

HOUSING AUTHORITY OF THE BOROUGH OF FREEHOLD
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2012

As Management of the Authority, we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal year ended December 31, 2012. 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, 2012, the assets of the Authority exceeded its liabilities by \$1,316,203 (net assets). This compares to the previous year when assets exceeded liabilities by \$1,291,582.
2. For the fiscal year December 31, 2012 the Authority reported ending unrestricted net assets of \$258,207. This compares to the previous year when ending unrestricted net assets were \$191,519.
3. The Authority had total revenues of \$770,015 and total expenses of \$745,394 for the year ended December 31, 2012.
4. The Authority's capital outlays for the fiscal year were \$49,071.
5. The Authority's expenditures of federal awards amounted to \$222,271 for the fiscal year.

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 Statement of Net Position, the Statement of Activities and the Statement of Cash Flows.

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

The Statement of Activities presents information showing how the Authority's net assets changed during the most recent fiscal year. All changes in the net assets are included, regardless of when cash is received or paid.

The financial statements report on the Authority's activities. The activities are primarily supported by HUD subsidies 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 8 through 10 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 11 of this report.

C – The Authority as a Whole

The Authority's net assets increased during the fiscal year as detailed below. The Authority's current and other assets increased as capital acquisition costs decreased during 2012. The Authority's revenues include subsidies and grants received from HUD. The Authority receives subsidies each month based on a pre-authorized funding level. The Authority's operating revenues were sufficient to cover all operating expenses, with the exception of depreciation, during the fiscal year.

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

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

	<u>2012</u>	<u>2011</u>
Current and Other Assets	\$ 404,301	\$ 352,704
Capital Assets	1,357,916	1,419,991
Total Assets	<u>1,762,217</u>	<u>1,772,695</u>
Long-term Liabilities	299,275	318,988
Other Liabilities	146,739	162,125
Total Liabilities	<u>446,014</u>	<u>481,113</u>
Net Position:		
Invested in Capital Assets, Net of Related Debt	1,057,916	1,099,991
Restricted	80	72
Unrestricted	258,207	191,519
Total Net Position	<u>\$ 1,316,203</u>	<u>\$ 1,291,582</u>

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

	<u>2012</u>	<u>%</u>	<u>2011</u>	<u>%</u>
Revenues:				
Tenant Revenue	\$ 525,278	68.22	\$ 491,668	70.14
Government Operating Grants	163,296	21.21	177,540	25.32
Other Revenue	22,453	2.90	12,210	1.75
Investment Income	13	0.01	13	0.01
Capital Grants	58,975	7.66	19,504	2.78
Total Revenues	<u>770,015</u>	<u>100.00</u>	<u>700,935</u>	<u>100.00</u>
Expenses:				
General Operating Expenses	620,270	83.21	712,152	83.47
Investment Expense	13,978	1.88	14,690	1.73
Depreciation	111,146	14.91	126,317	14.80
Total Expenses	<u>745,394</u>	<u>100.00</u>	<u>853,159</u>	<u>100.00</u>
Increase (Decrease) in Net Position	24,621		(152,224)	
Prior Period Adjustments	-		(56,945)	
Transfers	-		-	
Beginning Net Position	<u>1,291,582</u>		<u>1,500,751</u>	
Ending Net Position	<u>\$ 1,316,203</u>		<u>\$ 1,291,582</u>	

D – Budgetary Highlights

For the fiscal year ended December 31, 2012, individual program or grant budgets were prepared by the Authority and were approved by the Board of Commissioners. The budgets were primarily used as a management tool and have no legal stature. The budgets were prepared in accordance with the accounting procedures prescribed by the applicable funding agency.

As indicated by the excess of revenues over expenses, when excluding depreciation expense and capital grants, the Authority's unrestricted net assets increased during the fiscal year. This increase is indicative of the Authority managing within its operating budgetary limitations.

