

SUMMIT HOUSING AUTHORITY

**FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION**

YEARS ENDED DECEMBER 31, 2015 AND 2014

**SUMMIT HOUSING AUTHORITY
TABLE OF CONTENTS
YEARS ENDED DECEMBER 31, 2015 AND 2014**

<u>Contents</u>	<u>Page</u>
Independent Auditor's Report	1-3
Management's Discussion and Analysis	4-8
Financial Statements:	
Statements of Net Position	9
Statements of Revenues, Expenses, and Changes in Net Position	10
Statements of Cash Flows	11-12
Notes to Financial Statements	13-22
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	23-24
Supplemental Information:	
Schedule of Federal Awards, Findings and Responses	25
Schedule of Capital Fund Program Costs and Advances	26
Financial Data Schedule	27-31



INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners
Summit Housing Authority:

Report on the Financial Statements

We have audited the financial statements of the Summit Housing Authority ("the Authority") as of and for the years ended December 31, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the Summit Housing Authority's basic financial statements as listed in the accompanying 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 the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the 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.

INDEPENDENT AUDITOR'S REPORT (continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Summit Housing Authority ("the Authority"), as of December 31, 2015 and 2014, and the respective changes in financial position and cash flows for the years 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 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 audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Summit Housing Authority's basic financial statements. The accompanying schedule of capital fund program costs and advances and financial data schedule are not required parts of the financial statements and are presented for the purposes of additional analysis as required by the United States Department of Housing and Urban Development.

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

INDEPENDENT AUDITOR'S REPORT (continued)

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated September 20, 2016 on our consideration of the Summit Housing 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 Summit Housing Authority's internal control over financial reporting and compliance.

September 20, 2016
Toms River, New Jersey

Fallon & Larsen LLP

MANAGEMENT'S DISCUSSION AND ANALYSIS

SUMMIT HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2015

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, 2015. 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 assets of the Authority exceeded its liabilities at the close of the most recent fiscal year by \$6,732,548 (net position) as opposed to \$6,850,894, for the prior fiscal year.
- 2 – As of the close of the current fiscal year, the Authority's Proprietary Fund reported ending Unrestricted Net Position of \$1,594,848.
- 3 – The Authority's cash and cash equivalents balance at December 31, 2015 was \$2,050,976 representing an increase of \$589,443 from the prior fiscal year.
- 4 – The Authority had Total Operating Revenues of \$1,877,418, and Total Operating Expenses of \$1,923,060 for the year ended December 31, 2015.
- 5 – The Authority's capital outlays for the fiscal year were \$94,089.
- 6 – The Authority's Expenditures of Federal Awards amounted to \$615,896 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 Financial Statements included in the this report were prepared in accordance with GAAP applicable to governmental entities in the United States of America for Proprietary Fund types.

SUMMIT HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2015

B – Using the Annual Report (continued)

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 Statements of Net Position, Statements of Revenues, Expenses, and Changes in Net Position, and Statements of Cash Flows

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

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

The Statements of Cash Flows reports the cash flows from operating, investing, capital and related financing activities.

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 9 through 12.

3 – Notes to Financial Statements

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

SUMMIT HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2015

C – The Authority as a Whole

The Authority's Net Position decreased during the fiscal year. 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. However, the Authority's revenues were sufficient to cover all expenses, excluding depreciation during the fiscal year.

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

D – Budgetary Highlights

For the year ended December 31, 2015, 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 excess of revenues over expenses, when adjusted by depreciation expense, the Authority's Unrestricted Net Position increased during the fiscal year. The increase is indicative of the Authority operating within its budgetary limitations in total, for all its programs.

E – Capital Assets and Debt Administration

1 - Capital Assets

As of December 31, 2015, the Authority's investment in capital assets for its Proprietary Fund was \$5,137,700 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment and construction in progress.

The Authority spent \$94,089 on capital assets during the year ended December 31, 2015.

Additional information on the Authority's capital assets can be found in Note 4 to the Financial Statements which is included in this report.

