

HOUSING AUTHORITY OF THE CITY OF PASSAIC

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEAR ENDED DECEMBER 31, 2016

**WITH
REPORT OF INDEPENDENT AUDITORS**

**HOUSING AUTHORITY OF THE CITY OF PASSAIC
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FOR THE YEAR ENDED DECEMBER 31, 2016**

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REPORT OF INDEPENDENT AUDITORS

To the Board of Commissioners
Housing Authority of the City of Passaic:

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities (primary government) and the discretely presented component unit of the Housing Authority of the City of Passaic ("the Authority") as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Authority's financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and audit requirements as prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities (primary government) and the discretely presented component unit of the Housing Authority of the City of Passaic as of December 31, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the 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 generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's financial statements. The schedule of expenditures of federal awards is presented for the purpose of additional analysis as required by Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and is not a required part of the financial statements. The accompanying financial data schedule is also not a required part of the financial statements and is presented for the purposes of additional analysis as required by the U.S. Department of Housing and Urban Development.

The schedule of expenditures of federal awards and financial data schedule are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such 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 schedule of expenditures of federal awards and financial data schedule are fairly stated, in all material respects, in relation to the financial statements as a whole.

MANAGEMENT'S DISCUSSION AND ANALYSIS

**HOUSING AUTHORITY OF THE CITY OF PASSAIC
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2016**

As Management of the Authority, we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal year ended December 31, 2016. The following discussion and analysis provides an overview of the primary government's financial activities. We encourage readers to consider the information presented here in conjunction with the Authority's financial statements as presented elsewhere in this Report.

A – Financial Highlights

- 1 - As part of the Authority's Rental Assistance Demonstration ("RAD") program, the Authority sold three (3) buildings and existing improvements, totaling one hundred thirty (130) units to Passaic Senior Housing, LLC. As part of the sale, the Authority took back three (3) mortgages totaling \$8,280,505. The mortgages are non-amortizing, accrue interest at a rate of 3.15% per annum and become due on January 1, 2056. The sale resulted in a gain of \$6,817,307 for the Authority.
- 2 - The Authority also entered into a fifty-five (55) year land lease with Passaic Senior Housing LLC which expires on January 21, 2071. Annual rent equals \$30,000, to be increased 3% per annum.
- 3 - The assets of the Authority exceeded its liabilities at the close of the most recent fiscal year by \$18,798,149 (net position) as opposed to \$11,551,627 for the prior fiscal year. The increase is primarily due to the sale of three buildings and improvements with a net book value of \$1,463,198 for \$8,280,505, resulting in a \$6,817,307 gain.
- 4 - As of the close of the current fiscal year, the Authority's Proprietary Fund reported ending Unrestricted Net Position of \$562,764.
- 5 - The Authority's cash and cash equivalent balance (excluding restricted cash) at December 31, 2016 was \$8,677,514 representing an increase of \$2,895,395 from the prior fiscal year.
- 6 - The Authority had Total Operating Revenues of \$24,688,294 and Total Operating Expenses of \$24,580,024 including \$1,258,500 for depreciation for the year ended December 31, 2016.
- 7 - The Authority's capital outlays for the fiscal year were \$448,827, of which \$300,828 was funded from the Authority's Capital Fund Program.
- 8 - The Authority's Expenditures of Federal Awards amounted to \$21,769,355 for the fiscal year.

B – Using the Annual Report

1 – Management's Discussion and Analysis

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

**HOUSING AUTHORITY OF THE CITY OF PASSAIC
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
DECEMBER 31, 2016**

B – Using the Annual Report (continued)

2 – Financial Statements

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

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

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

The Statement of Cash Flows presents relevant information about the Authority's cash receipts and cash payments during the year.

The financial statements report on the Authority's activities. The activities are primarily supported by HUD subsidies and grants. The Authority's function is to provide decent, safe and sanitary housing to low income and special needs populations. The financial statements can be found on pages 15 through 19.

3 – Notes to Financial Statements

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

4 – Supplemental Information

The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). The Schedule of Expenditures of Federal Awards can be found on page 44 of this report.

**HOUSING AUTHORITY OF THE CITY OF PASSAIC
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
DECEMBER 31, 2016**

C – Summary of Programs Administered

1 – Conventional Public Housing

Under the Conventional Public Housing Program, the Authority rents units that it owns to low-income households. The Conventional Public Housing Program is operated under an Annual Contributions Contract (ACC) with HUD, and HUD provides Operating Subsidy and Capital Grant funding to enable the PHA to provide the housing at a rent that is based upon 30% of household income. The Conventional Public Housing Program also includes the Capital Fund Program, which is the primary funding source for physical and management improvements to the Authority's properties.

2 – Housing Choice Voucher Program

Under the Housing Choice Voucher Program, the Authority administers contracts with independent landlords that own the property. The Authority subsidizes the family's rent through a Housing Assistance Payment made to the landlord. The program is administered under an Annual Contributions Contract (ACC) with HUD. HUD provides Annual Contributions Funding to enable the Authority to structure a lease that sets the participants' rent at 30% of household income.

3 – Rental Assistance Demonstration Program ("RAD")

The RAD program was created in order to give PHA's a powerful tool to preserve and improve public housing properties and address the backlog of deferred maintenance. RAD allows PHA's to leverage public and private debt and equity in order to reinvest in the public housing stock. In RAD, units move to a Section 8 platform with a long-term contract that, by law, must be renewed. Residents continue to pay 30% of their income towards rent and maintain the same basic rights as they possess in the public housing program.

D – The Authority (Primary Government) as a Whole

The Authority's Net Position increased during the fiscal year by \$7,246,522. 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.

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

**HOUSING AUTHORITY OF THE CITY OF PASSAIC
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
DECEMBER 31, 2016**

D – The Authority (Primary Government) as a Whole (continued)

A summary of the Authority's Statement of Net Position as of December 31, 2016 and 2015 is as follows:

	<u>12/31/2016</u>	<u>12/31/2015</u>	<u>Net Change</u>
<u>Net Position:</u>			
Cash & Other Current Assets	\$ 9,567,266	\$ 7,134,925	\$ 2,432,341
Other Assets	8,642,640	448,611	8,194,029
Capital Assets, Net	9,741,921	11,284,286	(1,542,365)
Deferred Outflows of Resources	<u>2,342,346</u>	<u>1,156,220</u>	<u>1,186,126</u>
 Total Assets and Deferred Outflows	 <u>\$ 30,294,173</u>	 <u>\$ 20,024,042</u>	 <u>\$ 10,270,131</u>
 Current Liabilities	 \$ 727,456	 \$ 895,263	 \$ (167,807)
Non-Current Liabilities	8,980,526	7,469,887	1,510,639
Deferred Inflows of Resources	<u>1,788,042</u>	<u>107,265</u>	<u>1,680,777</u>
 Total Liabilities and Deferred Inflows	 <u>\$ 11,496,024</u>	 <u>\$ 8,472,415</u>	 <u>\$ 3,023,609</u>
 Net Investment in Capital Assets	 \$ 9,741,921	 \$ 11,284,286	 \$ (1,542,365)
Restricted Net Position	8,493,464	117,848	8,375,616
Unrestricted Net Position	<u>562,764</u>	<u>149,493</u>	<u>413,271</u>
 Total Net Position	 <u>\$ 18,798,149</u>	 <u>\$ 11,551,627</u>	 <u>\$ 7,246,522</u>

**HOUSING AUTHORITY OF THE CITY OF PASSAIC
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
DECEMBER 31, 2016**

D – The Authority (Primary Government) as a Whole (continued)

A summary of the Authority's Statement of Revenues, Expenses and Changes in Net Position for the years ended December 31, 2016 and 2015 is as follows:

	For the years ended:		
	12/31/2016	12/31/2015	Net Change
Operating Revenues:			
Tenant Revenues	\$ 2,862,176	\$ 2,990,341	\$ (128,165)
HUD Grants	21,662,882	20,376,530	1,286,352
Other Revenues	163,236	143,424	19,812
Total Operating Revenues	24,688,294	23,510,295	1,177,999
Operating Expenses:			
Administrative	\$ 2,841,122	\$ 2,563,280	\$ 277,842
Tenant Services	245,548	298,633	(53,085)
Utilities	1,342,415	1,683,832	(341,417)
Ordinary Maintenance & Operations	1,775,780	1,945,138	(169,358)
Protective Services	375,025	418,870	(43,845)
Insurance & General Expenses	1,090,706	570,293	520,413
Housing Assistance Payments	15,650,928	15,420,235	230,693
Depreciation	1,258,500	1,291,451	(32,951)
Total Operating Expenses	24,580,024	24,191,732	388,292
Operating Income (Loss)	\$ 108,270	\$ (681,437)	\$ 789,707
Non-Operating Revenues (Expenses):			
Investment Income	20,117	12,255	7,862
Gain on Sale of Capital Assets	6,817,307	-	6,817,307
Capital Grants	300,828	752,292	(451,464)
Total Non-Operating Revenues	\$ 7,138,252	\$ 764,547	\$ 6,373,705
Change in Net Position	\$ 7,246,522	\$ 83,110	\$ 7,163,412
Net Position, Beginning of the Year	11,551,627	16,651,828	(5,100,201)
Change in Accounting Principle			
Adopt GASB 68	-	(5,183,311)	-
Net Position, End of the Year	\$ 18,798,149	\$ 11,551,627	\$ 7,246,522

