

Report On Audit

**HOUSING AUTHORITY OF THE
BOROUGH OF HIGHTSTOWN**

**For the Year Ended
December 31, 2012**

Housing Authority of the Borough of Hightstown
Table of Contents

| | <u>Page Number</u> |
|---|------------------------|
| Independent Auditor's Report | 1-3 |
| Management's Discussion and Analysis | 4-16 |
| Financial Statements | |
| Statement of Net Assets | 17 |
| Statement of Revenue, Expenses and Changes in Net Assets | 18 |
| Statement of Cash Flow | 19 |
| Notes to Financial Statements | 20-38 |
| Supplementary Information | |
| Schedule of Expenditures of Federal Awards | 39 |
| Budgetary Comparison Schedule – Low Income Program | 40 |
| Financial Data Schedule | 41-45 |
| Statement on Certification of Actual Cost Capital Fund Program | 46-48 |
| Other Reports and Comments | |
| 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 | 49-50 |
| Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance In Accordance with OMB Circular A-133 | 51-52 |
| Schedule of Findings and Questioned Cost | 53 |
| Independent Accountant's Report on Applying Agreed-upon Procedures – REAC | 54-55 |



Hymanson, Parnes & Giampaolo
Certified Public Accountants

tele: 732-842-4550
fax: 732-842-4551

467 Middletown-Lincroft Rd.
Lincroft, NJ 07738

INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Housing Authority of the Borough of Hightstown
131 Rogers Avenue
Hightstown, New Jersey 08520

Report on the Financial Statements

We have audited the accompanying financial statements of Housing Authority of the Borough of Hightstown, (a nonprofit corporation) in Hightstown, New Jersey, hereafter referred to as the Authority, which comprise the Statement of Net Assets as of December 31, 2012 and 2011, and the related statement of revenue, expenses and changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 Housing Authority of the Borough of Hightstown'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 Housing Authority of the Borough of Hightstown's internal control. Accordingly, we express no such opinion.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Housing Authority of the Borough of Hightstown as of December 31, 2012 and 2011, and the respective changes in financial position, and, where applicable, cash flows thereof for the year's then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and budgetary comparison information on pages 4 through 16 and page 40 be presented to supplement the basic financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the 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 accepted in the United States of America, which consisted of inquiries of management about the method 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the financial statements. Lastly, the supplemental information on the accompanying Financial Data Schedule is presented for the purpose of additional analysis and is not a required part of the financial statements. The Schedule of Federal Awards and the Financial Data Schedule are the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**HOUSING AUTHORITY OF THE BOROUGH OF HIGHTSTOWN
MANAGEMENT'S DISCUSSION AND ANALYSIS
AT DECEMBER 31, 2012**

As Management of the Housing Authority of the Borough of Hightstown (the Authority), present the following discussion and analysis which is supplementary information required by the Governmental Accounting Standards Board (GASB), and is intended to provide an easily readable explanation of the information provided in the attached financial statements. Management Discussion and Analysis is designed to focus on the current year activities, resulting changes, and current known facts. It is by necessity highly summarized, and in order to gain a thorough understanding of the Authority's financial position, the financial statements and footnotes should be viewed in their entirety beginning on page 17 of this report. New standards issued by GASB have significantly changed the format of the financial statements. We encourage readers to consider the information presented here in conjunction with the Authority's financial statements as presented elsewhere in this report.

FINANCIAL HIGHLIGHTS

Assets of the Authority's enterprise fund were \$2,648,126 greater than the liabilities, an increase in the financial position of \$205,314 or 8% percent from the previous year.

As noted above, the assets of the Authority exceeded its liabilities by \$2,648,126 as of December 31, 2012. Of this amount, the unrestricted net asset portion is \$492,543 representing an increase of \$93,126 or 23% percent from the previous year. The investment in fixed assets increased \$112,188 or 5% percent for an ending balance of \$2,155,583. Additional information on the Authority's unrestricted net assets can be found in Note 17 to the financial statement, which is included in this report.

The Authority's unrestricted cash, and cash equivalent at December 31, 2012 is \$589,531 representing an increase of \$91,602 or 18% percent from the prior year. The full detail of this amount can be found in the Statement of Cash Flow on page 19 of this report.

The Authority's total assets are \$2,765,605 of which capital assets net book value is \$2,155,583, leaving total current assets at \$610,022. Total current assets increased from the previous year by \$89,456 or 17% percent. Cash and cash equivalents increased \$91,602, accounts receivables decreased by \$1,965 and prepaid expenses decreased by \$181.

The Authority's total liabilities are reported at \$117,479, of which noncurrent liabilities are stated at \$40,574. Total liabilities decreased during the year as compared to the prior year in the amount of \$3,670 or 3% percent. Total current liabilities decreased during the year by \$12,615, leaving noncurrent liabilities for an increase of \$8,945 as compared to the previous year.

**HOUSING AUTHORITY OF THE BOROUGH OF HIGHTSTOWN
MANAGEMENT'S DISCUSSION AND ANALYSIS
AT DECEMBER 31, 2012**

As Management of the Housing Authority of the Borough of Hightstown (the Authority), present the following discussion and analysis which is supplementary information required by the Governmental Accounting Standards Board (GASB), and is intended to provide an easily readable explanation of the information provided in the attached financial statements. Management Discussion and Analysis is designed to focus on the current year activities, resulting changes, and current known facts. It is by necessity highly summarized, and in order to gain a thorough understanding of the Authority's financial position, the financial statements and footnotes should be viewed in their entirety beginning on page 17 of this report. New standards issued by GASB have significantly changed the format of the financial statements. We encourage readers to consider the information presented here in conjunction with the Authority's financial statements as presented elsewhere in this report.

FINANCIAL HIGHLIGHTS

Assets of the Authority's enterprise fund were \$2,648,126 greater than the liabilities, an increase in the financial position of \$205,314 or 8% percent from the previous year.

As noted above, the assets of the Authority exceeded its liabilities by \$2,648,126 as of December 31, 2012. Of this amount, the unrestricted net asset portion is \$492,543 representing an increase of \$93,126 or 23% percent from the previous year. The investment in fixed assets increased \$112,188 or 5% percent for an ending balance of \$2,155,583. Additional information on the Authority's unrestricted net assets can be found in Note 17 to the financial statement, which is included in this report.

The Authority's unrestricted cash, and cash equivalent at December 31, 2012 is \$589,531 representing an increase of \$91,602 or 18% percent from the prior year. The full detail of this amount can be found in the Statement of Cash Flow on page 19 of this report.

The Authority's total assets are \$2,765,605 of which capital assets net book value is \$2,155,583, leaving total current assets at \$610,022. Total current assets increased from the previous year by \$89,456 or 17% percent. Cash and cash equivalents increased \$91,602, accounts receivables decreased by \$1,965 and prepaid expenses decreased by \$181.

The Authority's total liabilities are reported at \$117,479, of which noncurrent liabilities are stated at \$40,574. Total liabilities decreased during the year as compared to the prior year in the amount of \$3,670 or 3% percent. Total current liabilities decreased during the year by \$12,615, leaving noncurrent liabilities for an increase of \$8,945 as compared to the previous year.

**HOUSING AUTHORITY OF THE BOROUGH OF HIGHTSTOWN
MANAGEMENT'S DISCUSSION AND ANALYSIS
AT DECEMBER 31, 2012**

FINANCIAL HIGHLIGHTS - CONTINUED

Total current liabilities decreased from the previous year by \$12,615 or 14% percent. Accounts payables decreased by \$14,009, accrued liabilities decreased by \$2,704 tenant security deposit payable increased by \$2,099, and deferred revenue increased by \$1,999.

Total non current liabilities increased by \$8,945 or 28% percent. The increase was made up of long-term obligations such as compensated absences of \$13,529, with no offsetting assets, decreased \$70 from the prior year, and accrued pension and OPEB liabilities increased \$9,015 or 50% percent. Additional information on the Authority's accrued OPEB liability at December 31, 2012 can be found in Note 16 to the financial statements, which is included in this report.

The Authority had total operating revenue of \$937,638 as compared to \$838,785 from the prior year for an increase of \$98,853 or 12% percent. Total operating expenses of \$1,023,143 as compared to \$1,104,674 from the previous year for a decrease of \$81,531 or 7% percent, resulting in excess expenses from operations in the amount of \$85,505 for the current year as compared to excess of expenses of \$265,889 from the previous year for a decrease in excess expenses of \$180,384.

Total capital improvements contributions from HUD were in the amount of \$307,746 as compared to \$46,343 from the previous year for an increase of \$261,403.

The Authority's had capital outlays in the amount of \$307,746 for the calendar year. These expenditures were funded by grants received from the U.S. Department of Housing and Urban Development in the amount of \$307,746 and the rest through management's reserves. A full detail of capital outlays can be found in the Notes to the Financial Statements section Note – 9 Fixed Assets.

The Authority's Expenditures of Federal Awards amounted to \$664,778 for the calendar year 2012 as compared to \$374,872 for the previous calendar year 2011 for an increase of \$289,906 or 77% percent.

USING THIS ANNUAL REPORT

The Housing Authority's annual report consists of financial statements that show combined information about the Housing Authority's most significant programs:

1. Low Rent Public Housing
2. Public Housing Capital Fund Program

The Housing Authority's auditors provided assurance in their independent auditors' report with which this MD&A is included, that the basic financial statements are fairly stated. The auditors provide varying degrees of assurance regarding the other information included in this report. A user of this report should read the independent auditors' report carefully to determine the level of assurance provided for each of the other parts of this report.

**HOUSING AUTHORITY OF THE BOROUGH OF HIGHTSTOWN
MANAGEMENT'S DISCUSSION AND ANALYSIS
AT DECEMBER 31, 2012**

OVERVIEW OF THE FINANCIAL STATEMENT PRESENTATION- CONTINUED

This discussion and analysis are intended to serve as an introduction to the Housing Authority's basic financial statements. The basic financial statements are prepared on an entity wide basis and consist of:

- 1) Statement of Net Assets
- 2) Statement of Revenue, Expenses, and Net Assets
- 3) Statement of Cash Flow
- 4) Notes to the Financial Statements

The Authority's financial statements and notes to financial statements included in this Report were prepared in accordance with generally accepted accounting principles (GAAP) applicable to governmental entities in the United States of America for the Enterprise Fund types. The Authority's 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 17 through 19.

Statement of Net Assets – This statement 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.

Statement of Revenue, Expenses and Changes in Net Assets – This statement presents information showing how the Authority's net assets increased or decreased during the current fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash inflows and cash outflow in the future periods.

Statement of Cash Flow– This statement presents information showing the total cash receipts and cash disbursements of the Housing Authority during the current fiscal year. The statement reflects the net changes in cash resulting from operations plus any other cash requirements during the current year (i.e. capital additions, debt payments, prior period obligations, etc.). In addition, the statement reflects the receipt of cash that was obligated to the Housing Authority in prior periods and subsequently received during the current fiscal year (i.e. accounts receivable, notes receivable, etc.).

**HOUSING AUTHORITY OF THE BOROUGH OF HIGHTSTOWN
MANAGEMENT'S DISCUSSION AND ANALYSIS
AT DECEMBER 31, 2012**

OVERVIEW OF THE FINANCIAL STATEMENT PRESENTATION- CONTINUED

Notes to the Financial Statements - Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided. These notes give greater understanding on the overall activity of the Housing Authority and how values are assigned to certain assets and liabilities and the longevity of these values. In addition, notes reflect the impact (if any) of any uncertainties the Housing Authority may face. The Notes to Financial Statements can be found in this Report beginning on page 20 through 38.

In addition to the basic financial statements listed above, our report includes supplemental information. This information is to provide more detail on the Housing Authority's various programs and the required information mandated by regulatory bodies that fund the Housing Authority's various programs.

The Schedule of Expenditures of Federal Awards is presented for purpose of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-profit Organizations. The schedule of Expenditures of Federal Awards can be found on page 39 of this report.