SUMMIT HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2015

E – Capital Assets and Debt Administration (continued)

2 – Long Term Debt

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

F – Significant Changes from FYE December 31, 2014 to December 31, 2015

Cash and cash equivalents increased by \$589,443, mainly due to the Authority generating positive cash flow from operations.

Capital assets, net decreased by \$465,620 due to the Authority's annual depreciation expense of \$559,709 exceeding purchases of \$94,089 for the year.

Accounts payable increased \$188,988 primarily due to the Authority accruing amounts owed to the City of Summit for salaries and employee benefits in the amount of \$148,252.

Accrued compensated absences payable decreased by \$6,206 due to Authority personnel taking more time off during the year than they earned for the year.

HUD grants increased \$156,132 primarily due to the Authority utilizing more of their Capital Fund allocation in FY 2015 than in FY 2014.

Administrative expenses decreased by \$30,337 mainly due to reductions in legal services and office expenses.

Utility expenses increased \$20,236 from \$277,466 in 2014 to \$297,702 in 2015 primarily due to increases in electricity charges of \$10,890 and salaries and employee benefits of \$12,876.

General expenses decreased \$71,440 due to decreases in compensated absences expense as FY 2014 had large one-time charges.

Extra-ordinary maintenance expense increased \$12,724 from \$66,832 in 2014 to \$79,556 in 2015 primarily due to the Authority requiring more unbudgeted repairs compared to the prior year.

SUMMIT HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2015

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

The following factors were considered in preparing the Authority's budget for the fiscal year ending December 31, 2016.

- 1 – The state of the economy, particularly in light of current world affairs.
- 2 – The desire for Congress to reduce the national deficit though cutbacks to federal programs.
- 3 – The use of the Authority's Unrestricted Net Position to fund any shortfalls rising from a possible economic downturn and reduced subsidies and grants. The Authority's Unrestricted Net Position appears sufficient to cover any shortfall.

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, Summit Housing Authority, 512 Springfield Avenue, Summit, NJ 07901, or call (908) 273-6413.

FINANCIAL STATEMENTS

**SUMMIT HOUSING AUTHORITY
STATEMENTS OF NET POSITION
AS OF DECEMBER 31, 2015 AND 2014**

ASSETS

	<u>2015</u>	<u>2014</u>
Current assets:		
Cash and cash equivalents	\$ 2,050,976	\$ 1,461,533
Accounts receivable - tenants, net	25,144	12,394
Accounts receivable - other	10,355	17,869
Prepaid expenses	-	45,245
Accrued interest receivable	<u>-</u>	<u>2,894</u>
Total current assets	<u>2,086,475</u>	<u>1,539,935</u>
Non-current assets:		
Capital assets, net	<u>5,137,700</u>	<u>5,603,320</u>
Total assets	<u>7,224,175</u>	<u>7,143,255</u>

LIABILITIES

Current liabilities:		
Accounts payable	264,728	75,740
Accrued compensated absences, current	7,971	29,469
Tenant security deposits	104,926	101,538
Prepaid rent	16,186	13,012
Other current liabilities	<u>26,076</u>	<u>16,154</u>
Total current liabilities	<u>419,887</u>	<u>235,913</u>
Non-current liabilities:		
Accrued compensated absences, net of current portion	<u>71,740</u>	<u>56,448</u>
Total non-current liabilities	<u>71,740</u>	<u>56,448</u>
Total liabilities	<u>491,627</u>	<u>292,361</u>

NET POSITION

Net position:		
Net investment in capital assets	5,137,700	5,603,320
Unrestricted	<u>1,594,848</u>	<u>1,247,574</u>
Total net position	<u>\$ 6,732,548</u>	<u>\$ 6,850,894</u>

See accompanying notes to financial statements.

