>
Differences between Expected and Actual Experience		
Year of Pension Plan Deferral:		
June 30, 2014	-	-
June 30, 2015	5.72	-
June 30, 2016	5.57	-
Changes of Assumptions		
Year of Pension Plan Deferral:		
June 30, 2014	6.44	-
June 30, 2015	5.72	-
June 30, 2016	5.57	-
Net Difference between Projected and Actual Earnings on Pension Plan Investments		
Year of Pension Plan Deferral:		
June 30, 2014	-	5.00
June 30, 2015	-	5.00
June 30, 2016	5.00	-
Changes in Proportion and Differences between Authority Contributions and Proportionate Share of Contributions		
Year of Pension Plan Deferral:		
June 30, 2014	6.44	6.44
June 30, 2015	5.72	5.72
June 30, 2016	5.57	5.57

SAYREVILLE HOUSING AUTHORITY
Notes to Financial Statements (continued)
For the years ended December 31, 2016 and 2015

NOTE 7: PENSION OBLIGATIONS (continued)

A. Public Employees' Retirement System (PERS) (continued)

Actuarial Assumptions - The total pension asset/(liability) as of the measurement date was determined by using an actuarial valuation as noted in the table below, with update procedures used to roll forward the total pension liability to the measurement date. The actuarial valuations used the following actuarial assumptions:

<u>PERS</u>	
Inflation	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 Rate Table	RP-2000
Period of Actuarial Experience	
Study upon which Actuarial	
Assumptions were Based	July 1, 2011 - June 30, 2014

Pre-retirement mortality rates were based on the RP-2000 Employee Preretirement Mortality Table for male and female active participants. For State employees, mortality tables are set back 4 years for males and females. For local employees, mortality tables are set back 2 years for males and 7 years for females. In addition, the tables provide for future improvements in mortality from the base year of 2013 using a generational approach based on the plan actuary's modified MP-2014 projection scale. Post-retirement mortality rate were based on the RP-2000 Combined Healthy Male and Female Mortality Tables (setback 1 year for males and females) for service retirements and beneficiaries of former members and a one-year static projection based on the mortality improvement Scale AA. In addition, the tables for service retirements and beneficiaries of former members provide for future improvements in mortality from the base year of 2013 using a generational approach based on the plan actuary's modified MP-2014 projection scales. Disability retirement rates used to value disabled retirees were based on the RP-2000 Disabled Mortality Table (set back 3 years for males and set forward 1 year for females).

The actuarial assumptions used in the July 1, 2015 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 actual experience deviates from these assumptions, the emerging liabilities may be higher or lower than anticipated. The more the experience deviates, the larger the impact on future financial statements.

Long-Term Expected Rate of Return - 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 Directors of the Division of Investments and Division of Pensions and Benefits, the board of trustees and the actuaries. The long-term expected rate of return was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset

SAYREVILLE HOUSING AUTHORITY
Notes to Financial Statements (continued)
For the years ended December 31, 2016 and 2015

NOTE 7: PENSION OBLIGATIONS (continued)

A. Public Employees' Retirement System (PERS) (continued)

class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic rates of return for each major asset class included in PERS's target asset allocation as of June 30, 2016 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
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%
Global debt ex U.S.	5.00%	-0.25%
REIT	5.25%	5.63%
	<u>100.00%</u>	

Discount Rate - The discount rate used to measure the total pension liability was 3.98% as of June 30, 2016. The single blended discount rate was based on long-term expected rate of return on pension plan investments of 7.65%, and a municipal bond 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 municipals 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. The State employer contributed 30% of the actuarially determined contributions and the local employers contributed 100% of their actuarially determined contributions. Based on those assumptions, the plan's fiduciary net position was projected to be available to make projected future benefit payments of current plan members through 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.

SAYREVILLE HOUSING AUTHORITY
Notes to Financial Statements (continued)
For the years ended December 31, 2016 and 2015

NOTE 7: PENSION OBLIGATIONS (continued)

A. Public Employees' Retirement System (PERS) (continued)

Sensitivity of the Authority's proportionate share of the Net Pension Liability to Changes in the Discount Rate - The following presents the Authority's proportionate share of the net pension liability calculated using the discount rate as disclosed above, as well as what the Authority's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.98%) or 1-percentage-point higher (4.98%) than the current rate:

	PERS		
	1% Decrease (2.98%)	Current Discount Rate (3.98%)	1% Increase (4.98%)
Authority's Proportionate Share of the Net Pension Liability	\$ -	\$ -	\$ -

NOTE 8: POST EMPLOYMENT BENEFITS

The Authority participates in the New Jersey State Health Benefits Program ("the SHBP"), which qualifies as a cost-sharing, multiple-employer plan in accordance with GASB Statement No. 45 "Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions" ("OPEB"). The SHBP is administered by the State of New Jersey, Department of the Treasury, Division of Pension and Benefits.