E – Capital Assets and Debt Administration

1. Capital Assets

As of December 31, 2012, the Authority's investment in capital assets for its proprietary fund was \$1,057,916 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment and construction in progress.

Major capital assets purchases of \$49,071 during the fiscal year pertained to expenditures made in accordance with the Authority's Capital Fund Programs. The majority of these costs were related to building renovations. These activities are funded by grants from HUD.

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

	Cost of Capital <u>Assets</u>	Accumulated <u>Depreciation</u>	Net of Accumulated <u>Depreciation</u>
Non-Depreciable Assets:			
Land	\$ 145,000	\$ -	\$ 145,000
Construction in Progress	62,387	-	62,387
Depreciable Assets:			
Building and Improvements	3,863,153	2,808,977	1,054,176
Site Improvements	625,146	537,218	87,928
Furniture, Machinery and Equipment	<u>94,752</u>	<u>86,327</u>	<u>8,425</u>
	<u>\$ 4,790,438</u>	<u>\$ 3,432,522</u>	<u>\$ 1,357,916</u>

2. Long Term Debt

During 2004, the Authority participated in a Capital Fund Leveraging Pool. The New Jersey Housing and Finance Agency issued tax-exempt bonds and the proceeds were distributed among the participating Authorities. As of December 31, 2012 the amount of outstanding debt was \$300,000.

F – Significant Changes From Year Ended December 31, 2011 to December 31, 2012

Maintenance costs decreased due to the ability to fund projects with grant proceeds.

The Authority's unrestricted net assets of \$258,207 appear sufficient to cover any shortfall that may occur in 2013.

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

HUD's reduction to the operating subsidy in recent years continues to cause the authority to reduce its contribution to reserves. Both Operating and Capital Fund subsidies may continue to be reduced in the future making it difficult to avoid using reserves to balance the budget.

H – Contacting the Authority's Financial Management

The financial report is designed to provide a general overview of the Authority's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Executive Director, Housing Authority of the Borough of Freehold, 107 Throckmorton St. Freehold, NJ 07728.

HOUSING AUTHORITY OF THE BOROUGH OF FREEHOLD
 STATEMENTS OF NET POSITION
 PROPRIETARY FUNDS
 DECEMBER 31, 2012 AND 2011

ASSETS		
	<u>2012</u>	<u>2011</u>
Current Assets		
Cash and Cash Equivalents	\$ 350,992	\$ 286,507
Restricted Cash and Cash Equivalents	40,946	37,511
Tenant Accounts Receivable, Net	7,666	5,811
Due from HUD	4,588	22,727
Prepaid Expenses	109	148
Total Current Assets	<u>404,301</u>	<u>352,704</u>
Non-Current Assets		
Capital Assets		
Land and Construction in Progress	207,387	168,412
Other Capital Assets, Net of Accumulated Depreciation	1,150,529	1,251,579
Total Non-Current Assets	<u>1,357,916</u>	<u>1,419,991</u>
TOTAL ASSETS	\$ <u>1,762,217</u>	\$ <u>1,772,695</u>
LIABILITIES AND NET POSITION		
Current liabilities		
Accounts payable	\$ 8,881	2,383
Accrued liabilities		
Compensated absences, current portion	11,429	45,094
Payment in lieu of taxes	39,819	35,769
Other	25,698	20,453
Tenant security deposits	40,867	37,439
Deferred revenue	45	987
Bonds payable, current portion	20,000	20,000
Total current liabilities	<u>146,739</u>	<u>162,125</u>
Non-current liabilities		
Compensated absences, non-current	19,275	18,988
Long term debt	280,000	300,000
Total non-current liabilities	<u>299,275</u>	<u>318,988</u>
Total liabilities	<u>446,014</u>	<u>481,113</u>
Net position		
Invested in capital assets, net of related debt	1,057,916	1,099,991
Restricted net assets:		
Capital	80	72
Unrestricted net assets:		
Undesignated	258,207	191,519
Total net position	<u>1,316,203</u>	<u>1,291,582</u>
TOTAL LIABILITIES AND NET POSITION	\$ <u>1,762,217</u>	\$ <u>1,772,695</u>