**SUMMIT HOUSING AUTHORITY
STATEMENTS OF REVENUES, EXPENSES, AND
CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

	<u>2015</u>	<u>2014</u>
Operating revenues:		
Tenant revenue	\$ 1,025,500	\$ 985,053
HUD grants	570,113	413,981
Other government grants	45,783	36,167
Other revenues	<u>236,022</u>	<u>152,041</u>
Total operating revenues	<u>1,877,418</u>	<u>1,587,242</u>
Operating expenses:		
Administrative	550,468	580,805
Tenant services	46,657	46,131
Utilities	297,702	277,466
Ordinary maintenance and operations	316,770	321,754
Insurance expense	85,190	86,508
General expenses	66,564	138,004
Depreciation	<u>559,709</u>	<u>567,143</u>
Total operating expenses	<u>1,923,060</u>	<u>2,017,811</u>
Operating loss	<u>(45,642)</u>	<u>(430,569)</u>
Non-operating revenues (expenses):		
Investment income	6,852	9,402
Extraordinary maintenance	<u>(79,556)</u>	<u>(66,832)</u>
Net non-operating revenues (expenses)	<u>(72,704)</u>	<u>(57,430)</u>
Change in net position	(118,346)	(487,999)
Net position, beginning of year	<u>6,850,894</u>	<u>7,338,893</u>
Net position, end of year	<u>\$ 6,732,548</u>	<u>\$ 6,850,894</u>

See accompanying notes to financial statements.

**SUMMIT HOUSING AUTHORITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

	<u>2015</u>	<u>2014</u>
Cash Flows from Operating Activities:		
Cash received from grantors	\$ 619,070	\$ 440,543
Cash received from tenants and others	1,259,674	1,161,155
Cash paid to employees	(458,342)	(433,937)
Cash paid to suppliers	<u>(667,060)</u>	<u>(1,089,972)</u>
Net cash flows provided by operating activities	<u>753,342</u>	<u>77,789</u>
Cash Flows from Capital and Related Financing Activities:		
Purchases of capital assets	(94,089)	(2,909)
Extraordinary maintenance	<u>(79,556)</u>	<u>(66,832)</u>
Net cash flows used by capital and related financing activities	<u>(173,645)</u>	<u>(69,741)</u>
Cash Flows from Investing Activities:		
Investment income	<u>9,746</u>	<u>9,256</u>
Net cash flows provided by investing activities	<u>9,746</u>	<u>9,256</u>
Net increase in cash	589,443	17,304
Cash and cash equivalents, beginning of year	<u>1,461,533</u>	<u>1,444,229</u>
Cash and cash equivalents, end of year	<u>\$ 2,050,976</u>	<u>\$ 1,461,533</u>

See accompanying notes to financial statements.

SUMMIT HOUSING AUTHORITY
STATEMENTS OF CASH FLOWS (continued)
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$ (45,642)	\$ (430,569)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	559,709	567,143
Changes in assets and liabilities:		
Accounts receivable - tenants	(12,750)	(2,296)
Accounts receivable - other	7,514	17,121
Prepaid expenses	45,245	(45,245)
Accounts payable	188,988	(76,663)
Accrued compensated absences	(6,206)	37,776
Tenant security deposits	3,388	(1,689)
Prepaid rent	3,174	604
Other current liabilities	<u>9,922</u>	<u>11,607</u>
Net cash provided by operating activities	<u>\$ 753,342</u>	<u>\$ 77,789</u>

See accompanying notes to financial statements.

**SUMMIT HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization

The Housing Authority of the City of Summit ("Summit Housing Authority") or ("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 City of Summit, New Jersey. The Authority is responsible for operating certain low-rent housing programs in the City 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 seven members who serve five-year terms. The governing board is essentially autonomous but is responsible to HUD and the State of New Jersey Department of Community Affairs. An executive director is appointed by the Authority's Board to manage the day-to-day operations of the Authority.

B. 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 (Low Rent Public Housing Program)

The public housing program is designed to provide low-cost housing within the City of Summit. 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 Program

The purpose of the 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.

State and Local Program

The Authority is the recipient of a Congregate Housing Services Program Grant from the State of New Jersey. The State funded grant provides selected supportive services to low-income elderly persons or adults with disabilities, residing in certain subsidized housing facilities.