**HOUSING AUTHORITY OF THE CITY OF PASSAIC
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
DECEMBER 31, 2016**

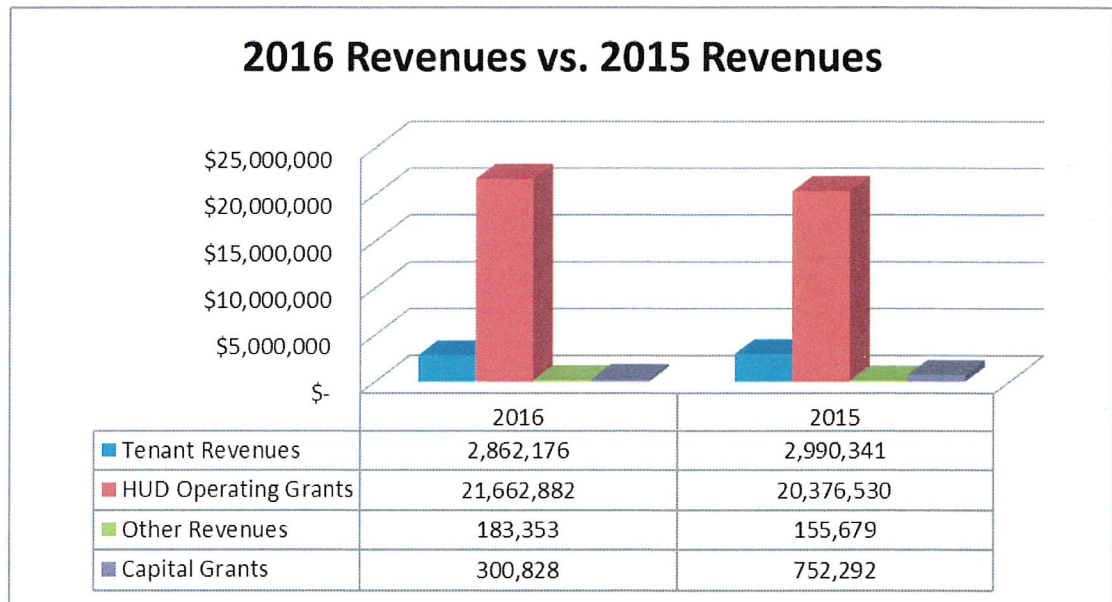
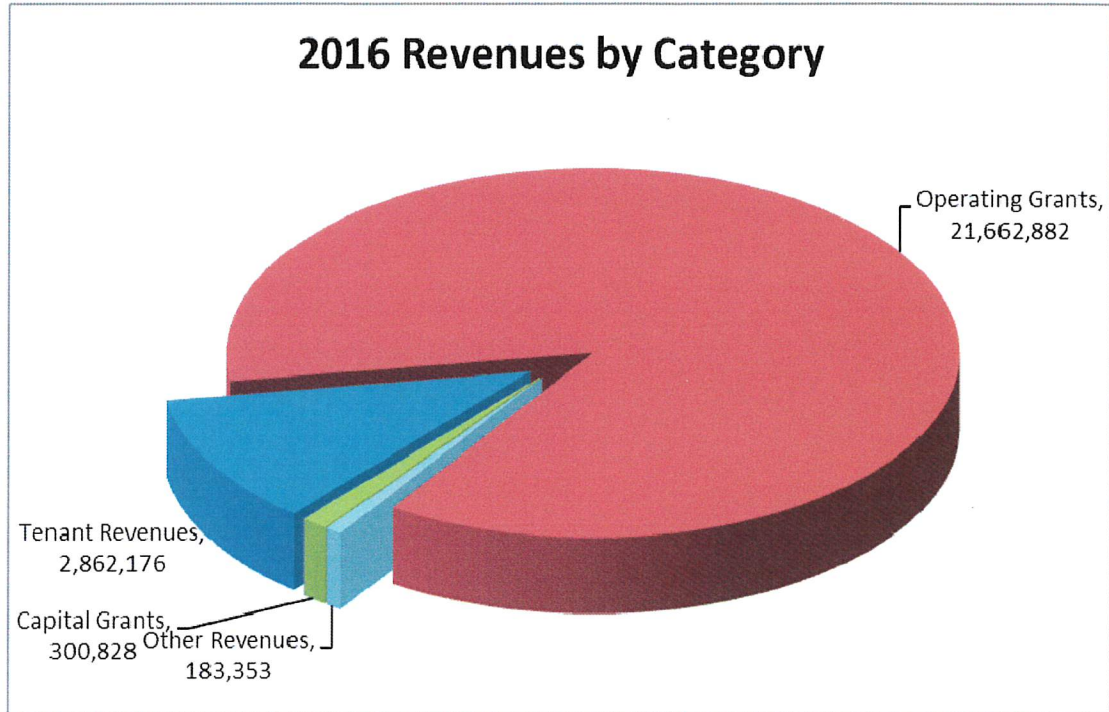
D – The Authority (Primary Government) as a Whole (continued)

	<u>12/31/2016</u>	<u>12/31/2015</u>	<u>Net Change</u>
<u>Assets:</u>			
Cash & Other Current Assets	\$ 9,567,266	\$ 7,134,925	\$ 2,432,341
Other Assets	8,642,640	448,611	8,194,029
Capital Assets, Net	<u>9,741,921</u>	<u>11,284,286</u>	<u>(1,542,365)</u>
Total Assests	<u>\$ 27,951,827</u>	<u>\$ 18,867,822</u>	<u>\$ 9,084,005</u>
<u>Liabilities:</u>			
Current Liabilities	\$ 727,456	\$ 895,263	\$ (167,807)
Non-Current Liabilities	<u>8,980,526</u>	<u>7,469,887</u>	<u>1,510,639</u>
Total Liabilities	<u>\$ 9,707,982</u>	<u>\$ 8,365,150</u>	<u>\$ 1,342,832</u>
<u>Net Position</u>			
Net Investment in Capital Assets	\$ 9,741,921	\$ 11,284,286	\$ (1,542,365)
Restricted Net Position	8,493,464	117,848	8,375,616
Unrestricted Net Position	<u>562,764</u>	<u>149,493</u>	<u>413,271</u>
Total Net Position	<u>\$ 18,798,149</u>	<u>\$ 11,551,627</u>	<u>\$ 7,246,522</u>
<u>Operating Revenues:</u>			
Tenant Revenues	\$ 2,862,176	\$ 2,990,341	\$ (128,165)
HUD Grants	21,662,882	20,376,530	1,286,352
Other Revenues	<u>163,236</u>	<u>143,424</u>	<u>19,812</u>
Total Operating Revenues	<u>\$ 24,688,294</u>	<u>\$ 23,510,295</u>	<u>\$ 1,177,999</u>

**HOUSING AUTHORITY OF THE CITY OF PASSAIC
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
DECEMBER 31, 2016**

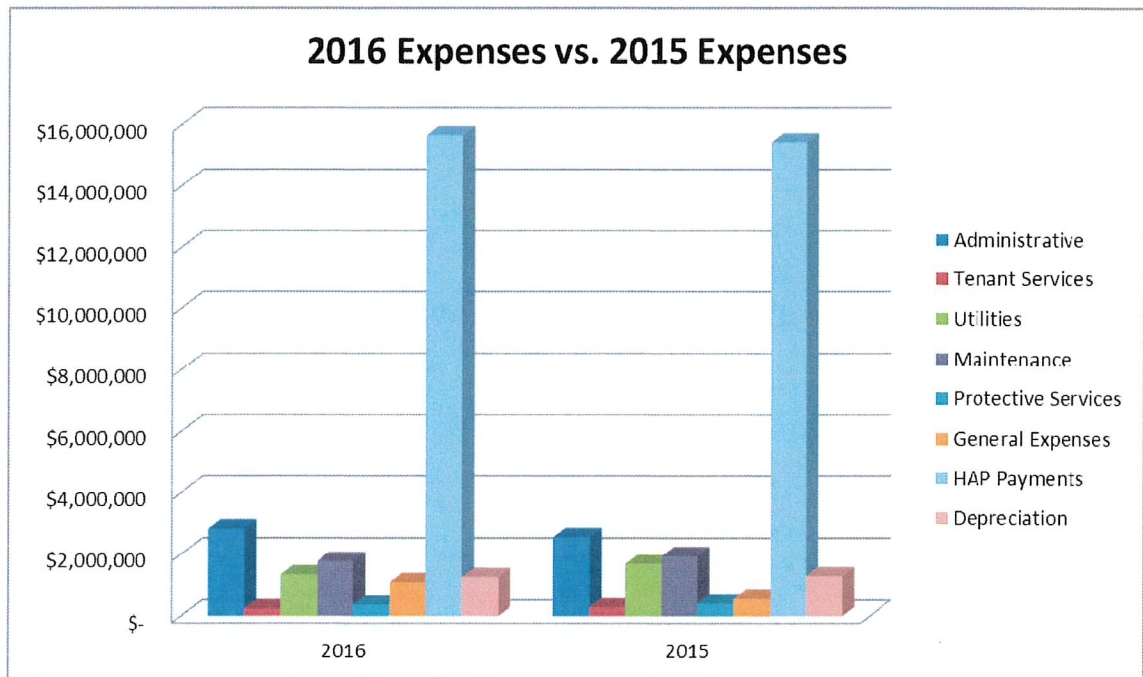
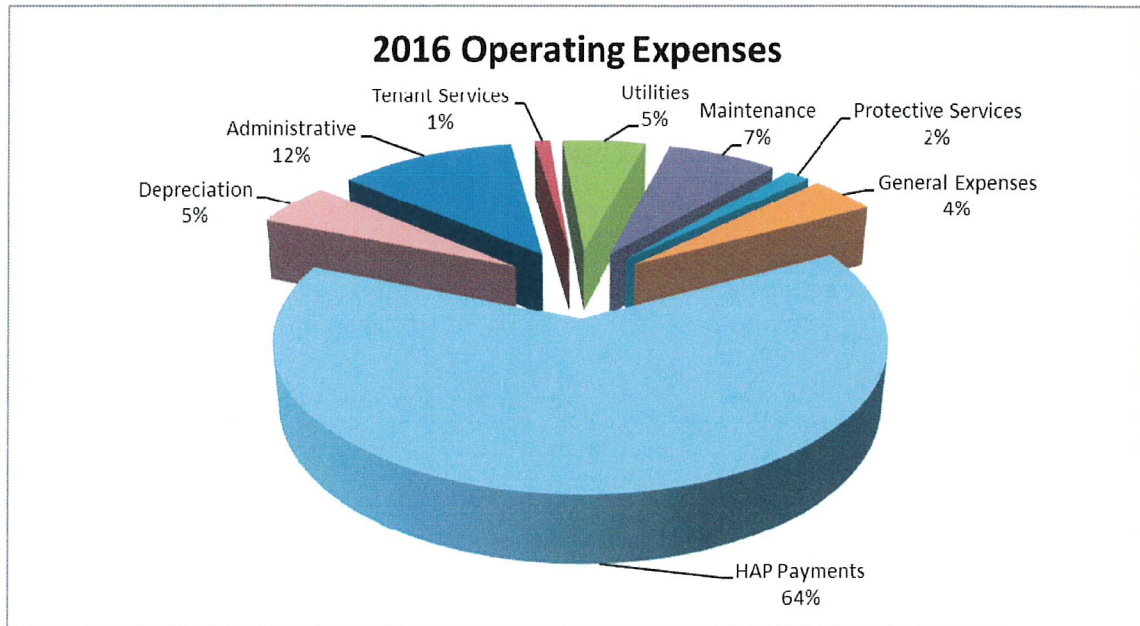
D – The Authority (Primary Government) as a Whole (continued)

The following charts illustrate the Authority's financial activity on the previous page.



