

FREEHOLD BOROUGH HOUSING AUTHORITY

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEAR ENDED DECEMBER 31, 2017

**WITH
REPORT OF INDEPENDENT AUDITORS**

FREEHOLD BOROUGH HOUSING AUTHORITY
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YEAR ENDED DECEMBER 31, 2017

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REPORT OF INDEPENDENT AUDITORS

To the Board of Commissioners of
Freehold Borough Housing Authority:

Report on the Financial Statements

We have audited the accompanying financial statements of the Freehold Borough Housing Authority (the "Authority") as of and for the year ended December 31, 2017, 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and audit requirements as 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 auditors consider internal control relevant to the Authority'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 Authority'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.



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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position of the Authority as of December 31, 2017, and the changes in its net position and its cash flows 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 and pension information 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 an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The schedule of federal awards, findings and responses is presented for purpose of additional analysis by management and is not a required part of the basic financial statements. The accompanying financial data schedule is also not a required part of the financial statements and is presented for the purposes of additional analysis as required by the U.S. Department of Housing and Urban Development.

The schedule of federal awards, findings and responses and financial data schedule 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 federal awards, findings and responses and the financial data schedule are 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 our report dated September 26, 2018 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Novogradac & Company LLP

September 26, 2018
Toms River, New Jersey

MANAGEMENT'S DISCUSSION AND ANALYSIS

**FREEHOLD BOROUGH HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2017**

As Management of the Freehold Borough 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, 2017. We encourage readers to consider the information presented here in conjunction with the Authority's financial statements as presented elsewhere in this report.

A Financial Highlights

1. The Authority's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$858,525 (net position) as opposed to \$1,014,272 for the prior fiscal year.
2. At the close of the current fiscal year, the Authority reported ending unrestricted net deficit of \$(88,646).
3. The Authority's unrestricted cash and cash equivalents and restricted deposit balances at December 31, 2017 were \$464,064 representing a decrease of \$111,342 from the prior fiscal year.
4. The Authority had total operating revenues of \$696,523 and total operating expenses of \$862,725 for the year ended December 31, 2017.
5. The Authority's capital outlays for the fiscal year were \$56,300, all of which was purchased from Authority's operating reserves.
6. The Authority's expenditures of federal awards amounted to \$137,922 for the fiscal year.
7. The Authority adopted GASB 68 *Accounting and Financial Reporting for Pensions* during the year ended December 31, 2017. The Authority reported a net pension liability of \$399,912, \$133,968 in deferred outflows of resources and \$80,273 of deferred inflows of resources.

**FREEHOLD BOROUGH HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2017**

B. Using the Annual Report

1. Management's Discussion and Analysis

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

2. Financial Statements

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

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

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

The Statement of Cash Flows present 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 function is to provide decent, safe and sanitary housing to low income and special needs populations. The financial statements can be found on pages 12 through 16 in this Report.

**FREEHOLD BOROUGH HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2017**

B. Using the Annual Report (continued)

3. Notes to Financial Statements

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

4. Supplemental Information

The Schedule of Federal Awards, Findings, and Responses is presented for purposes of additional analysis. The Schedule of Federal Awards, Findings, and Responses can be found on page 34 and 35 of this report.

C. The Authority as a Whole

The Authority's net position decreased during the fiscal year as detailed on the following page. The Authority's revenues are primarily 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.

A large 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 for its tenants; consequently, these assets are not available for future spending. The unrestricted net position of the Authority is available for future use to provide program services.

**FREEHOLD BOROUGH HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2017**

C. The Authority as a Whole (continued)

Computations of Net Position are as follows:

	12/31/2017	As of 12/31/2016
Cash and Other Assets	\$ 463,994	\$ 544,016
Restricted Cash	43,435	44,202
Capital Assets - Net	1,147,171	1,199,419
Deferred Outflows of Resources	133,968	158,530
Total Assets and Deferred Outflows	<u>1,788,568</u>	<u>1,946,167</u>
Less: Total Liabilities	849,770	931,896
Less: Deferred Inflows of Resources	80,273	-
Net Position	<u>\$ 858,525</u>	<u>\$ 1,014,271</u>
Net Investment in Capital Assets	\$ 947,171	\$ 974,757
Restricted Net Position	-	108
Unrestricted Net Position	(88,646)	39,406
Net Position	<u>\$ 858,525</u>	<u>\$ 1,014,271</u>

- Cash and other assets decreased \$80,022 from 2016 to 2017 primarily due to \$110,575 decrease in cash and cash equivalents account which was due to increased spending.
- Capital assets, net decreased \$52,248 from 2016 to 2017 as depreciation expense of \$108,548 was offset by capital purchases of \$56,300.
- Total liabilities decreased \$82,126, primarily due to a reduction of the Authority's unfunded pension obligation. The calculation of GASB 68 resulted in an ending pension liability of \$399,912 and deferred inflows of resources of \$80,273.

**FREEHOLD BOROUGH HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2017**

C. The Authority as a Whole (continued)

Computations of Changes in Net Position are as follows:

	Year Ended	
	12/31/2017	12/31/2016
<u>Revenues</u>		
Tenant Revenues	\$ 562,936	\$ 550,709
Government Operating Grants	117,922	170,684
Other Revenues	15,665	11,012
Total Operating Revenues	<u>696,523</u>	<u>732,405</u>
<u>Expenses</u>		
Other Operating Expenses	754,177	660,972
Depreciation Expense	108,548	111,785
Total Operating Expenses	<u>862,725</u>	<u>772,757</u>
Operating Loss	<u>(166,202)</u>	<u>(40,352)</u>
<u>Non-Operating Revenues & Expenses</u>		
Interest on Investments	382	336
Interest Expense	(9,926)	(10,801)
Extraordinary Maintenance	-	(109,798)
Loss before capital grants	<u>(175,746)</u>	<u>(120,263)</u>
Capital grants	<u>20,000</u>	<u>20,000</u>
Change in Net Position	<u>(155,746)</u>	<u>(140,615)</u>
Net Position - Beginning of Year	<u>1,014,271</u>	<u>1,154,886</u>
Net Position - End of Year	<u>\$ 858,525</u>	<u>\$ 1,014,271</u>

- Tenant revenue increased \$12,227 from 2016 to 2017 due to increased rent for year ending December 31, 2017.