- 1. Federal Awards** - Pursuant to the Single Audit Act Amendments of 1996 (Public Law 104-156) and OMB Circular A-133, federal award is defined as federal financial assistance and federal cost reimbursement contracts that non-federal agencies receive directly or indirectly from federal agencies or pass-through entities. Federal financial assistance is defined as assistance that nonfederal entities receive or administer in the form of grants, loans, loan guarantees, property, cooperative agreements, interest subsidies, insurance, direct appropriations and other assistance.

- 2. Type A and Type B Programs** - The Single Audit Act Amendments of 1996 and OMB Circular A- 133 establish the levels of expenditures or expenses to be used in defining Type A and Type B Federal financial assistance programs. Type A programs for the Housing Authority of the Borough of Hightstown are those which equal or exceeded \$300,000 in expenditures for the fiscal year ended December 31, 2012. Type B programs for the Housing Authority of the Borough of Hightstown are those which are less than \$300,000 in expenditures for the fiscal year ended December 31, 2012.

The budget comparison of actual results to the Authority's adopted budget for the Low Income Public Housing Program found on page 40.

**HOUSING AUTHORITY OF THE BOROUGH OF HIGHTSTOWN
MANAGEMENT'S DISCUSSION AND ANALYSIS
AT DECEMBER 31, 2012**

FINANCIAL ANALYSIS OF THE AUTHORITY (ENTITY WIDE) – CONTINUED

Total non-current liabilities increased by \$8,945 or 28% percent. The increase was made up of long-term obligations such as compensated absences of \$13,529, with no offsetting assets, decreased \$70 from the prior year, and accrued pension and OPEB liabilities increased \$9,015 or 50% percent.

The Authority's reported net assets of \$2,648,126 which is made up of two categories. The investment in capital assets with an account balance of \$2,155,583 represents 81% percent of the total net assets. The investment in capital assets (e.g., land, buildings, vehicles, equipment, and construction in process); less any related debt used to acquire those assets that are still outstanding. The Authority uses these capital assets to provide housing services to the tenants; consequently, these assets are not available for future spending.

| | |
|-----------------------------|----------------------------|
| Balance December 31, 2011 | \$ 2,043,395 |
| Acquisition in Fixed Assets | 307,746 |
| Depreciation Expense | <u>(195,558)</u> |
| Balance December 31, 2012 | <u><u>\$ 2,155,583</u></u> |

The Housing Authority of the Borough of Hightstown operating results for December 31, 2012 reported an increase in Unrestricted Net Assets of \$93,126 or 23% percent for an ending balance of \$492,543. At the end of the current year, the Authority is able to report positive balances in the two categories of net assets. The same situation held true for the prior year.

**HOUSING AUTHORITY OF THE BOROUGH OF HIGHTSTOWN
MANAGEMENT'S DISCUSSION AND ANALYSIS
AT DECEMBER 31, 2012**

FINANCIAL ANALYSIS OF THE AUTHORITY (ENTITY WIDE) – CONTINUED

The following summarizes the changes in Net Assets between December 31, 2012 and December 31, 2011.

Computation of Changes in Net Assets are as follows:

| | <u>Year Ended</u> | | Increase (Decrease) |
|---|---------------------|---------------------|------------------------|
| | December-12 | December-11 | |
| <u>Revenues</u> | | | |
| Tenant Revenues | \$ 549,355 | \$ 488,486 | \$ 60,869 |
| HUD Subsidies | 357,032 | 328,529 | 28,503 |
| Other Revenues | 31,251 | 21,770 | 9,481 |
| Total Operating Income | <u>937,638</u> | <u>838,785</u> | <u>98,853</u> |
| <u>Expenses</u> | | | |
| Operating Expenses | 827,585 | 846,579 | (18,994) |
| Depreciation Expense | 195,558 | 258,095 | (62,537) |
| Total Operating Expenses | <u>1,023,143</u> | <u>1,104,674</u> | <u>(81,531)</u> |
| Operating Income before Non Operating Income | (85,505) | (265,889) | 180,384 |
| Interest Income | 9,045 | 9,125 | (80) |
| HUD Capital Grants | 307,746 | 46,343 | 261,403 |
| Extraordinary Maintenance | (25,972) | - | (25,972) |
| Change in Net Assets | 205,314 | (210,421) | 415,735 |
| Net Assets Prior Year | 2,442,812 | 2,653,233 | (210,421) |
| Total Net Assets | <u>\$ 2,648,126</u> | <u>\$ 2,442,812</u> | <u>\$ 205,314</u> |

Approximately 59% percent of the Authority's total revenue was provided from tenant revenue, while 38% percent resulted by HUD operating subsidy. Charges for various services and other governmental grants provided 3% percent of the total income. The Housing Authority of the Borough of Hightstown received capital fund improvement grant money during the year in the amount of \$307,746 as compared to \$46,343 for the previous year.

The Authority's operating expenses cover a range of expenses. The largest expense was for administrative expenses representing 33% percent of total operating expenses. Utilities expenses accounted for 24% percent, tenant services accounted for 1% percent, maintenance expense accounted for 17% percent, other operating expenses accounted for 6% percent, and depreciation accounted for the remaining 19% percent of the total operating expenses.

**HOUSING AUTHORITY OF THE BOROUGH OF HIGHTSTOWN
MANAGEMENT'S DISCUSSION AND ANALYSIS
AT DECEMBER 31, 2012**

FINANCIAL ANALYSIS OF THE AUTHORITY (ENTITY WIDE) - CONTINUED

The Authority's operating revenue did not exceed its operating expenses resulting in excess expenses in the amount of \$85,505 from operations as compared to excess expenses from operations of \$265,889 for the previous year. The key element for the increase of \$180,384 from the current year as compared to the prior year is as follow:

- The Authority experienced an increase in tenant revenue in the amount of \$60,869.
- The Authority experienced an increase in HUD operating grants in the amount of \$28,503.
- The Authority experienced a decrease in utilities expenses in the amount of \$29,895.
- The Authority experienced a decrease in maintenance expense in the amount of \$15,355.
- The Authority experienced a decrease in depreciation expense in the amount of \$62,537

The Authority's Unrestricted Net Assets increased during the calendar year. The full detail can be found in the comparison of actual results to the Authority's adopted budget for the Low Income Public Housing Program found on page 37.

**HOUSING AUTHORITY OF THE BOROUGH OF HIGHTSTOWN
MANAGEMENT'S DISCUSSION AND ANALYSIS
AT DECEMBER 31, 2012**

FINANCIAL ANALYSIS OF THE AUTHORITY (ENTITY WIDE) - CONTINUED

The following are financial highlights of significant items for a four year period of time ending on December 31, 2012.

Significant Items

| | December-12 | December-11 | December-10 | December-09 |
|-----------------------------------|---------------------|---------------------|---------------------|---------------------|
| Significant Income | | | | |
| Total Tenant Revenue | \$ 549,355 | \$ 488,486 | \$ 503,676 | \$ 522,724 |
| HUD Operating Grants | 357,032 | 328,529 | 320,365 | 346,995 |
| HUD Capital Grants | 307,746 | 46,343 | 302,297 | 66,469 |
| Investment Income | 9,045 | 9,125 | 9,936 | 8,441 |
| Other Income | 31,251 | 21,770 | 30,665 | 42,163 |
| Total | \$ 1,254,429 | \$ 894,253 | \$ 1,166,939 | \$ 986,792 |
| Payroll Expense | | | | |
| Administrative Salaries | \$ 170,951 | \$ 144,255 | \$ 164,689 | \$ 152,327 |
| Utilities Labor | 16,750 | 23,480 | 25,636 | 23,534 |
| Maintenance Labor | 49,832 | 70,439 | 76,909 | 70,839 |
| Employee Benefits Expense | 111,830 | 95,416 | 81,799 | 80,583 |
| Total Payroll Expense | \$ 349,363 | \$ 333,590 | \$ 349,033 | \$ 327,283 |
| Other Significant Expenses | | | | |
| Other Administrative Expenses | \$ 82,538 | \$ 101,779 | \$ 82,402 | \$ 96,496 |
| Utilities Expense | 219,842 | 241,500 | 254,370 | 256,956 |
| Maintenance Materials Cost | 22,833 | 31,388 | 22,100 | 25,980 |
| Maintenance Contract Cost | 78,120 | 64,444 | 51,545 | 73,024 |
| Insurance Premiums | 38,121 | 39,370 | 38,713 | 40,219 |
| Total | \$ 441,454 | \$ 478,481 | \$ 449,130 | \$ 492,675 |
| Total Operating Expenses | \$ 1,023,143 | \$ 1,104,674 | \$ 1,085,529 | \$ 1,109,181 |
| Total of Federal Awards | \$ 664,778 | \$ 374,872 | \$ 413,464 | \$ 436,295 |

**HOUSING AUTHORITY OF THE BOROUGH OF HIGHTSTOWN
MANAGEMENT'S DISCUSSION AND ANALYSIS
AT DECEMBER 31, 2012**

THE AUTHORITY AS A WHOLE

The Authority's revenues consist primarily of rents and 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. The Authority's operating revenues were sufficient to cover all operating expenses. The Authority's Unrestricted Net Assets appear sufficient to cover any foreseeable shortfall rising from a possible economic turndown and reduced subsidies and grants.

By far, the largest portion of the Authority's net assets 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 reported as "Investment in Capital Assets" and are not available for future spending. The unrestricted net assets of the Authority are available for future use to provide program services.

THE HOUSING AUTHORITY OF THE BOROUGH OF HIGHTSTOWN'S PROGRAMS

Public Housing Program:

Under the Public Housing Program, the Authority rents units that it owns to low-income households. This program is operated under an Annual Contributions Contract (ACC) with HUD. HUD's rent subsidy program provides housing assistance to low income families so that they are able to lease "decent, safe, and sanitary" housing for specific eligible tenants. The rent paid by the tenant is a percentage of tenant gross income subject to a \$50 minimum; it cannot exceed the greater of the following amounts: (a) 30% of the family's adjusted monthly income, (b) 10% of the family's monthly income, or (c) the Housing Authority of the Borough of Hightstown flat rent amount.

Capital Fund Program:

The public Housing Capital Fund was established under the Quality Housing & Work Responsibility Act of 1998 (QHWRA). This fund is used for repairs, major replacements, upgrading and other non-routine maintenance work that needs to be done on the Authority's apartments and homes to keep them clean, safe and in good condition.

**HOUSING AUTHORITY OF THE BOROUGH OF HIGHTSTOWN
MANAGEMENT'S DISCUSSION AND ANALYSIS
AT DECEMBER 31, 2012**

BUDGETARY HIGHLIGHTS

For the year ended December 31, 2012, individual program or grant budgets were prepared by the Authority and adopted 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.

The budget for the Low Rent Public Housing was adopted on the basis of accounting practices prescribed by the U.S. Department of Housing and Urban Development (HUD), which differ in some respects from generally accepted accounting principles. The full detail can be found in the Budget comparison to actual results for the Low Rent Public Housing Program on page 40 of this report.

NEW INITIATIVES

For the year 2012 and carrying over to 2013 the Housing Authority's primary focus has been on funding and accountability. As a public entity that derives approximately 38% percent of its revenue from the Department of Housing and Urban Development, (down from 39% percent in 2011) the Authority are constantly monitoring for any appropriation changes especially since it appears the nation is continuing an era of need for additional public assistance to help families meet the challenges of a very tumultuous economy.

The current administration of the Authority is determined to improve the financial results of the Authority's operations. The Authority has made steady progress in various phases of our operations, all the while maintaining a strong occupancy percentage in the public housing units. Interactions with the residents are a constant reminder of the need of the services. Regardless of the constraints (financial or regulatory) placed on this Housing Authority, the Authority will continuously look for ways to better provide or expand to qualified residents of the Borough of Hightstown all the while being mindful of their responsibility to be good stewards of the public's tax dollars.

For 2012, HUD (in an effort to show Congress its attempts to reduce costs), implemented a "recapture" of public housing reserves process. This is a process whereby a Housing Authority that has been efficient in operations and has built a "reserve" may be required to refund any reserve in excess of four months. The Housing Authority of the Borough of Hightstown experienced a HUD recapture of operating subsidy in the amount of \$2,511 for the 2012 calendar year.