**HOUSING AUTHORITY OF THE CITY OF PASSAIC
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
DECEMBER 31, 2016**

D – The Authority (Primary Government) as a Whole (continued)



**HOUSING AUTHORITY OF THE CITY OF PASSAIC
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
DECEMBER 31, 2016**

E – Budgetary Highlights

For the year ended December 31, 2016, individual program or grant budgets were prepared by the Authority and were approved by the Board of Commissioners. The budgets were primarily used as a management tool and have no legal stature. The budgets were prepared in accordance with the accounting procedures prescribed by the applicable funding agency.

Below is the Low Rent Public Housing Consolidated Budget to Actual Comparison.

	Budget	Actual	Net Change
<u>Operating Revenues:</u>			
Tenant Revenues	\$ 2,703,707	\$ 2,862,176	\$ (158,469)
HUD Grants	2,672,982	4,359,999	(1,687,017)
Other Revenues	104,417	118,116	(13,699)
Interest Income	1,309	2,397	(1,088)
Total Operating Revenues	\$ 5,482,415	\$ 7,342,688	\$ (1,860,273)
<u>Operating Expenses:</u>			
Administrative	\$ 1,139,563	\$ 1,548,588	\$ (409,025)
Tenant Services	255,077	245,548	9,529
Utilities	1,524,884	1,342,415	182,469
Ordinary Maintenance & Operations	1,698,340	1,775,780	(77,440)
Protective Services	369,345	361,657	7,688
Insurance & General Expenses	413,392	982,569	(569,177)
Total Operating Expenses	\$ 5,400,601	\$ 6,256,557	\$ (855,956)
Residual Receipts	\$ 81,814	\$ 1,086,131	\$ (1,004,317)

Note: Depreciation expense, capital grants and gain on disposition of assets are excluded for budgetary purposes.

F – Summary of Significant Changes from Fiscal Year December 31, 2015 to 2016:

- 1 – The Authority was required to adopt Government Accounting Standards Board Opinion (GASB) No. 68 which required that the Authority record its unfunded pension obligation as of January 1, 2015. As of December 31, 2016 and 2015, the adoption of GASB 68 resulted in a net pension liability of \$7,976,785 and \$5,347,496, deferred inflows of resources of \$320,911 and \$318,682 and deferred outflows of resources of \$2,342,346 and \$482,867, respectively.
- 2 – Cash and cash equivalents (including restricted cash) increased \$3,172,351 primarily as a result of the Authority generating \$3,846,298 from operating activities, and using \$148,000 from investing activities and \$525,947 from capital and related financing activities.
- 3 – Restricted cash increased \$62,969 as HUD overfunded the Authority in the Housing Choice Voucher program in the amount of \$95,111, which was offset by a reduction of \$32,142 in tenant security deposits.

**HOUSING AUTHORITY OF THE CITY OF PASSAIC
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
DECEMBER 31, 2016**

**F – Summary of Significant Changes from Fiscal Year December 31, 2015 to 2016
(continued):**

- 4 – Capital asset decreased \$1,542,365 as depreciation expense of \$1,258,500 and net dispositions of \$732,692 exceeded capital purchases of \$448,827
- 5 – The Authority's operating grants increased \$1,286,352 as follows:
 - Low Rent Public Housing Operating subsidies increased \$191,381
 - Housing Choice Voucher Subsidies increased \$382,868
 - Capital Fund Operating grants decreased \$782,103
 - R.O.S.S. Grant decreased \$70,000
- 6 – The decrease in tenant services costs of \$53,085 can be attributed to a decrease in salaries and employee benefits.
- 7 – The Authority's HAP payments increased \$230,693 from 2015 to 2016 primarily due to the Authority having 350 more unit months under lease.
- 8 – Insurance and general expenses increased \$520,413 as the Authority expensed certain one-time costs with the RAD conversion.

G – Capital Assets and Debt Administration

1 – Capital Assets

As of December 31, 2016, the Authority's investment in capital assets for its Proprietary Fund was \$9,741,921 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment and construction in progress.

Additional informational on the Authority's capital assets can be found in Note 6 to the Financial Statements which is included in this Report.

2 – Long Term Debt

As of December 31, 2016, the Authority has no interest bearing long-term debt. However, as discussed in note 14 of the financial statements, the Authority has entered into a repayment agreement with HUD. The original amount of that agreement was \$590,042.

Beginning in 2007, the Authority is to repay HUD in the amount of \$19,668 per annum through 2036. The amount is interest free and unsecured. As of December 31, 2016, \$393,361 remains payable.

**HOUSING AUTHORITY OF THE CITY OF PASSAIC
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
DECEMBER 31, 2016**

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

The following factors were considered in preparing the Authority's budget for the fiscal year ending December 31, 2017:

- 1 – The state of the economy, particularly, unemployment and current world affairs.
- 2 – The possible cut-back on HUD subsidies and grants by Congress.
- 3 – The continued increases of health insurance costs.

I – 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 Vincent Wynter, Director of Finance and Operations, Housing Authority of the City of Passaic, 52 Aspen Place, Passaic, NJ 07055

FINANCIAL STATEMENTS

**HOUSING AUTHORITY OF THE CITY OF PASSAIC
STATEMENT OF NET POSITION
AS OF DECEMBER 31, 2016**

ASSETS

	Primary Government	Discretely Presented Component Unit	Total Reporting Entity
Current assets:			
Cash and cash equivalents	\$ 8,677,514	\$ -	\$ 8,677,514
Tenant security deposits	181,845	32,142	213,987
Accounts receivable, net	451,927	2,116	454,043
Notes receivable, current	21,890	-	21,890
Prepaid expenses	<u>234,090</u>	<u>15,001</u>	<u>249,091</u>
Total current assets	<u>9,567,266</u>	<u>49,259</u>	<u>9,616,525</u>
Non-current assets:			
Restricted cash	212,959	8,710,496	8,923,455
Notes receivable, non-current	8,429,681	-	8,429,681
Capital assets, net	9,741,921	14,210,851	23,952,772
Other assets	<u>-</u>	<u>237,994</u>	<u>237,994</u>
Total non-current assets	<u>18,384,561</u>	<u>23,159,341</u>	<u>41,543,902</u>
Total assets	<u>27,951,827</u>	<u>23,208,600</u>	<u>51,160,427</u>

DEFERRED OUTFLOWS OF RESOURCES

State of New Jersey P.E.R.S.	<u>2,342,346</u>	<u>-</u>	<u>2,342,346</u>
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See accompanying notes to financial statements.

HOUSING AUTHORITY OF THE CITY OF PASSAIC
STATEMENT OF NET POSITION (continued)
AS OF DECEMBER 31, 2016

LIABILITIES

	Primary Government	Discretely Presented Component Unit	Total Reporting Entity
Current liabilities:			
Accounts payable	254,544	882,410	1,136,954
Accrued expenses	96,082	250,573	346,655
HUD liability - current portion	19,668	-	19,668
Accrued compensated absences, current	56,020	-	56,020
Tenant security deposits	181,845	32,142	213,987
Unearned revenue	18,385	3,034	21,419
Current portion of loans payable	-	7,427,507	7,427,507
Other accrued liabilities	100,912	72,061	172,973
	<u>727,456</u>	<u>8,667,727</u>	<u>9,395,183</u>
Total current liabilities			
Non-current liabilities:			
Accrued compensated absences, net of current	630,048	-	630,048
Loans , net of current portion	-	14,087,660	14,087,660
Developer fee payable	-	1,071,330	1,071,330
Net pension liability	7,976,785	-	7,976,785
HUD liability, net of current portion	373,693	-	373,693
	<u>8,980,526</u>	<u>15,158,990</u>	<u>24,139,516</u>
Total non-current liabilities			
Total liabilities	<u>9,707,982</u>	<u>23,826,717</u>	<u>33,534,699</u>

DEFERRED INFLOWS OF RESOURCES

Deferred inflows of resources:			
Grants received in advance	1,467,131	-	1,467,131
State of New Jersey P.E.R.S.	320,911	-	320,911
	<u>1,788,042</u>	<u>-</u>	<u>1,788,042</u>
Total deferred inflows of resources			

NET POSITION

Net position:			
Net investment in capital assets	9,741,921	-	9,741,921
Restricted	8,493,464	-	8,493,464
Unrestricted	562,764	(618,117)	(55,353)
	<u>\$ 18,798,149</u>	<u>\$ (618,117)</u>	<u>\$ 18,180,032</u>
Total net position			

See accompanying notes to financial statements.

HOUSING AUTHORITY OF THE CITY OF PASSAIC
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2016

	Primary Government	Discretely Presented Component Unit	Total Reporting Entity
Operating revenues:			
Tenant revenue	\$ 2,862,176	\$ 351,675	\$ 3,213,851
HUD operating grants	21,662,882	-	21,662,882
Fraud recovery revenue	30,695	-	30,695
Other revenues	<u>132,541</u>	<u>533,610</u>	<u>666,151</u>
Total operating revenues	<u>24,688,294</u>	<u>885,285</u>	<u>25,573,579</u>
Operating expenses:			
Administrative	2,841,122	275,810	3,116,932
Tenant services	245,548	11,179	256,727
Utilities	1,342,415	229,939	1,572,354
Ordinary maintenance and operations	1,775,780	338,161	2,113,941
Protective services	375,025	57,487	432,512
Insurance	296,957	77,667	374,624
General	793,749	14,035	807,784
Housing assistance payments	15,650,928	-	15,650,928
Depreciation	<u>1,258,500</u>	<u>232,285</u>	<u>1,490,785</u>
Total operating expenses	<u>24,580,024</u>	<u>1,236,563</u>	<u>25,816,587</u>
Operating gain (loss)	<u>108,270</u>	<u>(351,278)</u>	<u>(243,008)</u>
Non-operating revenues (expenses):			
Investment income	20,117	-	20,117
Dwelling units rent expense	-	(27,500)	(27,500)
Interest expense	-	(523,034)	(523,034)
Gain (loss) on sale of fixed assets	<u>6,817,307</u>	<u>-</u>	<u>6,817,307</u>
Net non-operating revenues (expenses)	<u>6,837,424</u>	<u>(550,534)</u>	<u>6,286,890</u>
Income (loss) before special items	6,945,694	(901,812)	6,043,882
Capital grants	<u>300,828</u>	<u>-</u>	<u>300,828</u>
Change in net position	7,246,522	(901,812)	6,344,710
Net position, beginning of year	<u>11,551,627</u>	<u>283,695</u>	<u>11,835,322</u>
Net position (deficit), end of year	<u>\$ 18,798,149</u>	<u>\$ (618,117)</u>	<u>\$ 18,180,032</u>

See accompanying notes to financial statements.