**FREEHOLD BOROUGH HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2017**

C. The Authority as a Whole (continued)

- Government Operating Grants decreased from \$170,684 in 2016 to \$117,922 in 2017 or \$52,762. The primary reason for the decrease was due to the lack of capital fund drawdowns during 2017.
- Other operating expenses increased from \$660,972 in 2016 to \$754,177 in 2017 or \$93,205. The increase is primarily due to increases in insurance and general expenses (\$41,863) and utilities (\$26,702).

D. Budgetary Highlights

For the year ended December 31, 2017, individual program or grant budgets were prepared by the Authority and were approved by the Board of Commissioners. The budgets were prepared in accordance with the accounting procedures prescribed by the applicable funding agency.

As indicated by the deficit of revenues under expenses, the Authority utilized accumulated reserves to supplement current year operations.

E. Capital Assets and Debt Administration

1. Capital Assets

As of December 31, 2017, the Authority's net investment in capital assets, net of accumulated depreciation was \$1,147,171. This investment in capital assets includes land, buildings, equipment, and construction in progress and is shown net of accumulated depreciation.

There were \$56,300 in capital assets purchased during the year.

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

**FREEHOLD BOROUGH HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2017**

E. Capital Assets and Debt Administration (continued)

1. Capital Assets (continued)

The following table summarizes the change in capital assets as of December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>	<u>Change</u>
Land	\$ 145,000	\$ 145,000	\$ -
Buildings and improvements	4,792,368	4,792,368	-
Furniture and equipment	118,757	118,757	-
Construction in progress	<u>56,300</u>	<u>-</u>	<u>56,300</u>
Total fixed assets	5,112,425	5,056,125	56,300
Less: accumulated depreciation	<u>3,965,254</u>	<u>3,856,706</u>	<u>108,548</u>
Net fixed assets	<u>\$ 1,147,171</u>	<u>\$ 1,199,419</u>	<u>\$ (52,248)</u>

2. Long Term Debt

During 2004, the Authority entered a Capital Fund Leveraging Pool. The New Jersey Housing and Mortgage Finance Agency issued tax exempt, twenty-year Capital Fund Program Revenue Bonds, 2004 Series A, on December 23, 2004. The Authority's share of the funds from the bond issue pool amounted to \$400,000. The current balance of the bond payable is \$200,000 with \$20,000 due currently.

Further details can be found in the notes to the financial statements.

F. Economic Factors and Next Year's Budgets and Rates

The following factors were considered in preparing the Authority's budget for the fiscal year ending December 31, 2018:

1. The state of the national and local economy.
2. The need for Congress to fund the war on terrorism and the continued cut-back of funding of federal programs.
3. The Authority's use of cash reserves to offset the possible proration of subsidy from HUD.

**FREEHOLD BOROUGH HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2017**

G. 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 Mr. Joseph M. Billy, Jr., Executive Director, Freehold Borough Housing Authority, 107 Throckmorton Street, Freehold, NJ 07728.

FINANCIAL STATEMENTS

**FREEHOLD BOROUGH HOUSING AUTHORITY
STATEMENT OF NET POSITION
AS OF DECEMBER 31, 2017**

ASSETS

Current assets:	
Cash and cash equivalents	\$ 420,629
Tenant security deposits	43,435
Accounts receivable - HUD	37,100
Accounts receivable - tenants, net	5,493
Accounts receivable - miscellaneous	666
Prepaid expenses	<u>106</u>
Total current assets	<u>507,429</u>
Non-current assets:	
Capital assets, net	<u>1,147,171</u>
Total non-current assets	<u>1,147,171</u>
Total assets	<u>1,654,600</u>

DEFERRED OUTFLOWS OF RESOURCES

State of New Jersey P.E.R.S.	<u>133,968</u>
Total assets and deferred outflows of resources	<u>\$ 1,788,568</u>

FREEHOLD BOROUGH HOUSING AUTHORITY
STATEMENT OF NET POSITION (continued)
AS OF DECEMBER 31, 2017

LIABILITIES

Current liabilities:	
Accounts payable	39,278
Accrued liabilities - other	109,987
Accrued wages and payroll taxes	1,072
Accrued compensated absences, current	17,172
Tenant security deposits	43,435
Prepaid tenant rent	603
Bonds payable, current	<u>20,000</u>
Total current liabilities	<u>231,547</u>
Non-current liabilities:	
Accrued compensated absences, non-current	38,311
Bonds payable, non-current	180,000
Accrued pension liability	<u>399,912</u>
Total non-current liabilities	<u>618,223</u>
Total liabilities	<u>849,770</u>

DEFERRED INFLOWS OF RESOURCES

State of New Jersey P.E.R.S.	<u>80,273</u>
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NET POSITION

Net position:	
Investments in capital assets	947,171
Unrestricted (deficit)	<u>(88,646)</u>
Total net position	<u>858,525</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 1,788,568</u>

See accompanying notes to financial statements.

**FREEHOLD BOROUGH HOUSING AUTHORITY
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
YEAR ENDED DECEMBER 31, 2017**

Operating revenues:	
Tenant revenue	\$ 562,936
HUD operating grants	117,922
Other revenues	<u>15,665</u>
Total operating revenues	<u>696,523</u>
Operating expenses:	
Administrative	228,182
Tenant services	13,772
Utilities	192,740
Ordinary repairs and maintenance	243,907
Insurance and general	75,576
Depreciation	<u>108,548</u>
Total operating expenses	<u>862,725</u>
Operating loss	<u>(166,202)</u>
Non-operating revenues (expenses):	
Interest income	382
Interest expense	<u>(9,926)</u>
Net non-operating revenues (expenses)	<u>(9,544)</u>
Loss before capital grants	(175,746)
Capital grants	<u>20,000</u>
Change in net position	(155,746)
Net position, beginning of year	<u>1,014,271</u>
Net position, end of year	<u>\$ 858,525</u>

See accompanying notes to financial statements.

