

SUMMIT HOUSING AUTHORITY
FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION
YEARS ENDED DECEMBER 31, 2012 AND 2011

**SUMMIT HOUSING AUTHORITY
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YEARS ENDED DECEMBER 31, 2012 AND 2011**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners
Summit Housing Authority:

Report on the Financial Statements

We have audited the accompanying financial statements of the Summit Housing Authority as of and for the years ended December 31, 2012 and 2011, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our 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. 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 opinions.

INDEPENDENT AUDITOR'S REPORT (continued)

Opinions

In our opinion the financial statements referred to above present fairly, in all material respects, the financial position of the Summit Housing Authority as of December 31, 2012 and 2011 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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-7 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 audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Summit Housing Authority's basic financial statements. The accompanying financial data schedule and schedule of capital fund costs and advances are not required parts of the financial statements and are presented for the purposes of additional analysis as required by the U.S. Department of Housing and Urban Development.

The financial data schedule and schedule of capital fund costs and advances are the responsibility of management and were derived from and relates 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 financial data schedule and schedule of capital fund costs and advances 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 May 15, 2013 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.

May 15, 2013
Toms River, New Jersey

Fallon & Larsen LLP

MANAGEMENT'S DISCUSSION AND ANALYSIS

SUMMIT HOUSING AUTHORITY
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- The assets of the Authority exceeded its liabilities at the close of the most recent fiscal year by \$7,694,180 (net position) as opposed to \$8,032,712, 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 \$1,031,081.
- 3 – The Authority's cash and cash equivalent and investment balance at December 31, 2012 was \$1,235,361 representing an increase of \$31,963 from the prior fiscal year.
- 4 – The Authority had Total Operating Revenues of \$1,847,499, and Total Operating Expenses of \$2,148,314 for the year ended December 31, 2012.
- 5 – The Authority's capital outlays for the fiscal year were \$0.
- 6 – The Authority's Expenditures of Federal Awards amounted to \$475,242 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, 2012

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 8 through 11.

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, 2012

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, 2012, individual program or grant budgets were prepared by the Authority and were approved by the Board of Commissioners. The individual program 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 adjusted by depreciation expense, the Authority's Unrestricted Net Position has 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, 2012, the Authority's investment in capital assets for its Proprietary Fund was \$6,663,099 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment and construction in progress.

The Authority did not purchase any capital assets during the year ended December 31, 2012.

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, 2012

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, 2011 to December 31, 2012

Cash and cash equivalents increased by \$31,963, mainly due to the Authority generating positive cash flow from operations.

Capital assets, net decreased by \$589,632 mainly due to the Authority recognizing that same amount in depreciation expense for the year. Accordingly, the Authority did not purchase any capital assets during the year.

Accounts payable decreased \$226,943 as the Authority paid off several vendors related to capital expenditures made in the prior year.

Accrued compensated absences payable increased by of \$16,117 due to unused vacation and sick days being earned in excess of amounts utilized during the year.

Accrued Pension and OPEB liabilities were removed from Statement of Net Position due to a change in accounting principle as explained in Note 11 of Notes to the Financial Statements.

Capital grants decreased by \$369,353 as the Authority received and utilized \$202,188 from their 2012 Capital Fund Program for operations.

Other revenues increased \$153,358 primarily due to a settlement from a vendor for defective work performed on one of the Authority's buildings.

Administrative expenses increased by \$18,794 mainly due to the wages and benefit increases.

Utility expenses increased \$60,307 from \$286,631 in 2011 to \$346,938 in 2012 primarily due to increases in electricity (\$31,749) and gas (\$27,029).

Ordinary maintenance and operations expense decreased \$78,819 as materials (\$46,168) and contract costs (\$13,282) were less than prior year amounts.

SUMMIT HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2012

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, 2013.

- 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, 2012 AND 2011**

ASSETS

	<u>2012</u>	<u>2011</u>
Current assets:		
Cash and cash equivalents	\$ 1,235,361	\$ 1,203,398
Accounts receivable - tenants, net	10,265	8,673
Accounts receivable - other	30,655	25,261
Prepaid expenses	4,260	-
Accrued interest receivable	<u>3,700</u>	<u>2,070</u>
Total current assets	<u>1,284,241</u>	<u>1,239,402</u>
Non-current assets:		
Capital assets, net	<u>6,663,099</u>	<u>7,252,731</u>
Total assets	<u>7,947,340</u>	<u>8,492,133</u>

LIABILITIES

Current liabilities:		
Accounts payable	91,330	318,273
Accrued compensated absences, current	6,104	4,492
Tenant security deposits	91,676	88,968
Prepaid rent	4,630	3,098
Other current liabilities	<u>4,487</u>	<u>4,162</u>
Total current liabilities	<u>198,227</u>	<u>418,993</u>
Non-current liabilities:		
Accrued compensated absences, net of current portion	<u>54,933</u>	<u>40,428</u>
Total liabilities	<u>253,160</u>	<u>459,421</u>