**HOUSING AUTHORITY OF THE CITY OF PASSAIC
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>Primary Government</u>
Cash Flows from Operating Activities:	
Cash received from tenants and others	\$ 3,007,772
Cash received from grantors	23,748,770
Cash paid to vendors	(21,113,955)
Cash paid to employees	<u>(2,526,794)</u>
Net cash flows provided by operating activities	<u>3,115,793</u>
Cash Flows from Capital and Related Financing Activities:	
Purchases of capital assets	(448,827)
Capital grants	<u>300,828</u>
Net cash flows used by capital and related financing activities	<u>(147,999)</u>
Cash Flows from Investing Activities:	
Repayment on note receivable	184,440
Investment income	<u>20,117</u>
Net cash flows provided by investing activities	<u>204,557</u>
Net increase in cash and cash equivalents	3,172,351
Cash and cash equivalents, beginning of year	<u>5,899,967</u>
Cash and cash equivalents, end of year	<u>\$ 9,072,318</u>
Schedule of non-cash capital and related financing activities:	
Issuance of subordinate mortgages	<u>\$ 8,280,505</u>

See accompanying notes to financial statements.

HOUSING AUTHORITY OF THE CITY OF PASSAIC
STATEMENT OF CASH FLOWS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>Primary Government</u>
Reconciliation of operating gain to net cash provided by operating activities:	
Operating gain	\$ 108,270
Adjustments to reconcile operating gain to net cash provided by operating activities:	
Depreciation	1,258,500
Bad debts	29,229
Changes in assets, deferred outflows of resources, liabilities and deferred inflows of resources:	
Accounts receivable - HUD	103,008
Accounts receivable - tenants	(31,594)
Accounts receivable - miscellaneous	(191,736)
Prepaid expenses	2,633
Deferred outflows of resources	(1,186,126)
Accounts payable	(34,572)
Accounts payable - HUD	1,408,127
Accrued expenses	(4,742)
Accrued compensated absences	42,000
Tenant security deposits	(22,849)
Prepaid tenant rent	7,574
Other current liabilities	(81,901)
Net pension liability	1,496,326
Deferred inflows of resources	<u>213,646</u>
Net cash provided by operating activities	<u>\$ 3,115,793</u>
A reconciliation of cash and cash equivalents to Statement of Net Position is as follows:	
Cash and cash equivalents	\$ 8,677,514
Tenant security deposits	181,845
Restricted cash	<u>212,959</u>
	<u>\$ 9,072,318</u>

See accompanying notes to financial statements.

**HOUSING AUTHORITY OF THE CITY OF PASSAIC
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization

The Housing Authority of the City of Passaic ("the Authority") is a governmental, public corporation created under federal and state housing laws as defined by State statute (N.J.S.A. 4A:12A-1, et. Seq., the "Housing Authority Act") for the purpose of engaging in the development, acquisition and administrative activities of the low-income housing program and other programs with similar objectives for low and moderate income families residing in the City of Passaic. The Authority is responsible for operating certain low-rent housing programs administered by the U.S. Department of Housing and Urban Development ("HUD"). These programs provide housing for eligible families under the United States Housing Act of 1937, as amended.

The Authority is governed by a board of commissioners which is essentially autonomous but is responsible to HUD and the State of New Jersey 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.

B. Basis of Accounting

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

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

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

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

HOUSING AUTHORITY OF THE CITY OF PASSAIC
NOTES TO FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Accounting (continued)

The Authority has also adopted GASB 33, *Accounting and Financial Reporting for Nonexchange Transactions*. The Statement establishes accounting and financial reporting standards for non-exchange transactions including financial or capital resources. The Authority's primary source of non-exchange revenue relates to grants and subsidies. Grants and subsidies revenue are recognized at the time eligible program expenditures occur and/or the Authority has complied with the grant and subsidy requirements.

On January 30, 2008, HUD issued *PIH Notice 2008-9* which requires that housing assistance payments ("HAP") under proprietary fund reporting should be reported as restricted net assets (position), with the associated cash and investments also being reported on HUD's Financial Data Schedule ("FDS") as restricted. Any unused administrative fees should be reported as unrestricted net assets, with the associated assets being reported on the FDS as unrestricted.

Both administrative fees and HAP revenue continue to be recognized under the guidelines set forth in GASB 33. Accordingly, both the time and purpose restrictions as defined by GASB 33 are met when these funds are available and measurable, not when these funds are expended. The Section 8 Housing Choice Voucher program is no longer a cost reimbursement grant, therefore the Authority recognizes unspent administrative fees and HAP revenue in the reporting period as revenue for financial statement reporting.

Any investment income earned on these funds are reflected in the net position account on which the investment income was earned. That is, investment income earned on HAP cash balances are credited to the HAP restricted net position account and investment income earned on administrative fee cash balances are credited to the unrestricted net position account.

The Authority adopted Statement No. 68 of the Governmental Accounting Standards Board *"Accounting and Financial Reporting for Pensions."* The Statement established standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenditures associated with pension plans of State and Local Governments. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actual present value, and attribute that present value to periods of employee service. In addition, this Statement details the recognition and disclosure requirements for employers with liabilities to a defined benefit pension plan and for employers whose employees are provided with defined contribution pensions.

**HOUSING AUTHORITY OF THE CITY OF PASSAIC
NOTES TO FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2016**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Reporting Entity

In accordance with Statement No. 61 of the Government Accounting Standards Board ("GASB"), the Authority's basic financial statements include those of the Housing Authority of the City of Passaic and any component units. Component units are legally separate, tax-exempt organizations whose majority of officials are appointed by the primary government or the organization is fiscally dependent on the primary government and there is a potential for those organizations either to provide specific financial benefits to, or impose specific financial burdens on, the primary government. An organization has a financial benefit or burden relationship with the primary government if any one of the following conditions exist:

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

Based on the application of the above criteria, this report includes all programs and activities operated by the Authority, including the following component unit:

Discretely Presented Component Unit:

Passaic Senior Housing, LLC

Passaic Senior Housing, LLC (the "Project" or "Company") was formed as a New Jersey limited liability company on April 29, 2014. The purpose of the Company is to acquire, construct and/or rehabilitate as applicable, own, develop, operate, maintain, manage and lease a multifamily complex consisting of one hundred thirty (130) units contained in three (3) buildings for rental to persons of low to moderate income. The property is located in Passaic, New Jersey and operates under the name of Murphy Hecht Ascension Apartments.

The Project has one managing member (Passaic RAD, LLC) and two investment members (PNC Bank National Association and Columbia Housing SLP Corporation). Company ownership interests are as follows:

Managing member	.01%
Investment members	99.99%
	<u>100.00%</u>

D. Description of Programs

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

**HOUSING AUTHORITY OF THE CITY OF PASSAIC
NOTES TO FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2016**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Description of Programs (continued)

Public and Indian Housing Program

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

Section 8 Housing Choice Vouchers Program

The Authority administers a program of rental assistance payments to private owners on behalf of eligible low-income families under Section 8 of the Housing and Urban Development Act of 1974. The program provides payments covering the difference between the maximum rental on a dwelling unit, as approved by HUD, and the amount of rent contribution by a participating family.

Public Housing Capital Fund Program

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

E. Cash and cash equivalents

New Jersey Authorities are required by N.J.S.A. 40A:5-14 to deposit public funds in a bank or trust company having its place of business in the State of New Jersey and organized under the laws of the United States or State of New Jersey or the New Jersey Cash Management Fund. N.J.S.A. 40A:5-15.1 provides a list of securities which may be purchased by New Jersey Authorities. The Authority is required to deposit funds in public depositories protected from loss under the provisions of the Governmental Unit Deposit Protection Act ("GUDPA"). GUDPA was enacted in 1970 to protect governmental units from a loss of funds on deposit with a failed banking institution in New Jersey.

N.J.S.A. 17:9-42 requires governmental units to deposit public funds only in public depositories located in New Jersey, when the funds are secured in accordance with GUDPA.

HUD requires housing authorities to invest excess funds in obligations of the United States, Certificates of Deposit or any other federally insured investment.

HUD also requires that deposits be fully collateralized at all times. Acceptable collateralization includes FDIC insurance and the market value of securities purchased and pledged to the political subdivision. Pursuant to HUD restrictions, obligations of the United States are allowed as security for deposits. Obligations furnished as security must be held by the Authority or with an unaffiliated bank or trust company for the account of the Authority.

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

HOUSING AUTHORITY OF THE CITY OF PASSAIC
NOTES TO FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Accounts Receivable, Net

Rents are due from tenants on the first day of each month. As a result, accounts receivable balances primarily consist of rents past due and vacated tenants. Management closely monitors outstanding balances and provides for probable uncollectible amounts through a charge to earnings and a credit to an allowance for doubtful accounts based on its assessment of the current status of individual accounts. Balances that remain outstanding after management has used reasonable collection efforts are generally written off through a charge to the allowance and a credit to accounts receivable. The Authority recognizes a receivable from HUD and other governmental agencies for amounts billed but not received and for amounts unbilled, but earned as of year-end.

G. Prepaid Expenses

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

H. Capital Assets, Net

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

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

•	Buildings	40 Years
•	Leasehold Improvements	15 Years
•	Furniture and Equipment	5 Years
•	Computers	3 Years

The Authority has established a capitalization threshold of \$2,000.

I. Impairment of Long Lived Assets

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

J. Compensated Absences

Compensated absences represent amounts to which employees are entitled to based on accumulated leave earned in accordance with the Authority's Personnel Policy. Employees may be compensated for accumulated vacation leave in the event of retirement or termination from service at the current salary. Employees may be compensated for sick leave at retirement or termination at the current salary to a maximum of \$15,000.

HOUSING AUTHORITY OF THE CITY OF PASSAIC
NOTES TO FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

K. Unearned Revenue

The Authority's unearned revenue consists of the payment of rent by residents that is applicable to future periods.

L. Inter-program Receivables and Payables

Inter-program receivables/payables are current, and are the result of the use of the Public Housing Program as the common paymaster for shared costs of the Authority. Cash settlements are made periodically, and all inter-program balances net zero. In accordance with GASB Statement No. 34, interprogram receivables and payables are eliminated for financial statement purposes.

M. Taxes

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

N. Operating Revenues and Expenses

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

O. Use of Management Estimates

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

P. Equity Classifications

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

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

Restricted net position - Consists of resources with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

HOUSING AUTHORITY OF THE CITY OF PASSAIC
NOTES TO FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

P. Equity Classifications (continued)

Unrestricted net position - All other resources that do not meet the definition of "restricted" or "net investment in capital assets."

Q. Economic Dependency

The Section 8 and Low Rent Housing programs of the Authority are economically dependent on operating grants and subsidies from HUD. The programs operate at a loss prior to receiving the grants.

R. Budgets and Budgetary Accounting

The Authority is required by contractual agreements to adopt annual, appropriated operating budgets for all its programs receiving federal expenditure awards. All budgets are prepared on a HUD basis, which is materially consistent with accounting principles generally accepted in the United States of America.