**FREEHOLD BOROUGH HOUSING AUTHORITY
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2017**

Cash Flows from Operating Activities:	
Cash received from tenants and other income	\$ 584,361
Cash received from grantors	80,822
Cash paid to suppliers	(481,655)
Cash paid to employees	<u>(229,026)</u>
Net cash used in operating activities	<u>(45,498)</u>
Cash Flows from Capital and Related Financing Activities:	
Interest paid	(9,926)
Principal payment on bonds payable	(20,000)
Capital grants received	20,000
Purchase of capital assets	<u>(56,300)</u>
Net cash used in capital and related financing activities	<u>(66,226)</u>
Cash Flows from Investing Activities:	
Investment income	<u>382</u>
Net cash provided by investing activities	<u>382</u>
Net decrease in cash and cash equivalents	(111,342)
Cash and cash equivalents, beginning of year	<u>575,406</u>
Cash and cash equivalents, end of year	<u><u>\$ 464,064</u></u>
Reconciliation of cash and cash equivalents to the Statement of Net Position is as follows:	
Cash and cash equivalents	\$ 420,629
Tenant security deposits	<u>43,435</u>
Cash and cash equivalents at end of year	<u><u>\$ 464,064</u></u>

See accompanying notes to financial statements.

FREEHOLD BOROUGH HOUSING AUTHORITY
STATEMENT OF CASH FLOWS (continued)
YEAR ENDED DECEMBER 31, 2017

Reconciliation of operating loss to net cash
used in operating activities:

Operating loss	\$ (166,202)
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Adjustments to reconcile operating loss to net cash
used in operating activities:

Depreciation	108,548
Bad debts	5,032

Changes in assets, liabilities, deferred outflows and deferred inflows:

Accounts receivable - tenants	(7,049)
Accounts receivable - miscellaneous	8,436
Accounts receivable - HUD	(37,100)
Prepaid expenses	128
Accounts payable	6,741
Accrued expenses	(844)
Accrued compensated absences	5,243
Tenant security deposits	(659)
Prepaid rent	(51)
Accrued pension liability	(72,556)
Deferred outflows of resources	24,562
Deferred inflows of resources	<u>80,273</u>

Net cash used in operating activities	\$ <u>(45,498)</u>
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**FREEHOLD BOROUGH HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2017**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization

The Freehold Borough 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 Borough of Freehold, New Jersey (the "Borough"). The Authority is responsible for operating certain low-rent housing programs in the Borough under 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, Division of Local Government Services, Department of Community Affairs. An executive director is appointed by the Authority's Board to manage the day-to-day operations of the Authority.

B. Basis of Accounting / Preparation of Financial Statements

The Authority's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations).

The programs of the Authority are organized as separate accounting entities. Each program is accounted for by a separate set of self-balancing accounts that comprise its assets, liabilities, net position (program equity), revenues, and expenses. The individual programs account for the governmental resources allocated to them for the purpose of carrying on specific programs in accordance with laws, regulations, or other restrictions, including those imposed by HUD. The programs of the Authority are combined and considered an enterprise fund. An enterprise fund is used to account for activities that are operated in a manner similar to those found in the private sector.

The Authority's enterprise fund is accounted for using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, and losses from assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

FREEHOLD BOROUGH HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS (continued)
YEAR ENDED DECEMBER 31, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Accounting / Preparation of Financial Statements (continued)

The Authority's financial statements are prepared in accordance with GASB 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, as amended ("GASB 34"). GASB 34 requires the basic financial statements to be prepared using the economic resources measurement focus and the accrual basis of accounting and requires the presentation of a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Net Position and Statement of Cash Flows. GASB 34 also requires the Authority to include Management's Discussion and Analysis as part of the Required Supplementary Information.

The Authority's primary source of non-exchange revenue relates to grants and subsidies. In accordance with GASB 33, *Accounting and Financial Reporting for Non-exchange Transactions*, grant and subsidy revenue are recognized at the time eligible program expenditures occur and/or the Authority has complied with the grant and subsidy requirements.

The Authority adopted GASB 68, *Accounting and Financial Reporting for Pensions* ("GASB 68"). GASB 68 established standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenditures associated with pension plans of State and Local Governments. For defined benefit pensions, GASB 68 identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actual present value, and attribute that present value to periods of employee service. In addition, GASB 68 details the recognition and disclosure requirements for employers with liabilities to a defined benefit pension plan and for employers whose employees are provided with defined contribution pensions.

C. Reporting Entity

In accordance with GASB 61, *The Financial Reporting Entity Omnibus - An Amendment of GASB Statement No. 14 and No. 34*, the Authority's basic financial statements include those of the Authority and any component units. Component units are legally separate organizations whose majority of officials are appointed by the primary government or the organization is fiscally dependent on the primary government and there is a potential for those organizations either to provide specific financial benefits to, or impose specific financial burdens on, the primary government.

An organization has a financial benefit or burden relationship with the primary government if any one of the following conditions exist:

1. The primary government (Authority) is legally entitled to or can otherwise access the organization's resources.
2. The primary government is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide financial support to, the organization.
3. The primary government is obligated in some manner for the debt of the organization.

FREEHOLD BOROUGH HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS (continued)
YEAR ENDED DECEMBER 31, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Reporting Entity (continued)

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.

D. Description of Programs

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

Public and Indian Housing

The Public and Indian Housing Program is designed to provide low-cost housing within the Borough. Under this program, HUD provides funding via an annual contributions contract. These funds, combined with the rental income received from tenants, are available solely to meet the operating expenses of the program.

Public Housing Capital Fund

The purpose of the Public Housing Capital Fund Program is to provide another source of funding to cover the cost of physical and management improvements and rehabilitation on existing low-income housing and improving the central office facilities. Funding for this program is provided by grants from HUD.

E. 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, 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, Certificates of Deposit, or any other federally insured investment.

FREEHOLD BOROUGH HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS (continued)
YEAR ENDED DECEMBER 31, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Cash and Cash Equivalents (continued)

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 are allowed 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 Statement of Cash Flows, cash and cash equivalents include all cash balances and highly liquid investments with a maturity of three months or less at time of purchase.

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

F. Accounts Receivable, net

Rents are due from tenants on the first day of each month. As a result, tenants accounts receivable balances primarily consist of rents past due and vacated tenants. Also included in accounts receivable are those amounts that tenants owe the Authority as payment for committing fraud or misrepresentation. These charges usually consist of retroactive rent and other amounts that may be determined by a formal written agreement or by a court order. An allowance for doubtful accounts is established to provide for all accounts, which may not be collected in the future for any reason. Collection losses on accounts receivable are charged against the allowance for doubtful accounts.