Component Unit

The Summit Affordable Housing Corp. was established to develop affordable housing in and around Summit, New Jersey.

SUMMIT HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS (continued)
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Reporting Entity

In accordance with Statement No. 61 of the Government Accounting Standards Board (“GASB”), the Authority’s basic financial statements include those of the Housing Authority of the City of Summit and any component units. Component units are legally separate, tax-exempt 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.

Based upon the application of these criteria, this report includes the blended presentation of the following component unit:

The Summit Affordable Housing Corporation, ("SAHC") - SAHC was established to develop affordable housing in and around Summit, New Jersey.

Furthermore, the Authority is not included in any other reporting entity on the basis of such criteria.

D. Basis of Accounting

The Authority’s financial statements are prepared in accordance with GASB Statement No. 34, *Basic Financial Statements and Management’s Discussion and Analysis for State and Local Governments*, (“GASB 34”), as amended. 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 Cash Flows. GASB 34 also requires the Authority to include Management’s Discussion and Analysis as part of the Required Supplemental Information.

The Authority’s primary source of non-exchange revenue relates to grants and subsidies. In accordance with GASB Statement No. 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.

In accordance with GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, the Authority incorporates FASB and AICPA guidance into GASB authoritative literature.

SUMMIT HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS (continued)
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Use of Management Estimates

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

F. 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 State of New Jersey or the New Jersey Cash Management Fund. N.J.S.A. 40A: 5-15.1 provides a list of securities that 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.

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.

G. Accounts Receivable

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. An allowance for doubtful

SUMMIT HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS (continued)
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

G. Accounts Receivable (continued)

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.

H. Prepaid Expenses

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

I. Capital Assets, Net

Development costs which are comprised of initial development costs, (acquisition costs, modernization costs, and the costs of urban renewal property), site preparation and property betterments, land, structures and equipment are recorded at historical cost. The costs of demolition expenses are capitalized as land improvements.

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

• Dwelling Equipment	3-7 Years
• Site Improvements	15 Years
• Buildings	40 Years

The Authority has established a capitalization threshold of \$1,000.

Maintenance and repairs expenditures are charged to operations when incurred. Expenditures determined to represent additions or betterments are capitalized. When buildings and equipment are sold or otherwise disposed of, the asset account and related accumulated depreciation account are removed from the books, and any gain or loss is included in operations.

J. Compensated Absences

Accumulated unpaid leave time is accrued at the estimated amounts of future benefits attributable to services already rendered.

Employees may be compensated for accrued vacation leave in the event of retirement or termination of service. Employees may be compensated for sick leave at retirement at the rate of three days for every five days accumulated, payable at the salary rate earned at the time of separation. Employees may only accumulate and carry over to the following year the prior year's unused vacation. The Authority's sick leave policy, in accordance with New Jersey State law, allows employees to carry over unused sick leave without penalty.

SUMMIT HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS (continued)
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

K. Prepaid Rent

The Authority's prepaid tenant rent primarily consists of the prepayment of rent by public housing residents that are applicable to future periods.

L. Operating Revenues and Expenses

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

M. Taxes

The Authority is funded by Federal, State, and City sources and, as such, is exempt from income taxes and Federal unemployment taxes.

N. Equity Classifications

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

Net investment 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 investment in capital assets.”

O. Economic Dependency

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

**SUMMIT HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS (continued)
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

P. Inter-program Receivables and Payables

Inter-program receivables/payables are current, and are the result of the use of the Public Housing Program as the common paymaster for shared costs of the Authority. Cash settlements are made periodically and all inter-program balances net to zero. In accordance with GASB Statement No. 34, interprogram receivables and payables are eliminated for financial statement purposes, however they are reflected in the Authority's financial data schedule as required by HUD.

Q. Budgets and Budgetary Accounting

The Authority is required by contractual agreements to adopt annual, appropriated operating budgets for all its Enterprise Funds receiving federal expenditure awards. All budgets are prepared on a HUD basis, which is materially consistent with accounting principles generally accepted in the United States of America. All appropriations lapse at HUD's program year end or at the end of grant periods. 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, 2015 and 2014, the Authority had funds on deposit in checking, statement savings and money market accounts.