Under the SHBP, retirees may continue the health benefits programs in which they are enrolled at the time of retirement, provided the retiree pays the costs of the benefits (at a group rate) for themselves and their eligible dependents.

The State of New Jersey, Department of Treasury, Division of Pensions and Benefits, issues publicly available financial reports that include the financial statements and required supplementary information of the SHBP. The financial reports may be obtained by writing to the State of New Jersey, Department of Treasury, Division of Pensions and Benefits, P.O. Box 295, Trenton, New Jersey 08625-0295.

The SHBP is established under the authority of the N.J.S.A. 52:14-17.25 et seq. and regulations adopted by the State Health Benefits Commission. The required contribution is determined on an annual pay-as-you-go basis.

NOTE 9: RISK MANAGEMENT

The Authority is exposed to various risks related to torts, theft of, damage to and destruction of assets; error and omission, injuries to employees; and natural disaster. The Authority maintains insurance policies acquired from independent insurance carriers covering all structural property, automobiles, crime coverage, personal property and general liability. Settlement amounts have not exceeded insurance coverage except for deductibles for the past three years.

**Schedule IV
(continued)**

**Sayreville Housing Authority
Financial Data Schedules
For the Year Ended December 31, 2016**

	Total
400 Deferred Inflow of Resources	\$323,361
508.4 Net Investment in Capital Assets	
511.4 Restricted Net Position	
512.4 Unrestricted Net Position	\$26,167
513 Total Equity - Net Assets / Position	\$26,167
600 Total Liabilities, Deferred Inflows of Resources and Equity - Net	\$531,013

Schedule IV
(continued)

Sayreville Housing Authority
Financial Data Schedules
For the Year Ended December 31, 2016

	Total
92000 Asset Management Fee	
92100 Tenant Services - Salaries	
92200 Relocation Costs	
92300 Employee Benefit Contributions - Tenant Services	
92400 Tenant Services - Other	
92500 Total Tenant Services	\$0
93100 Water	
93200 Electricity	
93300 Gas	
93400 Fuel	
93500 Labor	
93600 Sewer	
93700 Employee Benefit Contributions - Utilities	
93800 Other Utilities Expense	
93000 Total Utilities	\$0
94100 Ordinary Maintenance and Operations - Labor	
94200 Ordinary Maintenance and Operations - Materials and Other	
94300 Ordinary Maintenance and Operations Contracts	
94500 Employee Benefit Contributions - Ordinary Maintenance	
94000 Total Maintenance	\$0
95100 Protective Services - Labor	
95200 Protective Services - Other Contract Costs	
95300 Protective Services - Other	
95500 Employee Benefit Contributions - Protective Services	
95000 Total Protective Services	\$0
96110 Property Insurance	
96120 Liability Insurance	\$6,004
96130 Workmen's Compensation	
96140 All Other Insurance	
96100 Total Insurance Premiums	\$6,004

Schedule IV
(continued)

Sayreville Housing Authority
Financial Data Schedules
For the Year Ended December 31, 2016

	Total
96200 Other General Expenses	\$0
96210 Compensated Absences	
96300 Payments in Lieu of Taxes	
96400 Bad debt - Tenant Rents	
96500 Bad debt - Mortgages	
96600 Bad debt - Other	
96800 Severance Expense	
96000 Total Other General Expenses	\$0
96710 Interest of Mortgage (or Bonds) Payable	
96720 Interest on Notes Payable (Short and Long Term)	
96730 Amortization of Bond Issue Costs	
96700 Total Interest Expense and Amortization Cost	\$0
96900 Total Operating Expenses	\$244,533
97000 Excess of Operating Revenue over Operating Expenses	\$2,346,821
97100 Extraordinary Maintenance	
97200 Casualty Losses - Non-capitalized	
97300 Housing Assistance Payments	\$1,814,233
97350 HAP Portability-In	\$409,077
97400 Depreciation Expense	
97500 Fraud Losses	
97600 Capital Outlays - Governmental Funds	
97700 Debt Principal Payment - Governmental Funds	
97800 Dwelling Units Rent Expense	
90000 Total Expenses	\$2,467,843

Schedule IV
(continued)

Sayreville Housing Authority
Financial Data Schedules
For the Year Ended December 31, 2016