The Authority recognizes a receivable from HUD and other governmental agencies for amounts billed but not received and for amounts unbilled, but earned as of year end.

G. Allowance for Doubtful Accounts

The Authority periodically reviews all accounts receivable to determine the amount, if any, that may be uncollectable. If it is determined that an account or accounts may be uncollectable, the Authority prepares an analysis of such accounts and records an appropriate allowance against such amounts.

H. Prepaid Expenses

Prepaid expenses represent amounts paid as of year-end that will benefit future operations.

FREEHOLD BOROUGH HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS (continued)
YEAR ENDED DECEMBER 31, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

I. Capital Assets

Capital assets are stated at cost. Expenditures for repairs and maintenance are charged directly to expense as they are incurred. Expenditures determined to represent additions or betterments are capitalized. Upon the sale or retirement of fixed assets, the cost and related accumulated depreciation is eliminated from the accounts and any related gain or loss is reflected in the Statement of Revenues, Expenses and Changes in Net Assets.

Depreciation is calculated using the straight-line method based on the estimated useful lives of the following asset groups:

- | | |
|------------------------------|-------------|
| • Buildings and Improvements | 15-40 Years |
| • Furniture and Equipment | 3-10 Years |

The Authority has established a capitalization threshold of \$5,000.

J. Impairment of Long Lived Assets

The Authority evaluates events or changes in circumstances affecting long-lived assets to determine whether an impairment of its assets has occurred. If the Authority determines that a capital asset is impaired, and that the impairment is significant and other-than-temporary, then an impairment loss will be recorded in the Authority's financial statements.

K. Compensated Absences

Compensated absences represent amounts to which employees are entitled to based on accumulated leave earned in accordance with the Authority's Personnel Policy. Employees earn hours of vacation and sick time at various rates based on years of employment. Annual vacation and sick time may be accumulated and rolled over up to a maximum of 150 days. Employees may be compensated for accumulated vacation and sick leave in the event of retirement or termination from service.

L. Pensions

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 fiduciary net position of the Public Employees Retirement System ("PERS") and additions to/deductions from PERS's fiduciary net position have been determined on the same basis as they are reported by PERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

FREEHOLD BOROUGH HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS (continued)
YEAR ENDED DECEMBER 31, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

M. Prepaid Rent

The Authority's prepaid rent primarily consists of the prepayment of rent by residents applicable to future periods.

N. Deferred Outflows / 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 represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources until that time.

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

O. 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. Revenues are recognized as they are earned. 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 and expenses as non-operating.

P. Taxes

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

Q. Use of Management Estimates

The preparation of financial statements in accordance 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 and other liabilities, depreciable lives of properties and equipment and contingencies. Actual results could differ significantly from these estimates.

FREEHOLD BOROUGH HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS (continued)
YEAR ENDED DECEMBER 31, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

R. Economic Dependency

The Public and Indian Housing program of the Authority is economically dependent on operating grants and subsidies from HUD.

S. Equity Classifications

Equity is classified as net position and displayed in three components:

Net investments in capital assets - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.

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 does not meet the definition of "restricted" or "net investments in capital assets".

T. Budgets and Budgetary Accounting

The Authority is required by contractual agreements to adopt annual, appropriated operating budgets for all its Enterprise Funds receiving federal awards. All budgets are prepared on a HUD basis, which is materially consistent with GAAP. All appropriations lapse at HUD's program year end or at the end of grant periods. Pursuant to N.J.S.A 40A:5A-10 and N.J.A.C. 5:31 each authority is required to submit a budget for each fiscal year to the Director of the Division of Local Government Services 60 days prior to the beginning of the fiscal year.

NOTE 2. CASH AND CASH EQUIVALENTS

As of December 31, 2017, the Authority had funds on deposit in checking, savings, and money market accounts.

All bank deposits as of the net position 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.

The carrying amount of the Authority's cash and cash equivalents (including tenant security deposits) was \$464,064 and the bank balances were \$465,150.

**FREEHOLD BOROUGH HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS (continued)
YEAR ENDED DECEMBER 31, 2017**

NOTE 2. CASH AND CASH EQUIVALENTS (continued)

Of the bank balances, \$378,033 was covered by federal depository insurance and the remaining \$87,117 was collateralized by GUDPA as of December 31, 2017.

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 Authority does not have a formal policy for custodial credit risk. As of December 31, 2017, the Authority's bank balances were not exposed to custodial credit risk.

NOTE 3. ACCOUNTS RECEIVABLE - NET

Accounts receivable, net consists of the following as of December 31, 2017:

<u>Description</u>	<u>Amount</u>
Accounts receivable - HUD	\$ 37,100
Accounts receivable - tenants, net	5,493
Accounts receivable - miscellaneous	<u>666</u>
Total accounts receivable, net	<u>\$ 43,259</u>

Accounts Receivable - HUD

Accounts receivable - HUD represents amounts due to the Authority for amounts expended under the Public Housing Capital Fund Program that have not been reimbursed as of December 31, 2017. Management estimates the amounts to be fully collectible and therefore no allowance for doubtful accounts has been established.

Accounts Receivable - Tenants, Net

Tenant accounts receivable represents amounts owed to the Authority by tenants for outstanding rent. The balance is shown net of an allowance for doubtful accounts of \$2,639.

Accounts Receivable - Miscellaneous

Accounts receivable - miscellaneous consists of amounts owed to the Authority by tenants for charges such as late fees and key replacements. Management estimates the amounts to be fully collectible and therefore no allowance for doubtful accounts has been established.

NOTE 4. RESTRICTED DEPOSITS

As of December 31, 2017, restricted deposits consisted of tenant security deposits which amounted to \$43,435. Tenant security deposits represent amounts held by the Authority on behalf of tenants. Upon termination from the program, the tenant is due amounts deposited plus interest earned less any amounts charged for damage to the unit.