All bank deposits as of the balance sheet dates are entirely insured or collateralized by a collateral pool maintained by public depositories as required by GUDPA.

At December 31, 2015 and 2014, the carrying amount of the Authority's cash was \$2,050,976 and \$1,461,533, respectively. The bank balances approximated \$2,069,922 and \$1,607,168 respectively.

Of the bank balances, \$616,372 and \$685,491 respectively, were covered by federal depository insurance and the remaining \$1,453,550 and \$921,676 were collateralized with the pledging financial institution as of December 31, 2015 and 2014.

<u>Cash Account</u>	<u>2015</u>	<u>2014</u>
<u>Insured:</u>		
FDIC	\$ 616,372	\$ 685,491
<u>Collateralized:</u>		
Collateralized amount held by pledging financial institution	1,453,550	921,676
	<u>\$ 2,069,922</u>	<u>\$ 1,607,167</u>

SUMMIT HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS (continued)
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

NOTE 2. CASH AND CASH EQUIVALENTS (continued)

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, 2015 and 2014, the Authority's bank balances were not exposed to custodial credit risk.

NOTE 3. ACCOUNTS RECEIVABLE

Accounts receivable - tenants

Accounts receivable - tenants represents amounts due for tenant rents and at December 31, 2015 and 2014 is shown net of an allowance for doubtful accounts of \$8,302 and \$8,302, respectively.

Accounts receivable - other

As of December 31, 2015 and 2014, accounts receivable - other consists of receivables due from the City of Summit for operating the Affordable Housing Program and from the State of New Jersey for operating the Helping Hands Program and amounted to \$10,355 and \$17,869, respectively. The Authority considers these amounts fully collectable and accordingly, have made no allowance for doubtful accounts.

NOTE 4. CAPITAL ASSETS, NET

Capital assets consist primarily of expenditures to acquire, construct, place in operation and improve the facilities of the Authority and are stated at cost, less accumulated depreciation. The following is a summary of the changes in capital assets for the fiscal years ended December 31, 2015 and 2014:

	<u>Balance</u> <u>12/30/2014</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers</u>	<u>Balance</u> <u>12/31/2015</u>
<u>Non-depreciable:</u>					
Land	\$ 1,697,896	\$ -	\$ -	\$ -	\$ 1,697,896
Construction in progress	-	84,553	-	-	84,553
Total non-depreciable	<u>1,697,896</u>	<u>84,553</u>	<u>-</u>	<u>-</u>	<u>1,782,449</u>
<u>Depreciable:</u>					
Buildings	15,558,186	-	-	-	15,558,186
Dwelling equipment	641,317	9,536	(30,000)	-	620,853
Total depreciable	<u>16,199,503</u>	<u>9,536</u>	<u>(30,000)</u>	<u>-</u>	<u>16,179,039</u>
Total fixed assets	17,897,399	94,089	(30,000)	-	17,961,488
Accumulated depreciation	<u>(12,294,079)</u>	<u>(559,709)</u>	<u>30,000</u>	<u>-</u>	<u>(12,823,788)</u>
Net fixed assets	<u>\$ 5,603,320</u>	<u>\$(465,620)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,137,700</u>

SUMMIT HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS (continued)
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

NOTE 4. CAPITAL ASSETS, NET (continued)

	<u>Balance</u> <u>12/30/2013</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers</u>	<u>Balance</u> <u>12/30/2014</u>
<u>Non-depreciable:</u>					
Land	\$ 1,697,896	\$ -	\$ -	\$ -	\$ 1,697,896
Construction in progress	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total non-depreciable	<u>1,697,896</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,697,896</u>
<u>Depreciable:</u>					
Buildings	15,558,186	-	-	-	15,558,186
Dwelling equipment	<u>638,408</u>	<u>2,909</u>	<u>-</u>	<u>-</u>	<u>641,317</u>
Total depreciable	<u>16,196,594</u>	<u>2,909</u>	<u>-</u>	<u>-</u>	<u>16,199,503</u>
Total fixed assets	17,894,490	2,909	-	-	17,897,399
Accumulated depreciation	<u>(11,726,936)</u>	<u>(567,143)</u>	<u>-</u>	<u>-</u>	<u>(12,294,079)</u>
Net fixed assets	<u>\$ 6,167,554</u>	<u>\$(564,234)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,603,320</u>

Depreciation expense for the fiscal years ended December 31, 2015 and 2014 amounted to \$559,709 and \$567,143, respectively.