All appropriations lapse at HUD's program year end or at the end of grant periods.

NOTE 2. CASH ON DEPOSIT

As of December 31, 2016, the Authority had funds on deposit in checking and money market accounts.

As of December 31, 2016, the carrying amount of the Authority's cash deposits was \$17,814,956 and the bank balances approximated \$17,841,103.

Cash on deposit consists of the following:

<u>Cash Category</u>	<u>Primary Government</u>	<u>Discretely Presented Component Units</u>	<u>Total Reporting Entity</u>
Unrestricted	\$ 8,677,514	\$ -	\$ 8,677,514
Tenant security deposits	181,845	32,142	213,987
Restricted	<u>212,959</u>	<u>8,710,496</u>	<u>8,923,455</u>
	<u>\$ 9,072,318</u>	<u>\$ 8,742,638</u>	<u>\$ 17,814,956</u>

Of the Authority's bank balances, \$1,305,664 was covered by federal depository insurance and the remaining \$16,535,439 was collateralized with the pledging financial institution as of December 31, 2016.

HOUSING AUTHORITY OF THE CITY OF PASSAIC
NOTES TO FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 2. CASH ON DEPOSIT (continued)

<u>Cash Account</u>	<u>Amount</u>
Insured:	
FDIC	\$ 1,305,664
Collateralized:	
Governmental Unit Depository Protection Act	<u>16,535,439</u>
	<u>\$ 17,841,103</u>

Custodial credit risk is the risk that, in the event of a bank failure, the government's deposits may not be returned to it. As of December 31, 2016, the Authority's bank balances were not exposed to custodial credit risk.

NOTE 3. ACCOUNTS RECEIVABLE

Accounts receivable, net consists of the following at December 31, 2016:

<u>Description</u>	<u>Primary Government</u>	<u>Discretely Presented Component Units</u>	<u>Total Reporting Entity</u>
Accounts receivable - tenants, net	\$ 20,967	\$ 2,116	\$ 23,083
Accounts receivable - PHA Projects	346,025	-	346,025
Accounts receivable - miscellaneous	<u>84,935</u>	<u>-</u>	<u>84,935</u>
Total accounts receivable, net	<u>\$ 451,927</u>	<u>\$ 2,116</u>	<u>\$ 454,043</u>

A. Accounts receivable - tenants, net

Accounts receivable - tenants, net are shown net of an allowance for doubtful accounts of \$37,666 as of December 31, 2016.

B. Accounts receivable - PHA Projects

Accounts receivable - PHA Projects consists of unreimbursed expenditures from the Authority's conversion to the Rental Assistance Demonstration Program. The Authority expects to fully collect these receivables.

C Accounts receivable - miscellaneous

Accounts receivable - miscellaneous consists of amounts due from the Public Housing Authorities Joint Insurance Fund for insurance claims as a result of damages caused by Hurricane Irene in 2011. The amounts are shown net of an allowance for doubtful accounts of \$40,050.

**HOUSING AUTHORITY OF THE CITY OF PASSAIC
NOTES TO FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2016**

NOTE 4. PREPAID EXPENSES

The Authority contributed funds to the Housing Authority Risk Retention Group at inception. Amounts are held as prepaid insurance expenses as amounts will be used to supplement insurance as needed.

NOTE 5. NOTES RECEIVABLE

Notes receivable of the primary government consists of the following at December 31, 2016:

The Authority issued a note receivable dated November 26, 2014 to the Passaic Affordable Housing Coalition in the original amount of \$363,539 to facilitate the development of affordable housing in Passaic, NJ. The note bears an annual interest rate of 3.25% with monthly principal and interest payments of \$3,552.47, beginning in June, 2015. The loan is unsecured and matures in March, 2035.

\$ 171,066

The Authority issued a subordinated mortgage receivable in the amount of \$1,640,000, dated January 21, 2016, to Passaic Senior Housing, LLC for the acquisition of three buildings and the related improvements on leased real property. Monthly interest accrues at a rate of 3.15%. The outstanding loan amount and any accrued interest shall be due and payable on January 21, 2056, the maturity date.

1,640,000

The Authority issued a subordinated mortgage receivable in the amount of \$730,505, dated January 21, 2016, to Passaic Senior Housing, LLC for the acquisition of three buildings and the related improvements on leased real property. The original amount of the note was \$730,505. Monthly interest accrues at a rate of 3.15%. The outstanding loan amount and any accrued interest shall be due and payable on January 21, 2056, the maturity date.

730,505

The Authority issued a subordinated mortgage receivable in the amount of \$5,910,000, dated January 21, 2016, to Passaic Senior Housing, LLC for the acquisition of three buildings and the related improvements on leased real property. Monthly interest accrues at a rate of 3.15%. The outstanding loan amount and any accrued interest shall be due and payable on January 21, 2056, the maturity date.

5,910,000

Total notes receivable

8,451,571

Less: current portion

21,890

Note receivable, excluding current portion

\$ 8,429,681

HOUSING AUTHORITY OF THE CITY OF PASSAIC
NOTES TO FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 6. CAPITAL ASSETS, NET

The following is a summary of the primary government's changes in capital assets for the year ended December 31, 2016:

Description	December 31, 2015	Additions	Disposals	Transfers	December 31, 2016
<u>Non-depreciable capital assets:</u>					
Land	\$ 1,946,351	\$ -	\$ -	\$ -	\$ 1,946,351
Construction in progress	<u>1,945,864</u>	<u>259,266</u>	<u>-</u>	<u>(1,547,168)</u>	<u>657,962</u>
Total	<u>3,892,215</u>	<u>259,266</u>	<u>-</u>	<u>(1,547,168)</u>	<u>2,604,313</u>
<u>Depreciable capital assets:</u>					
Buildings and improvements	64,321,069	84,350	(11,333,281)	1,149,858	54,221,996
Leasehold improvements	2,752,841	-	(414,830)	217,295	2,555,306
Furniture and equipment	<u>2,110,800</u>	<u>105,211</u>	<u>(378,733)</u>	<u>180,015</u>	<u>2,017,293</u>
Total	<u>69,184,710</u>	<u>189,561</u>	<u>(12,126,844)</u>	<u>1,547,168</u>	<u>58,794,595</u>
Less: accumulated depreciation	<u>61,792,639</u>	<u>1,258,500</u>	<u>(11,394,152)</u>	<u>-</u>	<u>51,656,987</u>
Net capital assets	<u>\$ 11,284,286</u>	<u>\$ (809,673)</u>	<u>\$ (732,692)</u>	<u>\$ -</u>	<u>\$ 9,741,921</u>

The Authority's discretely presented component unit's capital assets activity for the year ended December 31, 2016 was as follows:

Description	December 31, 2015	Additions	Disposals	Transfers	December 31, 2016
<u>Non-depreciable capital assets:</u>					
Land	\$ -	\$ -	\$ -	\$ -	\$ -
Construction in progress	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>Depreciable capital assets:</u>					
Buildings and improvements	-	14,399,607	-	-	14,399,607
Leasehold improvements	-	-	-	-	-
Furniture and equipment	<u>-</u>	<u>42,001</u>	<u>-</u>	<u>-</u>	<u>42,001</u>
Total	<u>-</u>	<u>14,441,608</u>	<u>-</u>	<u>-</u>	<u>14,441,608</u>
Less: accumulated depreciation	<u>-</u>	<u>230,757</u>	<u>-</u>	<u>-</u>	<u>230,757</u>
Net capital assets	<u>\$ -</u>	<u>\$ 14,210,851</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,210,851</u>

HOUSING AUTHORITY OF THE CITY OF PASSAIC
NOTES TO FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 7. RESTRICTED CASH

Restricted cash (including tenant security deposits) consists of the following as of December 31, 2016:

<u>Cash Category</u>	<u>Primary Government</u>	<u>Discretely Presented Component Units</u>	<u>Total Reporting Entity</u>
Housing assistance payment reserves	\$ 212,959	\$ -	\$ 212,959
Tenant security deposits	181,845	32,142	213,987
Working capital escrow	-	42,000	42,000
Title escrow	-	1,126,002	1,126,002
Cost of issuance fund	-	1	1
Negative arbitrage account	-	74,605	74,605
Project construction fund	-	2,055,003	2,055,003
Collateral fund	-	5,412,885	5,412,885
	<u>\$ 394,804</u>	<u>\$ 8,742,638</u>	<u>\$ 9,137,442</u>

Housing assistance payment reserves are restricted for use only in the Housing Choice Vouchers Program for tenant rents.

Tenant security deposits are held in trust and restricted for refund at the time the tenant vacates the apartment, provided the apartment's physical condition is satisfactory.

Under the terms of the second amended restated company agreement, Passaic Senior Housing, LLC is required to set aside \$140,000 from the investment member's second installment of equity into a replacement reserve account. Additionally, the Company will deposit monthly, \$35.16 per unit into reserve accounts for the replacement of property. The amounts will be held in separate accounts in trust and generally are not available for operating purposes.

NOTE 8. ACCRUED COMPENSATED ABSENCES

The Authority uses the vesting method for the recording of compensated absences whereas benefits are accrued for which payment is probable.

As of December 31, 2016, accrued compensated absences amounted to \$686,068 and consisted of the following activity:

<u>Description</u>	<u>Primary Government</u>	<u>Discretely Presented Component Units</u>	<u>Total Reporting Entity</u>
Beginning compensated absences	\$ 644,068	\$ -	\$ 644,068
Compensated absences expense	264,772	-	264,772
Compensated absences redeemed	<u>(222,772)</u>	<u>-</u>	<u>(222,772)</u>
Ending compensated absences	686,068	-	686,068
Less: current portion	<u>56,020</u>	<u>-</u>	<u>56,020</u>
Compensated absences, net of current portion	<u>\$ 630,048</u>	<u>\$ -</u>	<u>\$ 630,048</u>

HOUSING AUTHORITY OF THE CITY OF PASSAIC
NOTES TO FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 9. PAYMENTS IN LIEU OF TAXES

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 City. Under the Cooperation Agreement, the Authority must pay the City the lesser of 10% of its net shelter rent or the approximate full real property taxes. During the fiscal year ended December 31, 2016, PILOT expense of the primary government and the discretely presented component unit amounted to \$147,639 and \$11,950, respectively.