	Total
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
10000 Excess (Deficiency) of Total Revenue Over (Under) Total Expenses	\$123,511
11020 Required Annual Debt Principal Payments	
11030 Beginning Equity	-\$97,344
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	\$26,167
11180 Housing Assistance Payments Equity	
11190 Unit Months Available	2088
11210 Number of Unit Months Leased	2056
11270 Excess Cash	
11610 Land Purchases	
11620 Building Purchases	
11630 Furniture & Equipment - Dwelling Purchases	
11640 Furniture & Equipment - Administrative Purchases	
11650 Leasehold Improvements Purchases	
11660 Infrastructure Purchases	
13510 CFFP Debt Service Payments	
13901 Replacement Housing Factor Funds	



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

To the Board of Commissioners of the
Sayreville Housing Authority

We have audited, in accordance with the auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and audit requirements as prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey, the financial statements of the Sayreville Housing Authority (herein referred to as "the Authority"), as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated June 6, 2017.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or audit requirements as prescribed by the Local Finance Board and by the Division of Local Government Services, Department of Community Affairs, State of New Jersey.

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* and audit requirements as prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

HOLMAN FRENIA ALLISON

HOLMAN FRENIA ALLISON, P.C.
Certified Public Accountants

June 6, 2017
Toms River, New Jersey



HOLMAN | FRENIA
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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED
BY THE UNIFORM GUIDANCE**

To the Board of Commissioners of the
Sayreville Housing Authority
Sayreville, New Jersey 08872

Report on Compliance for Each Major Federal Program

We have audited Sayreville Housing Authority's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Authority's major federal programs for the year ended December 31, 2016. Sayreville Housing Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Sayreville Housing Authority's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Sayreville Housing Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Sayreville Housing Authority's compliance.

Opinion on Each Major Federal Program

In our opinion, Sayreville Housing Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2016.

Other Matters

The results of our auditing procedures disclosed no instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance.

Report on Internal Control Over Compliance

Management of Sayreville Housing Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Sayreville Housing Authority's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Sayreville Housing Authority's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the Sayreville Housing Authority as of and for the year ended December 31, 2016, and have issued our report thereon dated June 6, 2017, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 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 schedule of expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

HOLMAN FRENIA ALLISON

HOLMAN FRENIA ALLISON, P.C.
Certified Public Accountants

June 6, 2017
Toms River, New Jersey

Sayreville Housing Authority
Schedule of Expenditures of Federal Awards
For the year ended December 31, 2016

<u>Grantor/Program Title</u>	<u>Federal CFDA/ Account Number</u>	<u>Federal FAIN Number</u>	<u>Award Amount</u>	<u>Award Period Covered</u>	<u>Balance as of 12/31/15</u>	<u>Cash Received</u>	<u>Budgetary Expenditures</u>	<u>Sub Recipient Expenditures</u>	<u>Balance as of 12/31/16</u>
U.S. Department of Housing and Urban Development:									
Section 8 Housing Choice Voucher Program	14.871	N/A	\$ 1,986,665	1/1/2016-12/31/2016	\$ -	\$ 1,986,260	\$ 1,986,665	\$ -	\$ 405
Total					\$ -	\$ 1,986,260	\$ 1,986,665	\$ -	\$ 405

SAYREVILLE HOUSING AUTHORITY
Notes to the Schedule of Expenditures of Federal Awards
For the year ended December 31, 2016

NOTE 1. GENERAL

The accompanying schedule of expenditures of federal awards includes federal award activity of the Sayreville Housing Authority. The Sayreville Housing Authority is defined in Note 1 to the Authority's basic financial statements. All federal awards received directly from federal agencies, as well as federal awards passed through other government agencies, are included on the schedule of federal awards.

NOTE 2. BASIS OF ACCOUNTING

The accompanying schedule of expenditures of federal awards is presented in accordance with generally accepted accounting principles. This basis of accounting is described in Note 2 to the Authority's basic financial statements.

Sayreville Housing Authority has not elected to use the 10% de minimis cost rate allowed by the Uniform Guidance.

NOTE 3. RELATIONSHIP TO BASIC FINANCIAL STATEMENTS

Amounts reported in the accompanying schedule agree with amounts reported in the Authority's financial statements.

	Federal
Grant	\$ 1,986,665
Less: Program Income	<u>-0-</u>
Total Financial Assistance	<u>\$ 1,986,665</u>

NOTE 4. RELATIONSHIP TO FEDERAL FINANCIAL REPORTS

Amounts reported in the accompanying schedule agree with the amounts reported in the related federal financial reports.

NOTE 5: FEDERAL AND STATE LOANS OUTSTANDING

The Sayreville Housing Authority had no loan balances outstanding at December 31, 2016.

