

GLOUCESTER TOWNSHIP HOUSING AUTHORITY

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEAR ENDED DECEMBER 31, 2016

**WITH
REPORT OF INDEPENDENT AUDITORS**

**GLOUCESTER TOWNSHIP HOUSING AUTHORITY
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YEAR ENDED DECEMBER 31, 2016**

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REPORT OF INDEPENDENT AUDITORS

The Board of Commissioners of the
Gloucester Township Housing Authority:

Report on the Financial Statements

We have audited the accompanying financial statements of the Gloucester Township Housing Authority (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 basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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 auditors' 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 Authority'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 Authority'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.



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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position of the Authority as of December 31, 2016, and the changes in its net position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Correction of Error

As discussed in Note 7 to the financial statements, certain errors that resulted in overstatements of amounts previously reported for related party receivables, notes receivable, other assets, and net position as of December 31, 2015, were discovered by management of the Authority during the current year. Accordingly, net position as of December 31, 2015 has been restated to correct these errors. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The schedule of findings and responses is presented for purpose of additional analysis as required by *Government Auditing Standards* and is not a required part of the basic financial statements.

The schedule of findings and responses have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 11, 2019, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

January 11, 2019
Toms River, New Jersey

Novogradac & Company LLP

FINANCIAL STATEMENTS

**GLOUCESTER TOWNSHIP HOUSING AUTHORITY
STATEMENT OF NET POSITION
AS OF DECEMBER 31, 2016**

ASSETS	
Current assets:	
Cash and cash equivalents	\$ <u>18,119</u>
Total assets	<u>18,119</u>
LIABILITIES	
Current liabilities:	
Accounts payable	<u>15,215</u>
Total liabilities	<u>15,215</u>
NET POSITION	
Net position:	
Unrestricted	<u>2,904</u>
Total net position	\$ <u><u>2,904</u></u>

See accompanying notes to financial statements.

**GLOUCESTER TOWNSHIP HOUSING AUTHORITY
STATEMENT OF REVENUES, EXPENSES,
AND CHANGE IN NET POSITION (DEFICIT)
YEAR ENDED DECEMBER 31, 2016**

Operating revenues:	
Management fee	\$ 43,800
Other revenues	<u>1,959</u>
Total operating revenues	<u>45,759</u>
Operating expenses:	
Administrative	17,754
Bad debt	<u>18,695</u>
Total operating expenses	<u>36,449</u>
Operating income / change in net position	9,310
Net position, beginning of the year	1,011,203
Prior period adjustment	<u>(1,017,609)</u>
Net position (deficit), beginning of year (as restated)	<u>(6,406)</u>
Net position, end of year	<u>\$ 2,904</u>

See accompanying notes to financial statements.

GLOUCESTER TOWNSHIP HOUSING AUTHORITY
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2016

Cash Flows from Operating Activities:	
Cash received from others	\$ 45,759
Cash paid to suppliers	<u>(30,449)</u>
Net cash provided by operating activities	<u>15,310</u>
Net increase in cash and cash equivalents	15,310
Cash and cash equivalents, beginning of year	<u>2,809</u>
Cash and cash equivalents, end of year	<u>\$ 18,119</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 9,310
Changes in operating assets and liabilities:	
Accounts payable	<u>6,000</u>
Net cash provided by operating activities	<u>\$ 15,310</u>

See accompanying notes to financial statements.

GLOUCESTER TOWNSHIP HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization

The Gloucester Township Housing Authority (the "Authority") is a governmental, public corporation created under federal and state housing laws for the purpose of engaging in the development, acquisition and administrative activities of the low-income housing program and other programs, administered by the U.S. Department of Housing and Urban Development ("HUD"), with similar objectives for low and moderate income families. The Authority is responsible for managing the Gloucester Senior Housing Campus, L.P. ("GSHC"), which is a partnership that operates a seventy-five (75) unit project for seniors in the Township of Gloucester (the "Township"), New Jersey.

The Authority is governed by a board of five members who serve staggered terms. An executive director is appointed by the Authority's board to manage the day-to-day operations of the Authority.