NOTE 10. LOANS PAYABLE

Loans payable of the discretely presented component unit consisted of the following as of December 31, 2016:

<u>Description</u>	<u>Amount</u>
The Company has three subordinated mortgage loans with the Authority dated January 21, 2016 for the acquisition of three buildings and the related improvements on leased real property. The original amount of the loans totaled \$8,280,505. Monthly interests accrues at 3.15% and principal and interest are due only from surplus cash as provided in the Company's operating agreement. The loan matures on January 21, 2056.	\$ 8,280,505
The Company received a bridge loan dated January 21, 2016 from PNC Bank in an amount not to exceed \$4,659,495. Interest is due monthly at a rate which is at all times equal to the daily LIBOR rate plus two hundred fifty basis points. At December 31, 2016, the estimated interest rate was 3.188% with an estimated effective interest rate of 3.883%. The loan matures on July 21, 2018.	4,004,036
The Company received a Federal Housing Administration mortgage loan through PNC Bank dated January 21, 2016 in the amount of \$2,100,000. Interest only payments at 4.24% are due monthly to October 1, 2017, at which time monthly principal and interest payments of \$9,093 begin on November 1, 2017. The loan matures on October 1, 2057.	1,987,156
The Company received a loan dated January 22, 2016 from NJHMFA through Series 2016D-1 Multifamily Conduit Bond offering in the amount of to \$7,460,000. The loan matures on July 15, 2017 in principle and interest payments in the amount of \$7,570,449, which includes interest at 1% and an effective interest rate of 2.659%. The loan is secured through a leasehold mortgage and assignment of rents.	\$ 7,424,155
Total loans payable	21,695,852
Less: unamortized debt issuance costs	<u>180,685</u>
Total loans payable, excluding unamortized debt issuance costs	\$ <u>21,515,167</u>

HOUSING AUTHORITY OF THE CITY OF PASSAIC
NOTES TO FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 10. LOANS PAYABLE (continued)

Estimated annual maturities of the above mortgages are as follows:

2017	\$ 7,427,507
2018	3,977,355
2019	21,507
2020	22,437
2021	23,407
Thereafter	<u>10,223,639</u>
	<u>\$ 21,695,852</u>

NOTE 11. NON-CURRENT LIABILITIES:

Non-current liabilities of the primary government consisted of the following as of December 31, 2016:

Description	December 31, 2015	Additions	Deletions	December 31, 2016	Due within one year
Accrued compensated absences	\$ 644,068	\$ 264,772	\$ (222,772)	\$ 686,068	\$ 56,020
Due to HUD	432,697	-	(39,336)	393,361	19,668
Net pension liability	<u>6,480,459</u>	<u>1,735,595</u>	<u>(239,269)</u>	<u>7,976,785</u>	<u>-</u>
Total	<u>\$ 7,557,224</u>	<u>\$ 2,000,367</u>	<u>\$ (501,377)</u>	<u>\$ 9,056,214</u>	<u>\$ 75,688</u>

NOTE 12. PENSION PLAN

A. Plan Description

The State of New Jersey, Public Employees Retirement System (PERS) is a cost-sharing multiple employer defined benefit pension plan administered by the State of New Jersey, Division of Pensions and Benefits (the Division). For additional information about PERS, please refer to the Division's Comprehensive Annual Financial Report (CAFR), which can be found at www.state.nj.us/treasury/pensions/annrprts.shtml.

B. Benefits

The vesting and benefit provisions are set by N.J.S.A. 43:15A. PERS provides retirement, death and disability benefits. All benefits vest after ten years of service, except for medical benefits, which vest after 25 years of service or under the disability provisions of PERS. The following represents the membership tiers for PERS:

1. Members who were enrolled prior to July 1, 2007
2. Members who were eligible to enroll on or after July 1, 2007 and prior to November 2, 2008

**HOUSING AUTHORITY OF THE CITY OF PASSAIC
NOTES TO FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2016**

NOTE 12. PENSION PLAN (continued)

B. Benefits (continued)

3. Members who were eligible to enroll on or after November 2, 2008 and prior to May 22, 2010
4. Members who were eligible to enroll on or after May 22, 2010 and prior to June 28, 2011
5. Members who were eligible to enroll on or after June 28, 2011

Service retirement benefits of 1/55th of final average salary for each year of service credit is available to tier 1 and 2 members upon reaching age 60 and to tier 3 members upon reaching age 62. Service retirement benefits of 1/60th of final average salary for each year of service credit is available to tier 4 members upon reaching age 62 and tier 5 members upon reaching age 65. Early retirement benefits are available to tiers one and two before reaching age 60, tiers 3 and 4 before age 62 with 25 years or more of service credit and tier 5 with 30 or more years of service credit before age 65. Benefits are reduced by a fraction of a percent for each month a member retires prior to the age at which a member can receive an unreduced benefit from age 55 to age 60 if they have at least 25 years of service. Deferred retirement is available to members who have at least 10 years of service credit and have not reached the service retirement age for the respective tier.

C. Contributions

The contribution policy for PERS is set by N.J.S.A. 15A and requires contributions by all active members and contributing employers. State legislation has modified the amount that is contributed by the State. The State's pension contribution is based on an actuarially determined amount which includes the employer portion of the normal cost and an amortization of the unfunded accrued liability. Funding for noncontributory group insurance benefits is based on actual claims paid.

The local employers' contribution amounts are based on the actuarially determined rate which includes the normal cost and unfunded accrued liability. Chapter 19, P.L. 2009 provided an option for local employers of PERS to contribute 50% of the normal and accrued liability contribution amounts certified for payments due in State fiscal year 2009. Such employers will be credited with full payment and any such amounts will not be included in their unfunded liability. The actuaries will determine the unfunded liability of those retirement systems, by employer, for the reduced normal and accrued liability contributions provided under this law. This unfunded liability will be paid by the employer in level annual payments over a period of 15 years beginning with the payments due in the fiscal year ended June 30, 2012 and will be adjusted by the rate of return on the actuarial value of the assets.

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

At December 31, 2016, the Authority reported a liability of \$7,976,785 for its proportionate share of the net pension liability. The net pension liability was measured as of July 1, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

HOUSING AUTHORITY OF THE CITY OF PASSAIC
NOTES TO FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 12. PENSION PLAN (continued)

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

For the year ended December 31, 2016, the Authority recognized pension expense of \$760,723. At December 31, 2016, the Authority reported deferred outflows of resources and deferred inflows of resources from the following sources.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of Assumptions	\$ 1,652,364	\$ -
Changes in Proportion	237,476	(315,465)
Differences between expected and actual experience	148,344	-
Net differences between actual and projected earnings on pension plan investments	304,162	-
Net differences between Proportionate Share and actual Contribution	<u>-</u>	<u>(5,446)</u>
Total	<u>\$ 2,342,346</u>	<u>\$ (320,911)</u>

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	<u>Amount</u>
2017	\$ 472,260
2018	472,262
2019	551,929
2020	423,495
2021	<u>101,489</u>
	<u>\$ 2,021,435</u>

E. Actuarial Assumptions

The total pension liability at the June 30, 2016 measurement date was determined by an actuarial valuation as of July 1, 2015, which was rolled forward to June 30, 2016. The total pension liability for the June 30, 2015 measurement date was determined by an actuarial valuation as of July 1, 2015. This actuarial valuation used the following assumptions, applied to all periods in the measurement.

**HOUSING AUTHORITY OF THE CITY OF PASSAIC
NOTES TO FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2016**

NOTE 12. PENSION PLAN (continued)

E. Actuarial Assumptions (continued)

Inflation Rate	3.08%
Salary increases:	
Through 2026	1.65 - 4.15%, based on age
Thereafter	2.65 - 5.15%, based on age
Investment rate of return	7.65%

Pre-mortality rates were based on the RP-2000 Employee Preretirement Mortality Table for male and female active participants. For state employees, mortality tables are set back 4 years for males and females. For local employees, mortality tables are set back 2 years for males and 7 years for females. In addition, the tables provide for future improvements in mortality from the base year of 2013 using a generational approach based on the plan actuary's modified MP-2014 projection scale. Post-retirement mortality rates were based on the RP-2000 Combined Healthy Male and Female Mortality Tables (set back one year for males and females) for service retirements and beneficiaries of former members and one-year static projection based on mortality improvement Scale AA. In addition, the tables for service retirements and beneficiaries of former members provide for future improvements in mortality from the base year of 2013 using a generational approach based on the plan actuary's modified MP-2014 projection scale. Disability retirement rates used to value disabled retirees were based on the RP-2000 Disabled Mortality Table (set back 3 years for males and set forward 1 year for females).

The actuarial assumptions used in the July 1, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2011 to June 30, 2014.

F. Long-term expected rate of return

The long-term expected rate of return is determined by the State Treasurer, after consultation with the Directors of the Division of Investments and the Division of Pensions and Benefits, the board of trustees and the actuaries. Best estimates of arithmetic real rates of return for each major asset class includes the PERS's target asset allocation as of June 30, 2016 are summarized in the following table:

**HOUSING AUTHORITY OF THE CITY OF PASSAIC
NOTES TO FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2016**

NOTE 12. PENSION PLAN (continued)

F. Long-term expected rate of return (continued)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Rate of Return</u>
Cash	5.00%	0.87%
U.S. Treasuries	1.50%	1.74%
Investment Grade Credit	8.00%	1.79%
Mortgages	2.00%	1.67%
High Yield Bonds	2.00%	4.56%
Inflation-Indexed Bonds	1.50%	3.44%
Broad US Equities	26.00%	8.53%
Developed Foreign Markets	13.25%	6.83%
Emerging Market Equities	6.50%	9.95%
Private Equity	9.00%	12.40%
Hedge Funds/Absolute Return	12.50%	4.68%
Real Estate (Property)	2.00%	6.91%
Commodities	0.50%	5.45%
Global Debt ex US	5.00%	-0.25%
REIT	5.25%	5.63%

G. Discount Rate

The discount rate used to measure the total pension liability was 3.98% as of June 30, 2016. This single blended discount rate was based on the long-term expected rate of return on the pension plan investments of 7.65%, and a municipal bond rate of 2.85% as of June 30, 2016 based on the Bond Buyer Go 20-Bond Municipal Bond Index, which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. The projection of cash flows used to determine the discount rate assumed that contributions from the plan members will be made based on the contribution rate in the most recent fiscal year. The state employer contributed 30% of the actuarially determined contributions and the local employers contributed 100% of their actuarially determined contributions. Based on those assumptions, the plan's fiduciary net position was projected to be available to make projected future benefit payments of current plan members through 2034. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2034, and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liability.

**H. Sensitivity of the Authority's Proportionate Share of the Net Pension Liability to
Changes in the Discount Rate**

The following presents the Authority's proportionate share of the net pension liability calculated using the discount rate of 3.98 percent, as well as what the Authority's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.98 percent) or 1 percentage point higher (4.98 percent) than the current rate.