FREEHOLD BOROUGH HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS (continued)
YEAR ENDED DECEMBER 31, 2017

NOTE 5. CAPITAL ASSETS, NET

A summary of the changes in capital assets during the year ended December 31, 2017 is as follows:

Description	December 31, 2016	Additions	Dispositions	December 31, 2017
Non-depreciable capital assets:				
Land	\$ 145,000	\$ -	\$ -	\$ 145,000
Construction in progress	-	56,300	-	56,300
Total	<u>145,000</u>	<u>56,300</u>	<u>-</u>	<u>201,300</u>
Depreciable capital assets:				
Building and improvements	4,792,367	-	-	4,792,367
Furniture and equipment	118,758	-	-	118,758
Total	<u>4,911,125</u>	<u>-</u>	<u>-</u>	<u>4,911,125</u>
Less: accumulated depreciation	<u>3,856,706</u>	<u>108,548</u>	<u>-</u>	<u>3,965,254</u>
Net capital assets	<u>\$ 1,199,419</u>	<u>\$ (52,248)</u>	<u>\$ -</u>	<u>\$ 1,147,171</u>

Depreciation expense for the year ended December 31, 2017 amounted to \$108,548.

NOTE 6. NON-CURRENT LIABILITIES

A summary of the activity in non-current liabilities for the year ended December 31, 2017 consisted of the following:

Description	December 31, 2016	Additions	Payments	December 31, 2017	Amounts due within one Year
Bonds payable	\$ 220,000	\$ -	\$ (20,000)	\$ 200,000	\$ 20,000
Compensated absences	50,240	5,243	-	55,483	17,172
Accrued pension liability	<u>472,468</u>	<u>-</u>	<u>(72,556)</u>	<u>399,912</u>	<u>-</u>
Totals	<u>\$ 742,708</u>	<u>\$ 5,243</u>	<u>\$ (92,556)</u>	<u>\$ 655,395</u>	<u>\$ 37,172</u>

FREEHOLD BOROUGH HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS (continued)
YEAR ENDED DECEMBER 31, 2017

NOTE 7. BONDS PAYABLE

During 2004, the Authority entered a Capital Fund Leveraging Pool. The New Jersey Housing and Mortgage Finance Agency issued tax exempt, twenty-year Capital Fund Program Revenue Bonds, 2004 Series A, on December 23, 2004. The Authority's share of the funds from the bond issue pool amounted to \$400,000.

Repayment of the funds leveraged shall be budgeted from Capital Fund Allocations received by the Authority from HUD.

The following is a schedule of required payments for the next five years and thereafter:

Year ending December 31:	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	20,000	9,051	29,051
2019	20,000	8,176	28,176
2020	20,000	7,285	27,285
2021	20,000	6,345	26,345
2022	20,000	5,288	25,288
2023-2025	<u>100,000</u>	<u>7,403</u>	<u>107,403</u>
	<u>\$ 200,000</u>	<u>\$ 43,548</u>	<u>\$ 243,548</u>

NOTE 8. PENSION PLAN

A. Plan Description

The State of New Jersey Public Employees' Retirement System 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 the Division's Comprehensive Annual Financial Report, which can be found at www.nj.gov/treasury/pensions/financial-reports.shtml.

B. Benefits

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:

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

FREEHOLD BOROUGH HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS (continued)
YEAR ENDED DECEMBER 31, 2017

NOTE 8. PENSION PLAN (continued)

B. Benefits (continued)

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 before reaching age 60, tiers 3 and 4 before age 62 with 25 years or more of service credit before age 62, and tier 5 with 30 years or more of service credit before age 65. Benefits are reduced by a fraction of a percent for each month 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.

C. Contributions

The contribution policy for PERS is set by N.J.S.A. 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.

The local employers' contribution amounts are based on the 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 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 the assets.

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

As of December 31, 2017, the Authority reported a liability of \$399,912, for its proportionate share of the net pension liability. The net pension liability was measured as of July 1, 2016, and rolled forward to June 30, 2017.

FREEHOLD BOROUGH HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS (continued)
YEAR ENDED DECEMBER 31, 2017

NOTE 8. PENSION PLAN (continued)

D. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (continued)

For the year ended December 31, 2017 the Authority recognized pension expense of \$32,279. As of December 31, 2017 the Authority reported deferred outflows of resources and deferred inflows of resources from the following sources.

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes of assumptions	\$ 80,568	\$ 80,273
Changes in proportion	41,260	-
Differences between expected and actual experience	9,417	-
Net differences between actual and projected earnings on pension plan investments	2,723	-
Net differences between proportionate share and actual contribution	<u>-</u>	<u>-</u>
Total	<u>\$ 133,968</u>	<u>\$ 80,273</u>

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 December 31:	<u>Amount</u>
2018	40,651
2019	61,344
2020	37,171
2021	(49,438)
2022	<u>(36,033)</u>
	<u>\$ 53,695</u>

E. Actuarial Assumptions

The collective total pension liability for the June 30, 2017 measurement date was determined by an actuarial valuation as of July 1, 2016, which was rolled forward to June 30, 2017. This actuarial valuation used the following assumptions:

**FREEHOLD BOROUGH HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS (continued)
YEAR ENDED DECEMBER 31, 2017**

NOTE 8. PENSION PLAN (continued)

E. Actuarial Assumptions (continued)

Inflation Rate	2.25%
Salary Increases:	
Through 2026	1.65 - 4.15% based on age
Thereafter	2.65 - 5.15% based on age
Investment rate of return	7.00%

Preretirement 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. Postretirement mortality rates were based on the RP-2000 Combined Healthy Male and Female Mortality Tables (set back 1 year for males and females) for service retirements and beneficiaries of former members and one-year static projection based on 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 scale. 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).