B. Basis of Accounting / Financial Statement Presentation

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 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* ("GASB 34"), as amended. GASB 34 requires the basic financial statements to be prepared using the economic resources measurement focus and the accrual basis of accounting and requires the presentation of a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Net Position and Statement of Cash Flows. GASB 34 also requires the Authority to include Management's Discussion and Analysis as part of the Required Supplemental Information.

C. Reporting Entity

In accordance with GASB 61, *The Financial Reporting Entity Omnibus - An Amendment of GASB Statements No. 14 and No. 34*, the Authority's basic financial statements include those of the Authority and any component units. Component units are legally separate 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.

GLOUCESTER TOWNSHIP HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS (continued)
DECEMBER 31, 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Reporting Entity (continued)

An organization has a financial benefit or burden relationship with the primary government if any one of the following conditions exist:

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

Based upon the application of these criteria, this report includes a blended component unit, the Gloucester Township Housing Finance Corporation ("GTHFC"), which is a non-profit corporation formed in 1980 to assist in carrying out certain housing projects for person of low or moderate income and other related projects as approved by the Authority. Furthermore, the Authority is not included in any other reporting entity on the basis of such criteria.

D. Use of Management Estimates

The preparation of financial statements in accordance 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 and contingencies. Actual results could differ significantly from these estimates.

E. Cash and Cash Equivalents

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

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

For the statement of cash flows, cash and cash equivalents include all cash balances and highly liquid investments with a maturity of three months or less at time of purchase.

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

GLOUCESTER TOWNSHIP HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS (continued)
DECEMBER 31, 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Accounts Receivable

Accounts receivable is stated at the amount management expects to collect from outstanding balances. Management closely monitors outstanding balances and provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance 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 valuation allowance and a credit to trade accounts receivable.

G. Operating Revenues and Expenses

The Authority defines its operating revenues as income derived from charges for services provided as well as 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 and expenses as non-operating.

H. 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.

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

I. Revenue Recognition

Revenue resulting from special events, fees charged by the Authority, refunded grants and other income is recorded when earned.

J. Taxes

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

GLOUCESTER TOWNSHIP HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS (continued)
DECEMBER 31, 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

K. Risk Management

The Authority is exposed to various risks related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Significant losses are covered by commercial insurance for all major programs and there have been no significant reductions in insurance coverage. Claims expenditures and liabilities are reported when it is probable that a loss has occurred, the amount of the loss can be reasonably estimated, and said amount exceeds insurance coverage. Settlement amounts have not exceeded insurance coverage for the last three years.

NOTE 2. CASH AND CASH EQUIVALENTS

As of December 31, 2016, the carrying amount of the Authority's cash and cash equivalents was \$18,119, and the bank balances approximated \$18,013.

The entire amount of the bank balances of \$18,013 was covered by federal depository insurance as of December 31, 2016.

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

NOTE 3. NOTE RECEIVABLE

On August 20, 2008, the Authority loaned \$150,000 to GSHC. The loan is non-recourse and non-interest bearing. The loan is secured by a fourth mortgage on GSHC's building and is due in December 2029. The loan requires that the property remain affordable throughout the loan term. Management has estimated this balance to be uncollectible and has established an allowance for uncollectible notes receivable totaling \$150,000 as of December 31, 2016.

NOTE 4. RELATED PARTY TRANSACTIONS

The Authority controls and manages the GSHC. Under the agreement, GSHC is to pay \$48.66 per unit month for management fees. For the year ended December 31, 2016, the Authority earned \$43,800 in management fees.

As of December 31, 2016, included in related party receivables is \$118,598, owed from GSHC to the Authority, for the reimbursement of salaries, benefits, and management fees.

GLOUCESTER TOWNSHIP HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS (continued)
DECEMBER 31, 2016

NOTE 4. RELATED PARTY TRANSACTIONS (continued)

Included in the related party receivables is a developer fee of \$959,000 incurred to GTHFC. For the year ended December 31, 2016, \$612,668 remained payable. The GTHFC is also owed \$153,743 from GSHC for construction related costs which are included in related party receivables as of December 31, 2016.