**HOUSING AUTHORITY OF THE BOROUGH OF HIGHTSTOWN
MANAGEMENT'S DISCUSSION AND ANALYSIS
AT DECEMBER 31, 2012**

CAPITAL ASSETS AND DEBT ADMINISTRATION

1 – Capital Assets

The Authority's investment in capital assets as of December 31, 2012 was \$2,155,583 (net of accumulated depreciation). This investment in capital assets includes land, buildings, vehicles, equipment, and construction in progress. The total increased during the year in the Authority's investment in capital assets, net of related debt for the current calendar year was \$112,188 or 5% percent. Major capital expenditures of \$307,746 were made during the year. Major capital assets events during the calendar year included the following:

- Drainage System Upgrades
- Apartment Appliances
- Bathroom Renovations

| | December-12 | December-11 | Change |
|---------------------------------------|---------------------|---------------------|-------------------|
| Land | \$ 336,630 | \$ 336,630 | \$ - |
| Building | 6,596,841 | 6,490,014 | 106,827 |
| Furniture, Equipment - Dwelling | 69,020 | 69,020 | - |
| Furniture, Equipment - Administration | 152,380 | 150,856 | 1,524 |
| Construction in Process | 400,440 | 201,045 | 199,395 |
| Total Fixed Assets | <u>7,555,311</u> | <u>7,247,565</u> | <u>307,746</u> |
| Accumulated Depreciation | (5,399,728) | (5,204,170) | (195,558) |
| Net Book Value | <u>\$ 2,155,583</u> | <u>\$ 2,043,395</u> | <u>\$ 112,188</u> |

Additional information on the Authority's capital assets can be found in Note 9 to the financial statements, which is included in this report.

2-Debt Administration

The Low Rent Public Housing Program does not have any long-term debt at this time. Additional information on the Authority's long term debt can be found in Note 15 to the financial statements, which is included in this report.

**HOUSING AUTHORITY OF THE BOROUGH OF HIGHTSTOWN
MANAGEMENT'S DISCUSSION AND ANALYSIS
AT DECEMBER 31, 2012**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Housing Authority of the Borough of Hightstown is primarily dependent upon HUD for the funding of operations; therefore, the Housing Authority is affected more by Federal budget than by local economic conditions. The need for Congress to fund the war on terrorism and other impending military activities, and the impact these activities may have on federal funds available for HUD subsidies and grants.

The capital budgets for the 2012 fiscal year have already been submitted to HUD for approval and no major changes are expected. The Capital fund programs are multiple year budgets and have remained relatively stable. Capital Funds are used for the modernization of public housing property including administrative fees involved in the modernization.

The following factors were considered in preparing the Authority's budget for the calendar year ending December 31, 2013.

- State of New Jersey economy including the impact on tenant income. Local inflationary, recessionary and employment trends, which can affect resident incomes and therefore the amount of rental income. Tenant rental payments are based on tenant income.
- The need for Congress to fund the war on terrorism and other impending military activities, and the impact these activities may have on federal funds available for HUD subsidies and grants.
- Continued increases in health care insurance are expected to impact employee benefits cost over the next several years.
- Inflationary pressure on utility rates, supplies and other cost.
- The Authority's Unrestricted Net Assets appear sufficient to cover any foreseeable shortfall rising from a possible economic turndown and reduced subsidies and grants.

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 Keith Leprevost, Housing Authority of the Borough of Hightstown, 131 Rogers Avenue, Hightstown, N.J. 08520, or call (609)448-2268.

HOUSING AUTHORITY OF THE BOROUGH OF HIGHTSTOWN
STATEMENT OF NET ASSETS
AS OF DECEMBER 31, 2012 AND 2011

| | DECEMBER 31, | |
|---|--------------|--------------|
| | 2012 | 2011 |
| Assets | | |
| Current Assets: | | |
| Cash and Cash Equivalents | \$ 589,531 | \$ 497,929 |
| Accounts Receivables, Net of Allowances | 1,198 | 3,163 |
| Prepaid Expenses | 19,293 | 19,474 |
| Total Current Assets | 610,022 | 520,566 |
| Noncurrent Assets | | |
| Capital Assets | | |
| Land | 336,630 | 336,630 |
| Building | 6,596,841 | 6,490,014 |
| Furniture, Equipment - Dwelling | 69,020 | 69,020 |
| Furniture, Equipment - Administration | 152,380 | 150,856 |
| Construction in Process | 400,440 | 201,045 |
| Total Capital Assets | 7,555,311 | 7,247,565 |
| Less: Accumulated Depreciation | (5,399,728) | (5,204,170) |
| Net Book Value | 2,155,583 | 2,043,395 |
| Total Assets | \$ 2,765,605 | \$ 2,563,961 |
| Liabilities | | |
| Current Liabilities: | | |
| Accounts Payable | \$ 37,181 | \$ 51,190 |
| Accrued Liabilities | 1,656 | 4,360 |
| Tenant Security Deposit Payable | 35,636 | 33,537 |
| Deferred Revenue | 2,432 | 433 |
| Total Current Liabilities | 76,905 | 89,520 |
| Noncurrent Liabilities | | |
| Accrued Compensated Absences - Long-Term | 13,529 | 13,599 |
| Accrued Pension and OPEB Liabilities | 27,045 | 18,030 |
| Total Noncurrent Liabilities | 40,574 | 31,629 |
| Total Liabilities | 117,479 | 121,149 |
| Net Assets: | | |
| Investment in Capital Assets, Net of Related Debt | 2,155,583 | 2,043,395 |
| Unrestricted Net Assets | 492,543 | 399,417 |
| Total Net Assets | 2,648,126 | 2,442,812 |
| Total of Liabilities and Net Assets | \$ 2,765,605 | \$ 2,563,961 |

See accompanying notes to the financial statements.

HOUSING AUTHORITY OF THE BOROUGH OF HIGHTSTOWN
STATEMENT OF REVENUE, EXPENSES AND
CHANGES IN NET ASSETS
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2012 AND 2011

| | DECEMBER 31, | |
|--|--------------|--------------|
| | 2012 | 2011 |
| Revenue: | | |
| Tenant Rental Revenue | \$ 549,355 | \$ 488,486 |
| HUD PHA Operating Grants | 357,032 | 328,529 |
| Other Revenue | 31,251 | 21,770 |
| Total Revenue | 937,638 | 838,785 |
| Operating Expenses: | | |
| Administrative Expense | 332,777 | 307,532 |
| Tenant Services | 6,388 | 8,198 |
| Utilities Expense | 244,185 | 274,080 |
| Maintenance Expense | 175,734 | 191,089 |
| Other Operating Expenses | 68,501 | 65,680 |
| Depreciation Expense | 195,558 | 258,095 |
| Total Operating Expenses | 1,023,143 | 1,104,674 |
| Excess Expenses Over Revenue From Operations | (85,505) | (265,889) |
| Non Operating Income and (Expenses): | | |
| Extraordinary Maintenance | (25,972) | - |
| Investment Income - Unrestricted | 9,045 | 9,125 |
| Total Non Operating (Expenses) and Income | (16,927) | 9,125 |
| Capital Grants | 307,746 | 46,343 |
| Change in Net Assets | 205,314 | (210,421) |
| Beginning Net Assets | 2,442,812 | 2,653,233 |
| Ending Net Assets | \$ 2,648,126 | \$ 2,442,812 |

See accompanying notes to the financial statements.

HOUSING AUTHORITY OF THE BOROUGH OF HIGHTSTOWN
STATEMENT OF CASH FLOW
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2012 AND 2011

| | DECEMBER 31, | |
|---|--------------|--------------|
| | 2012 | 2011 |
| Cash Flow From Operating Activities | | |
| Receipts from Tenants | \$ 591,496 | \$ 491,319 |
| Receipts from Federal Grants | 357,032 | 391,783 |
| Receipts from Misc. Sources | 31,251 | 21,770 |
| Payments to Vendors and Suppliers | (313,089) | (285,367) |
| Payments to Employees | (237,533) | (238,174) |
| Payment of Employee Benefits | (111,830) | (95,416) |
| Payments for Utilities | (219,842) | (241,490) |
| Net Cash Provided by Operating Activities | 97,485 | 44,425 |
| Cash Flow From Capital and Related Financing Activities | | |
| Receipts from Capital Grants | 307,746 | 46,343 |
| Acquisitions and Construction of Capital Assets | (307,746) | (170,126) |
| Increase (Payment) in Compensated Absences | (70) | (5,590) |
| Accrued Pension and OPEB Liabilities | 9,015 | 9,015 |
| Receipt (Payment) in Tenant Security Deposit Payable | 2,099 | 265 |
| Extraordinary Maintenance | (25,972) | - |
| Net Cash (Used) by and Related Financing Activities | (14,928) | (120,093) |
| Cash Flow From Investing Activities | | |
| Interest Income | 9,045 | 9,125 |
| Net Cash Provided by Investing Activities | 9,045 | 9,125 |
| Net Increase/(Decrease) in Cash and Cash Equivalents | 91,602 | (66,543) |
| Beginning Cash | 497,929 | 564,472 |
| Ending Cash | \$ 589,531 | \$ 497,929 |
| Reconciliation of Operating Income to Net Cash | | |
| Provided by Operating Activities | | |
| Excess of Revenue Over Expenses | \$ (85,505) | \$ (265,889) |
| Adjustments to reconcile excess revenue over expenses to net cash provided by operating activities: | | |
| Depreciation Expense - net of adjustments | 195,558 | 258,095 |
| Allowance for Bad Debt | | |
| (Increase) Decrease in: | | |
| Accounts Receivables | 1,965 | 61,585 |
| Prepaid Expenses | 181 | (1,523) |
| Increase (Decrease) in: | | |
| Accounts Payable | (14,009) | (7,000) |
| Accrued Liabilities | (2,704) | (1,276) |
| Deferred Revenue | 1,999 | 433 |
| Net Cash Provided by Operating Activities | \$ 97,485 | \$ 44,425 |

See accompanying notes to the financial statements.

HOUSING AUTHORITY OF THE BOROUGH OF HIGHTSTOWN

Notes to Financial Statements

December 31, 2012

NOTE 1 - SUMMARY OF ORGANIZATION, ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

1. Organization - The Authority is a non-profit corporation which was organized under the laws public corporation created under federal and state housing laws as defined by State statute (N.J., S.A. 4A: 12A-1, et. Seq. the Housing Authority Act) for the purpose of engaging in the development, acquisition and administrative activities of the low-income housing program and other programs with similar objectives for low and moderate income families residing in the Borough of Hightstown in accordance with the rules and regulations prescribed by the Department of Housing and Urban Development (HUD).

The Authority is governed by a Board of Commissioners which is essentially autonomous but is responsible to the U.S. Department of Housing and Urban Development and the State of New Jersey Department of Community Affairs. An Executive Director is appointed by the Housing Authority's Board to manage the day-to-day operations of the Authority. Operating and modernization subsidies are provided to the Authority by the federal government.

The financial statements include all the accounts of the Authority. The Authority is the lowest level of government over which the Authority's Board of Commissioners and Executive Director exercise oversight responsibility. The Authority is not included in any governmental "reporting entity" since its board members; while they are appointed primarily by the Mayor of Hightstown, the Board of Commissioners have decision making authority, the power to designate management, the responsibility to significantly influence operations, and primary responsibility for accounting and fiscal matters. The Authority has also concluded that it is excluded from the Borough of Hightstown reporting entity.

Based on the following criteria, the Authority not identified any entities which should be subject to evaluation for inclusion in the Authority's reporting entity. The criteria for including or excluding a component unit relationship as set forth in Section 2100 of GASB's Codification of governmental Accounting and Financial Reporting Standards, include whether:

- A. The organization is legally separate.
- B. The primary government holds the corporate powers of the organization.
- C. The primary government appoints a voting majority of the organization's board.
- D. The primary government is able to impose its will on the organization.
- E. There is fiscal dependency by the organization on the primary government.
- F. The organization has potential to impose a financial benefit or burden on the primary government.