SAYREVILLE HOUSING AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the year ended December 31, 2016

Section I – Summary of Auditor’s Results

Financial Statements:

- | | |
|---|------------|
| 1. Type of auditors' report issued | Unmodified |
| 2. Internal control over financial reporting: | |
| a. Material Weakness(es) Identified? | None Noted |
| b. Significant deficiencies identified that are not considered to be material weaknesses? | None Noted |
| 3. Noncompliance material to the financial statements? | None Noted |

Federal Awards:

- | | |
|---|------------|
| 1. Dollar threshold used to determine Type A Programs | \$750,000 |
| 2. Auditee qualified as low-risk Auditee? | Yes |
| 3. Type of auditors' report on compliance for major programs | Unmodified |
| 4. Internal Control over compliance: | |
| a. Material weakness(es) identified? | None Noted |
| b. Significant deficiencies identified that are not considered to be material weaknesses? | None Noted |
| c. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200 - Uniform Guidance § 200-516? | None Noted |
| 5. Identification of major programs: | |

C.F.DA Numbers

Name of Federal Program or Cluster

14.871

Section 8 Housing Choice Voucher Program

SAYREVILLE HOUSING AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
For the year ended December 31, 2016

Section II – Financial Statement Findings

This section identifies the significant deficiencies, material weaknesses and instances of noncompliance related to the basic financial statements that are required to be reported in accordance with Chapter 5 of *Government Auditing Standards*.

No Current Year Findings

Section III – Federal Awards Finding & Questioned Costs

This section identifies audit findings required to be reported by the Uniform Guidance.

No Current Year Findings

**SAYREVILLE HOUSING AUTHORITY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
AND QUESTIONED COSTS AS PREPARED BY MANAGEMENT
For the year ended December 31, 2016**

This section identifies the status of prior findings related to the basic financial statements and federal awards that are required to be reported in accordance with Chapter 6.12 of *Government Auditing Standards* and the Uniform Guidance.

No Prior Findings

To the Board of Commissioners
Sayreville Housing Authority
Sayreville, New Jersey 08872

We have audited the financial accounts and transactions of the Sayreville Housing Authority in the County of Middlesex, State of New Jersey for the year ended December 31, 2016. In accordance with requirements prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey, the following are the *General Comments* and *Recommendations* for the year then ended.

GENERAL COMMENTS AND RECOMMENDATIONS

Contracts and Agreements Required to be Advertised by (N.J.S.A.40A:11-4)

N.J.S.A.40A:11-4 - Every contract or agreement, for the performance of any work or furnishing or hiring of any materials or supplies, the cost or the contract price whereof is to be paid with or out of public funds not included within the terms of Section 3 of this act, shall be made or awarded only by the governing body of the contracting unit after public advertising for bids and bidding therefore, except as is provided otherwise in this act or specifically by any other Law. No work, materials or supplies shall be undertaken, acquired or furnished for a sum exceeding in the aggregate \$17,500 except by contract or agreement.

It is pointed out that the Members of the Authority have the responsibility of determining whether the expenditures in any category will exceed the statutory minimum within the fiscal year. Where question arises as to whether any contract or agreement might result in violation of the statute, the solicitor's opinion should be sought before a commitment is made.

The minutes indicate that no bids were requested by public advertising for the Authority.

The minutes indicate that resolutions were adopted authorizing the awarding of contracts or agreements for "Professional Services," per *N.J.S.A.40A:11-5*.

Contracts and Agreements Requiring Solicitation of Quotations

The Authority has the responsibility of determining whether the expenditures in any category will exceed the statutory thresholds within the fiscal year. Where question arises as to whether any contract or agreement might result in violation of the statute, the Solicitor's opinion should be sought before a commitment is made.

Inasmuch as the system of records did not provide for an accumulation of payments for categories for the performance of any work or the furnishing or hiring of any materials or supplies, the results of such an accumulation could not reasonably be ascertained. Disbursements were reviewed, however, to determine whether any clear-cut violations existed.

The examination of expenditures revealed individual payments, contracts or agreements in excess of \$2,625 "for the performance of any work or the furnishing or hiring of any materials or supplies", other than those where bids had been previously sought by public advertisement or where a resolution had been previously adopted under the provision of *N.J.S.A. 40A:11-6.1*.

Examination of Bills

A test check of paid bills was made and each bill, upon proper approval, was considered as a separate and individual contract unless the records disclosed it to be a part payment or estimate. The results of the examination did not disclose any discrepancies with respect to signatures, certification or supporting documentation.

Acknowledgment

We received the complete cooperation of all the Authority officials and employees and we greatly appreciate the courtesies extended to the members of the audit team.

Any problems and weaknesses noted in our audit were not of such magnitude that they would affect our ability to express an opinion on the financial statements taken as a whole.

Should you have any questions or should you desire any additional assistance, please call us.

HOLMAN FRENIA ALLISON

HOLMAN FRENIA ALLISON, P.C.
Certified Public Accountants

June 6, 2017
Toms River, New Jersey