NET POSITION

Net position:		
Net investment in capital assets	6,663,099	7,252,731
Unrestricted	<u>1,031,081</u>	<u>779,981</u>
Total net position	<u>\$ 7,694,180</u>	<u>\$ 8,032,712</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, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
Operating revenues:		
Tenant revenue	\$ 975,390	\$ 976,318
HUD grants	475,242	508,209
Other government grants	41,576	42,614
Other revenues	<u>355,291</u>	<u>201,933</u>
Total operating revenues	<u>1,847,499</u>	<u>1,729,074</u>
Operating expenses:		
Administrative	690,406	671,612
Tenant services	56,097	57,580
Utilities	346,938	286,251
Ordinary maintenance and operations	302,577	381,396
Insurance expense	92,904	93,274
General expenses	69,760	85,857
Depreciation	<u>589,632</u>	<u>596,007</u>
Total operating expenses	<u>2,148,314</u>	<u>2,171,977</u>
Operating loss	<u>(300,815)</u>	<u>(442,903)</u>
Non-operating revenues (expenses):		
Investment income	11,150	15,562
Extraordinary maintenance	<u>(48,867)</u>	<u>-</u>
Net non-operating revenues (expenses)	<u>(37,717)</u>	<u>15,562</u>
Loss before capital grants	(338,532)	(427,341)
Capital grants	<u>-</u>	<u>369,353</u>
Change in net assets	(338,532)	(57,988)
Net position, beginning of year (as restated)	<u>8,032,712</u>	<u>8,090,700</u>
Net position, end of year	<u>\$ 7,694,180</u>	<u>\$ 8,032,712</u>

See accompanying notes to financial statements.

**SUMMIT HOUSING AUTHORITY
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 grantors	\$ 507,595	\$ 559,260
Cash received from tenants and others	1,326,403	1,197,761
Cash paid to employees	(379,702)	(379,679)
Cash paid to suppliers	<u>(1,382,986)</u>	<u>(1,007,888)</u>
Net cash flows provided by operating activities	<u>71,310</u>	<u>369,454</u>
Cash Flows from Capital and Related Financing Activities:		
Purchases of capital assets	-	(1,378,083)
Extraordinary maintenance	(48,867)	24,140
Capital grant contributions	<u>-</u>	<u>369,353</u>
Net cash flows used by capital and related financing activities	<u>(48,867)</u>	<u>(984,590)</u>
Cash Flows from Investing Activities:		
Investment income	<u>9,520</u>	<u>18,312</u>
Net cash flows provided by investing activities	<u>9,520</u>	<u>18,312</u>
Net increase in cash	31,963	(596,824)
Cash and cash equivalents, beginning of year	<u>1,203,398</u>	<u>1,800,222</u>
Cash and cash equivalents, end of year	<u>\$ 1,235,361</u>	<u>\$ 1,203,398</u>

See accompanying notes to financial statements.

**SUMMIT HOUSING AUTHORITY
STATEMENTS OF CASH FLOWS (continued)
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$ (300,815)	\$ (442,903)
Items which did not use cash:		
Depreciation	589,632	596,007
Bad debts	1,795	7,114
Working capital changes which provided (used) cash:		
Accounts receivable - HUD	-	7,000
Accounts receivable - tenants	(3,387)	(4,454)
Accounts receivable - other	(5,394)	19,959
Other assets	(4,260)	-
Accounts payable	(226,943)	178,454
Accrued compensated absences	16,117	16,140
Tenant security deposits	2,708	7,467
Prepaid rent	1,532	(1,992)
Other current liabilities	<u>325</u>	<u>(13,338)</u>
Net cash provided by operating activities	<u>\$ 71,310</u>	<u>\$ 369,454</u>

See accompanying notes to financial statements.

**SUMMIT HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011**

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 public body corporate and politic of the State of New Jersey ("the State") created by the City of Summit ("the City") under Local Redevelopment and Housing Law (N.J.S.A 40A:12A-1, et seq) of the State. 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 the United States Department of Housing and Urban Development ("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:

Low Rent Public Housing Program

The public housing program is designed to provide low-cost housing within the Township 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 capital fund program provides funds annually, via a formula, to public housing agencies for capital and management activities including modernization and development of public housing units.

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, 2012 AND 2011

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Reporting Entity

In accordance with Statement No. 39 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 that meet all of the following criteria:

1. The economic resources received by the separate organization are almost entirely for the direct benefit of the Authority.
2. The Authority has the ability to access a majority of the economic resources held by the separate organization.
3. The economic resources referred to in No. 2 are significant to the Authority.

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”). 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. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Activities that use Proprietary Fund Accounting*, the Authority has elected to apply all Financial Accounting Standards Board pronouncements, Accounting Principle Board Opinions and Accounting Research Bulletins issued that do not conflict with or contradict GASB pronouncements.

SUMMIT HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS (continued)
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

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. No governmental unit under GUDPA has ever lost protected deposits.

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 accounts is established to provide for all accounts, which may not be collected in the future for any reason.

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.

SUMMIT HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS (continued)
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

K. Prepaid Rent

The Authority's prepaid rent primarily consists of prepayment of rent by tenants.

SUMMIT HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS (continued)
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 assets 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 do 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.

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.