HOUSING AUTHORITY OF THE BOROUGH OF HIGHTSTOWN

Notes to Financial Statements December 31, 2012

2. Significant Accounting Policies

The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The accompanying financial statements are presented in conformity with accounting principles generally accepted in the United States of America for governmental units as prescribed by the Governmental Accounting Standards Board (GASB) and other authoritative sources. The Authority has determined that the applicable measurement focus (flow of economic resources) and accounting basis (accrual) is similar to that of a commercial enterprise. As such, the use of proprietary funds best reflects the activities of the Authority. Entities using this method observe all Financial Accounting Standards Board (FASB) Statements and Interpretations in the preparation of financial statements, unless the GASB has specifically addressed the accounting issue in one of its own pronouncements. GASB-20-“Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting” addresses the applicability of the various FASB’s, and allows several options in the use of the FASB’s. The Authority has elected to use Alternative 2 of GASB-20 which states that “a proprietary activity may also apply all FASB Statements and Interpretations issued after November 30, 1989, except for those that conflict with or contradict GASB pronouncements”. Also, the Authority has elected to not follow FASB-106, FASB-112, and FASB-132, which all deal with pension reporting. Instead, the Authority follows GASB-45-“Accounting for Pensions by State and Local Governmental Employers.”

New Accounting Standards Adopted

Statement No. 45 of the Government Accounting Standards Board (“GASB 45”) *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pension* was issued in June 2004. This Statement requires the Authority to account for its “other postemployment benefits” (OPEB) in essentially the same way as it accounts for pension benefits. OPEB include medical, prescription drug, dental, vision, life insurance and disability benefits provided to retirees and certain terminated employees.

This Statement will improve the relevance and usefulness of financial reporting by requiring systematic, accrual-basis measurement and recognition of OPEB costs over a period that approximates employees’ years of service.

HOUSING AUTHORITY OF THE BOROUGH OF HIGHTSTOWN

Notes to Financial Statements

December 31, 2012

Basis of Accounting

The financial statements of the Authority are prepared under the accrual basis of accounting in order to recognize the flow of economic resources. Under the accrual basis of accounting, transactions are recognized when they occur, regardless of when cash is received or disbursed. Revenues and expenses are recognized on the accrual basis, with revenues recognized in the accounting period in which they are earned and become measurable, and expenses recognized in the period incurred, if measurable. Operating revenue and expenses consist of those revenue and expenses that result from ongoing principal operations of the Authority.

Non-operating revenue and expenses consist of those revenues and expenses that are related to financing and investing activities and result from non exchange transactions or ancillary activities. All assets, liabilities, net assets, revenue, and expenses are accounting for through a single enterprise fund for the primary government.

The major sources of revenue are tenants dwelling rentals, HUD operating subsidy, capital grants, and other revenue.

HUD's rent subsidy program provides housing to low income families so that they are able to lease "decent, safe, and sanitary" housing for specific eligible tenants. The rent paid by the tenant is a percentage of tenant gross income subject to a \$50 minimum; it cannot exceed the greater of the following amounts:

- (a) 30% of the family's adjusted monthly income,
- (b) 10% of the family's monthly income, or
- (c) Housing Authority of the Borough of Hightstown's flat rent amount.

Tenants dwelling rental charges are determined and billed monthly and are recognized as revenue when assessed because they are measurable and are collectible within the current period. The amounts not received by December 31, are considered to be accounts receivable and any amounts received for subsequent period are recorded as deferred revenue.

HUD operating, capital grants which finance capital and current operations are susceptible to accrual and recognized during the year earned in accordance with applicable HUD program guidelines. The Capital Fund Grant program contributions are expenditure driven grants with the revenue from the grant classified based on the expenditure. If the funds were expended for capital activities, the revenue is reported as capital contribution; if the funds are expended for other than capital, the revenue is reported as operating revenue.

HOUSING AUTHORITY OF THE BOROUGH OF HIGHTSTOWN

Notes to Financial Statements

December 31, 2012

Basis of Accounting – Continued

Financial transactions are recorded and organized in accordance with the purpose of the transaction. Each program is an independent fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. All material inter-program accounts and transactions are eliminated in the preparation of the basic financial statements. Because the Authority's activity is considered self-financing and does not rely on specific taxes or fines (i.e. property taxes, sales and use tax etc.) no activity will be maintained as governmental funds but will be recorded as proprietary funds under the Enterprise Fund.

In enterprise funds, activity is recorded using the accrual basis of accounting. Under the accrual basis of accounting revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. This requires the Housing Authority to account for operations in a manner similar to private business or where the Board has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

Report Presentation –

The Authority's basic financial statements are presented on an entity-wide basis consisting of various housing programs. The financial statements included in this report were prepared in accordance with generally accepted accounting principles (GAAP) in the United States of America. In accordance with GASB Statement No. 34, the report includes Management's Discussion and Analysis. The Authority has implemented the general provisions of GASB Statement No. 34.

Also the Authority adopted the provisions of Statement No. 37 "Basic Financial Statement and Management's Discussion and Analysis for State and Local Governments" and Statement No.38 "Certain Financial Statement Note Disclosures" which supplements GASB Statement No. 34.

GASB Statement No. 34 established standards for external financial reporting for all State and Local Governments entities that includes a statement of net assets, a statement of revenue, expenses, and changes in net assets, and a statement of cash flow.

GASB Statement No. 34 requires the classification of net assets into three components, Investment in Capital Assets, Net of Related Debt Restricted Net Assets, and Unrestricted Net Assets.

HOUSING AUTHORITY OF THE BOROUGH OF HIGHTSTOWN

Notes to Financial Statements

December 31, 2012

Report Presentation - continued

Net Assets Invested in Capital Assets Net of Related Debt.

The net assets consists of capital assets, net of accumulated depreciation and reduced by outstanding balances of debt issued to finance the acquisition, improvement, or construction of those assets.

Restricted Net Assets.

The net assets less that are subject to constraints on their use by creditors, grantors, contributors, legislation, or other governmental laws or regulations.

Unrestricted Net Assets.

The net assets consist of net assets that do not meet the definition of Restricted Net Assets or Invested in Capital Assets, Net of Related Debt.

The adoptions of Statement No. 34, Statement No. 37, and Statement No. 38 have no significant effect on the financial statements except, for the classification of net assets in accordance with Statement No. 34.

The federally funded programs administered by the Authority are detailed in the Financial Data Schedule and the Schedule of Expenditures of Federal Awards; both are which are included as Supplemental information.

Other accounting policies are as follows

1 – Cash and cash equivalents are stated at cost, which approximates market. Cash and cash equivalents include cash in banks, petty cash and certificates of deposit, and other investments with original maturities of less than three months from the date of purchase. Investments are recorded at fair value based on quoted market prices. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties.

2 – Collection losses on accounts receivable are charged against an allowance for doubtful accounts.

3 – Buildings and equipment are recorded at cost for all programs and depreciation is computed on the straight line basis.

4 – Repairs funded out of operations, such as painting, roofing and plumbing, are charged against income for all programs.

5 – Operating subsidies received from HUD are recorded as income when earned.

6 – The cost of accumulated unpaid compensated absences, including fringe benefits, is reported in the period earned rather than in the period paid.

HOUSING AUTHORITY OF THE BOROUGH OF HIGHTSTOWN

Notes to Financial Statements

December 31, 2012

Other accounting policies - Continued

7 – Prepaid expenses represent payments made by the Authority in the current year to provide services occurring in the subsequent fiscal year.

8 - 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.

9 – The Authority does not have any infrastructure assets for its Enterprise Fund.

10 – Inter-fund receivable and payables arise from inter-fund transactions and are recorded by all funds in the period in which the transactions are executed.

11- Certain conditions may exist as of the date the financial statements are issued, which may result in a loss to the Authority but which will only be resolved when one or more future events occur or fail to occur. The Authority's management and its legal counsel assess such contingent liabilities, and such assessment inherently involves an exercise of judgment. In assessing loss contingencies related to legal proceedings that are pending against the Authority or unasserted claims that may result in such proceedings, the Authority's legal counsel evaluates the perceived merits of any legal proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought therein. If the assessment of a contingency indicates that it is probable that a material loss has been incurred and the amount of the liability can be estimated, then the estimated liability would be accrued in the Authority's financial statements. If the assessment indicates that a potentially material loss contingency is not probable but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss if determinable and material, would be disclosed. Loss contingencies considered remote are generally not disclosed unless they involve guarantees, in which case the nature of the guarantee would be disclosed.

12- Costs related to environmental remediation are charged to expense. Other environmental costs are also charged to expense unless they increase the value of the property and/or provide future economic benefits, in which event they are capitalized. Liabilities are recognized when the expenditures are considered probable and can be reasonably estimated. Measurement of liabilities is based on currently enacted laws and regulations, existing technology, and undiscounted site-specific costs. Generally, such recognition coincides with the Authority's commitment to a formal plan of action.

HOUSING AUTHORITY OF THE BOROUGH OF HIGHTSTOWN

Notes to Financial Statements

December 31, 2012

Other accounting policies - Continued

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

14- Fair Value Measurements – Fair value is defined as an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants. Generally accepted accounting principles defined a three-tier hierarchy, which prioritizes the inputs used in measuring fair value as follows:

- Level 1: Observable inputs such as quoted prices in active markets;
- Level 2: Inputs, other than quoted prices in active markets that are observable either directly or indirectly; and
- Level 3: Unobservable inputs for which there is little or no market data, which requires the Authority to develop assumptions.

The carrying amounts reported for cash and short-term investments approximate fair value.

Budgetary and Policy Control –

The Authority submits its annual operating and capital budgets to the State of New Jersey Department of Community Affairs in accordance with New Jersey statute. After the New Jersey Department of Community Affairs approves the budget, it is formally adopted by resolution of the Housing Authority's Board of Commissioners. Once adopted, the Board of Commissioners may amend the legally adopted budget when unexpected modifications are required in estimated revenues and expenses. Each fund's budget is prepared on a detailed line item basis. Revenues are budgeted by source and expenditures are budgeted by expense classification within each revenue source.

Budgetary Comparison under GASB No. 34, budgetary comparison information is required to be presented for the Low Rent Housing Program which the Board of Commissions has legally adopted the budget during the year. The budgetary comparison schedules have been provided for these programs to demonstrate compliance with the budgets. The comparison of actual results to the Authority's for the Low Income Public Housing Program found on page 40.

HOUSING AUTHORITY OF THE BOROUGH OF HIGHTSTOWN

Notes to Financial Statements December 31, 2012

Activities - The only programs or activities administered by the Authority were:

| <u>Program</u> | <u>CFDA #</u> | <u>Project #</u> | <u>Units Authorized</u> |
|------------------|---------------|------------------|-----------------------------|
| Public Housing | | | |
| Low Rent Housing | 14.850 | NJ-45 | 100 |
| Capital Fund | 14.872 | | |

Taxes - Under federal, state, and local law, the Authority's program are exempt from income, property and excise taxes. However, the Authority is required to make payments in lieu of taxes (PILOT) for the low-income housing program in accordance with the provision of a Cooperation Agreement. Under the Cooperation Agreement, the Authority must pay the municipality the lesser of 10% of its net shelter rent or the approximate full real property taxes.

Grants - The Authority receives reimbursement from various grantors for the cost of sponsored projects, including administrative cost. Grant revenues are recognized as income when earned. Grant expenditures are recognized on the accrual basis.

Board of Commissioners - The criteria used in determining the scope of the entity for financial reporting purposes are as follows:

1. The ability of the Board to exercise supervision of a component unit's financial independence.
2. The Board's governing authority extends to financial decision making authority and is held primarily accountable for decisions.
3. The Board appoints the management of the Authority who is responsible for the day-to-day operations and this management are directly accountable to the Board.
4. The ability of the Board to significantly influence operations through budgetary approvals, signing and authorizing contracts, exercising control over facilities, and approving the hiring or retention of key managerial personnel.
5. The ability of the Board to have absolute authority over all funds of the Authority and have accountability in fiscal matters.