See accompanying notes to financial statements

HOUSING AUTHORITY OF THE BOROUGH OF FREEHOLD
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
OPERATING REVENUES		
Tenant revenue	\$ 525,278	\$ 491,668
Government operating grants	163,296	177,540
Other revenue	<u>22,453</u>	<u>12,210</u>
Total operating revenues	<u>711,027</u>	<u>681,418</u>
OPERATING EXPENSES		
Administrative	191,735	210,091
Tenant services	15,604	13,655
Utilities	180,039	191,971
Maintenance	163,504	223,899
Protective services	504	2,390
General	68,884	70,146
Depreciation	<u>111,146</u>	<u>126,317</u>
Total operating expenses	<u>731,416</u>	<u>838,469</u>
Operating income (loss)	(20,389)	(157,051)
NON-OPERATING REVENUES (EXPENSES)		
Investment income	13	13
Investment expense	<u>(13,978)</u>	<u>(14,690)</u>
Income (loss) before contributions and transfers	(34,354)	(171,728)
Capital grants	<u>58,975</u>	<u>19,504</u>
Change in net assets	24,621	(152,224)
Prior period adjustments	-	(56,945)
Total net position, beginning	<u>1,291,582</u>	<u>1,500,751</u>
TOTAL NET POSITION, ENDING	<u>\$ 1,316,203</u>	<u>\$ 1,291,582</u>

HOUSING AUTHORITY OF THE BOROUGH OF FREEHOLD
 STATEMENTS OF CASH FLOWS
 FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from tenants	\$ 525,909	\$ 498,192
Cash received from HUD	181,435	160,401
Cash payments to employees and suppliers for goods and services	(637,816)	(722,720)
Other operating revenues	22,453	12,210
Net cash provided (used) by operating activities	<u>91,981</u>	<u>(51,917)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital grants received	58,975	19,504
Repayment of loans	(20,000)	(20,000)
Purchase of fixed assets	(49,071)	(19,505)
Net cash provided (used) by capital and related financing activities	<u>(10,096)</u>	<u>(20,001)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income	13	13
Investment expense	(13,978)	(14,690)
Net cash provided (used) by investing activities	<u>(13,965)</u>	<u>(14,677)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	67,920	(86,595)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>324,018</u>	<u>410,613</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 391,938</u>	<u>\$ 324,018</u>
RECONCILIATION OF RESTRICTED AND UNRESTRICTED CASH		
Current cash and cash equivalents	\$ 350,992	\$ 286,507
Restricted cash and cash equivalents	<u>40,946</u>	<u>37,511</u>
TOTAL CASH AND CASH EQUIVALENTS	<u>\$ 391,938</u>	<u>\$ 324,018</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating income (loss)	\$ (20,389)	\$ (157,051)
Adjustment to reconcile operating income (loss) to net cash provided (used) by operating activities		
Depreciation and amortization	111,146	126,317
Changes in certain assets and liabilities		
Accounts receivable	16,284	(14,141)
Other assets	39	(6)
Accounts payable	9,926	(29,865)
Accrued liabilities	(24,083)	21,854
Deferred revenues	<u>(942)</u>	<u>975</u>
Net cash provided (used) by operating activities	<u>\$ 91,981</u>	<u>\$ (51,917)</u>

See accompanying notes to financial statements

HOUSING AUTHORITY OF THE BOROUGH OF FREEHOLD
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2012

NOTE A - Summary of Organization, Activities and Significant Accounting Policies:

1. Organization - The Authority was created through a resolution of the Borough of Freehold. It was organized as a public housing authority as defined by State Statute (N.J.S.A 40A:12A-1, et seq., the "Housing Authority Act"). The Authority functions under the supervision of HUD and the New Jersey Department of Community Affairs – Division of Local Government Services (DCA). The Authority's Board of Commissioners is a seven member board, with six members appointed locally and one member appointed by the DCA Commissioner.