NOTE 5. PAYMENTS IN LIEU OF TAXES (PILOT)

Under Federal, State and local law, the Authority's programs are exempt from income, property and excise taxes. However, the Authority is required to make payment in lieu of taxes (PILOT) for the PHA Owned Program in accordance with the provisions of its Cooperation Agreement with the City. Under the Cooperation agreement, the Authority must pay the City the lesser of 10% of its net shelter rent or the approximate full real property taxes. During the fiscal years ended December 31, 2015 and 2014, PILOT expense totaled \$72,770 and \$70,759, respectively.

NOTE 6. COMPENSATED ABSENCES

The Authority uses the vesting method for the recording of compensated absences whereas benefits are accrued for which payment is probable. As of December 31, 2015 and 2014, the Authority had accrued \$79,711 and \$85,917, respectively. Compensated absence expenses are included as other general expenses in the statement of revenues, expenses, and changes in net position.

SUMMIT HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS (continued)
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

NOTE 6. COMPENSATED ABSENCES (continued)

Compensated absences activity for the years ended December 31, 2015 and 2014 consisted of the following:

	<u>2015</u>	<u>2014</u>
Beginning compensated absences	\$ 85,917	\$ 48,141
Compensated absences expense	48,497	67,245
Redemption of compensated absences	<u>(54,703)</u>	<u>(29,469)</u>
Ending compensated absences	79,711	85,917
Amount due within one year	<u>7,971</u>	<u>29,469</u>
Ending compensated absences, net of current portion	<u>\$ 71,740</u>	<u>\$ 56,448</u>

NOTE 7. PREPAID RENTS

Prepaid rents consist of tenant rents paid in advance and at December 31, 2015 and 2014, totaled \$16,186 and \$13,012, respectively.

NOTE 8. RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; error and omission, injuries to employees; and natural disaster. The Authority is a member of the New Jersey Public Housing Authorities Joint Insurance Fund (JIF). The joint insurance pool is both an insured and self-administered group of housing authorities established for the purpose of insuring against property damage, general liability, motor vehicles and equipment liability and workmen's compensation. The Joint Insurance Fund will be self-sustaining through member premiums. There have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage except for deductibles for the previous three years.

NOTE 9. PENSION PLAN AND HEALTH BENEFITS

The Authority's personnel are employees of the City of Summit ("the City"). The Authority reimburses the City for all payroll and employee benefit costs attributed to Authority personnel. Authority personnel hired before December 31, 2011 participate in the State of New Jersey Public Employees Retirement System ("PERS") and the State of New Jersey Health Benefit System ("NJSHBP") through the City. Employees hired after December 31, 2011 were not permitted by the City to enroll in the plan. The Authority has an application pending before the PERS and NJSHBP to be recognized as an independent entity. Upon acceptance by the PERS and NJSHBP, all Authority personnel would become employees of the Authority and enrolled in the PERS and NJSHBP through the Authority.

SUMMIT HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS (continued)
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

NOTE 10. 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 payments to HUD. As of December 31, 2015 and 2014, the Authority estimates that no material liabilities will result from such audits.

NOTE 11. 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 20, 2016 (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.



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

To the Board of Commissioners
Summit 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 audit requirements as prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey, the financial statements of the Summit Housing Authority ("the Authority"), as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise Summit Housing Authority's basic financial statements, and have issued our report thereon dated September 20, 2016.

Internal Control Over Financial Reporting

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Summit Housing 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.

September 20, 2016
Toms River, New Jersey

Fallon & Larsen LLP