HOUSING AUTHORITY OF THE BOROUGH OF HIGHTSTOWN

Notes to Financial Statements

December 31, 2012

NOTE 2 – ESTIMATES

The financial statements and related disclosures are prepared in conformity with accounting principles generally accepted in the United States. Management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and revenue and expenses during the period reported. These estimates include assessing the collectibility of accounts receivable, the use, and recoverability of inventory, and the useful lives and impairment of tangible and intangible assets, among others. Estimates and assumptions are reviewed periodically and the effects of revisions are reflected in the financial statements in the period they are determined to be necessary. Actual results could differ from the estimates.

NOTE 3 - PENSION PLAN

The Authority participates in the Public Employees Retirement System (PERS), a cost-sharing multiple employer defined benefit pension plan administered by the Division of Pensions within the Department of Treasury, State of New Jersey. It is a cost sharing, multiple-employer defined benefit pension plan. The PERS was established on January 1, 1955 under the provisions of N.J.S.A. 43:15A. to provide coverage, including post-retirement health care, for substantially all full time employees of the state, its counties, municipalities, school districts or public agencies, provided the employee is not a member of another state administered retirement system. Membership is mandatory for such employees.

The State of New Jersey, Department of Treasury, Division of Pensions and Benefits, issued publicly available financial reports that include the financial statements and required supplementary information for PERS. The financial reports may be obtained by writing to the State of New Jersey, Department of Treasury, Division of Pensions and Benefits, P.O. Box 295, Trenton, New Jersey 08625-0925.

Funding Policy

The contribution policy is set by N.J.S.A. 43:15A, Chapter 62, P.L. of 1994 and Chapter 115, P.L. of 1998, and requires contributions by active members and contributing employers. Plan member and employer contributions may be amended by State of New Jersey legislation. Employer's contributions are actuarially determined annually by the Division of Pensions. Employee contributions are currently 5% of base wages. The annual employer contribution includes funding for basic retirement allowances, cost-of-living adjustments, and the cost of medical premiums after retirement for qualified retirees, and noncontributory death benefits. The Authority's contribution for 2012 and 2011 amounted to \$28,397 and \$27,000 respectfully.

Post Employment Retirement Benefits

The Authority also provides post employment health care benefits and life insurance to all eligible retirees. Eligibility requires that employees be 55 years or older with at least 25 years of service.

HOUSING AUTHORITY OF THE BOROUGH OF HIGHTSTOWN

Notes to Financial Statements

December 31, 2012

NOTE 4 – CASH, CASH EQUIVALENTS

The Authority's cash, cash equivalents are stated at cost, which approximates market. Cash, cash equivalents and investment includes cash in banks, petty cash and a money market checking account and certificates of deposit, and other investments with original maturities of less than three months from the date of purchase. 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 the State of New Jersey and HUD requirements.

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/FSLIC 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. These funds at various banks are collateral pledge under the New Jersey Government Code of the Banking Law.

Collateral for Deposits

The New Jersey Government Code requires New Jersey banks and savings and loan associations to be covered by the Governmental Unit Deposit Protection Act of the State of New Jersey, which requires the institution to pool collateral for all governmental deposits and have the collateral held by an approved custodian in the institution's name. This Code states that collateral pledged in this manner shall have the effect of perfecting a security interest in such collateral superior to those of a general creditor. The market value of the pledged securities must equal at least 110% of the Authority's deposits.

Cash and Cash Equivalents at December 31, 2012 and 2011 were \$589,531 and \$497,929 respectively, and consisted of the following financial institutions:

| | <u>December-12</u> | <u>December-11</u> |
|-----------------------|--------------------|--------------------|
| 1st Constitution Bank | \$ 589,311 | \$ 270,394 |
| Provident Bank | - | 227,315 |
| Change Fund | 20 | 20 |
| Petty Cash | 200 | 200 |
| Total | <u>\$ 589,531</u> | <u>\$ 497,929</u> |

HOUSING AUTHORITY OF THE BOROUGH OF HIGHTSTOWN

Notes to Financial Statements

December 31, 2012

NOTE 4 – CASH, CASH EQUIVALENTS - CONTINUED

The Authority's checking accounts are categorized to give indication of the level of credit risk assumed by the Authority. Custodial credit risk is the risk in the event of a bank failure, the Authority's deposits may not be returned to it. The custodial credit risk categories are described as follows:

| Depository Accounts | Bank Balances | |
|---|---------------|-------------|
| | December-12 | December-11 |
| Insured | \$ 250,000 | \$ 477,315 |
| Collateralized held by pledging bank's trust department in the Authority's name | 339,531 | 20,614 |
| Total | \$ 589,531 | \$ 497,929 |

NOTE 5- TENANT SECURITY DEPOSIT

The Authority has restricted cash at December 31, 2012 and 2011 in the amount of \$35,636 and \$33,537 respectively which was accounted for in cash and cash equivalents in Note 4, of which is held as security deposits for the tenants of the Low Income Housing Program in an interest bearing accounts at 1st Constitution Bank.

NOTE 6 - ACCOUNTS RECEIVABLE

Accounts Receivable at December 31, 2012 and 2011 consisted of the following:

| | December-12 | December-11 |
|---|-------------|-------------|
| Tenants Accounts Receivable - Present | \$ 2,303 | \$ 3,141 |
| Less Allowance for Doubtful Accounts | (2,013) | (2,013) |
| Net Tenants Accounts Receivable | 290 | 1,128 |
| Accounts Receivable - HUD CFP Program | 908 | 2,035 |
| Less Allowance for Doubtful Accounts | - | - |
| Net Accounts Receivable - Other | 908 | 2,035 |
| Accounts Receivable - Net of Allowances | \$ 1,198 | \$ 3,163 |

The Housing Authority of the Borough of Hightstown carries its accounts receivable at cost less an allowance for doubtful accounts. On a periodic basis, the Authority evaluates its accounts receivable and establishes an allowance for doubtful accounts based on history of past write off's, collections, and current credit conditions. Accounts are written off as uncollectible when management determines that a sufficient period of time has elapsed without receiving payment and the individual do not exhibit the ability to meet their obligations.

HOUSING AUTHORITY OF THE BOROUGH OF HIGHTSTOWN

Notes to Financial Statements

December 31, 2012

NOTE 7 - PREPAID EXPENSES

Certain payments to vendors reflect cost applicable to future accounting periods and are recorded as prepaid items. All purchases of insurance premiums are written off on a monthly basis. Acquisition of materials and supplies are accounted for on the consumption method, that is, the expenses are charged when the items are consumed. The prepaid expenses consisted of prepaid insurance in the amount of \$19,293 for December 31, 2012 and \$19,474 for 2011.

NOTE 8 - INTERFUND ACTIVITY

Interfund activity is reported as short term loans, services provided during the course of operations, reimbursements, or transfers. Short term loans are reported as inter-fund short term receivables and payable as appropriate. Inter-fund receivables and payables between funds are eliminated in the Statement of Net Assets.

NOTE 9 - FIXED ASSETS

Fixed assets consist primarily of expenditures to acquire, construct, place in operations, and improve the facilities of the Authority and are stated by an appraisal value.

Expenditures for repairs, maintenance and minor renewals are charged against income in the year they are incurred. Major renewals and betterment are capitalized.

Expenditures are capitalized when they meet the Capitalization Policy requirements. Under the policy, assets purchased or constructed at a cost not exceeding \$500 are expensed when incurred.

Property and equipment are stated at cost. Donated fixed assets are stated at their fair value on the date donated. Depreciation is provided using the straight line method over the estimated useful lives of the assets.

| | |
|---------------------------|----------|
| 1. Building and Structure | 40 years |
| 2. Office Improvements | 7 years |
| 3. Site Improvements | 15 years |
| 4. Building Components | 15 years |
| 5. Office Equipment | 5 years |

The Housing Authority of the Borough of Hightstown has given consideration to the Statement of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, (SFAS No. 144) in the preparation of these financial statements.

HOUSING AUTHORITY OF THE BOROUGH OF HIGHTSTOWN

Notes to Financial Statements

December 31, 2012

NOTE 10 - ACCOUNTS PAYABLE

The Authority reported accounts payable on its balance sheet as of December 31, 2012. Accounts payable vendors are amount owing to creditors or generally on open accounts, as a result of delivered goods and completed services. Accounts payable at December 31, 2012 and 2011 consist of the following:

| | December-12 | December-11 |
|-------------------------------------|------------------|------------------|
| Accounts Payable Vendors | \$ 6,800 | \$ 29,749 |
| Accounts Payable - Other Government | 30,381 | 21,441 |
| Total Accounts Payable | <u>\$ 37,181</u> | <u>\$ 51,190</u> |

NOTE 11 - ACCOUNTS PAYABLE - OTHER GOVERNMENT (PILOT PAYABLE)

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 a payment in lieu of taxes (PILOT) for the PHA Owned Program in accordance with the provisions of its Cooperation Agreement with the Borough of Hightstown. Under the Cooperation Agreements, the Authority must pay the municipality the littlest of 10% of its net shelter rent or the approximate full real property taxes. The total amount of PILOT payable at December 31, 2012 is \$30,381 and \$21,441 for 2011.

NOTE 12 - ACCRUED EXPENSES

The Authority reported accrued expenses on its balance sheet. Accrued expenses are liabilities covering expenses incurred on or before December 31, and are payable at some future date. Accrued liabilities at December 31, 2012 and 2011 consist of the following:

| | December-12 | December-11 |
|--|-----------------|-----------------|
| Compensated Absences - Current Portion | \$ 1,503 | \$ 1,511 |
| Wages Payable | 153 | 2,849 |
| Total Accrued Liabilities | <u>\$ 1,656</u> | <u>\$ 4,360</u> |

HOUSING AUTHORITY OF THE BOROUGH OF HIGHTSTOWN

Notes to Financial Statements
December 31, 2012

NOTE 13 – ACCRUED COMPENSATED ABSENCES

Compensated absences are those for which employees will be paid, such as vacation and sick leave. A liability for compensated absences that is attributable to services already rendered and that is not contingent on a specific event that is outside the control of the Authority will be accounted for in the period in which such services were rendered.

An employee may not accumulate vacation leave beyond the end of any calendar year. Employees may be compensated for accumulated sick leave to a maximum of thirty days.

The Authority has determined that the potential liability for accumulated vacation and sick time is as follows:

| | December-12 | December-11 |
|--|-------------|-------------|
| Sick Time | \$ 13,964 | \$ 14,036 |
| FICA Expense | 1,068 | 1,074 |
| Total | 15,032 | 15,110 |
| Less: Current Portion | (1,503) | (1,511) |
| Total Accrued Compensated Absences - Long Term | \$ 13,529 | \$ 13,599 |

NOTE 14 – DEFERRED REVENUE

The Authority reported deferred revenues on its balance sheet. Deferred revenues arise when resources are received by the Authority before it has legal claim to them, as when grant monies are received prior to the occurrence of qualifying expenditures. In subsequent periods, when the Authority has a legal claim to the resources, the liability for deferred revenue is removed from the balance sheet and the revenue is recognized. The deferred revenue for December 31, 2012 is \$2,432 and \$433 for 2011.

NOTE 15 – LONG TERM DEBT

At December 31, 1999, the Authority's Long Term Debt (guaranteed by HUD), in accordance with HUD's GAAP Conversion Guide, the Long Term Debt and related debt service accounts were written off.

GASB Interpretation No. 2, "Disclosure of Conduit Debt Obligations," provided guidance as to the proper GAAP treatment of this HUD-guaranteed debt. The debt transactions between the Authority and HUD are similar to conduit debt obligations, which are "certain limited-obligation revenue bonds, certificates of participation, or similar debt instruments issued by the state or local governmental entity for the express purpose of providing capital financing for a specific third party that is not a part of the issuer" financial reporting entity.