F. Long-term Expected Rate of Return

The long-term expected rate of return on plan investments is determined by the State Treasurer, after consultation with the Directors of the Division of Investments and the Division of Pensions and Benefits, the board of trustees and the actuaries. Best estimates of arithmetic rates of return for each major asset class included in PERS's target asset allocation as of June 30, 2017 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Absolute return/risk mitigation	5.00%	5.51%
Cash equivalents	5.50%	1.00%
U.S. Treasuries	3.00%	1.87%
Investment grade credit	10.00%	3.78%
Public high yield	2.50%	6.82%
Global diversified credit	5.00%	7.10%
Credit oriented hedge funds	1.00%	6.60%
Debt related private equity	2.00%	10.63%
Debt related real estate	1.00%	6.61%
Private real asset	2.50%	11.83%
Equity related real estate	6.25%	9.23%

FREEHOLD BOROUGH HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS (continued)
YEAR ENDED DECEMBER 31, 2017

NOTE 8. PENSION PLAN (continued)

F. Long-term Expected Rate of Return (continued)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
U.S. equity	30.00%	8.19%
Non-U.S. developed markets equity	11.50%	9.00%
Emerging markets equity	6.50%	11.64%
Buyouts/venture capital	8.25%	13.08%

G. Discount Rate

The discount rate used to measure the total pension liability was 5.00% as of June 30, 2017. This single blended discount rate was based on the long-term expected rate of return on pension plan investments of 7.00% and a municipal bond rate of 3.58% as of June 30, 2017 based on the Bond Buyer Go 20-Bond Municipal Bond Index, which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. The projection of cash flows used to determine the discount rate assumed that contributions from the 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 40% 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 2040. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2040 and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liability.

H. 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 of 5.00 percent, 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 (4.00 percent) or 1 percentage point higher (6.00 percent) than the current rate.

	1% Decrease <u>(4.00%)</u>	Discount Rate <u>(5.00%)</u>	1% Increase <u>(6.00%)</u>
Authority's proportionate share of the net pension liability	\$ <u>496,118</u>	\$ <u>399,912</u>	\$ <u>319,760</u>

FREEHOLD BOROUGH HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS (continued)
YEAR ENDED DECEMBER 31, 2017

NOTE 9. POST-RETIREMENT BENEFITS

The Authority provides health insurance to its employees through the Borough of Freehold. The agreement does not provide for any post-employment benefits for employees upon retirement or termination from the Authority.

NOTE 10. RISK MANAGEMENT

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

NOTE 11. CONTINGENCIES

The Authority receives financial assistance from HUD in the form of grants and subsidies. Entitlement to the funds is generally conditional upon compliance with terms and conditions of the grant agreements and applicable regulations, including the expenditure of the funds for eligible purposes. Substantially all grants, entitlements and cost reimbursements are subject to financial and compliance audits by HUD. As a result of these audits, costs previously reimbursed could be disallowed and require repayments to HUD. As of December 31, 2017, the Authority estimates that no material liabilities will result from such audits.

NOTE 12. SUBSEQUENT EVENTS

Events that occur after the financial statement date but before the financial statements were available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the financial statement date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the financial statement date require disclosure in the accompanying notes to the financial statements. Management evaluated the activity of the Authority through September 26, 2018 (the date the financial statements were available to be issued) and concluded that no subsequent events have occurred that would require recognition in the financial statements or disclosure in the notes to the financial statements.



**NOVOGRADAC
& COMPANY LLP**
CERTIFIED PUBLIC ACCOUNTANTS

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

To the Board of Commissioners of
Freehold Borough Housing Authority:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and the audit requirements as prescribed by the State of New Jersey, Division of Local Government Services, the financial statements of the Freehold Borough Housing Authority (the "Authority") as of and for the year ended December 31, 2017, and the related notes to the financial statements which collectively comprise the Authority's financial statements and have issued our report thereon dated September 26, 2018.

Internal Control Over Financial Reporting

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



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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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Novogradac & Company LLP

September 26, 2018
Toms River, New Jersey

**FREEHOLD BOROUGH HOUSING AUTHORITY
SCHEDULE OF FEDERAL AWARDS, FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2017**

I. Federal Awards

For the year ended December 31, 2017, the Authority expended federal funding under the following programs:

<u>Federal Grantor / Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Identifying Number</u>	<u>Grant Expenditures</u>
U.S. Department of Housing and Urban Development:			
Public and Indian Housing	14.850	N/A	\$ 70,441
Public Housing Capital Fund Program	14.872	N/A	<u>67,481</u>
Total Federal Expenditures			<u>\$ 137,922</u>

II. Financial Statement Findings

There were no findings relating to the financial statements which are required to be reported in accordance with *Government Auditing Standards*.

III. Schedule of Prior Year Audit Findings

There were no findings or questioned costs in the prior year.

**FREEHOLD BOROUGH HOUSING AUTHORITY
SCHEDULE OF FEDERAL AWARDS, FINDINGS AND RESPONSES (continued)
FOR THE YEAR ENDED DECEMBER 31, 2017**

IV. Schedule of Capital Fund Program Costs and Advances

	<u>501-16</u>	<u>501-17</u>	<u>Total</u>
Budget	\$ <u>81,771</u>	\$ <u>83,473</u>	\$ <u>165,244</u>
<u>Advances:</u>			
Cumulative through 12/31/2016	\$ 51,390	\$ -	\$ 51,390
Current year	<u>30,381</u>	<u>-</u>	<u>30,381</u>
Cumulative through 12/31/2017	<u>81,771</u>	<u>-</u>	<u>81,771</u>
<u>Costs:</u>			
Cumulative through 12/31/2016	51,390	-	51,390
Current year	<u>30,381</u>	<u>37,100</u>	<u>67,481</u>
Cumulative through 12/31/2017	<u>81,771</u>	<u>37,100</u>	<u>118,871</u>
Excess / (Deficiency)	\$ <u>-</u>	\$ <u>(37,100)</u>	\$ <u>(37,100)</u>

NOTES TO SCHEDULE OF CAPITAL FUND PROGRAM COSTS AND ADVANCES

- 1) The total amounts of Capital Fund Program Costs and Advances incurred and earned by the Authority for the year ended December 31, 2017 are contained herein.
- 2) Capital Fund Grant No. NJ39P060501-16 with approved fundings of \$81,771, has been fully drawn down and expended as per Capital Fund Grant Regulations.