Management has determined the aforementioned related party receivable balances to be uncollectable as of December 31, 2016. Therefore, an allowance for uncollectible receivables has been established totaling \$885,009.

NOTE 5. ACCOUNTS PAYABLE

As of December 31, 2016, accounts payable consisted of accounts payable - vendors. Accounts payable - vendors represents the amounts payable to contractors and vendors for materials received or services rendered. As of December 31, 2016, the Authority owed \$15,215 to vendors.

NOTE 6. CONDENSED INFORMATION FOR THE BLENDED COMPONENT UNIT

	Gloucester Township Housing Finance Corporation
Assets:	
Current assets	\$ 153,743
Other non-current assets	612,668
Allowance for uncollectible accounts	(766,411)
Total assets	-
Net Position:	
Unrestricted	-
Net position	\$ -

For year ending December 31, 2016, the GTHFC did not have any statement of revenue, expenses, and changes in net position activity.

NOTE 7. PRIOR PERIOD ADJUSTMENT

The Authority's financial statements have been restated as of January 1, 2016 due to the correction of errors related to related party receivables and notes receivable. As a result of the correction, beginning net position was reduced by \$1,017,609, related party receivables were reduced by \$866,314, notes receivable were reduced by \$150,000, and other assets were reduced by \$1,295.

GLOUCESTER TOWNSHIP HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS (continued)
DECEMBER 31, 2016

NOTE 8. 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 January 11, 2019 (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.



**NOVOGRADAC
& COMPANY** LLP
CERTIFIED PUBLIC ACCOUNTANTS

**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***

Board of Commissioners of
Gloucester Township Housing Authority:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and audit requirement as prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey, the financial statements of the Gloucester Township Housing Authority (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 January 11, 2019.

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 opinion 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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be material weaknesses as items 2016-001 and 2016-002.



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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 did not disclose instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Authority's Response to Audit Findings

The Authority's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Novogradac & Company LLP

January 11, 2019
Toms River, New Jersey

SUPPLEMENTARY INFORMATION

**GLOUCESTER TOWNSHIP HOUSING AUTHORITY
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2016**

I. Financial Statement Findings

2016-001

Criteria: The Authority did not maintain adequate internal control over financial reporting.

Condition: During audit testing we noted the following:

- The Authority could not provide timely and accurate year-end financial statements.
- The Authority recorded a prior period adjustment in order to correct material misstatements of certain financial statement accounts.

Cause: A lack of employee manpower in the finance department resulted in periodic reconciliations not being performed.

Recommendation: We recommend that the Authority institute monthly procedures whereby material financial statements accounts will be reviewed for accuracy and reconciled to their subsidiary ledger.

Authority Response: We agree with the auditors' finding. The Authority and fee accountant will review material financial accounts on a regular basis for accuracy.

2016-002

Criteria: Maintaining proper internal control over cash disbursements requires that, at a minimum, payments to vendors be supported by vendor invoices which delineate the item(s) purchased, the price paid, the date received and the person who took custody of the item(s) and; all disbursements are properly authorized.

Condition: The Authority did not maintain adequate internal controls over the cash disbursements process.

Context: A review of 6 cash disbursements revealed that; two (2) purchases contained no supporting documentation and one (1) cash disbursements contained inadequate supporting documentation. Our sample size is statistically valid.

Cause: The Authority did not properly consider internal controls over cash disbursements.

Effect: The Authority has not maintained proper internal control as it relates to cash disbursements.

Auditors' Recommendation: We recommend that the Authority implement a process whereby vendor invoices are properly reviewed and approved by a person independent of the check writing process. Upon payment of an invoice, the document is properly cancelled and filed by vendor.

View of Responsible Officials and Corrective Actions: Management agrees with the Auditors' finding and has adopted a record keeping process which will remedy the aforementioned deficiencies.

II. Schedule of Prior Year Audit Findings

None reported.