HOUSING AUTHORITY OF THE BOROUGH OF HIGHTSTOWN

Notes to Financial Statements

December 31, 2012

NOTE 15 – LONG TERM DEBT - CONTINUED

The transaction between the Authority and HUD is similar to HUD giving funds to the Authority to operate and the funds are a capital contribution. HUD has essentially made an investment in the Authority. Therefore, the liability was reclassified as a capital contribution. Since HUD is paying the obligations directly, the outstanding Long Term Debt balance at December 31, 2012 could not be readily determined.

NOTE 16 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSION

The Authority's annual other postemployment benefit ("OPEB") cost (expense) is calculated based on the annual required contribution of employer ("ARC"), an amount actuarially determined in accordance with parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty (30) years.

The following table shows the components of the Authority's annual OPEB costs for the fiscal year, the amount actually contributed to the plan and changes in the Authority's net OPEB obligation to the plan:

| | <u>December-12</u> | <u>December-11</u> |
|---|--------------------|--------------------|
| Annual Required Contribution | \$ 14,779 | \$ 14,009 |
| Annual OPEB cost (expense) | 14,779 | 14,009 |
| Contributions made | (5,764) | (4,994) |
| Increase in net OPEB obligation | 9,015 | 9,015 |
| Net OPEB Obligation – beginning of year | 18,030 | 9,015 |
| Net OPEB Obligation – end of year | <u>\$ 27,045</u> | <u>\$ 18,030</u> |

FUNDED STATUS AND FUNDING PROGRESS

As of January 1, 2010, the most recent valuation date, the plan was 0.0% funded. The actuarial liability for benefits was \$494,392, and the actuarial value of assets was \$-0-, resulting in an unfunded actuarial accrued liability (UAAL) of \$9,015.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrences of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contribution of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

HOUSING AUTHORITY OF THE BOROUGH OF HIGHTSTOWN

Notes to Financial Statements December 31, 2012

NOTE 18 - RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters for which the Authority purchases commercial insurance. During the year ended December 31, 2012, the Authority's risk management program, in order to deal with the above potential liabilities, purchased various insurance policies for fire, general liability, crime, auto, employee bond, worker's compensation, and public-officials errors omissions. Periodically, but not less than once annually, the Authority conducts a physical inspection of all its buildings for the purpose of determining potential liability issues.

During the year ended December 31, 2012, the Authority did not reduce insurance coverage's from coverage levels in place as of December 31, 2011. No settlements have exceeded coverage levels in place during 2010, 2011, and 2012.

NOTE 19 - ANNUAL CONTRIBUTIONS BY FEDERAL AGENCIES

Pursuant to the Annual Contribution Contract, HUD makes annual debt service contributions to the Authority for each permanently financed project in the amount equal to the debt service on its bonds, plus, if necessary, an amount to fully amortize the Authority's indebtedness represented by permanent notes or project notes. Accrued HUD contributions for the year ended December 31, 2012 were \$ - 0 -.

HUD also contributes an additional operating subsidy approved in the operating budget under the Annual Contribution Contract. Additional operating subsidy contributions for the year ended December 31, 2012 and 2011 were \$338,478 and \$308,264, respectively.

NOTE 20 - CURRENT VULNERABILITY DUE TO CERTAIN CONCENTRATIONS

The Authority operations are concentrated in the low income housing real estate market. In addition, the Authority operates in a heavily regulated environment. The operations of the Authority are subject to the administrative directives, rules and regulations of federal, state, and local regulatory agencies, including, but not limited to HUD. Such administrative directives, rules, and regulations are subject to change by an act of congress or an administrative change mandated by HUD. Such changes may occur with little notice or inadequate funding to pay for the related cost, including the additional administrative burden, to comply with a change.

Statement of Financial Accounting Standards (SFAS) No. 14 requires disclosure in financial statements of a situation where one entity provides more than 10% of the audited entity's revenues. Total financial support by HUD was \$664,778 to the Authority which represents approximately 53% percent of the Authority's total revenue for the fiscal year December 31, 2012 and \$374,872 which represents approximately 42% percent for 2011.

HOUSING AUTHORITY OF THE BOROUGH OF HIGHTSTOWN

Notes to Financial Statements
December 31, 2012

NOTE 20 - CURRENT VULNERABILITY DUE TO CERTAIN CONCENTRATIONS

Total financial support by HUD for the year ending December 31, 2012 and 2011 was \$664,778 and \$374,872, respectively.

| | | December 31 | |
|-------------------------------------|----------|----------------------|----------------------|
| | CFDA #'s | 2012 Expenditures | 2011 Expenditures |
| <u>PHA Owned Housing</u> | | | |
| Low Rent Public Housing | 14.850 | \$ 338,478 | \$ 308,264 |
| Public Housing Capital Fund Program | 14.872 | 326,300 | 66,608 |
| Total Awards | | \$ 664,778 | \$ 374,872 |

NOTE 21 - CONTINGENCIES

Litigation – At December 31, 2012, the Authority was not involved in any threatening litigation.

Grants Disallowances – The Authority participates in federally assisted grant programs. The programs are subject to compliance audits under the single audit approach. Such audits performed by the federal government could lead to adjustments for disallowed claims, including amounts already collected, and reimbursement by the Authority for expenditures disallowed under the terms of the grant. The Authority’s management believes that the amount of disallowances, if any, which may arise from future audits will not be material.

NOTE 22 - SUBSEQUENT EVENTS

Events that occur after the statement of net assets date but before the financial statements were available to be issued, must be evaluated for recognition or disclosed. The effects of subsequent events that provide evidence about conditions that existed after the statement of net assets date required disclosure in the accompanying notes. Management has evaluated the activity of the Authority thru April 24, 2013; the date which the financial statements were available for issue 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.

**HOUSING AUTHORITY OF THE BOROUGH OF HIGHTSTOWN
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2012**

Programs funded by the U.S. Department of Housing
and Urban Development: Subject to Annual Contribution Contract

| | CFDA# | Expenditures |
|-------------------------------------|--------|--------------|
| <u>PHA Owned Housing</u> | | |
| Low Rent Public Housing | 14.850 | \$ 338,478 |
| Public Housing Capital Fund Program | 14.872 | 326,300 |
| Total Awards | | \$ 664,778 |

Note 1. Presentation:

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Housing Authority of the Borough of Hightstown. The information in this schedule is presented in accordance with those requirements of OMB Circular A-133, Audits of State, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

Note 2. Summary of Significant Accounting Policies:

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, Cost Principles for Non-profit Organizations, wherein certain types of expenditures are not allowed or limited as to reimbursement.

Note 3. Loans Outstanding:

Housing Authority of the Borough of Hightstown had had no loans outstanding at December 31, 2012.

Note 4. Sub recipients:

Of the federal expenditures presented in the schedule above, The Housing Authority of the Borough of Hightstown did not provide federal awards to any sub recipients.

**HOUSING AUTHORITY OF THE BOROUGH OF HIGHTSTOWN
BUDGETARY COMPARISON SCHEDULE - LIH PROGRAM
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2012**

| | Actual Results | Budget Approved Amount | Variance to Budget Positive (Negative) |
|--|------------------|------------------------------|--|
| Revenue: | | | |
| Tenant Rental Revenue | \$ 549,355 | \$ 510,000 | \$ 39,355 |
| HUD PHA Operating Grants | 357,032 | 308,264 | 48,768 |
| Capital Grants | - | 13,482 | (13,482) |
| Other Revenue | 31,251 | 37,615 | (6,364) |
| Total Revenue | <u>937,638</u> | <u>869,361</u> | <u>68,277</u> |
| Operating Expenses: | | | |
| Administration: | | | |
| Administrative Salaries | 170,951 | 160,650 | (10,301) |
| Audit Fee's | 6,800 | 7,200 | 400 |
| Compensated Absences | - | - | - |
| Other Operating Administrative Expenses | 75,738 | 79,290 | 3,552 |
| Total Administrative Expenses | <u>253,489</u> | <u>247,140</u> | <u>(6,349)</u> |
| Tenant Services: | | | |
| Tenant Services Other | 6,388 | 10,000 | 3,612 |
| Total Tenant Services | <u>6,388</u> | <u>10,000</u> | <u>3,612</u> |
| Utilities: | | | |
| Water | 66,899 | 80,000 | 13,101 |
| Electricity | 87,931 | 102,990 | 15,059 |
| Gas | 65,012 | 73,530 | 8,518 |
| Labor | 16,750 | 17,021 | 271 |
| Total Utilities | <u>236,592</u> | <u>273,541</u> | <u>36,949</u> |
| Maintenance: | | | |
| Maintenance Labor | 49,832 | 51,064 | 1,232 |
| Materials | 22,833 | 31,800 | 8,967 |
| Maintenance Contract Cost | 78,120 | 74,000 | (4,120) |
| Total Maintenance | <u>150,785</u> | <u>156,864</u> | <u>6,079</u> |
| Other Operating Expenses: | | | |
| Employee Benefit Contributions | 111,830 | 95,030 | (16,800) |
| Insurance | 38,121 | 40,000 | 1,879 |
| Payment in Lieu of Taxes | 30,380 | 24,186 | (6,194) |
| Bad Debt | - | 3,500 | 3,500 |
| Total Other Operating Expenses | <u>180,331</u> | <u>162,716</u> | <u>(17,615)</u> |
| Total Operating Expenses | <u>827,585</u> | <u>850,261</u> | <u>22,676</u> |
| Excess Revenue Over Expenses From Operations | <u>110,053</u> | <u>19,100</u> | <u>90,953</u> |
| Other Income and (Expenses): | | | |
| Investment Income - Unrestricted | 9,045 | 7,600 | 1,445 |
| Extraordinary Maintenance | (25,972) | - | - |
| Total Other Income and (Expenses) | <u>(16,927)</u> | <u>7,600</u> | <u>1,445</u> |
| Excess Revenue over Expenses | <u>\$ 93,126</u> | <u>\$ 26,700</u> | <u>\$ 92,398</u> |

See accompanying notes to the financial statements.

Hightstown Housing Authority (NJ045)

HIGHTSTOWN, NJ

Entity Wide Balance Sheet Summary

Submission Type: Audited/A-133

Fiscal Year End: 12/31/2012

| | Project Total | Subtotal | Total |
|---|---------------|--------------|--------------|
| 111 Cash - Unrestricted | \$553,895 | \$553,895 | \$553,895 |
| 112 Cash - Restricted - Modernization and Development | | | |
| 113 Cash - Other Restricted | | | |
| 114 Cash - Tenant Security Deposits | \$35,636 | \$35,636 | \$35,636 |
| 115 Cash - Restricted for Payment of Current Liabilities | | | |
| 100 Total Cash | \$589,531 | \$589,531 | \$589,531 |
| 121 Accounts Receivable - PHA Projects | | | |
| 122 Accounts Receivable - HUD Other Projects | | | |
| 124 Accounts Receivable - Other Government | | | |
| 125 Accounts Receivable - Miscellaneous | \$908 | \$908 | \$908 |
| 126 Accounts Receivable - Tenants | \$2,303 | \$2,303 | \$2,303 |
| 126.1 Allowance for Doubtful Accounts - Tenants | -\$2,013 | -\$2,013 | -\$2,013 |
| 126.2 Allowance for Doubtful Accounts - Other | \$0 | \$0 | \$0 |
| 127 Notes, Loans, & Mortgages Receivable - Current | | | |
| 128 Fraud Recovery | | | |
| 128.1 Allowance for Doubtful Accounts - Fraud | | | |
| 129 Accrued Interest Receivable | | | |
| 120 Total Receivables, Net of Allowances for Doubtful | \$1,198 | \$1,198 | \$1,198 |
| 131 Investments - Unrestricted | | | |
| 132 Investments - Restricted | | | |
| 135 Investments - Restricted for Payment of Current Liability | | | |
| 142 Prepaid Expenses and Other Assets | \$19,293 | \$19,293 | \$19,293 |
| 143 Inventories | | | |
| 143.1 Allowance for Obsolete Inventories | | | |
| 144 Inter Program Due From | | | |
| 145 Assets Held for Sale | | | |
| 150 Total Current Assets | \$610,022 | \$610,022 | \$610,022 |
| 161 Land | \$336,630 | \$336,630 | \$336,630 |
| 162 Buildings | \$6,596,841 | \$6,596,841 | \$6,596,841 |
| 163 Furniture, Equipment & Machinery - Dwellings | \$69,020 | \$69,020 | \$69,020 |
| 164 Furniture, Equipment & Machinery - Administration | \$152,380 | \$152,380 | \$152,380 |
| 165 Leasehold Improvements | | | |
| 166 Accumulated Depreciation | -\$5,399,728 | -\$5,399,728 | -\$5,399,728 |
| 167 Construction in Progress | \$400,440 | \$400,440 | \$400,440 |
| 168 Infrastructure | | | |
| 160 Total Capital Assets, Net of Accumulated Depreciation | \$2,155,583 | \$2,155,583 | \$2,155,583 |
| 171 Notes, Loans and Mortgages Receivable - Non-Current | | | |
| 172 Notes, Loans, & Mortgages Receivable - Non Current - | | | |
| 173 Grants Receivable - Non Current | | | |
| 174 Other Assets | | | |
| 176 Investments in Joint Ventures | | | |
| 180 Total Non-Current Assets | \$2,155,583 | \$2,155,583 | \$2,155,583 |
| 190 Total Assets | \$2,765,605 | \$2,765,605 | \$2,765,605 |
| 311 Bank Overdraft | | | |
| 312 Accounts Payable <= 90 Days | \$6,800 | \$6,800 | \$6,800 |
| 313 Accounts Payable >90 Days Past Due | | | |
| 321 Accrued Wage/Payroll Taxes Payable | \$153 | \$153 | \$153 |
| 322 Accrued Compensated Absences - Current Portion | \$1,503 | \$1,503 | \$1,503 |