**FREEHOLD BOROUGH HOUSING AUTHORITY
REQUIRED PENSION INFORMATION
DECEMBER 31, 2017**

SCHEDULE OF AUTHORITY CONTRIBUTIONS FOR THE LAST TEN FISCAL YEARS***

	December 31, 2014	December 31, 2015	December 31, 2016	December 31, 2017
Contractually required contribution	\$ 12,752	\$ 13,461	\$ 14,172	\$ 15,915
Contributions in relation to the contractually required contribution	<u>12,752</u>	<u>13,461</u>	<u>14,172</u>	<u>15,915</u>
(Over) / under funded	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Authority's covered-employee payroll	<u>\$ 106,891</u>	<u>\$ 107,999</u>	<u>\$ 109,741</u>	<u>\$ 141,859</u>
Contributions as a percentage of covered-employee payroll	<u>11.93 %</u>	<u>12.46 %</u>	<u>12.91 %</u>	<u>11.22 %</u>

SCHEDULE OF THE AUTHORITY'S PROPORTIONATE SHARE OF THEIR NET PENSION LIABILITY FOR THE LAST TEN FISCAL YEARS***

	December 31, 2014	December 31, 2015	December 31, 2016	December 31, 2017
Authority's proportion of the net pension liability	<u>0.0016 %</u>	<u>0.0016 %</u>	<u>0.0016 %</u>	<u>0.0017 %</u>
Authority's proportionate share of the net pension liability	<u>\$ 289,385</u>	<u>\$ 351,473</u>	<u>\$ 472,468</u>	<u>\$ 399,912</u>
Authority's covered-employee payroll	<u>\$ 106,891</u>	<u>\$ 107,999</u>	<u>\$ 109,741</u>	<u>\$ 141,859</u>
Authority's proportionate share of the net pension liability (asset) as a percentage of its covered employee payroll	<u>270.73 %</u>	<u>325.44 %</u>	<u>430.53 %</u>	<u>281.91 %</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>52.08 %</u>	<u>47.93 %</u>	<u>40.14 %</u>	<u>48.10 %</u>

*** = Until a full 10 year trend is compiled the Authority is presenting information for those years that are available.

Freehold Borough Housing Authority			
NJ069			
Financial Data Schedule (FDS)			
December 31, 2017			
Line Item #	Account Description	Project Total	TOTAL
ASSETS:			
CURRENT ASSETS:			
Cash:			
111	Cash - unrestricted	\$ 420,629	\$ 420,629
112	Cash - restricted - modernization and development	-	-
113	Cash - other restricted	-	-
114	Cash - tenant security deposits	43,435	43,435
115	Cash - restricted for payment of current liabilities	-	-
100	Total cash	464,064	464,064
Accounts and notes receivable:			
121	Accounts receivable - PHA projects	-	-
122	Accounts receivable - HUD other projects	37,100	37,100
124	Accounts receivable - other government	-	-
125	Accounts receivable - miscellaneous	666	666
126	Accounts receivable - tenants	8,132	8,132
126.1	Allowance for doubtful accounts - tenants	(2,639)	(2,639)
126.2	Allowance for doubtful accounts - other	-	-
127	Notes and mortgages receivable - current	-	-
128	Fraud recovery	-	-
128.1	Allowance for doubtful accounts - fraud	-	-
129	Accrued interest receivable	-	-
120	Total receivable, net of allowance for doubtful accounts	43,259	43,259
Current investments			
131	Investments - unrestricted	-	-
132	Investments - restricted	-	-
135	Investments - restricted for payment of current liability	-	-
142	Prepaid expenses and other assets	106	106
143	Inventories	-	-
143.1	Allowance for obsolete inventories	-	-
144	Interprogram - due from	-	-
145	Assets held for sale	-	-
150	TOTAL CURRENT ASSETS	507,429	507,429
NONCURRENT ASSETS:			
Fixed assets:			
161	Land	145,000	145,000
162	Building	4,149,176	4,149,176
163	Furniture, equipment & machinery - dwellings	-	-
164	Furniture, equipment & machinery - administration	118,757	118,757
165	Leasehold improvements	643,192	643,192
166	Accumulated depreciation	(3,965,254)	(3,965,254)
167	Construction in Progress	56,300	56,300
168	Infrastructure	-	-
160	Total fixed assets, net of accumulated depreciation	1,147,171	1,147,171
Other non-current assets:			
171	Notes and mortgages receivable - non-current	-	-
172	Notes and mortgages receivable (non-current - past due)	-	-
173	Grants Receivable Non Current	-	-
174	Other assets	-	-
175	Undistributed debits	-	-
176	Investment in joint ventures	-	-
180	TOTAL NONCURRENT ASSETS	1,147,171	1,147,171
200	Deferred Outflows of Resources	133,968	133,968
290	TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 1,788,568	\$ 1,788,568

Freehold Borough Housing Authority			
NJ069			
Financial Data Schedule (FDS)			
December 31, 2017			
Line Item #	Account Description	Project Total	TOTAL
LIABILITIES AND EQUITY			
Liabilities:			
Current Liabilities:			
311	Bank overdraft	\$ -	\$ -
312	Accounts payable - 90 days	14,748	14,748
313	Accounts payable - 90 days past due	-	-
321	Accrued wage/payroll taxes payable	1,072	1,072
322	Accrued compensated absences - current portion	17,172	17,172
324	Accrued contingency liability	-	-
325	Accrued interest payable	-	-
331	Accounts payable - HUD PHA programs	-	-
332	Accounts payable - PHA projects	-	-
333	Accounts payable - other government	24,530	24,530
341	Tenant security deposits	43,435	43,435
342	Unearned revenue	603	603
343	Current portion of L-T debt - capital projects	20,000	20,000
344	Current portion of L-T debt - operating borrowings	-	-
345	Other current liabilities	-	-
346	Accrued liabilities - other	109,987	109,987
347	Interprogram - due to	-	-
348	Loan liability - Current	-	-
310	TOTAL CURRENT LIABILITIES	231,547	231,547
NONCURRENT LIABILITIES			
351	Long-term debt, net of current - capital projects	180,000	180,000
352	Long-term debt, net of current - operating borrowings	-	-
353	Non-current liabilities- other	-	-
354	Accrued compensated absences - noncurrent	38,311	38,311
355	Loan Liability - Non Current	-	-
356	FASB 5 Liabilities	-	-
357	Accrued pension and OPEB liabilities	399,912	399,912
350	TOTAL NONCURRENT LIABILITIES	618,223	618,223
300	TOTAL LIABILITIES	849,770	849,770
400	Deferred Inflows of Resources	80,273	80,273
EQUITY:			
508.1	Invested in Capital Assets, Net of Related Debt	947,171	947,171
511.1	Restricted Net Assets	-	-
512.1	Unrestricted Net Assets	(88,646)	(88,646)
513	TOTAL EQUITY	858,525	858,525
600	TOTAL LIABILITIES, DEFERRED INFLOWS AND EQUITY	\$ 1,788,568	\$ 1,788,568
Proof of concept			