HOUSING AUTHORITY OF THE CITY OF PASSAIC
NOTES TO FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 12. PENSION PLAN (continued)

H. Sensitivity of the Authority's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate (continued)

	1% Decrease (2.98%)	Discount Rate (3.98%)	1% Increase (4.98%)
Authority's proportionate share of the net pension liability	\$ <u>9,774,618</u>	\$ <u>7,976,785</u>	\$ <u>6,492,517</u>

NOTE 13. POST-RETIREMENT BENEFITS

The Authority participates in New Jersey State Health Benefits Program (the "SHBP"), which qualifies as a cost-sharing, multiple-employer plan in accordance with GASB Statement 45 "Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions" ("OPEB"). The SHBP is administered by the State of New Jersey, Department of Treasury, Division of Pension and Benefits.

Under the SHBP, retirees may continue the health benefits programs in which they are enrolled at the time of retirement, provided the retiree pays the costs of the benefits (at group rates) for themselves and their eligible dependents.

A retiree may also receive Authority-paid health benefits in accordance with labor agreements if they have twenty-five (25) or more years enrolled in the pension system.

The State of New Jersey, Department of the Treasury, Division of Pensions and Benefits, issues publicly available financial reports that include the financial statements and required supplementary information of the SHBP. The financial reports may be obtained by writing to the State of New Jersey, Department of the Treasury, Division of Pensions and Benefits, P.O. Box 295, Trenton, New Jersey 08625-0295.

The SHBP is established under the authority of N.J.S.A. 52:14-17.25 et seq. and regulations adopted by the State Health Benefits Commission. The required contribution rate is determined on an annual pay as you go basis. The following were the required contributions:

<u>Year</u>	<u>Amount</u>
2014	\$ <u>220,689</u>
2015	\$ <u>211,110</u>
2016	\$ <u>200,594</u>

HOUSING AUTHORITY OF THE CITY OF PASSAIC
NOTES TO FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 14. HUD OFFICE OF INSPECTOR GENERAL AUDIT

In 2006, HUD's Office of Inspector General ("OIG") concluded an audit of the Authority's operations. Results of the audit, which impacted the financial statements of the Authority, are as follows:

- 1) The OIG found that the Authority made an ineligible transfer of funds in the amount of \$1,000,000 from the Section 8 Program to the Low Rent Public Housing Program in fiscal year 2002. Accordingly, the 2005 financial statements and supplemental information reflect a \$1,000,000 equity transfer from the Low Rent Public Housing Program to the Section 8 Program in order to repay Section 8 program funds.
- 2) As a result of finding #1 above and according to Section 8 Program regulations, \$590,042 was not available for recapture by HUD. Therefore OIG has determined that this amount is owed back to HUD. The Authority has committed to repay HUD \$19,668 per annum, through 2036 from the Housing Choice Voucher Program. As of December 31, 2016, \$393,361 remains payable, of which \$19,668 is due currently.
- 3) The OIG also found that in fiscal year 2005, the Authority made an ineligible transfer of Capital Funds to the Section 8 Program. As a result, \$401,046 is owed back to the Capital Fund Program from the Section 8 Program. The Authority has agreed to charge \$13,368 per annum through 2036, to the Housing Choice Voucher Program for protective services. Protective service expenses are normally funded by the capital fund program. Included in protective services expense in 2016 is \$13,368 for this transaction.

NOTE 15. RESTRICTED NET POSITION

As of December 31, 2016, restricted net position consisted of housing assistance payment reserves which are restricted for rent payments to landlords as part of the Housing Choice Voucher Program.

NOTE 16. CONTINGENCIES

The Authority receives financial assistance from HUD in the form of grants and subsidies. Entitlement to the funds is generally conditional upon compliance with terms and conditions of the grant agreements and applicable regulations, including the expenditure of the funds for eligible purposes. Substantially all grants, entitlements and cost reimbursements are subject to financial and compliance audits by HUD. As a result of these audits, costs previously reimbursed could be disallowed and require payments to HUD. As of December 31, 2016, the Authority estimates that no material liabilities will result from such audits.

HOUSING AUTHORITY OF THE CITY OF PASSAIC
NOTES TO FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 17. RISK MANAGEMENT

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

The authority has also purchased flood insurance with the Selective Insurance Company for certain properties included in flood zones.

NOTE 18. SUBSEQUENT EVENTS

Events that occur after the financial statement date but before the financial statements were available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the financial statement date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the financial statement date require disclosure in the accompanying notes to the financial statements. Management evaluated the activity of the Authority through September 13, 2017 (the date the financial statements were available to be issued) and concluded that no subsequent events have occurred that would require recognition in the financial statements or disclosure in the notes to the financial statements.



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

To the Board of Commissioners
Housing Authority of the City of Passaic:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and audit requirements as prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey, the financial statements of the business type activities (primary government) and the discretely presented component unit of the Housing Authority of the City of Passaic ("the Authority") as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Authority's financial statements, and have issued our report thereon dated September 13, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A *deficiency* in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Novogradac & Company LLP

September 13, 2017
Toms River, New Jersey



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE AND THE STATE OF
NEW JERSEY OMB CIRCULAR 15-08**

To the Board of Commissioners
Housing Authority of the City of Passaic:

Report on Compliance for Each Major Federal Program

We have audited the Housing Authority of the City of Passaic ("the Authority") compliance with the types of compliance requirements described in the OMB Compliance Supplement that could have a direct and material effect on each of the Authority's major federal programs for the year ended December 31, 2016. The Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Authority'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 the audit requirements of Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), Audits of States, Local Governments, and Non-Profit Organizations and the State of New Jersey OMB Circular 15-08, Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid. Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority'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 the Authority's compliance.

Opinion on Each Major Federal Program

In our opinion, the Housing Authority of the City of Passaic complied, in all material respects, with the types of 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, 2016.

Report on Internal Control Over Compliance

Management of the Housing Authority of the City of Passaic is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Housing Authority of the City of Passaic's internal control over compliance with the types 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 circumstances 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 the Uniform Guidance, 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 Housing Authority of the City of Passaic's internal control over compliance.

A *deficiency* in internal control over compliance exists when the design or operation of a control over compliance 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 type of 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 over compliance that might be material weaknesses or significant deficiencies. 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Novogrudac & Company LLP

September 13, 2017
Toms River, New Jersey

**HOUSING AUTHORITY OF THE CITY OF PASSAIC
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2016**

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>State Pass-through Number</u>	<u>Grant Period From / To</u>	<u>Grant Award</u>	<u>Fiscal Year Expenditures</u>	<u>Cumulative Expenditures</u>
<u>U.S. Department of Housing and Urban Development</u>						
Low Rent Public Housing	14.850	N/A	1/1/16 12/31/16	\$ 3,079,662	\$ 3,079,662	\$ 3,079,662
Section 8 Housing Choice Voucher Program	14.871	N/A	1/1/16 12/31/16	17,108,528	17,108,528	17,108,528
Public Housing Capital Fund Program	14.872	N/A	6/9/15 6/8/19	<u>3,265,514</u>	<u>1,581,165</u>	<u>2,842,927</u>
Total expenditures of federal awards				<u>\$ 23,453,704</u>	<u>\$ 21,769,355</u>	<u>\$ 23,031,117</u>

See accompanying notes to the Schedule of Expenditures of Federal Awards

**HOUSING AUTHORITY OF THE CITY OF PASSAIC
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2016**

NOTE 1. BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the "schedule") includes the federal grant activity of the Housing Authority of the City of Passaic under programs of the federal government for the year ended December 31, 2016. The information in the Schedule is presented in accordance with the requirements of Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and the State of New Jersey OMB Circular 15-08. Because the Schedule presents only a selected portion of operations of the Housing Authority of the City of Passaic, it is not intended to and does not present the financial position, changes in net position or cash flows of the Housing Authority of the City of Passaic. Therefore, some amounts presented in the 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 principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE 3. INDIRECT COST RATE

The Authority has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

HOUSING AUTHORITY OF THE CITY OF PASSAIC
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 4. SCHEDULE OF CAPITAL FUND PROGRAM COSTS AND ADVANCES

The total amount of Capital Fund Program Costs and Advances incurred and earned by the Housing Authority of the City of Passaic as of and for the year ended December 31, 2016 are provided herein.

	<u>501-14</u>	<u>501-15</u>	<u>501-16</u>	<u>Totals</u>
Budget	\$ <u>1,055,509</u>	\$ <u>1,075,617</u>	\$ <u>1,134,388</u>	\$ <u>3,265,514</u>
<u>Advances:</u>				
Cumulative through 12/31/2015	\$ 507,321	\$ 651,433	\$ -	\$ 1,158,754
Current year	<u>548,188</u>	<u>424,184</u>	<u>711,801</u>	<u>1,684,173</u>
Cumulative through 12/31/2016	<u>1,055,509</u>	<u>1,075,617</u>	<u>711,801</u>	<u>2,842,927</u>
<u>Costs:</u>				
Cumulative through 12/31/2015	507,321	754,441	-	1,261,762
Current year	<u>548,188</u>	<u>321,176</u>	<u>711,801</u>	<u>1,581,165</u>
Cumulative through 12/31/2016	<u>1,055,509</u>	<u>1,075,617</u>	<u>711,801</u>	<u>2,842,927</u>
Excess / (Deficiency)	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>

Capital Fund Grants NJ39P013501-14 and NJ39P013501-15 with approved funding's of \$1,055,509 and \$1,075,617, respectively, have been fully drawn down and expended as per Capital Fund Grant Regulations.

**HOUSING AUTHORITY OF THE CITY OF PASSAIC
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2016**

I. Summary of Auditors' Results

Financial Statements

- | | | |
|----|---|------------|
| 1. | Type of auditors' report issued: | Unmodified |
| 2. | Internal control over financial reporting | |
| a. | Material weakness(es) identified? | No |
| b. | Significant deficiency(ies) identified? | No |
| 3. | Noncompliance material to the financial statements? | No |

Federal Awards

- | | | |
|----|---|------------|
| 1. | Internal control over compliance: | |
| a. | Material weakness(es) identified? | No |
| b. | Significant deficiency(ies) identified? | No |
| 2. | Type of auditors' report on compliance
for major programs: | Unmodified |
| 3. | Any audit findings disclosed that are required
to be reported in accordance with 2 CFR 200.516(a)? | No |
| 4. | Identification of major programs: | |

CFDA Number

Name of Federal Program

14.871

Section 8 Housing Choice Vouchers

- | | | |
|----|---|-----------|
| 5. | Dollar threshold used to distinguish between
Type A and Type B Programs: | \$750,000 |
| 6. | Auditee qualified as low-risk Auditee? | No |

**HOUSING AUTHORITY OF THE CITY OF PASSAIC
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
DECEMBER 31, 2016**

II. Financial Statement Findings

There were no findings relating to the financial statements which are required to be reported in accordance with government auditing standards.