See accompanying notes to the financial statements

Entity Wide Balance Sheet Summary

Submission Type: Audited/A-133

Fiscal Year End: 12/31/2012

| | Project Total | Subtotal | Total |
|---|---------------|-------------|-------------|
| 324 Accrued Contingency Liability | | | |
| 325 Accrued Interest Payable | | | |
| 331 Accounts Payable - HUD PHA Programs | | | |
| 332 Account Payable - PHA Projects | | | |
| 333 Accounts Payable - Other Government | \$30,381 | \$30,381 | \$30,381 |
| 341 Tenant Security Deposits | \$35,636 | \$35,636 | \$35,636 |
| 342 Deferred Revenues | \$2,432 | \$2,432 | \$2,432 |
| 343 Current Portion of Long-term Debt - Capital | | | |
| 344 Current Portion of Long-term Debt - Operating | | | |
| 345 Other Current Liabilities | | | |
| 346 Accrued Liabilities - Other | | | |
| 347 Inter Program - Due To | | | |
| 348 Loan Liability - Current | | | |
| 310 Total Current Liabilities | \$76,905 | \$76,905 | \$76,905 |
| 351 Long-term Debt, Net of Current - Capital | | | |
| 352 Long-term Debt, Net of Current - Operating Borrowings | | | |
| 353 Non-current Liabilities - Other | | | |
| 354 Accrued Compensated Absences - Non Current | \$13,529 | \$13,529 | \$13,529 |
| 355 Loan Liability - Non Current | | | |
| 356 FASB 5 Liabilities | | | |
| 357 Accrued Pension and OPEB Liabilities | \$27,045 | \$27,045 | \$27,045 |
| 350 Total Non-Current Liabilities | \$40,574 | \$40,574 | \$40,574 |
| 300 Total Liabilities | \$117,479 | \$117,479 | \$117,479 |
| 508.1 Invested in Capital Assets, Net of Related Debt | \$2,155,583 | \$2,155,583 | \$2,155,583 |
| 511.1 Restricted Net Assets | \$0 | \$0 | \$0 |
| 512.1 Unrestricted Net Assets | \$492,543 | \$492,543 | \$492,543 |
| 513 Total Equity/Net Assets | \$2,648,126 | \$2,648,126 | \$2,648,126 |
| 600 Total Liabilities and Equity/Net Assets | \$2,765,605 | \$2,765,605 | \$2,765,605 |

Hightstown Housing Authority (NJ045)
HIGHTSTOWN, NJ

Entity Wide Revenue and Expense Summary

Submission Type: Audited/A-133

Fiscal Year End: 12/31/2012

| | Project Total | Subtotal | Total |
|---|---------------|-------------|-------------|
| 70300 Net Tenant Rental Revenue | \$542,799 | \$542,799 | \$542,799 |
| 70400 Tenant Revenue - Other | \$6,556 | \$6,556 | \$6,556 |
| 70500 Total Tenant Revenue | \$549,355 | \$549,355 | \$549,355 |
| 70600 HUD PHA Operating Grants | \$357,032 | \$357,032 | \$357,032 |
| 70610 Capital Grants | \$307,746 | \$307,746 | \$307,746 |
| 70710 Management Fee | | | |
| 70720 Asset Management Fee | | | |
| 70730 Book Keeping Fee | | | |
| 70740 Front Line Service Fee | | | |
| 70750 Other Fees | | | |
| 70700 Total Fee Revenue | | | |
| 70800 Other Government Grants | | | |
| 71100 Investment Income - Unrestricted | \$9,045 | \$9,045 | \$9,045 |
| 71200 Mortgage Interest Income | | | |
| 71300 Proceeds from Disposition of Assets Held for Sale | | | |
| 71310 Cost of Sale of Assets | | | |
| 71400 Fraud Recovery | | | |
| 71500 Other Revenue | \$31,251 | \$31,251 | \$31,251 |
| 71600 Gain or Loss on Sale of Capital Assets | | | |
| 72000 Investment Income - Restricted | | | |
| 70000 Total Revenue | \$1,254,429 | \$1,254,429 | \$1,254,429 |
| 91100 Administrative Salaries | \$170,951 | \$170,951 | \$170,951 |
| 91200 Auditing Fees | \$6,800 | \$6,800 | \$6,800 |
| 91300 Management Fee | | | |
| 91310 Book-keeping Fee | | | |
| 91400 Advertising and Marketing | | | |
| 91500 Employee Benefit contributions - Administrative | \$79,288 | \$79,288 | \$79,288 |
| 91600 Office Expenses | \$29,536 | \$29,536 | \$29,536 |
| 91700 Legal Expense | \$8,004 | \$8,004 | \$8,004 |
| 91800 Travel | \$2,310 | \$2,310 | \$2,310 |
| 91810 Allocated Overhead | | | |
| 91900 Other | \$35,888 | \$35,888 | \$35,888 |
| 91000 Total Operating - Administrative | \$332,777 | \$332,777 | \$332,777 |
| 92000 Asset Management Fee | | | |
| 92100 Tenant Services - Salaries | | | |
| 92200 Relocation Costs | | | |
| 92300 Employee Benefit Contributions - Tenant Services | | | |
| 92400 Tenant Services - Other | \$6,388 | \$6,388 | \$6,388 |
| 92500 Total Tenant Services | \$6,388 | \$6,388 | \$6,388 |
| 93100 Water | \$66,899 | \$66,899 | \$66,899 |
| 93200 Electricity | \$87,931 | \$87,931 | \$87,931 |
| 93300 Gas | \$65,012 | \$65,012 | \$65,012 |
| 93400 Fuel | | | |
| 93500 Labor | \$16,750 | \$16,750 | \$16,750 |
| 93600 Sewer | | | |
| 93700 Employee Benefit Contributions - Utilities | \$7,593 | \$7,593 | \$7,593 |
| 93800 Other Utilities Expense | | | |
| 93000 Total Utilities | \$244,185 | \$244,185 | \$244,185 |

Hightstown Housing Authority (NJ045)
HIGHTSTOWN, NJ

Entity Wide Revenue and Expense Summary

Submission Type: Audited/A-133

Fiscal Year End: 12/31/2012

| | Project Total | Subtotal | Total |
|--|---------------|-------------|-------------|
| 94100 Ordinary Maintenance and Operations - Labor | \$49,832 | \$49,832 | \$49,832 |
| 94200 Ordinary Maintenance and Operations - Materials and | \$22,833 | \$22,833 | \$22,833 |
| 94300 Ordinary Maintenance and Operations Contracts | \$78,120 | \$78,120 | \$78,120 |
| 94500 Employee Benefit Contributions - Ordinary | \$24,949 | \$24,949 | \$24,949 |
| 94000 Total Maintenance | \$175,734 | \$175,734 | \$175,734 |
| 95100 Protective Services - Labor | | | |
| 95200 Protective Services - Other Contract Costs | | | |
| 95300 Protective Services - Other | | | |
| 95500 Employee Benefit Contributions - Protective Services | | | |
| 95000 Total Protective Services | \$0 | \$0 | \$0 |
| 96110 Property Insurance | \$17,126 | \$17,126 | \$17,126 |
| 96120 Liability Insurance | \$7,531 | \$7,531 | \$7,531 |
| 96130 Workmen's Compensation | \$11,653 | \$11,653 | \$11,653 |
| 96140 All Other Insurance | \$1,811 | \$1,811 | \$1,811 |
| 96100 Total insurance Premiums | \$38,121 | \$38,121 | \$38,121 |
| 96200 Other General Expenses | | | |
| 96210 Compensated Absences | | | |
| 96300 Payments in Lieu of Taxes | \$30,380 | \$30,380 | \$30,380 |
| 96400 Bad debt - Tenant Rents | | | |
| 96500 Bad debt - Mortgages | | | |
| 96600 Bad debt - Other | | | |
| 96800 Severance Expense | | | |
| 96000 Total Other General Expenses | \$30,380 | \$30,380 | \$30,380 |
| 96710 Interest of Mortgage (or Bonds) Payable | | | |
| 96720 Interest on Notes Payable (Short and Long Term) | | | |
| 96730 Amortization of Bond Issue Costs | | | |
| 96700 Total Interest Expense and Amortization Cost | \$0 | \$0 | \$0 |
| 96900 Total Operating Expenses | \$827,585 | \$827,585 | \$827,585 |
| 97000 Excess of Operating Revenue over Operating | \$426,844 | \$426,844 | \$426,844 |
| 97100 Extraordinary Maintenance | \$25,972 | \$25,972 | \$25,972 |
| 97200 Casualty Losses - Non-capitalized | | | |
| 97300 Housing Assistance Payments | | | |
| 97350 HAP Portability-In | | | |
| 97400 Depreciation Expense | \$195,558 | \$195,558 | \$195,558 |
| 97500 Fraud Losses | | | |
| 97600 Capital Outlays - Governmental Funds | | | |
| 97700 Debt Principal Payment - Governmental Funds | | | |
| 97800 Dwelling Units Rent Expense | | | |
| 90000 Total Expenses | \$1,049,115 | \$1,049,115 | \$1,049,115 |
| 10010 Operating Transfer In | | | |
| 10020 Operating transfer Out | | | |
| 10030 Operating Transfers from/to Primary Government | | | |
| 10040 Operating Transfers from/to Component Unit | | | |
| 10050 Proceeds from Notes, Loans and Bonds | | | |
| 10060 Proceeds from Property Sales | | | |
| 10070 Extraordinary Items, Net Gain/Loss | | | |