Freehold Borough Housing Authority				
NJ069				
Financial Data Schedule (FDS)				
December 31, 2017				
Line Item #	Account Description	OPERATING	CAPITAL	TOTAL
REVENUE:				
70500	Net tenant rental revenues	\$ 562,429	\$ -	\$ 562,429
70600	Tenant revenue - other	30,497	-	30,497
70500	Tenant rental revenues	562,926	-	562,926
70600	HUD/FHA grants	10,411	47,501	117,923
70610	Capital grants	-	20,000	20,000
70710	Management fee	-	-	-
70720	Asset management fee	-	-	-
70730	Book keeping fee	-	-	-
70740	Front line services fee	-	-	-
70750	Other fees	-	-	-
70800	Other government grants	-	-	-
71100	Investment income - unrestricted	382	-	382
71200	Mortgage interest income	-	-	-
71300	Proceeds from disposition of assets held for sale	-	-	-
71401	Cost of sale of assets	-	-	-
71402	Fund recovery	-	-	-
71500	Other revenue	15,865	-	15,865
71600	Gain or loss on sale of fixed assets	-	-	-
72000	Investment income - restricted	-	-	-
70600	TOTAL REVENUE	649,424	67,501	716,925
EXPENSES:				
Administrative				
91100	Administrative salaries	88,798	-	88,798
91200	Auditing fees	4,508	-	4,508
91300	Outside management fees	-	-	-
91310	Book keeping fee	-	-	-
91400	Advertising and marketing	-	-	-
91500	Employee benefit contributions-administrative	66,763	-	66,763
91600	Office supplies	27,454	-	27,454
91700	Legal expenses	13,185	-	13,185
91800	Travel	600	-	600
91810	Allocated overhead	-	-	-
91900	Other	26,632	455	27,087
	Total Administrative	227,727	455	228,182
92000	Asset Management Fee	-	-	-
Tenant services				
92100	Tenant services - salaries	10,000	-	10,000
92300	Relocation costs	-	-	-
92300	Employee benefit contributions-tenant services	3,772	-	3,772
92400	Tenant services - other	-	-	-
	Total Tenant Services	13,772	-	13,772
Utilities				
93100	Water	19,889	-	19,889
93200	Electricity	65,918	-	65,918
93300	Gas	63,258	-	63,258
93300	Fuel	-	-	-
93300	Laundry	7,036	-	7,036
93600	Sewer	-	-	-
93700	Employee benefit contributions-utilities	-	-	-
93800	Other utilities expense	46,842	-	46,842
	Total Utilities	192,740	-	192,740
Ordinary maintenance & operations				
94100	Ordinary maintenance and operations - labor	39,920	-	39,920
94200	Ordinary maintenance and operations - materials & other	100,070	-	100,070
94300	Ordinary maintenance and operations - contract cost	88,283	-	88,283
94500	Employee benefit contributions-ordinary maintenance	15,625	-	15,625
	Total Ordinary Maintenance	243,907	-	243,907
Protective services				
95100	Protective services - labor	-	-	-
95200	Protective services - other contract cost	-	-	-
95300	Protective services - other	-	-	-
95500	Employee benefit contributions-protective services	-	-	-
	Total Protective Services	-	-	-

Frerhold Borough Housing Authority				
NJ069				
Financial Data Schedule (FDS)				
December 31, 2017				
Line Item #	Account Description	OPERATING	CAPITAL	TOTAL
General expense				
96100	Insurance premiums	40,571	-	40,571
96150	Other general expenses	-	-	-
96210	Compensated services	3,344	-	3,344
96300	Payments in lieu of taxes	24,530	-	24,530
96400	Bad debt - tenant rents	3,033	-	3,033
96500	Bad debt - mortgage	-	-	-
96600	Bad debt - other	-	-	-
96700	Interest expense	-	-	-
96710	Interest of mortgage and fundable payable	-	9,926	9,926
96750	Interest on Notes Payable (short and long term)	-	-	-
96780	Amortization of bond issue costs	-	-	-
96800	Severance expense	-	-	-
	Total General Expense	73,576	9,926	83,502
96900	TOTAL OPERATING EXPENSES	753,722	10,381	764,103
97000	EXCESS OPERATING REVENUE OVER OPERATING EXPENSES	(104,298)	57,100	(47,198)
97100	Extraordinary maintenance	-	-	-
97200	Contingency losses - non capitalized	-	-	-
97300	Leasing assistance payments	-	-	-
97350	HAP Penalties - int.	-	-	-
97360	Depreciation expense	108,548	-	108,548
97500	Fraud losses	-	-	-
97800	Dwelling unit rent expense	-	-	-
90000	TOTAL EXPENSES	862,270	10,381	872,651
OTHER FINANCING SOURCES (USES)				
10010	Operating transfers in	37,100	-	37,100
10020	Operating transfers out	-	(37,100)	(37,100)
10030	Operating transfers from/to primary government	-	-	-
10040	Operating transfers from/to component unit	-	-	-
10050	Extraordinary items, net gain/loss	-	-	-
10060	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 program and project out	-	-	-
10100	TOTAL OTHER FINANCING SOURCES (USES)	37,100	(37,100)	-
10000	EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES	(175,746)	20,000	(155,746)
MEMO ACCOUNT INFORMATION:				
11020	Required annual debt principal payments	-	20,000	20,000
11030	Beginning equity	1,014,271	-	1,014,271
11040	Prior period adjustments and equity transfers	20,000	(20,000)	-
11170	Administrative fee equity	-	-	-
11180	Housing assistance payments equity	-	-	-
11190	Unit months available	1,008	-	1,008
11210	Number of unit months leased	954	-	954
11270	Excess Cash	222,361	-	222,361
Equity Roll Forward Test				
	Calculation from R/E Statement:	\$ 858,528	\$ -	\$ 858,528
	B/S Line 513	\$ 858,528	\$ -	\$ 858,528
		\$ -	\$ -	\$ -