The Authority has not identified any entities, which should be subject to evaluation for inclusion in the Authority's reporting entity. The Authority has concluded that it is excluded from the Borough's reporting entity since the Borough does not designate management, does not influence operations, does not have responsibility for fiscal matters and does not have a funding relationship with the Authority.

2. Activities - At December 31, 2012, the only programs or activities administered by the Authority were:

Program	Contract No.	Project No.	Units Authorized
Low-Income Housing: Management	NY-226	NJ 69-1 and 2	85

3. Significant Accounting Policies

- a. Basis of Accounting - The accrual basis of accounting is used for measuring financial position and operating results of proprietary fund types. Under the accrual basis of accounting, revenue is recognized when it is earned regardless of when received and expenditures are recognized when incurred regardless of when paid.
- b. Report Presentation - The basic financial statements included in this report were prepared in accordance with generally accepted accounting principles (GAAP) applicable to governmental entities for proprietary fund types, using the economic resources measurement focus and the accrual basis of accounting. The Authority applies all relevant Governmental Accounting Standards Board (GASB) Pronouncements and has adopted the provisions of Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements-and Management's Discussion and Analysis-For State and Local Governments.

The enterprise fund, a proprietary fund type, is used for activities which are financed and operated in a manner similar to private business enterprises where the intent of the Authority is that the costs (expenses, including depreciation) of providing goods or services to its clients on a continuing basis be financed or recovered primarily through user charges or operating subsidies.

The Authority has elected not to apply to its proprietary activities Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee of Accounting Procedure issued after November 30, 1989.

NOTE B - Cash and Cash Equivalents

The Authority considers all highly liquid investments, including restricted assets, with an original maturity of three months or less when purchased to be cash equivalents.

Deposits – New Jersey statutes permit the deposit of public funds in institutions located in New Jersey which are insured by the Federal Deposit Insurance Corporation (FDIC), or any other agencies of the United States that insures deposits or the State of New Jersey Cash Management Fund.

The State of New Jersey Cash management Fund is authorized by statute and regulations of the State Investment Council to invest in fixed income and debt securities which may mature or are redeemed within one year. Twenty-five percent of the fund may be invested in eligible securities which mature within two years provided, however, the average maturity of all investments in the fund shall not exceed one year. Collateralization of fund investments is generally not required.

In addition, New Jersey statutes permit authorities to deposit funds in Government Money Market Funds purchased through state registered brokers/dealers and banks.

In accordance with the provisions of the Government Unit Protection Act of New Jersey, public depositories are required to maintain collateral for deposits of public funds that exceed insurance limits as follows:

The market value of the collateral must equal five percent of the average daily balance of public funds or if the public funds deposited exceed 75 percent of the capital funds of the depository, the depository must provide collateral having a market value equal to 100 percent of the amount exceeding 75 percent.

The State of New Jersey Cash management Fund is authorized by statute and regulations of the State Investment Council to invest in fixed income and debt securities which may mature or are redeemed within one year. Twenty-five percent of the fund may be invested in eligible securities which mature within two years provided, however, the average maturity of all investments in the fund shall not exceed one year. Collateralization of fund investments is generally not required.

Risk Category - All bank deposits, as of the balance sheets dates, are entirely insured or collateralized by a collateral pool maintained by public depositories as required by Government Unit Deposit Protection Act. In general, bank deposits are classified as to credit risk by three categories described below:

Category 1- Insured or collateralized with securities held by the Authority or by its agent in the Authority's name.

Category 2- Collateralized with securities held by the pledging public depository's trust department or agent in the Authority's name.

Category 3- Uncollateralized, including any deposits that are collateralized with securities held by the pledging public depository, or by its trust department or agent, but not in the Authority's name.