Hightstown Housing Authority (NJ045)
HIGHTSTOWN, NJ

Entity Wide Revenue and Expense Summary

Submission Type: Audited/A-133

Fiscal Year End: 12/31/2012

| | Project Total | Subtotal | Total |
|--|---------------|-------------|-------------|
| 10080 Special Items (Net Gain/Loss) | | | |
| 10091 Inter Project Excess Cash Transfer In | | | |
| 10092 Inter Project Excess Cash Transfer Out | | | |
| 10093 Transfers between Program and Project - In | | | |
| 10094 Transfers between Project and Program - Out | | | |
| 10100 Total Other financing Sources (Uses) | \$0 | \$0 | \$0 |
| 10000 Excess (Deficiency) of Total Revenue Over (Under) | \$205,314 | \$205,314 | \$205,314 |
| 11020 Required Annual Debt Principal Payments | \$0 | \$0 | \$0 |
| 11030 Beginning Equity | \$2,442,812 | \$2,442,812 | \$2,442,812 |
| 11040 Prior Period Adjustments, Equity Transfers and | \$0 | \$0 | \$0 |
| 11050 Changes in Compensated Absence Balance | | | |
| 11060 Changes in Contingent Liability Balance | | | |
| 11070 Changes in Unrecognized Pension Transition Liability | | | |
| 11080 Changes in Special Term/Severance Benefits Liability | | | |
| 11090 Changes in Allowance for Doubtful Accounts - | | | |
| 11100 Changes in Allowance for Doubtful Accounts - Other | | | |
| 11170 Administrative Fee Equity | | | |
| 11180 Housing Assistance Payments Equity | | | |
| 11190 Unit Months Available | 1200 | 1200 | 1200 |
| 11210 Number of Unit Months Leased | 1194 | 1194 | 1194 |
| 11270 Excess Cash | \$446,405 | \$446,405 | \$446,405 |
| 11610 Land Purchases | \$0 | \$0 | \$0 |
| 11620 Building Purchases | \$285,562 | \$285,562 | \$285,562 |
| 11630 Furniture & Equipment - Dwelling Purchases | \$13,499 | \$13,499 | \$13,499 |
| 11640 Furniture & Equipment - Administrative Purchases | \$0 | \$0 | \$0 |
| 11650 Leasehold Improvements Purchases | \$8,585 | \$8,585 | \$8,585 |
| 11660 Infrastructure Purchases | \$0 | \$0 | \$0 |
| 13510 CFFP Debt Service Payments | \$0 | \$0 | \$0 |
| 13901 Replacement Housing Factor Funds | \$0 | \$0 | \$0 |

**HOUSING AUTHORITY OF THE BOROUGH OF HIGHTSTOWN
STATEMENT AND CERTIFICATION OF
ACTUAL CAPITAL FUND GRANT COST
AS OF DECEMBER 31, 2012**

| | NJ39PO45501-09 | | |
|--------------------------|--------------------|----------------|---------|
| | Approved Budget | Actual Cost | Overrun |
| Site Improvement | \$ 954.00 | \$ 953.94 | |
| Dwelling Structures | 95,126.00 | 95,126.00 | |
| Dwelling Equipment | 3,245.00 | 3,245.00 | |
| Fees and Costs | 5,000.00 | 5,000.00 | |
| Administration | 13,473.00 | 13,473.00 | |
| Management Improvements | 3,462.00 | 3,462.00 | |
| Operations | 13,473.00 | 13,473.00 | |
| Total | \$ 134,733 | \$ 134,733 | \$ - |
| Funds Advanced | \$ 134,733 | | |
| Funds Expended | 134,733 | | |
| Excess of Funds Advanced | \$ - | | |

1. The distribution of cost by project and account classification accompanying the Actual Capital Fund Cost Certificates submitted to HUD for approval were in agreement with the Authority's records.
2. All Capital Fund cost have been paid and all related liabilities have been discharged through payment.
3. The Capital Fund Program 501-09 was completed on February 17, 2012
4. There were no budget overruns noted.

See accompanying notes to the financial statements.

**HOUSING AUTHORITY OF THE BOROUGH OF HIGHTSTOWN
STATEMENT AND CERTIFICATION OF
ACTUAL CAPITAL FUND GRANT COST
AS OF DECEMBER 31, 2012**

| | NJ39PO45501-10 | | |
|--------------------------|--------------------|----------------|---------|
| | Approved Budget | Actual Cost | Overrun |
| Site Improvement | \$ 46,050.00 | \$ 46,050.00 | |
| Dwelling Structures | 47,802.00 | 47,802.00 | |
| Dwelling Equipment | 10,273.00 | 10,273.00 | |
| Fees and Costs | 10,500.00 | 10,500.00 | |
| Administration | 13,428.66 | 13,429.00 | |
| Management Improvements | 6,226.34 | 6,226.00 | |
| Operations | - | - | |
| Total | \$ 134,280 | \$ 134,280 | \$ - |
| Funds Advanced | \$ 134,280 | | |
| Funds Expended | 134,280 | | |
| Excess of Funds Advanced | \$ - | | |

1. The distribution of cost by project and account classification accompanying the Actual Capital Fund Cost Certificates submitted to HUD for approval were in agreement with the Authority's records.
2. All Capital Fund cost have been paid and all related liabilities have been discharged through payment.
3. The Capital Fund Program 501-10 was completed on February 1, 2013
4. There were no budget overruns noted.

See accompanying notes to the financial statements.

**HOUSING AUTHORITY OF THE BOROUGH OF HIGHTSTOWN
STATEMENT AND CERTIFICATION OF
ACTUAL CAPITAL FUND GRANT COST
AS OF DECEMBER 31, 2012**

| | NJ39PO45501-11 | | |
|--------------------------|--------------------|----------------|---------|
| | Approved Budget | Actual Cost | Overrun |
| Site Improvement | \$ - | \$ - | |
| Dwelling Structures | 89,866.00 | 89,866.00 | |
| Dwelling Equipment | 5,000.00 | 5,000.00 | |
| Fees and Costs | 2,500.00 | 2,500.00 | |
| Administration | 11,000.00 | 11,000.00 | |
| Management Improvements | 2,500.00 | 2,500.00 | |
| Operations | - | - | |
| Total | \$ 110,866 | \$ 110,866 | \$ - |
| Funds Advanced | \$ 110,866 | | |
| Funds Expended | 110,866 | | |
| Excess of Funds Advanced | \$ - | | |

1. The distribution of cost by project and account classification accompanying the Actual Capital Fund Cost Certificates submitted to HUD for approval were in agreement with the Authority's records.
2. All Capital Fund cost have been paid and all related liabilities have been discharged through payment.
3. The Capital Fund Program 501-11 was completed on February 27, 2013
4. There were no budget overruns noted.

See accompanying notes to the financial statements.



Hymanson, Parnes & Giampaolo
Certified Public Accountants

tele: 732-842-4550
fax: 732-842-4551

467 Middletown-Lincroft Rd.
Lincroft, NJ 07738

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 GOVERNMENTAL AUDITING STANDARDS

Board of Commissioners
Housing Authority of the Borough of Hightstown
131 Rogers Avenue
Hightstown, New Jersey 08520

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, the financial statements of Housing Authority of the Borough of Hightstown (hereafter referred to as the Authority), which comprise the statement of financial positions as of December 31, 2012, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 24, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Housing Authority of the Borough of Hightstown's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Authority'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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Housing Authority of the Borough of Hightstown's financial statements are free of 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 Housing Authority of the Borough of Hightstown'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 Housing Authority of the Borough of Hightstown's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Hymanson, Parnes & Giampaolo

Lincroft, New Jersey

Date: April 24, 2013



Hymanson, Parnes & Giampaolo
Certified Public Accountants

tele: 732-842-4550
fax: 732-842-4551

467 Middletown-Lincroft Rd.
Lincroft, NJ 07738

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Commissioners
Housing Authority of the Borough of Hightstown
131 Rogers Avenue
Hightstown, New Jersey 08520

Report on Compliance

We have audited Housing Authority of the Borough of Hightstown's (hereafter referred to as the Authority), compliance with the types of compliance requirements described in *OMB Circular A-133 Compliance Supplement* applicable to Authority's major federal programs identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs .

Management's Responsibility for Compliance

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for Housing Authority of the Borough of Hightstown's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a direct and material effect on the major federal programs occurred. An audit includes examining, on a test basis, evidence about Housing Authority of the Borough of Hightstown's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, Housing Authority of the Borough of Hightstown complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012.

Report on Internal Control Over Compliance

Management of Housing Authority of the Borough of Hightstown is responsible for establishing and maintaining effective internal control over compliance with the type of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstance for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

A deficiency in internal control over compliance 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, noncompliance with a type of compliance requirement of a federal program on a timely basis.

A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A- 133. Accordingly, this report is not suitable for any other purpose.

Hymanson, Parnes & Giampaolo

Lincroft, New Jersey

Date: April 24, 2013

HOUSING AUTHORITY OF THE BOROUGH OF HIGHTSTOWN

Schedule of Findings and Questioned Cost

Year Ended December 31, 2012

Prior Audit Findings

None reported

Summary of Auditor's Results

1. The auditor's report expresses an unmodified opinion on the financial statement of the Housing Authority of the Borough of Hightstown.
2. No significant deficiencies relating to the audit of the financial statements are reported in the REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENTAL AUDITING STANDARDS.
3. No instances of noncompliance material to the financial statements of the Housing Authority of the Borough of Hightstown were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal award programs are reported in the INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH *OMB CIRCULAR A-133*.
5. No Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 in this Schedule.
6. No Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 in this Schedule.
7. The program tested as major program was the Low Rent Public Housing Program, CFDA#14.850 with expenditures of \$338,478
8. The threshold used for distinguishing between Type A and B programs was \$300,000.
9. The Housing Authority of the Borough of Hightstown qualified as a low risk auditee.

FINDINGS – FINANCIAL STATEMENT AUDIT

None reported

**FINDINGS AND QUESTIONED COST – MAJOR FEDERAL AWARD PROGRAM
AUDIT**

None reported

| PROCEDURE | UFRS RULE INFORMATION | HARD COPY DOCUMENTS | AGREES | DOES NOT AGREE |
|-----------|--|--|----------------------------------|-----------------------|
| 1 | Balance Sheet and Revenue and Expense (data line items 111 to 1121) | Financial Data Schedule,all CFDA's | <input checked="" type="radio"/> | <input type="radio"/> |
| 2 | Footnotes (data element G5000-010) | Footnotes to audited basic financial statements | <input checked="" type="radio"/> | <input type="radio"/> |
| 3 | Type of opinion on FDS (data element G5100-010) | Auditor's supplemental report on FDS | <input checked="" type="radio"/> | <input type="radio"/> |
| 4 | Audit findings narrative (data element G5200-010) | Schedule of Findings and Questioned costs | <input checked="" type="radio"/> | <input type="radio"/> |
| 5 | General information (data element series G2000,G2100,G2200,G2300,G9000,G9100) | OMB Data Collection Form* | <input checked="" type="radio"/> | <input type="radio"/> |
| 6 | Financial statement report information (data element G3000-010 to G3000-050, G3100-010 to G3100-030, G3200-010 to G3200-030, G3300-010 to G3300-060, G3400-010 to G3400-020) | Schedule of Findings and Questioned costs,Part 1 and OMB Data Collection Form* | <input checked="" type="radio"/> | <input type="radio"/> |
| 7 | Federal program report information (data element G4000-010 to G4000-040) | Schedule of Findings and Questioned costs,Part 1 and OMB Data Collection Form* | <input checked="" type="radio"/> | <input type="radio"/> |
| 8 | Federal agencies required to receive reporting package (data element G4000-050) | OMB Data Collection Form* | <input checked="" type="radio"/> | <input type="radio"/> |
| 9 | Basic financial statements and auditor's reports required to be submitted electronically | Basic financial statements (inclusive of auditor reports) | <input checked="" type="radio"/> | <input type="radio"/> |

| | |
|---------------------------------------|--|
| <u>Firm Name</u> | Hymanson Parnes & Giampaolo |
| <u>Employer Identification Number</u> | 22-3554220 |
| <u>Date</u> | April 24, 2013 |
| <u>UII#</u> | #66170 |
| <u>Contact First Name</u> | Anthony |
| <u>Contact Middle Initial</u> | J. |
| <u>Contact Last Name</u> | Giampaolo, C.P.A |
| <u>Street Address Line 1</u> | 467 Middletown-Lincroft Rd. |
| <u>Street Address Line 2</u> | |
| <u>County</u> | Lincroft |
| <u>State</u> | New Jersey |
| <u>Zip Code</u> | 07738 |
| <u>Telephone</u> | 732-842-4550 |