III. Federal Award Findings and Questioned Costs

There were no findings or questions costs relating to federal awards.

IV. Summary of Prior Audit Findings

None reported.

**HOUSING AUTHORITY OF THE CITY OF PASSAIC
REQUIRED PENSION INFORMATION
DECEMBER 31, 2016**

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

	December 31, <u>2014</u>	December 31, <u>2015</u>	December 31, <u>2016</u>
Contractually required contribution	\$ 209,330	\$ 235,457	\$ 239,269
Contributions in relation to the contractually required contribution	<u>209,330</u>	<u>235,457</u>	<u>239,269</u>
(Over) / under funded	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
Authority's covered-employee payroll	\$ <u>2,568,176</u>	\$ <u>2,339,335</u>	\$ <u>2,517,314</u>
Contributions as a percentage of covered- employee payroll	<u>8.15 %</u>	<u>10.07 %</u>	<u>9.50 %</u>

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

	December 31, <u>2014</u>	December 31, <u>2015</u>	December 31, <u>2016</u>
Authority's proportion of the net pension liability	<u>0.0286 %</u>	<u>0.0289 %</u>	<u>0.0269 %</u>
Authority's proportionate share of the net pension liability	\$ <u>5,347,497</u>	\$ <u>6,480,460</u>	\$ <u>7,976,785</u>
Authority's covered-employee payroll	\$ <u>2,568,176</u>	\$ <u>2,339,335</u>	\$ <u>2,517,314</u>
Authority's proportionate share of the net pension liability (asset) as a percentage of its covered- employee payroll	<u>208.22 %</u>	<u>277.02 %</u>	<u>316.88 %</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>52.08 %</u>	<u>47.93 %</u>	<u>43.35 %</u>

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

Passaic Housing Authority																			
NJ013																			
Financial Data Schedule (FDS)																			
December 31, 2016																			

Passaic Housing Authority								
NJ013								
Financial Data Schedule (FDS)								
December 31, 2016								
Line Item #	Account Description	OPERATING	CAPITAL	6.1 COMPONENT UNIT - DISCRETELY PRESENTED	14.871 HOUSING CHOICE VOUCHERS	CENTRAL OFFICE COST CENTER	ELIMINATION	TOTAL
REVENUE:								
70300	Net tenant rental revenue	\$ 2,754,121	\$ -	\$ 341,189	\$ -	\$ -	\$ -	\$ 3,095,310
70400	Tenant revenue - other	108,055	-	10,486	-	-	-	118,541
70500	Total tenant revenue	2,862,176	-	351,675	-	-	-	3,213,851
70600	HUD PHA grants	3,079,662	1,280,337	-	17,302,883	-	-	21,662,882
70610	Capital grants	-	300,828	-	-	-	-	300,828
70710	Management fee	-	-	-	-	857,254	(857,254)	-
70720	Asset management fee	-	-	-	-	45,960	(45,960)	-
70730	Book keeping fee	-	-	-	-	198,488	(198,488)	-
70750	Other fees	-	-	-	-	-	-	-
70800	Other government grants	-	-	-	-	-	-	-
71100	Investment income - unrestricted	2,397	-	-	4,040	13,653	-	20,090
71200	Mortgage interest income	-	-	-	-	-	-	-
71300	Proceeds from disposition of assets held for sale	-	-	-	-	-	-	-
71301	Cost of sale of assets	-	-	-	-	-	-	-
71400	Fraud recovery	-	-	-	30,695	-	-	30,695
71500	Other revenue	118,116	-	533,610	14,186	239	-	666,151
71600	Gain or loss on sale of fixed assets	6,817,307	-	-	-	-	-	6,817,307
72000	Investment income - restricted	-	-	-	27	-	-	27
70000	TOTAL REVENUE	12,879,658	1,581,165	885,285	17,351,831	1,115,594	(1,101,702)	32,711,831
EXPENSES:								
Administrative								
91100	Administrative salaries	311,665	-	76,532	455,733	475,250	-	1,319,180
91200	Auditing fees	10,988	-	7,900	4,176	1,456	-	24,520
91300	Outside management fees	431,039	113,438	133,473	218,304	-	(857,254)	39,000
91310	Book-keeping fee	51,675	-	10,373	136,440	-	(198,488)	-
91400	Advertising and marketing	-	-	-	-	-	-	-
91500	Employee benefit contributions- administrative	499,312	-	17,280	395,909	325,564	-	1,238,065
91600	Office expenses	53,358	-	12,935	63,226	59,038	-	188,557
91700	Legal expenses	-	-	1,283	21,687	63,980	-	86,950
91800	Travel	3,377	-	291	18,740	7,706	-	30,114
91810	Allocated overhead	-	-	-	-	-	-	-
91900	Other	27,776	-	15,743	61,062	85,965	-	190,546
92000	Asset Management Fee	45,960	-	-	-	-	(45,960)	-
Tenant services								
92100	Tenant services - salaries	161,739	-	-	-	-	-	161,739
92200	Relocation costs	-	-	7,969	-	-	-	7,969
92300	Employee benefit contributions- tenant services	51,541	-	-	-	-	-	51,541
92400	Tenant services - other	32,268	-	3,210	-	-	-	35,478

Passaic Housing Authority								
NJ013								
Financial Data Schedule (FDS)								
December 31, 2016								
Line Item #	Account Description	OPERATING	CAPITAL	6.1 COMPONENT UNIT - DISCRETELY PRESENTED	14.871 HOUSING CHOICE VOUCHERS	CENTRAL OFFICE COST CENTER	ELIMINATION	TOTAL
	Utilities							
93100	Water	147,129	-	24,618	-	-	-	171,747
93200	Electricity	582,283	-	62,756	-	-	-	645,039
93300	Gas	261,637	-	46,434	-	-	-	308,071
93400	Fuel	-	-	-	-	-	-	-
93500	Labor	146,153	-	48,082	-	-	-	194,235
93600	Sewer	87,718	-	11,700	-	-	-	99,418
93700	Employee benefit contributions- utilities	110,795	-	33,549	-	-	-	144,344
93800	Other utilities expense	6,700	-	2,800	-	-	-	9,500
	Ordinary maintenance & operation							
94100	Ordinary maintenance and operations - labor	695,126	-	153,765	-	-	-	848,891
94200	Ordinary maintenance and operations - materials & other	148,690	39,991	17,524	-	-	-	206,205
94300	Ordinary maintenance and operations - contract costs	416,544	71,739	104,646	-	-	-	592,929
94500	Employee benefit contributions- ordinary maintenance	403,690	-	62,226	-	-	-	465,916
	Protective services							
95100	Protective services - labor	64,442	-	24,684	-	-	-	89,126
95200	Protective services- other contract costs	262,050	14,348	29,815	13,368	-	-	319,581
95300	Protective services - other	100	-	100	-	-	-	200
95500	Employee benefit contributions- protective services	20,717	-	2,888	-	-	-	23,605
	General expenses							
96100	Insurance premiums	261,155	-	77,667	13,825	21,977	-	374,624
96200	Other general expenses	468,147	63,292	1,961	41,032	-	-	574,432
96210	Compensated absences	13,107	-	-	14,098	17,205	-	44,410
96300	Payments in lieu of taxes	147,639	-	11,950	-	-	-	159,589
96400	Bad debt - tenant rents	29,229	-	124	-	-	-	29,353
96500	Bad debt- mortgages	-	-	-	-	-	-	-
96600	Bad debt - other	-	-	-	-	-	-	-
96700	Interest expense	-	-	523,034	-	-	-	523,034
96710	Amortization of bond issue costs	-	-	-	-	-	-	-
96800	Severance expense	-	-	-	-	-	-	-
96900	TOTAL OPERATING EXPENSES	5,953,749	302,808	1,527,312	1,457,600	1,058,141	(1,101,702)	9,197,908
97000	EXCESS OPERATING REVENUE OVER OPERATING EXPENSES	6,925,909	1,278,357	(642,027)	15,894,231	57,453	-	23,513,923
97100	Extraordinary maintenance	-	-	-	-	-	-	-
97200	Casualty losses - non capitalized	-	-	-	-	-	-	-
97300	Housing assistance payments	-	-	-	15,637,514	-	-	15,637,514
97350	HAP Portability - in	-	-	-	13,414	-	-	13,414
97400	Depreciation expense	1,242,806	-	232,285	13,934	1,760	-	1,490,785
97500	Fraud losses	-	-	-	-	-	-	-
97800	Dwelling units rent expense	-	-	27,500	-	-	-	27,500
90000	TOTAL EXPENSES	7,196,555	302,808	1,787,097	17,122,462	1,059,901	(1,101,702)	26,367,121

Passaic Housing Authority								
NJ013								
Financial Data Schedule (FDS)								
December 31, 2016								
Line Item #	Account Description	OPERATING	CAPITAL	6.1 COMPONENT UNIT - DISCRETELY PRESENTED	14.871 HOUSING CHOICE VOUCHERS	CENTRAL OFFICE COST CENTER	ELIMINATION	TOTAL
OTHER FINANCING SOURCES (USES)								
10010	Operating transfers in	977,529	-	-	-	8,119	(985,648)	-
10020	Operating transfers out	(8,119)	(977,529)	-	-	-	985,648	-
10030	Operating transfers from/to primary government	-	-	-	-	-	-	-
10040	Operating transfers from/to component unit	-	-	-	-	-	-	-
10070	Extraordinary items, net gain/loss	-	-	-	-	-	-	-
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 program and project out	-	-	-	-	-	-	-
10100	TOTAL OTHER FINANCING SOURCES (USES)	969,410	(977,529)	-	-	8,119	-	-
10000	EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES	6,652,513	300,828	(901,812)	229,369	63,812	-	6,344,710
MEMO ACCOUNT INFORMATION:								
11020	Required annual debt principal payments	-	-	-	-	-	-	-
11030	Beginning equity	8,850,580	-	283,695	1,034,635	1,666,412	-	11,835,322
11040	Prior period adjustments and equity transfers	465,323	-	-	-	(465,323)	-	-
11170	Administrative fee equity	-	-	-	1,154,389	-	-	1,154,389
11180	Housing assistance payments equity	-	-	-	212,959	-	-	212,959
11190	Unit months available	6,958	-	1,430	21,936	-	-	30,324
11210	Number of unit months leased	6,890	-	1,383	18,192	-	-	26,465
Equity Roll Forward Test:								
	Calculation from R/E Statement	\$ 16,269,244	\$ -	\$ -	\$ 1,264,004	\$ 1,264,901	\$ -	\$ 18,180,032
	B/S Line 513	16,269,244	-	-	1,264,004	1,264,901	-	18,180,032
		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -