

**HOUSING AUTHORITY OF THE
TOWN OF MORRISTOWN**

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

FOR THE YEAR ENDED SEPTEMBER 30, 2018

**WITH
REPORT OF INDEPENDENT AUDITORS**

**HOUSING AUTHORITY OF THE TOWN OF MORRISTOWN
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FOR THE YEAR ENDED SEPTEMBER 30, 2018**

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REPORT OF INDEPENDENT AUDITORS

To the Board of Directors of the
Housing Authority of the Town of Morristown:

Report on the Financial Statements

We have audited the accompanying financial statements of the Housing Authority of the Town of Morristown (the "Authority") as of and for the year ended September 30, 2018, 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 September 30, 2018, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required pension and other post employment benefit information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our 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 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 basic financial statements. The accompanying financial data schedule is also not a required part of the basic 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards and financial data schedule are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 13, 2020 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.

Novogradac & Company LLP

January 13, 2020
Toms River, New Jersey

MANAGEMENT'S DISCUSSION AND ANALYSIS

**HOUSING AUTHORITY OF THE TOWN OF MORRISTOWN
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2018**

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 September 30, 2018. We encourage readers to consider the information presented here in conjunction with the Authority's financial statements as presented elsewhere in this report.

A- Financial Highlights

- 1) The assets and deferred outflows of resources of the Authority exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$4,336,838 (net position) as opposed to \$4,313,460 for the prior fiscal year.
- 2) As of the close of the current fiscal year, the Authority reported ending unrestricted net position (deficit) of (\$5,420,042).
- 3) The Authority's cash and cash equivalent balance (including restricted cash and tenant security deposits) at September 30, 2018 was \$2,057,465 representing a decrease of \$197,338 from the prior fiscal year.
- 4) The Authority had total operating revenues of \$6,829,215 and total operating expenses of \$7,180,061 (including depreciation of \$582,800) for the year ended September 30, 2018.
- 5) The Authority's capital outlays for the fiscal year were \$289,688.
- 6) The Authority's expenditures of federal awards amounted to \$3,819,756 for the fiscal year.
- 7) The Authority's liabilities decreased \$2,516,939 due to the Authority recording their unfunded other post employment benefits ("OPEB") liability in FY 2018 as required by Governmental Accounting Standards Board Statement No. 75 (GASB 75). The pension and OPEB liabilities decreased by \$2,353,798 from FY 2017 to FY 2018.
- 8) The deferred inflows of resources increased \$2,112,341 due to the Authority recording their unfunded other post employment benefits liability in FY 2018 as required by Governmental Accounting Standards Board Statement No. 75 (GASB 75). The Authority also had an increase in deferred inflows related to their defined benefit pension plan during FY 2018.

B – Using the Annual Report

1 – Management's Discussion and Analysis

The Management's Discussion and Analysis is intended to serve as an introduction to the Authority's financial statements. The Authority's 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 TOWN OF MORRISTOWN
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2018**

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

The 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 basic financial statements can be found on pages 10 through 14.

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 purpose of additional analysis as required by the Uniform Guidance. The Schedule of Expenditures of Federal Awards can be found on page 42 of this report.

**HOUSING AUTHORITY OF THE TOWN OF MORRISTOWN
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2018**

C – The Authority as a Whole

The Authority's Net Position decreased during the fiscal year primarily due to an excess of expenses over revenues of \$17,419. The Authority's revenues are primarily subsidies and grants received from HUD. The Authority receives subsidies each month based on a pre-approved amount by HUD. Grants are drawn down based on need against a pre-authorized funding level.

The Authority's operating revenues of \$6,829,215 were less than operating expenses of \$7,180,061.

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 services to its tenants. Consequently, these assets are not available for future spending.

Significant financial statement variances from fiscal year 2017 to 2018 are explained below:

HUD operating grants decreased \$8,640 primarily due to decreased funding in the Public Housing Capital Fund, which was partially offset by increased funding in the Authority's Public and Indian Housing Program.

Other income increased \$997,984 primarily due to the Authority recognizing an OPEB benefit during FY 2018.

Long-term debt decreased \$150,000 as the Authority paid off one year of principal amortization on the Capital Fund Program Revenue Bonds.

Net pension liability decreased \$1,249,531, the related pension deferred outflows of resources decreased \$71,047, and the related deferred inflows of resources increased \$164,296 from September 30, 2017 to September 30, 2018. The changes were due to changes in assumptions in the State of New Jersey's actuarial valuation report for the State of New Jersey PERS financial statements.

**HOUSING AUTHORITY OF THE TOWN OF MORRISTOWN
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2018**

D – Budgetary Highlights

For the year ended September 30, 2018 individual program or grant budgets were prepared by the Authority and were approved by the Board of Commissioners. The budgets are required by the State of New Jersey and were primarily used as a management tool. (Also, the Authority adopted a comprehensive annual budget for the General Fund.) The budgets were prepared in accordance with the accounting procedures prescribed by the applicable funding agency. As indicated by the excess of revenues over expense, the Authority's net position increased during the fiscal year.

E – Capital Assets and Debt Administration

1 – Capital Assets

As of September 30, 2018, the Authority's capital assets, net of accumulated depreciation totaled \$11,145,953. This investment in capital assets includes land, buildings, and equipment.

Major capital assets purchased during the fiscal year totaled \$289,688.

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

The following table summarizes the change in capital assets as of September 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>	<u>Change</u>
Land	\$ 250,000	\$ 250,000	\$ -
Construction in progress	1,147,687	904,015	243,672
Buildings and improvements	22,278,136	22,278,136	-
Furniture and equipment	<u>2,605,921</u>	<u>2,559,905</u>	<u>46,016</u>
Total fixed assets	26,281,744	25,992,056	289,688
Less: accumulated depreciation	<u>15,135,791</u>	<u>14,552,991</u>	<u>582,800</u>
Net capital assets	<u>\$ 11,145,953</u>	<u>\$ 11,439,065</u>	<u>\$ (293,112)</u>

2 – Long Term Debt

On September 30, 2005, the Authority entered into a Capital Fund leveraging pool. The New Jersey Housing and Mortgage Finance Agency issued tax exempt, twenty year Capital Fund Program Revenue Bonds, 2004 Series A. The Authority's share of the funds from the bond issue pool amounted to \$3,000,000. Repayment of the funds leveraged shall be budgeted from Capital Fund Allocations received by the Authority from HUD.

Further details can be found in the notes to the financial statements.

**HOUSING AUTHORITY OF THE TOWN OF MORRISTOWN
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2018**

F – 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 September 30, 2019.

- 1 – The state of the economy, particularly its effect on tenant incomes, which are used in determining tenant rents paid to the Authority.
- 2 – The need for Congress to fund the war on terrorism and the possible cut-back on HUD subsidies and grants.
- 3 – The use of the Authority's unrestricted cash reserves to fund any shortfalls rising from a possible economic turndown and reduced subsidies and grants.

G – Contacting the Authority's Financial Management

The financial report is designed to provide a general overview of the Authority's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Executive Director, Housing Authority of the Town of Morristown, 31 Early Street, Morristown, New Jersey 07960, or call (973) 538-6343.

**HOUSING AUTHORITY OF THE TOWN OF MORRISTOWN
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2018**

Composition of Net Position is as follows:

	As Of		
	<u>September 30, 2018</u>	<u>September 30, 2017</u>	<u>Variance</u>
Cash and Other Assets	\$ 3,619,895	\$ 3,679,429	\$ (59,537)
Capital Assets - Net	11,145,953	11,439,065	(293,112)
Deferred Outflows of Resources	1,148,225	1,217,593	(69,368)
Total Assets and Deferred Outflows	15,914,070	16,336,087	(422,017)
Less: Total Liabilities and Deferred Inflows of Resources	11,577,232	11,981,830	404,598
Net Position	\$ 4,336,838	\$ 4,354,257	\$ (17,419)
Net Investment in Capital Assets	9,725,953	9,869,065	(143,112)
Restricted Net Position	30,927	60,365	(29,438)
Unrestricted Net Position	(5,420,042)	(5,575,173)	155,131
Total Net Position	\$ 4,336,838	\$ 4,354,257	\$ (17,419)

Computations of Changes in Net Position are as follows:

	Year Ended		
	<u>September 30, 2018</u>	<u>September 30, 2017</u>	<u>Variance</u>
<u>Revenues</u>			
Tenant Revenues	\$ 2,421,050	\$ 2,364,659	\$ 56,391
HUD Operating Grants	3,274,378	3,283,018	(8,640)
Other Income	1,133,787	135,803	997,984
Total Operating Revenues	6,829,215	5,783,480	1,045,735
<u>Expenses</u>			
Other Operating Expenses	4,878,011	4,045,322	832,689
Housing Assistance Payments	1,719,250	1,767,948	(48,698)
Depreciation Expense	582,800	613,852	(31,052)
Total Operating Expenses	7,180,061	6,427,122	752,939
Operating Income / (Loss)	(350,846)	(643,642)	292,796
<u>Non-Operating Revenues (Expenses)</u>			
Interest Expense	(70,866)	-	(70,866)
Interest on Investments	10,2621	8,556	2,065
Capital Grants	393,672	646,237	(252,565)
Net non-operating expenses	333,427	654,793	(321,366)
Excess Revenues/(Deficiency)	(17,419)	11,151	28,570
Net Position - Beginning of Year	4,354,257	4,343,106	11,151
Net Position - End of Year	\$ 4,336,838	\$ 4,354,257	\$ (17,419)

FINANCIAL STATEMENTS

**HOUSING AUTHORITY OF THE TOWN OF MORRISTOWN
STATEMENT OF NET POSITION
AS OF SEPTEMBER 30, 2018**

ASSETS

Current assets:	
Cash and cash equivalents	\$ 1,772,311
Tenant security deposits	208,974
Investments	1,140,861
Accounts receivable, net	348,370
Prepaid expenses	<u>73,196</u>
Total current assets	<u>3,543,712</u>
Non-current assets:	
Restricted cash	76,180
Capital assets, net	<u>11,145,953</u>
Total non-current assets	<u>11,222,133</u>
Total assets	<u>14,765,845</u>

DEFERRED OUTFLOWS OF RESOURCES

State of New Jersey P.E.R.S.	1,146,546
State of New Jersey S.H.B.P.	<u>1,679</u>
Deferred outflows of resources	<u>1,148,225</u>
Total assets and deferred outflows of resources	<u>\$ 15,914,070</u>

See accompanying notes to financial statements.

HOUSING AUTHORITY OF THE TOWN OF MORRISTOWN
STATEMENT OF NET POSITION (continued)
AS OF SEPTEMBER 30, 2018

LIABILITIES

Current liabilities:	
Accounts payable	\$ 141,802
Accrued expenses	42,113
Tenant security deposits	208,974
Prepaid rent	5,865
Accrued compensated absences, current	20,838
Loan payable, current	160,000
Accrued interest payable	27,477
Other current liabilities	<u>231,762</u>
Total current liabilities	<u>838,831</u>
Non-current liabilities:	
Accrued compensated absences, non-current	187,549
Accrued pension liability	3,076,539
Accrued OPEB liability	3,176,720
Loan payable, non-current	1,260,000
Other non-current liabilities	<u>44,455</u>
Total non-current liabilities	<u>7,745,263</u>
Total liabilities	<u>8,584,094</u>

DEFERRED INFLOWS OF RESOURCES

State of New Jersey P.E.R.S.	1,045,093
State of New Jersey S.H.B.P.	<u>1,948,045</u>
Total deferred inflows of resources	<u>2,993,138</u>

NET POSITION

Net position:	
Net investment in capital assets	9,725,953
Restricted	30,927
Unrestricted	<u>(5,420,042)</u>
Total net position	<u>4,336,838</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 15,914,070</u>

See accompanying notes to financial statements.

HOUSING AUTHORITY OF THE TOWN OF MORRISTOWN
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
FOR THE YEAR ENDED SEPTEMBER 30, 2018

Operating revenues:	
Tenant revenue	\$ 2,421,050
HUD operating grants	3,274,378
Other revenues	<u>1,133,787</u>
Total operating revenues	<u>6,829,215</u>
Operating expenses:	
Administrative	2,013,344
Tenant services	6,165
Utilities	1,182,172
Ordinary repairs and maintenance	1,342,109
Insurance	156,803
General expenses	177,418
Housing assistance payments	1,719,250
Depreciation	<u>582,800</u>
Total operating expenses	<u>7,180,061</u>
Operating loss	<u>(350,846)</u>
Non-operating revenues (expenses):	
Investment income	10,621
Interest expense	<u>(70,866)</u>
Net non-operating expenses	<u>(60,245)</u>
Loss before capital grants	(411,091)
Capital grants	<u>393,672</u>
Change in net position	(17,419)
Total net position, beginning of year (as originally reported)	<u>8,635,244</u>
Change in accounting principle - adoption of GASB 75	(4,090,724)
Prior period adjustment - correction of an error	<u>(190,263)</u>
Net position, beginning of year (as restated)	<u>4,354,257</u>
Total net position, end of year	<u>\$ 4,336,838</u>

See accompanying notes to financial statements.

**HOUSING AUTHORITY OF THE TOWN OF MORRISTOWN
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

Cash Flows from Operating Activities:	
Cash received from tenants and others	\$ 3,120,917
Cash received from grantors	3,566,247
Cash paid to employees	(1,079,279)
Cash paid to vendors and suppliers	<u>(5,688,863)</u>
Net cash used in operating activities	<u>(80,978)</u>
Cash Flows from Capital and Related Financing Activities:	
Principal payments of bonds/notes	(150,000)
Interest paid on long term debt	(73,600)
Proceeds from capital grants	393,672
Purchase of capital assets	<u>(289,688)</u>
Net cash used in capital and related financing activities	<u>(119,616)</u>
Cash Flows from Investing Activities:	
Investment income	<u>3,256</u>
Net cash provided by investing activities	<u>3,256</u>
Net decrease in cash and cash equivalents	(197,338)
Cash and cash equivalents, beginning of year	<u>2,254,803</u>
Cash and cash equivalents, end of year	<u>\$ 2,057,465</u>
Reconciliation of cash and cash equivalents to the Statement of Net Position is as follows:	
Cash and cash equivalents	\$ 1,772,311
Tenant security deposits	208,974
Restricted cash	<u>76,180</u>
	<u>\$ 2,057,465</u>

See accompanying notes to financial statements.

HOUSING AUTHORITY OF THE TOWN OF MORRISTOWN
STATEMENT OF CASH FLOWS (continued)
FOR THE YEAR ENDED SEPTEMBER 30, 2018

Reconciliation of operating loss to net cash
used in operating activities:

Operating loss	\$	(350,846)
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Adjustments to reconcile operating loss to net cash
used in operating activities:

Depreciation		582,800
Bad debt expense		29,172

Changes in operating assets, deferred outflows of resources,
liabilities, and deferred inflows of resources:

Accounts receivable, net		(158,724)
Prepaid expenses		(884)
Deferred outflows of resources		69,368
Accounts payable		(268,511)
Accrued expenses		2,188
Tenant security deposits liability		4,769
Prepaid rent		2,113
Accrued compensated absences		14,330
Other liabilities		234,704
Accrued pension liability		(1,249,531)
Accrued OPEB liability		(1,104,267)
Deferred inflows of resources		<u>2,112,341</u>

Net cash used in operating activities	\$	<u>(80,978)</u>
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HOUSING AUTHORITY OF THE TOWN OF MORRISTOWN
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization

The Housing Authority of the Town of Morristown (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 Morristown, New Jersey (the "Town"). The Authority is responsible for operating certain low-rent housing programs in the Town under programs administered by the U.S. Department of Housing and Urban Development ("HUD"). These programs provide housing for eligible families under the United States Housing Act of 1937, as amended.

The Authority is governed by a board of 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 Authority's board of commissioners 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 programs of the Authority are organized as separate accounting entities. 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.

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.

HOUSING AUTHORITY OF THE TOWN OF MORRISTOWN
NOTES TO FINANCIAL STATEMENTS (continued)
SEPTEMBER 30, 2018

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Accounting / Financial Statement Presentation (continued)

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 Supplementary Information.

The Authority's primary source of non-exchange revenue relates to grants and subsidies. In accordance with GASB 33, *Accounting and Financial Reporting for Non-exchange Transactions*, ("GASB 33") grant and subsidy revenue is 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 unused housing assistance payments ("HAP") under proprietary fund reporting should be reported as restricted net 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 position, with the associated assets being reported on the FDS as unrestricted.

Both administrative fee 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 Vouchers program is no longer a cost reimbursement grant; therefore, the Authority recognizes unspent administrative fee and HAP revenue in the reporting period as revenue for financial statement reporting.

In accordance with 2 CFR 200.305(b)(9), any investment income earned up to \$500 on these funds may be retained by the Authority. Amounts in excess of \$500 must be remitted annually to the Department of Health and Human Services, Payment Management System.

The Authority adopted GASB 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions* ("GASB 75"). GASB 75 established standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenditures associated with post employment benefits other than pensions ("OPEB") of State and Local Governments. For defined benefit OPEB, GASB 75 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, GASB 75 details the recognition and disclosure requirements for employers with liabilities to a defined benefit OPEB plan and for employers whose employees are provided with defined contribution OPEB.

HOUSING AUTHORITY OF THE TOWN OF MORRISTOWN
NOTES TO FINANCIAL STATEMENTS (continued)
SEPTEMBER 30, 2018

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Reporting Entity

In accordance with GASB 61, *The Financial Reporting Entity Omnibus - An Amendment of GASB Statement 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. 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 all programs and activities operated by the Authority. There were no additional entities required to be included in the reporting entity under these criteria in the current fiscal year. Furthermore, the Authority is not included in any other reporting entity on the basis of such criteria.

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:

Public and Indian Housing Program

The Public and Indian Housing Program is designed to provide low-cost housing within the Town. 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 households 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 household.

Public Housing Capital Fund Program

The purpose of the Public Housing 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.

HOUSING AUTHORITY OF THE TOWN OF MORRISTOWN
NOTES TO FINANCIAL STATEMENTS (continued)
SEPTEMBER 30, 2018

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. 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, deferred outflows of resources, liabilities and deferred inflows of resources, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates include the allowance for doubtful accounts, accrued expenses and other liabilities, depreciable lives of properties and equipment, amortization of leasehold improvements and contingencies. Actual results could differ significantly from these estimates.

F. Cash and Cash Equivalents

New Jersey Authorities are required by N.J.S.A. 40A:5-14 to deposit public funds in a bank or trust company having its place of business in the State of New Jersey and organized under the laws of the United States, or the 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 the act.

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

For the Statement of Cash Flows, cash and cash equivalents include all cash balances and highly liquid investments with a maturity of three months or less at time of purchase. It is the Authority's policy to maintain collateralization in accordance with state and HUD requirements.

G. Investments

Investments consist of certificates of deposit and are valued at their cost which approximates their market value in accordance with GASB 40, *Deposit and Investment Risk Disclosures - An Amendment of GASB No. 3*.

HOUSING AUTHORITY OF THE TOWN OF MORRISTOWN
NOTES TO FINANCIAL STATEMENTS (continued)
SEPTEMBER 30, 2018

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

H. Accounts Receivable

Rents are due from tenants on the first day of each month. As a result, tenants receivable balances primarily consist of rents past due and due from vacated tenants. An allowance for doubtful accounts is established to provide for accounts which may not be collected in the future for any reason. Collection losses on accounts receivable are charged against the allowance for doubtful accounts. Also, included in accounts receivable are those amounts that tenants owe the Authority as payment for committing fraud or misrepresentation. These charges usually consist of retroactive rent and other amounts that may be determined by a formal written agreement or by a court order.

The Authority recognizes a receivable from HUD and other governmental agencies for amounts earned and billed but not received and for amounts unbilled, but earned as of year end.

I. Allowance for Doubtful Accounts

The Authority periodically reviews all accounts receivable to determine the amount, if any, that may be uncollectable. If it is determined that an account or accounts may be uncollectable, the Authority prepares an analysis of such accounts and records an appropriate allowance against such amounts.

J. Prepaid Expenses

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

K. Capital Assets

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 fixed assets, the cost and related accumulated depreciation are 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 and Improvements | 15-40 Years |
| • Furniture and Equipment | 3-10 Years |

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

HOUSING AUTHORITY OF THE TOWN OF MORRISTOWN
NOTES TO FINANCIAL STATEMENTS (continued)
SEPTEMBER 30, 2018

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

L. 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. During the year ended September 30, 2018, there were no impairment losses incurred.

M. Accounts Payable and Accrued Liabilities

The Authority recognizes a liability for goods and services received but not paid for as of year-end. The Authority recognizes a liability for wages and fringe benefits related to services performed at year-end but not yet paid to employees or taxing authorities.

N. Prepaid Rent

The Authority's prepaid rent primarily consists of the prepayment of rent by residents applicable to future periods.

O. Compensated Absences

Compensated absences are those absences for which employees will be paid in accordance with the Authority's Personnel Policy. A liability for compensated absences that is attributable to services already rendered and that are not contingent on a specific event that is outside the control of the Authority and its employees, is accrued as employees earn the rights to the benefits. Compensated absences that relate to future services or that are contingent on a specific event that is outside the control of the Authority and its employees are accounted for in the period in which such services are rendered or in which such event take place.

P. Deferred Outflows of Resources and Deferred Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources until that time.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources until that time.

HOUSING AUTHORITY OF THE TOWN OF MORRISTOWN
NOTES TO FINANCIAL STATEMENTS (continued)
SEPTEMBER 30, 2018

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Q. Pensions and OPEB

For purposes of measuring the net pension and OPEB liability, deferred outflows of resources and deferred inflows of resources related to pensions and OPEB, and pension and OPEB expense, information about the fiduciary net position of the Public Employees Retirement System (PERS) and the State Health Benefit Local Government Retired Employees Plan ("SHBP") and additions to/deductions from fiduciary net position have been determined on the same basis as they are reported by PERS and SHBP. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

R. Equity Classifications

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

Net investment in capital assets - Consists of resources 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 net position that does not meet the definition of "restricted" or "net investment in capital assets."

S. 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. The Authority receives annual operating subsidies from HUD, subject to limitations prescribed by HUD. Operating subsidies from HUD are recorded when received and are accounted for as revenue. Other contributions from HUD that are for development and modernization of capital assets are reflected separately in the accompanying financial statements as capital grants. 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.

T. Fair Value

The carrying amount of the Authority's financial instruments including cash and cash equivalents, accounts receivable, notes receivable and certain investments closely approximates their fair value.

HOUSING AUTHORITY OF THE TOWN OF MORRISTOWN
NOTES TO FINANCIAL STATEMENTS (continued)
SEPTEMBER 30, 2018

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

U. Taxes

The Authority is a unit of local government under New Jersey law and is exempt from real estate, sales and income taxes by both the federal and state governments. However, the Authority will pay a payment in lieu of taxes to cover municipal services provided by the local government for certain properties owned throughout the Town.

V. Budgets and Budgetary Accounting

The Authority adopts annual, appropriated operating budgets for all its programs receiving federal expenditure awards, which are used as a management tool throughout the accounting cycle. All budgets are prepared on a HUD basis, which differs with accounting principles generally accepted in the United States of America. All appropriations lapse at HUD's program year end or at the end of grant periods.

Pursuant to N.J.S.A 40A:5A-10 and N.J.A.C. 5:31, the Authority is also required to submit an authority wide budget for each fiscal year to the Director of the Division of Local Government Services sixty (60) days prior to the end of the fiscal year.

W. Economic Dependency

The Section 8 Housing Choice Vouchers and Public and Indian Housing programs of the Authority are economically dependent on grants and subsidies from HUD. The programs operate at a loss prior to receiving the grants.

X. Risk Management

The Authority is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. 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 JIF will be self-sustaining through member premiums. There have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the year ended September 30, 2018.

HOUSING AUTHORITY OF THE TOWN OF MORRISTOWN
NOTES TO FINANCIAL STATEMENTS (continued)
SEPTEMBER 30, 2018

NOTE 2. CASH AND CASH EQUIVALENTS

As of September 30, 2018, the Authority had funds on deposit in checking, savings, and money market accounts. The carrying amount of the Authority's cash and cash equivalents (including restricted cash) was \$2,057,465, and the bank balances approximated \$2,217,371.

<u>Cash Category</u>	<u>Amount</u>
Unrestricted	\$ 1,772,311
Tenant security deposits	208,974
Restricted	<u>76,180</u>
Total cash and cash equivalents	<u>\$ 2,057,465</u>

Of the bank balances, \$252,299 was covered by federal depository insurance and the remaining \$1,965,072 was collateralized by GUDPA as of September 30, 2018.

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 September 30, 2018, the Authority's bank balances were not exposed to custodial credit risk.

NOTE 3. INVESTMENTS

Investments, stated at fair value in accordance with GASB 40, consisted of the following as of September 30, 2018:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturity</u>
Certificates of Deposit:		
Provident Bank	\$ 406,100	March 30, 2020
Provident Bank	277,019	September 3, 2020
Provident Bank	77,968	June 4, 2020
Provident Bank	176,063	August 7, 2020
Provident Bank	<u>203,711</u>	September 30, 2020
	<u>\$ 1,140,861</u>	

Interest Rate Risk

The Authority does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

All investments are in financial instruments in accordance with HUD regulations. Treasury Bills and agency notes held by banks in the name of the Authority are fully guaranteed by the federal government. The Authority does not have an investment policy that would further limit investment choices and it places no limit on the amount that can be invested with one issuer.

HOUSING AUTHORITY OF THE TOWN OF MORRISTOWN
NOTES TO FINANCIAL STATEMENTS (continued)
SEPTEMBER 30, 2018

NOTE 4. ACCOUNTS RECEIVABLE, NET

Accounts receivable, net consists of the following at September 30, 2018:

<u>Description</u>	<u>Amount</u>
Accounts receivable - HUD	\$ 332,283
Accounts receivable - tenants, net	<u>16,087</u>
Total accounts receivable, net	<u>\$ 348,370</u>

Accounts Receivable - HUD

As of September 30, 2018, Accounts receivable - HUD consisted of amounts due from the Department of Housing and Urban Development. Management estimates the amounts to be fully collectible and therefore no allowance for doubtful accounts has been established.

Accounts Receivable - Tenants, Net

Tenant accounts receivable represents amounts owed to the Authority by tenants for outstanding rent. The balance is shown net of an allowance for doubtful accounts of \$71,158.

NOTE 5. RESTRICTED DEPOSITS

As of September 30, 2018, restricted deposits consisted of the following:

<u>Cash Category</u>	<u>Amount</u>
Housing assistance payment reserve	\$ 28,629
Family Self Sufficiency program escrows	45,253
NJHMFA 2004 Capital Fund Revenue Bond interest	2,298
Tenant security deposits	<u>208,974</u>
Total restricted deposits	<u>\$ 285,154</u>

Housing assistance payment reserves are restricted for use only in the Section 8 Housing Choice Vouchers Program for future housing assistance payments.

Family Self Sufficiency ("FSS") program escrows are restricted for use in the Section 8 Housing Choice Vouchers Program by FSS program participants.

NJHMFA 2004 Capital Fund Revenue Bond interest is restricted for certain capital improvements in accordance with the Authority's approved annual plan.

Tenant security deposits represent amounts held by the Authority on behalf of tenants. Upon termination from the program, the tenant is due amounts deposited plus interest earned less any amounts charged for damage to the unit.

HOUSING AUTHORITY OF THE TOWN OF MORRISTOWN
NOTES TO FINANCIAL STATEMENTS (continued)
SEPTEMBER 30, 2018

NOTE 6. CAPITAL ASSETS, NET

The following is a summary of the changes in capital assets during the year ended September 30, 2018:

Description	September 30, 2017	Additions	Dispositions	Transfers	September 30, 2018
<u>Non-depreciable:</u>					
Land	\$ 250,000	\$ -	\$ -	\$ -	\$ 250,000
Construction in progress	904,015	243,672	-	-	1,147,687
Total	1,154,015	243,672	-	-	1,397,687
<u>Depreciable:</u>					
Buildings and improvements	22,278,136	-	-	-	22,278,136
Furniture and equipment	2,559,905	46,016	-	-	2,605,921
Total	24,838,041	46,016	-	-	24,884,057
Less: accumulated depreciation	14,552,991	582,800	-	-	15,135,791
Net capital assets	\$ 11,439,065	\$ (293,112)	\$ -	\$ -	\$ 11,145,953

Depreciation expense for the fiscal year ended September 30, 2018 amounted to \$582,800.

NOTE 7. ACCOUNTS PAYABLE

As of September 30, 2018, accounts payable consisted of the following:

<u>Description</u>	<u>Amount</u>
Accounts payable - vendors	\$ 83,005
Accounts payable - other governments	58,797
Total accounts payable	\$ 141,802

Accounts Payable - Vendors

Accounts payable - vendors represents the amounts payable to contractors and vendors for materials received or services rendered.

Accounts Payable - Other Governments

Accounts payable - other governments represents amounts due and payable to other federal agencies and state and local governments.

HOUSING AUTHORITY OF THE TOWN OF MORRISTOWN
NOTES TO FINANCIAL STATEMENTS (continued)
SEPTEMBER 30, 2018

NOTE 8. NON-CURRENT LIABILITIES

Non-current liabilities as of September 30, 2018 consisted of the following:

Description	September 30, 2017	Additions	Payments	September 30, 2018	Amounts due within one Year
Compensated absences	\$ 194,057	\$ 14,330	\$ -	\$ 208,387	\$ 20,838
Accrued pension liability	4,326,070	-	1,249,531)	3,076,539	-
Accrued OPEB liability	4,280,987	-	1,104,267)	3,176,720	-
Loan payable	1,570,000	-	(150,000)	1,420,000	160,000
Family self sufficiency escrows	<u>41,513</u>	<u>2,942</u>	<u>-</u>	<u>44,455</u>	<u>-</u>
Total long-term liabilities	<u>\$0,412,627</u>	<u>\$ 17,272</u>	<u>\$2,503,798)</u>	<u>\$7,926,101</u>	<u>\$ 180,838</u>

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 certain Authority owned properties in accordance with the provisions of its Cooperation Agreement with the Town. Under the Cooperation Agreement, the Authority must pay the Town the lesser of 10% of its net shelter rent or the approximate full real property taxes. During the fiscal year ended September 30, 2018, PILOT expense totaled \$123,888.

NOTE 10. LOAN PAYABLE

Loan payable as of September 30, 2018 consisted of the following:

<u>Description</u>	<u>Amount</u>
On September 30, 2005, the Authority entered into a Capital Fund leveraging pool. The New Jersey Housing and Mortgage Finance Agency issued tax exempt, twenty year Capital Fund Program Revenue Bonds, 2004 Series A. The Authority's share of the funds from the bond issue pool amounted to \$3,000,000. The net funds received from the leveraging pool were restricted and spent in accordance with the Authority's capital fund budget. Repayment of the funds are secured with and paid solely from Capital Fund Allocations received by the Authority from HUD. The bonds mature November 1, 2025.	\$ 1,420,000
Less: current portion	<u>160,000</u>
Long-term debt, net of current portion	<u>\$ 1,260,000</u>

HOUSING AUTHORITY OF THE TOWN OF MORRISTOWN
NOTES TO FINANCIAL STATEMENTS (continued)
SEPTEMBER 30, 2018

NOTE 10. LOAN PAYABLE (continued)

Annual debt service for principal and interest over the next five years and thereafter is as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 160,000	\$ 64,194	\$ 224,194
2020	170,000	57,084	227,084
2021	180,000	49,115	229,115
2022	185,000	40,655	225,655
2023	195,000	31,903	226,903
2024-2026	<u>530,000</u>	<u>69,693</u>	<u>599,693</u>
	<u>\$ 1,420,000</u>	<u>\$ 312,644</u>	<u>\$ 1,732,644</u>

Interest expense for the year ended September 30, 2018 totaled \$70,866.

NOTE 11. RESTRICTED NET POSITION

Restricted net position consists of the following as of September 30, 2018:

<u>Description</u>	<u>Amount</u>
Housing Assistance Payments reserves	\$ 28,629
NJHMFA 2014 Capital Fund Revenue Bond interest	<u>2,298</u>
Total restricted net position	<u>\$ 30,927</u>

Housing assistance payment reserves are restricted for use only in the Section 8 Housing Choice Vouchers Program for future housing assistance payments.

NJHMFA 2014 Capital Fund Revenue Bond interest is restricted for certain capital improvements in accordance with the Authority's approved annual plan.

HOUSING AUTHORITY OF THE TOWN OF MORRISTOWN
NOTES TO FINANCIAL STATEMENTS (continued)
SEPTEMBER 30, 2018

NOTE 12. PENSION PLAN

A. Plan Description

The 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.nj.gov/treasury/pensions/financial-reports.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
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 tiers 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 1 and 2 before reaching age 60, tiers 3 and 4 before age 62 with 25 years or more of service credit before age 62, and tier 5 with 30 years or more 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 full early retirement benefits in accordance with their respective tier. Tier 1 members 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 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.

HOUSING AUTHORITY OF THE TOWN OF MORRISTOWN
NOTES TO FINANCIAL STATEMENTS (continued)
SEPTEMBER 30, 2018

NOTE 12. PENSION PLAN (continued)

C. Contributions (continued)

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 September 30, 2018, the Authority reported a liability of \$3,076,539 for its proportionate share of the net pension liability. The net pension liability was measured as of July 1, 2017, and rolled forward to June 30, 2018.

For the year ended September 30, 2018 the Authority recognized a pension benefit of \$1,014,189. At September 30, 2018, the Authority reported deferred outflows of resources and deferred inflows of resources from the following sources.

	Deferred Outflows of <u>Resources</u>	Deferred Inflows of <u>Resources</u>
Changes of Assumptions	\$ 506,963	\$ 983,713
Changes in Proportion	479,460	-
Differences between expected and actual experience	58,670	15,864
Net differences between actual and projected earnings on pension plan investments	-	28,858
Net differences between Proportionate Share and actual Contribution	<u>-</u>	<u>118,111</u>
Total	<u>\$ 1,045,093</u>	<u>\$ 1,146,546</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:

HOUSING AUTHORITY OF THE TOWN OF MORRISTOWN
NOTES TO FINANCIAL STATEMENTS (continued)
SEPTEMBER 30, 2018

NOTE 12. PENSION PLAN (continued)

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

Year ending September 30:	<u>Amount</u>
2019	\$ (76,808)
2020	(115,905)
2021	(70,232)
2022	93,409
2023	<u>68,083</u>
	<u>\$ (101,453)</u>

E. Changes in Proportion

The previous amounts do not include employer specific deferred outflows of resources and deferred inflows of resources related to changes in proportion. These amounts should be recognized (amortized) by each employer over the average of the expected remaining service lives of all plan members, which is 5.63, 5.48, 5.57, 5.72, and 6.44 years for the 2018, 2017, 2016, 2015, and 2014 amounts, respectively.

F. Actuarial Assumptions

The collective total pension liability for the June 30, 2018 measurement date was determined by an actuarial valuation as of July 1, 2017, which was rolled forward to June 30, 2018. This actuarial valuation used the following assumptions:

Inflation Rate	2.25%
Salary increases:	
Through 2026	1.65 - 4.15%, based on age
Thereafter	2.65 - 5.15%, based on age
Investment rate of return	7.00%

Preretirement 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. Postretirement mortality rates were based on the RP-2000 Combined Healthy Male and Female Mortality Tables (set back 1 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.

HOUSING AUTHORITY OF THE TOWN OF MORRISTOWN
NOTES TO FINANCIAL STATEMENTS (continued)
SEPTEMBER 30, 2018

NOTE 12. PENSION PLAN (continued)

F. Actuarial Assumptions (continued)

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, 2017 valuation were based on the results of an actuarial experience study for the period July 1, 2011 to June 30, 2017. It is likely that future experience will not exactly conform to these assumptions. To the extent that actual experience deviates from these assumptions, the emerging liabilities may be higher or lower than anticipated. The more the experience deviates, the larger the impact on future financial statements.

G. Long-term Expected Rate of Return

In accordance with State statute, the long-term expected rate of return on plan investments (7% at June 30, 2018) is determined by the State Treasurer, after consultation with the Directors of the Division of Investment and Division of Pensions and Benefits, the board of trustees and actuaries. The long-term expected rate of return on plan investments 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 rates of return for each major asset class included in PERS's target asset allocation as of June 30, 2018 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Absolute return/risk mitigation	5.00%	5.51%
Cash equivalents	5.50%	1.00%
U.S. Treasuries	3.00%	1.87%
Investment grade credit	10.00%	3.78%
Public high yield	2.50%	6.82%
Global diversified credit	5.00%	7.10%
Credit oriented hedge funds	1.00%	6.60%
Debt related private equity	2.00%	10.63%
Debt related real estate	1.00%	6.61%
Private real asset	2.50%	11.83%
Equity related real estate	6.25%	9.23%
U.S. equity	30.00%	8.19%
Non-U.S. developed markets equity	11.50%	9.00%
Emerging markets equity	6.50%	11.64%
Buyouts/venture capital	8.25%	13.08%

HOUSING AUTHORITY OF THE TOWN OF MORRISTOWN
NOTES TO FINANCIAL STATEMENTS (continued)
SEPTEMBER 30, 2018

NOTE 12. PENSION PLAN (continued)

H. Discount Rate

The discount rate used to measure the total pension liability was 5.66% as of June 30, 2018. This single blended discount rate was based on the long-term expected rate of return on pension plan investments of 7.00% and a municipal bond rate of 3.87% as of June 30, 2018 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 at the current member contribution rates and that contributions from employers will be made based on the contribution rate in the most recent fiscal year. The State employer contributed 50% 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 June 30, 2046. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through June 30, 2046 and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liability.

I. 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 5.00 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 (4.00 percent) or 1 percentage point higher (6.00 percent) than the current rate.

	1% Decrease (4.00%)	Discount Rate (5.00%)	1% Increase (6.00%)
Authority's proportionate share of the net pension liability	\$ <u>3,868,392</u>	\$ <u>3,076,539</u>	\$ <u>2,412,223</u>

NOTE 13. OTHER POST-RETIREMENT BENEFITS PLAN

A. Plan Description

The SHBP is a cost-sharing multiple-employer defined benefit OPEB plan administered by the Division. It covers employees of local government employers that have adopted a resolution to participate in the SHBP. For additional information about SHBP, please refer to the Division's CAFR.

HOUSING AUTHORITY OF THE TOWN OF MORRISTOWN
NOTES TO FINANCIAL STATEMENTS (continued)
SEPTEMBER 30, 2018

NOTE 13. OTHER POST-RETIREMENT BENEFITS PLAN (continued)

B. Benefits

SHBP provides medical and prescription drug to retirees and their covered dependents of the employers. Under Chapter 88, local employers elect to provide benefit coverage based on the eligibility rules and regulations promulgated by the State Health Benefits Commission. Chapter 48 allows local employers to establish their own age and service eligibility for employer paid health benefits coverage for retired employees. Under Chapter 48, the employer may assume the cost of postretirement medical coverage for employees and their dependents who: 1) retired on a disability pension; or 2) retired with 25 or more years of services credit in a State or locally administered retirement system and a period of service of up to 25 years with the employer at the time of retirement as established by the employer; or 3) retired and reached the age of 65 with 25 or more years of service credit in a State or locally administered retirement system and a period of service of up to 25 years with the employer at the time of retirement as established by the employer; or 4) retired and reached age 62 with at least 15 years of service with the employer. Further, the law provides that the employer paid obligations for retiree coverage may be determined by means of a collective negotiations agreement.

Pursuant to Chapter 78, P.L., 2011, future retirees eligible for postretirement medical coverage who have less than 20 years of creditable service on June 28, 2011 will be required to pay a percentage of the cost of their health care coverage in retirement provided they retire with 25 or more years of pension service credit. The percentage of the premium for which the retiree will be responsible will be determined based on the retiree's annual retirement benefit and level of coverage.

C. OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At September 30, 2018, the Authority reported a liability of \$3,176,720, for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2017, and rolled forward to June 30, 2018.

For the year ended September 30, 2018, the Authority recognized OPEB expense of \$141,937. At September 30, 2018, the Authority reported deferred outflows of resources and deferred inflows of resources from the following sources.

	Deferred Outflows of <u>Resources</u>	Deferred Inflows of <u>Resources</u>
Changes of Assumptions	\$ -	\$ 805,817
Changes in Proportion	-	497,240
Differences between expected and actual experience	-	644,988
Net differences between projected and actual investment earnings on OPEB plan investments	<u>1,679</u>	<u>-</u>
Total	<u>\$ 1,679</u>	<u>\$ 1,948,045</u>

HOUSING AUTHORITY OF THE TOWN OF MORRISTOWN
NOTES TO FINANCIAL STATEMENTS (continued)
SEPTEMBER 30, 2018

NOTE 13. OTHER POST-RETIREMENT BENEFITS PLAN (continued)

C. OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (continued)

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

	<u>Amount</u>
Year ending September 30:	
2019	\$ (276,148)
2020	(276,148)
2021	(276,148)
2022	(276,148)
2023	(276,899)
Thereafter	<u>(564,875)</u>
	<u>\$ (1,946,366)</u>

D. Actuarial Assumptions

The total OPEB liability for the June 30, 2018 measurement date was determined by an actuarial valuation as of June 30, 2017, which was rolled forward to June 30, 2018. This actuarial valuation used the following assumptions:

Inflation Rate	2.50%
Salary increases:	
Through 2026	1.65 - 8.98%, based on age
Thereafter	2.65 - 9.98%, based on age

Preretirement mortality rates were based on the RP-2006 Headcount-Weighted Healthy Employee Male/Female mortality table with fully generational mortality improvement projections from the central year using the MP-2017 scale. Postretirement mortality rates were based on the RP-2006 Headcount-Weighted Healthy Annuitant Male/Female mortality table with fully generational improvement projections from the central year using the MP-2017 scale. Disability mortality was based on the RP-2006 Headcount-Weighted Disabled Male/Female mortality table with fully generational improvement projections from the central year using the MP-2017 scale.

Certain actuarial assumptions used in the July 1, 2017 valuation were based on the results of the pension plans' experience studies for which the members are eligible for coverage under the PERS.

100% of active members are considered to participate in the SHBP upon retirement.

HOUSING AUTHORITY OF THE TOWN OF MORRISTOWN
NOTES TO FINANCIAL STATEMENTS (continued)
SEPTEMBER 30, 2018

NOTE 13. OTHER POST-RETIREMENT BENEFITS PLAN (continued)

E. Discount Rate

The discount rate used to measure the total OPEB liability was 3.87% as of June 30, 2017. This represents the municipal bond return rate chosen by the State. The source is 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. As the long-term rate of return is less than the municipal bond rate, it is not considered in the calculation of the discount rate, rather the discount rate is set at the municipal bond rate.

F. Sensitivity of the Authority's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate

The following presents the Authority's proportionate share of the net OPEB liability calculated using the discount rate of 3.87%, 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 (2.87%) or 1 percentage point higher (4.87%) than the current rate.

	1% Decrease (2.87%)	Discount Rate (3.87%)	1% Increase (4.87%)
Authority's proportionate share of the net OPEB liability	\$ <u>3,727,133</u>	\$ <u>3,176,720</u>	\$ <u>2,737,065</u>

G. Health Care Trend Assumptions

For pre-Medicare preferred provider organization ("PPO") and health maintenance organization ("HMO") medical benefits, the trend rate is initially 5.9% and decreases to a 5.0% long-term trend rate after nine years. For self-insured post-65 PPO and HMO medical benefits, the trend rate is 4.5%. For prescription drug benefits, the initial trend rate is 10.5% decreasing to a 5.0% trend rate after eight years. For the Medicare Part B reimbursement, the trend rate is 5.0%. The Medicare Advantage trend rate is 4.5% and will continue in all future years.

H. Sensitivity of the Authority's Proportionate Share of the Net OPEB Liability to Changes in the Health Care Trend Rate

The following presents the Authority's proportionate share of the net OPEB liability calculated using the healthcare trend rate as disclosed above, as well as what the Authority's proportionate share of the net pension liability would be if it were calculated using a healthcare trend rate that is 1 percentage point lower or 1 percentage point higher than the current rate.

	1% Decrease	Discount Rate	1% Increase
Authority's proportionate share of the net OPEB liability	\$ <u>2,649,894</u>	\$ <u>3,176,720</u>	\$ <u>3,858,512</u>

HOUSING AUTHORITY OF THE TOWN OF MORRISTOWN
NOTES TO FINANCIAL STATEMENTS (continued)
SEPTEMBER 30, 2018

NOTE 14. 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 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 repayment to HUD. As of September 30, 2018, the Authority estimates that no material liabilities will result from such audits.

NOTE 15 CHANGE IN ACCOUNTING PRINCIPLE

During the year ended September 30, 2018, the Authority adopted GASB 75. As a result of adopting GASB 75, the Authority recorded a decrease in the beginning net position and an increase in net OPEB liability in the amount of \$4,049,927.

NOTE 16. PRIOR PERIOD ADJUSTMENT

The Authority's financial statements have been restated as of October 1, 2017 due to the correction of errors related to construction in progress. As a result of the correction, beginning net position and construction in progress were reduced by \$190,263.

NOTE 17. 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 13, 2020 (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 Directors
Housing Authority of the Town of Morristown:

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 Housing Authority of the Town of Morristown (the "Authority") as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the Authority's financial statements, and have issued our report thereon dated January 13, 2020.

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 were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as item 2018-001 that we consider to be a material weakness.

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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2018-002, 2018-003, 2018-004, 2018-005, 2018-006, 2018-007, 2018-008, 2018-009, and 2018-010.

Authority's Response to Findings

The Authority's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. 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.

Norogradac & Company LLP

January 13, 2020
Toms River, New Jersey

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

To the Board of Directors
Housing Authority of the Town of Morristown:

Report on Compliance for Each Major Federal Program

We have audited the Housing Authority of the Town of Morristown's (the "Authority") compliance with the types of compliance requirements described in the OMB Compliance Supplement and the State of New Jersey OMB Circular 15-08 that could have a direct and material effect on each of the Authority's major federal programs for the year ended September 30, 2018. The Authority's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to 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) and the State of New Jersey OMB Circular 15-08. 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.

Basis for Adverse Opinion on Section 8 Housing Choice Vouchers Program

As described in the accompanying schedule of findings and questioned costs in items 2018-003, 2018-004, 2018-005, 2018-006, and 2018-007, the Authority did not comply with the eligibility, reporting, and special tests and provisions compliance requirements of the Uniform Guidance regarding maintenance of tenant file items, housing quality standards for failed inspections, waiting lists, SEMAP reporting, and utility allowance schedules as required by the Section 8 Housing Choice Vouchers Program (CFDA #14.871). Compliance with such requirements is necessary, in our opinion, for the Authority to comply with the requirements applicable to that program.

Adverse Opinion on Section 8 Housing Choice Vouchers Program

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion paragraph, the Authority did not comply, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Section 8 Housing Choice Vouchers program for the year ended September 30, 2018.

Basis for Qualified Opinion on the Public and Indian Housing Program

As described in the accompanying schedule of findings and questioned costs in items 2018-008, 2018-009, and 2018-010, the Authority did not comply with the eligibility and special tests and provisions compliance requirements of the Uniform Guidance regarding maintenance of tenant file items, waiting lists, and depository agreements as required by the Public and Indian Housing Program (CFDA #14.850). Compliance with such requirements is necessary, in our opinion, for the Authority to comply with the requirements applicable to that program.

Qualified Opinion on the Public and Indian Housing Program

In our opinion, except for the non-compliance described in the Basis for Qualified Opinion paragraph, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Public and Indian Housing Program.

Other Matters

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

Report on Internal Control Over Compliance

Management of the Authority 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 Authority'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 Authority's internal control over compliance.

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2018-003, 2018-004 and 2018-008 to be material weaknesses.

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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2018-005, 2018-006, 2018-007, 2018-009, and 2018-010 to be significant deficiencies.

The Authority's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Authority's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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.

Novogradac & Company LLP

January 13, 2020
Toms River, New Jersey

SUPPLEMENTARY INFORMATION

**HOUSING AUTHORITY OF THE TOWN OF MORRISTOWN
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

Federal Grantor/Program Title	Federal CFDA Number	State Pass-through Number	Grant Period From / To	Grant Award	Fiscal Year Expenditures	Cumulative Expenditures
<u>U.S. Department of Housing and Urban Development</u>						
Housing Voucher Cluster						
Section 8 Housing Choice Voucher	14.871	N/A	10/01/17 9/30/18	\$ 1,954,521	\$ 1,954,521	\$ 1,954,521
Total Housing Voucher Cluster				<u>1,954,521</u>	<u>1,954,521</u>	<u>1,954,521</u>
Public and Indian Housing	14.850	N/A	1/1/17 12/31/18	2,323,323	1,395,877	2,658,077
Public Housing Capital Fund	14.872	N/A	5/28/14 5/29/21	<u>2,109,470</u>	<u>469,358</u>	<u>1,817,840</u>
Total U.S. Department of Housing and Urban Development				<u>\$ 6,387,314</u>	<u>\$ 3,819,756</u>	<u>\$ 6,430,438</u>

See Notes to Schedule of Expenditures of Federal Awards.

**HOUSING AUTHORITY OF THE TOWN OF MORRISTOWN
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

NOTE 1. BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal grant activity of the Authority under programs of the federal government for the year ended September 30, 2018. 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 State of New Jersey OMB Circular 15-08. Because the Schedule presents only a selected portion of operations of the Authority, it is not intended to and does not present the net position, changes in net position or cash flows of the Authority. 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, OMB Circular A-87 and the State of New Jersey OMB Circular 15-08, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

NOTE 3. INDIRECT COST RATE

The Authority has not elected to use the ten percent de minimus indirect cost rate allowed under the Uniform Guidance.

HOUSING AUTHORITY OF THE TOWN OF MORRISTOWN
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (continued)
FOR THE YEAR ENDED SEPTEMBER 30, 2018

NOTE 4. SCHEDULE OF CAPITAL FUND COSTS AND ADVANCES

The total amounts of Capital Fund Program Costs and Advances incurred and earned by the Authority as of and for the year ended September 30, 2018 are provided herein:

	<u>501-14</u>	<u>501-15</u>	<u>501-16</u>	<u>501-17</u>	<u>Totals</u>
<u>Budget</u>	<u>\$ 338,555</u>	<u>\$ 562,721</u>	<u>\$ 587,727</u>	<u>\$ 620,467</u>	<u>\$2,109,470</u>
<u>Advances:</u>					
Cumulative through 9/30/17	\$ 306,388	\$ 525,868	\$ 318,014	\$ -	\$1,150,270
Current Year	<u>32,167</u>	<u>36,853</u>	<u>252,458</u>	<u>269,178</u>	<u>590,656</u>
Cumulative through 9/30/18	<u>338,555</u>	<u>562,721</u>	<u>570,472</u>	<u>269,178</u>	<u>1,740,926</u>
<u>Costs:</u>					
Cumulative through 9/30/17	306,388	562,721	479,373	-	1,348,482
Current Year	<u>32,167</u>	<u>-</u>	<u>91,099</u>	<u>346,092</u>	<u>469,358</u>
Cumulative through 9/30/18	<u>338,555</u>	<u>562,721</u>	<u>570,472</u>	<u>346,092</u>	<u>1,817,840</u>
Excess / (Deficiency)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (76,914)</u>	<u>\$ (76,914)</u>

NOTES TO SCHEDULE OF CAPITAL FUND PROGRAM COSTS AND ADVANCES

- 1) The total amounts of Capital Fund Program Costs and Advances incurred and earned by the Authority for the year ended September 30, 2018 are provided herein.
- 2) Capital Fund Grant No. NJ39P023501-14 with an approved funding of \$338,555 has been fully drawn down and expended as per Capital Fund Grant Regulations.
- 3) Capital Fund Grant No. NJ39P023501-15 with an approved funding of \$562,721 has been fully drawn down and expended as per Capital Fund Grant Regulations.

See Notes to Schedule of Expenditures of Federal Awards.

**HOUSING AUTHORITY OF THE TOWN OF MORRISTOWN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 2018**

I. Summary of Auditors' Results

Financial Statement Section

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

Federal Awards Section

- | | | |
|----|--|-----------|
| 1. | Internal Control over compliance: | |
| | a. Material weakness(es) identified? | Yes |
| | b. Significant deficiency(ies) identified? | Yes |
| 2. | Type of auditors' report on compliance for major programs: | |
| | 14.850 Public and Indian Housing | Qualified |
| | 14.871 Section 8 Housing Choice Vouchers | Adverse |
| 3. | Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? | Yes |
| 4. | Identification of major programs: | |
| | <u>CFDA Number</u> <u>Name of Federal Program</u> | |
| | 14.850 Public and Indian Housing | |
| | 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 TOWN OF MORRISTOWN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
YEAR ENDED SEPTEMBER 30, 2018**

II. Financial Statement Findings

Finding 2018-001:

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.
- Material adjusting journal entries were required to present the Authority's financial statements in accordance with GAAP.
- The Authority recorded a prior period adjustment in order to correct material misstatements of construction in progress.

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 financial statements accounts will be reviewed for accuracy and reconciled to their subsidiary ledger.

Authority Response: We agree with the auditors' finding. The identified finding occurred under a prior administration at the Authority. The Authority has already begun the process of strengthening their internal controls over financial reporting.

Finding 2018-002:

Criteria: The Authority did not maintain adequate internal controls over processing payroll at the appropriate board approved salary rates.

Condition: During our testing we noted the following:

- One (1) out of three (3) employees tested was paid an amount in excess of the Authority's adopted operating budget without a resolution or amended budget to support the increase in pay.

Cause: Management has not properly implemented internal controls over processing payroll at the appropriate board approved salary rates.

Recommendation: We recommend that the Authority adopt and implement payroll internal control procedures to insure that all employees are paid at the appropriate rates.

Authority Response: We agree with the auditors' finding. The identified finding occurred under a prior administration at the Authority. The Authority has already begun the process of strengthening their internal controls over payroll processing.

**HOUSING AUTHORITY OF THE TOWN OF MORRISTOWN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
YEAR ENDED SEPTEMBER 30, 2018**

III. Federal Award Findings and Questioned Costs

Reference 2018-003:

Federal Agency: U.S. Department of Housing and Urban Development
Federal Program Titles: Section 8 Housing Choice Vouchers Program
Federal Catalog Numbers: 14.871
Material Noncompliance – E. Eligibility – Tenant Files
Non Compliance Material to the Financial Statements: Yes
Material Weakness in Internal Control over Compliance for Eligibility

Criteria: Tenant Files (Section 8 Housing Choice Vouchers Program) - The PHA must do the following: As a condition of admission or continued occupancy, require the tenant and other family member to provide necessary information, documentation, and releases for the PHA to verify income eligibility (24 CFR sections 5.230, 5.609, and 982.516). These files are required to be maintained and available for examination at the time of audit.

Condition: Based upon inspection of the Authority's files and on discussion with management there were a significant number of documents that were unavailable for examination at the time of audit.

Context: There are approximately 172 units. Of a sample size of 11 tenant files, the following was noted:

- The original application was missing in 9 files
- The citizen declaration form was missing in 4 files
- The HUD 9886 consent to release information form was missing in 1 file
- The lead based paint form was missing in 4 files
- The signed lease was missing in 9 files
- Rent reasonableness documentation was missing in 11 files
- The annual inspection form was missing in 11 files
- Verification of income was missing in 2 files
- Verification of assets was missing in 2 files

Our sample size is statistically valid.

Known Questioned Costs: \$116,622

Cause: There is a material weakness in internal controls over the compliance for the eligibility type of compliance related to the maintenance of tenant files. The Authority has not properly considered, designed, implemented, maintained and monitored a system of internal controls that assures the program is in compliance.

Effect: The Section 8 Housing Choice Vouchers Program is in material non-compliance with the eligibility type of compliance related to the maintenance of tenant files. The non-compliance is also material to the financial statements.

Recommendation: We recommend the Authority design and implement internal control procedures that will assure compliance with the Uniform Guidance and the compliance supplement.

**HOUSING AUTHORITY OF THE TOWN OF MORRISTOWN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
YEAR ENDED SEPTEMBER 30, 2018**

III. Federal Award Findings and Questioned Costs (continued)

Reference 2018-003: (continued)

Authority Response: The Authority accepts the recommendation of the auditor. The identified finding occurred under a prior administration at the Authority. We will implement more oversight to ensure that the internal control policies are being followed in a timely manner to show improvement in this area.

Reference 2018-004:

Federal Agency: U.S. Department of Housing and Urban Development

Federal Program Titles: Section 8 Housing Choice Vouchers Program

Federal Catalog Numbers: 14.871

Material Noncompliance – N. Special Tests and Provisions – Housing Quality Standards

Non Compliance Material to the Financial Statements: Yes

Material Weakness in Internal Control over Compliance for Special Tests and Provisions

Criteria: Housing Quality Standards Inspections. The PHA must inspect the unit leased to a family at least annually to determine if the unit meets the Housing Quality Standards (HQS) and the PHA must conduct quality control re-inspections. The PHA must prepare a unit inspection report (24 CFR sections 982.158(d) and 982.405(b)). For units that fail inspection the PHA must correct all life threatening HQS deficiencies within 24 hours and all other deficiencies within 30 days.

Condition: Based upon inspection of the Authority's files and on discussion with management, the Authority did not perform annual inspections on any units during fiscal year 2018.

Context: The Authority was unable to provide us with a listing of failed inspections during the year under audit. The Authority did not perform inspections at least annually to determine if the units meet the Housing Quality Standards (HQS) as required by 24 CFR sections 982.158(d) and 982.405(b).

Known Questioned Costs: Unknown

Cause: There is a material weakness in internal controls over the compliance for the special tests and provisions type of compliance related to HQS inspections. The Authority has not properly considered, designed, implemented, maintained and monitored a system of internal controls that assures the program is in compliance.

Effect: The Section 8 Housing Choice Vouchers Program is in material non-compliance with the special tests and provisions type of compliance related to HQS inspections. The non-compliance is also material to the financial statements.

Recommendation: We recommend the Authority design and implement internal control procedures that will assure compliance with the Uniform Guidance and the compliance supplement.

Authority Response: We agree with the Auditor's observations on the re-inspection of the failed units. The identified finding occurred under a prior administration at the Authority.

**HOUSING AUTHORITY OF THE TOWN OF MORRISTOWN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
YEAR ENDED SEPTEMBER 30, 2018**

III. Federal Award Findings and Questioned Costs (continued)

Reference 2018-004: (continued)

We will implement more oversight to ensure that the internal control policies are being followed in a timely manner to show improvement in this area.

Reference 2018-005:

Federal Agency: U.S. Department of Housing and Urban Development

Federal Program Titles: Section 8 Housing Choice Vouchers Program

Federal Catalog Numbers: 14.871

Noncompliance – N. Special Tests and Provisions – Waiting List

Non Compliance Material to the Financial Statements: No

Significant Deficiency in Internal Control over Compliance for Special Tests and Provisions

Criteria: Selections from the Waiting List. The PHA must have written policies in its Housing Choice Vouchers Program administrative plan for selecting applicants from the waiting list and PHA documentation must show that the PHA follows these policies when selecting applicants from the waiting list. Except for as provided in 24 CFR section 982.203 (Special admission (non-waiting list), all families admitted to the program must be selected from the waiting list. “Selection” from the waiting list generally occurs when the PHA notifies a family whose name reaches the top of the waiting list to come in to verify eligibility for admission (24CFR sections 5.410, 982.54(d), and 982.201 through 982.207).

Condition: Based upon inspection of the waiting list provided to us during the time of audit, the new move-in list and discussions with management, it could not be determined with any certainty that the new move-ins to the Housing Choice Vouchers Program were selected from the wait list in an order that is in accordance with the Authority’s policy.

Context: One (1) name was selected from the new move-in list and that name was to be traced to the waiting list to verify that the new move-in was chosen in an order that was in accordance with the Authority’s policy. It was determined that the new move-in selected could not be traced with any certainty back to the Authority’s waiting list.

Cause: There is a significant deficiency in internal controls over the compliance for the special tests and provisions type of compliance. The Authority has not properly considered, designed, implemented, maintained and monitored a system of internal controls that assures the program is in compliance.

Effect: The Section 8 Housing Choice Vouchers Program is in non-compliance with the special tests and provisions type of compliance related to selections from the waiting list.

Recommendation: We recommend the Authority design and implement internal control procedures that will assure compliance with the Uniform Guidance and the compliance supplement.

Authority Response: We agree with the Auditors' findings. The identified finding occurred under a prior administration at the Authority. The Authority will increase oversight in the Section 8 Housing Choice Vouchers Program to ensure that established internal control policies are being followed on a timely basis.

**HOUSING AUTHORITY OF THE TOWN OF MORRISTOWN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
YEAR ENDED SEPTEMBER 30, 2018**

III. Federal Award Findings and Questioned Costs (continued)

Reference 2018-006:

Federal Agency: U.S. Department of Housing and Urban Development
Federal Program Titles: Section 8 Housing Choice Vouchers Program
Federal Catalog Numbers: 14.871
Noncompliance – R. Reporting – Performance Reporting - SEMAP
Non Compliance Material to the Financial Statements: No
Significant Deficiency in Internal Control over Compliance for Reporting

Criteria: The Section 8 Management Assessment Program (SEMAP) is designed to assess whether the Section 8 tenant-based assistance programs operate to help eligible families afford decent rental units at the correct subsidy cost. SEMAP provides procedures for HUD to identify PHA management capabilities and deficiencies in order to target monitoring and program assistance more effectively. Performance indicators are used to assess PHA Section 8 management. The method for selecting the PHA's quality control sample for each indicator must leave a clear audit trail that can be used to verify that the PHA's quality control sample was drawn in an unbiased manner. This rule applies to PHA administration of the tenant-based Section 8 rental voucher program (24 CFR part 982), the project-based component (PBC) of the program (24 CFR part 983) to the extent that PBC family and unit data are reported and measured under the stated HUD verification method, and enrollment levels and contributions to escrow accounts for Section 8 participants under the family self-sufficiency program (FSS) (24 CFR part 984).

Condition: Based upon inspection of the Authority's files and discussions with management, the Authority did not have quality control samples on file that were used to score each individual indicator.

Context: The Authority did not perform the procedures required in order to score the SEMAP indicators (24 CFR 985.2).

Cause: There is a significant deficiency in internal controls over compliance for the reporting requirement of performance reporting - SEMAP. The Authority has not properly considered, designed, implemented, maintained and monitored a system of internal controls that assures the program is in compliance.

Effect: The Section 8 Housing Choice Vouchers Program is in non-compliance with reporting requirements related to scoring indicators on the annual SEMAP submission.

Recommendation: We recommend the Authority design and implement internal control procedures that will assure compliance with the Uniform Guidance and the compliance supplement.

Authority Response: We agree with the Auditors' findings. The identified finding occurred under a prior administration at the Authority. The Authority will increase oversight in the Section 8 Housing Choice Vouchers Program to ensure that established internal control policies are being followed on a timely basis.

**HOUSING AUTHORITY OF THE TOWN OF MORRISTOWN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
YEAR ENDED SEPTEMBER 30, 2018**

III. Federal Award Findings and Questioned Costs (continued)

Reference 2018-007:

Federal Agency: U.S. Department of Housing and Urban Development

Federal Program Titles: Section 8 Housing Choice Vouchers Program

Federal Catalog Numbers: 14.871

Noncompliance – N. Special Tests and Provisions – Utility allowance schedule

Non Compliance Material to the Financial Statements: No

Significant Deficiency in Internal Control over Compliance for Special Tests and Provisions

Criteria: The PHA must maintain an up-to-date utility allowance schedule annually. The PHA must review utility rate data for each utility category each year and must adjust its utility allowance schedule if there has been a rate change of 10 percent or more for a utility category or fuel type since the last time the utility allowance schedule was revised (24 CFR section 982.517).

Condition: Based upon inspection of the Authority's files and discussions with management, the Authority did not update the utility allowance schedule during 2018.

Context: The Authority is required to obtain and review utility rates once every 12 months and ascertain, based on data available at the PHA, if there has been a change of 10 percent or more in a utility rate since the last time the utility allowance schedule was revised, and if so, verify that the PHA revised its utility allowance schedule to reflect the rate increase. There were no rates obtained and reviewed during 2018. The most recent utility rates on file were dated January 25, 2017.

Cause: There is a significant deficiency in internal controls over the compliance for the special tests and provisions type of compliance related to the utility allowance schedule. The Authority has not properly considered, designed, implemented, maintained and monitored a system of internal controls that assures the program is in compliance.

Effect: The Section 8 Housing Choice Vouchers Program is in non-compliance with the special tests and provisions type of compliance related to the utility allowance schedule.

Recommendation: We recommend the Authority design and implement internal control procedures that will assure compliance with the Uniform Guidance and the compliance supplement.

Authority Response: We agree with the Auditors' findings. The identified finding occurred under a prior administration at the Authority. The Authority will increase oversight in the Section 8 Housing Choice Vouchers Program to ensure that established internal control policies are being followed on a timely basis.

**HOUSING AUTHORITY OF THE TOWN OF MORRISTOWN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
YEAR ENDED SEPTEMBER 30, 2018**

III. Federal Award Findings and Questioned Costs (continued)

Finding 2018-008:

Federal Agency: U.S. Department of Housing and Urban Development

Federal Program Titles: Public and Indian Housing Program

Federal Catalog Numbers: 14.850

Noncompliance – E. Eligibility – Tenant Files

Non Compliance Material to the Financial Statements: Yes

Material Weakness in Internal Control over Compliance for Eligibility

Material Weakness in Internal Control over Financial Reporting

Criteria: Tenant Files. The PHA must do the following: As a condition of admission or continued occupancy, require the tenant and other family member to provide necessary information, documentation, and releases for the PHA to verify income eligibility (24 CFR sections 5.230, 5.609, and 982.516).

Condition: Based upon inspection of the Authority's files and on discussion with management there were a number of documents that were unavailable for examination at the time of audit.

Context: There are approximately 445 units. Of a sample size of 17 tenant files, the following was noted:

- The citizen declaration form was missing in 1 file
- Verification of income was missing in 2 files
- Verification of assets was missing in 1 file

Our sample size is statistically valid.

Known Questioned Costs: \$9,408

Cause: There is a material weakness in internal controls over the compliance for the eligibility type of compliance related to the maintenance of tenant files. The Authority has not properly considered, designed, implemented, maintained and monitored a system of internal controls that reasonably assures the program is in compliance.

Effect: The Public and Indian Housing Program is in non-compliance with the eligibility type of compliance related to the maintenance of tenant files.

Recommendation: We recommend the Authority design and implement internal control procedures that will assure compliance with the Uniform Guidance and the Compliance Supplement.

Views of responsible officials and planned corrective action: The Authority agrees with the auditors findings. The identified finding occurred under a prior administration at the Authority. The Authority will review the process for maintaining proper documentation in tenant files and perform periodic inspections to monitor compliance.

**HOUSING AUTHORITY OF THE TOWN OF MORRISTOWN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
YEAR ENDED SEPTEMBER 30, 2018**

III. Federal Award Findings and Questioned Costs (continued)

Reference 2018-009:

Federal Agency: U.S. Department of Housing and Urban Development

Federal Program Titles: Public and Indian Housing Program

Federal Catalog Numbers: 14.850

Material Noncompliance – N. Special Tests and Provisions – Public Housing Waiting List

Non Compliance Material to the Financial Statements: No

Significant Deficiency in Internal Control over Compliance for Special Tests and Provisions

Criteria: The PHA must establish and adopt written policies for admission of tenants. The PHA's tenant selection policies must include requirements for applications and waiting lists, description of the policies for selection of applicants from the waiting lists, and policies for verification and documentation of information relevant to acceptance or rejections of an applicant (24 CFR sections 960.202 through 960.206). "Selection" from the waiting list generally occurs when the PHA notifies a family whose name reaches the top of the waiting list to come in to verify eligibility for admission.

Condition: Based on discussions with management, it could not be determined with any certainty that new move-ins were selected from the wait list in an order that is in accordance with the Authority's policy. The Authority was unable to provide the necessary wait lists during the time of audit.

Context: Three (3) names were selected from the new move-in list and those names were to be traced to the waiting list to verify new move-ins were chosen in an order that was in accordance with the Authority's policy. It was determined that three (3) out of three (3) new move-ins selected could not be traced back to the Authority's waiting list due to the Authority having no waiting list on file for the period being audited.

Known Questioned Costs: \$9,408

Cause: There is a significant deficiency in internal controls over compliance for the special tests and provision type of compliance. The Authority has not properly considered, designed, implemented, maintained and monitored a system of internal controls that assures the program is in compliance.

Effect: The Public and Indian Housing Program is in non-compliance with the special tests and provisions type of compliance related to selections from the waiting list.

Recommendation: We recommend the Authority design and implement internal control procedures that will assure compliance with the Uniform Guidance and the compliance supplement.

Authority Response: We agree with the Auditors' findings. The identified finding occurred under a prior administration at the Authority. The Authority will increase oversight in the Public and Indian Housing Program to ensure that established internal control policies are being followed on a timely basis.

**HOUSING AUTHORITY OF THE TOWN OF MORRISTOWN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
YEAR ENDED SEPTEMBER 30, 2018**

III. Federal Award Findings and Questioned Costs (continued)

Reference 2018-010:

Federal Agency: U.S. Department of Housing and Urban Development

Federal Program Titles: Public and Indian Housing Program

Federal Catalog Numbers: 14.850

Noncompliance – N. Special Tests and Provisions – Depository Agreements

Non Compliance Material to the Financial Statements: No

Significant Deficiency in Internal Control over Compliance for Special Tests and Provisions

Criteria: PHAs are required to enter into depository agreements with their financial institution using the HUD-51999 (OMB No. 2577-0075) or a form required by HUD in the ACC. The agreements serve as safe guards for Federal funds and provide third-party rights to HUD (Section 9 of the ACC).

Condition: Based on inspection of files and discussions with management, it was determined that depository agreements were not on file during the time of audit.

Context: The Authority did not have depository agreements with their financial institutions on file during the time of audit. We were unable to verify the existence of depository agreements and unable to determine if the Authority met the terms of the agreements.

Cause: There is a significant deficiency in internal controls over compliance for the special tests and provision type of compliance related to depository agreements. The Authority has not properly considered, designed, implemented, maintained and monitored a system of internal controls for their partnered management company that assures the program is in compliance.

Effect: The Public and Indian Housing Program is in non-compliance with the special tests and provisions type of compliance related to depository agreements.

Recommendation: We recommend the Authority design and implement internal control procedures related to their partnered management companies that will assure compliance with the Uniform Guidance and the compliance supplement.

Authority Response: We agree with the Auditors' findings. The identified finding occurred under a prior administration at the Authority. The Authority will increase oversight in the Public and Indian Housing Program to ensure that established internal control policies are being followed on a timely basis.

HOUSING AUTHORITY OF THE TOWN OF MORRISTOWN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
YEAR ENDED SEPTEMBER 30, 2018

IV. Schedule of Prior Year Federal Audit Findings

Finding 2017-1:

Observation: During review of the Public and Indian Housing program tenant files, it was noted that five (5) files were not recertified annually as required by 24CFR. Additionally, two (2) files did not contain third party verification and three (3) files did not contain Form 9886.

Status: The finding remains open. See Finding 2018-008

Cause: Although the corrective action plan was properly implemented, as planned, and in a timely manner, there were already files that were noncompliant at the time of implementation. The noncompliance related to those files occurred within the current reporting period.

Finding 2017-2:

Observation: During review of the Section 8 Housing Choice Vouchers program tenant files, it was noted that five (5) out of the forty (40) files were not recertified annually as required by 24CFR. Tenants were not asked to provide the necessary information, documentation and releases to verify income eligibility.

Status: The finding remains open. See Finding 2018-003

Cause: Although the corrective action plan was properly implemented, as planned, and in a timely manner, there were already files that were noncompliant at the time of implementation. The noncompliance related to those files occurred within the current reporting period.

**HOUSING AUTHORITY OF THE TOWN OF MORRISTOWN
REQUIRED PENSION INFORMATION
SEPTEMBER 30, 2018**

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

	September 30, <u>2015</u>	September 30, <u>2016</u>	September 30, <u>2017</u>	September 30, <u>2018</u>
Contractually required contribution	\$ 106,394	\$ 130,392	\$ 136,087	\$ 155,421
Contributions in relation to the contractually required contribution	<u>106,394</u>	<u>130,392</u>	<u>136,087</u>	<u>155,421</u>
(Over) / under funded	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
Authority's covered-employee payroll	\$ <u>1,181,086</u>	\$ <u>1,168,778</u>	\$ <u>1,123,918</u>	\$ <u>1,119,021</u>
Contributions as a percentage of covered- employee payroll	<u>9.01 %</u>	<u>11.16 %</u>	<u>12.11 %</u>	<u>13.89 %</u>

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

See Report of Independent Auditors.

**HOUSING AUTHORITY OF THE TOWN OF MORRISTOWN
REQUIRED PENSION INFORMATION (continued)
SEPTEMBER 30, 2018**

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

	September 30, 2015	September 30, 2016	September 30, 2017	September 30, 2018
Authority's proportion of the net pension liability	<u>0.0114 %</u>	<u>0.0147 %</u>	<u>0.0147 %</u>	<u>0.0002 %</u>
Authority's proportionate share of the net pension liability	<u>\$ 2,549,582</u>	<u>\$ 4,347,027</u>	<u>\$ 3,419,593</u>	<u>\$ 3,076,539</u>
Authority's covered-employee payroll	<u>\$ 1,181,086</u>	<u>\$ 1,168,778</u>	<u>\$ 1,123,918</u>	<u>\$ 1,119,021</u>
Authority's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	<u>215.87 %</u>	<u>371.93 %</u>	<u>304.26 %</u>	<u>274.93 %</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>47.93 %</u>	<u>40.14 %</u>	<u>48.10 %</u>	<u>53.60 %</u>

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

See Report of Independent Auditors.

**HOUSING AUTHORITY OF THE TOWN OF MORRISTOWN
REQUIRED OTHER POST EMPLOYMENT BENEFITS INFORMATION
SEPTEMBER 30, 2018**

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

	September 30 <u>2017</u>	September 30 <u>2018</u>
Statutorily required contribution	\$ 233,127	\$ 44,824
Contributions in relation to the statutorily required contribution	<u>233,127</u>	<u>44,824</u>
Contribution deficiency (excess)	\$ <u>-</u>	\$ <u>-</u>
Authority's covered-employee payroll	\$ <u>1,123,918</u>	\$ <u>1,119,021</u>
Contributions as a percentage of covered- employee payroll	<u>20.74 %</u>	<u>4.01 %</u>

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

**HOUSING AUTHORITY OF THE TOWN OF MORRISTOWN
REQUIRED OTHER POST EMPLOYMENT BENEFITS INFORMATION
SEPTEMBER 30, 2018**

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

	September 30 <u>2017</u>	September 30 <u>2018</u>
Authority's proportion of the net OPEB liability	<u>0.0210 %</u>	<u>0.0203 %</u>
Authority's proportionate share of the net OPEB liability	\$ <u>4,280,987</u>	\$ <u>3,176,720</u>
Authority's covered-employee payroll	\$ <u>1,123,918</u>	\$ <u>1,119,021</u>
Authority's proportionate share of the net OPEB liability as a percentage of its covered- employee payroll	<u>380.90 %</u>	<u>283.88 %</u>
Plan fiduciary net position as a percentage of the total OPEB liability	<u>1.03 %</u>	<u>1.97 %</u>

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

Morristown Housing Authority							
NJ023							
Financial Data Schedule (FDS)							
September 30, 2018							
Line	Item #	Account Description	Project Total	14,871 Housing Choice Vouchers	TOTAL		
ASSETS:							
CURRENT ASSETS:							
Cash:							
111		Cash - unrestricted	\$ 1,771,211	\$ 1,100	\$ 1,772,311		
112		Cash - restricted - modernization and development	-	-	-		
113		Cash - other restricted	2,298	73,882	76,180		
114		Cash - tenant security deposits	208,974	-	208,974		
115		Cash - restricted for payment of current liabilities	-	-	-		
100		Total cash	1,982,483	74,982	2,057,465		
Accounts and notes receivables:							
121		Accounts receivable - PHA projects	-	-	-		
122		Accounts receivable - HUD other projects	332,283	-	332,283		
124		Accounts receivable - other government	-	-	-		
125		Accounts receivable - miscellaneous	-	-	-		
126		Accounts receivable- tenants	87,245	-	87,245		
126		Allowance for doubtful accounts - tenants	(71,158)	-	(71,158)		
126		Allowance for doubtful accounts - other	-	-	-		
127		Notes and mortgages receivable- current	-	-	-		
128		Fraud recovery	-	-	-		
128		Allowance for doubtful accounts - fraud	-	-	-		
129		Accrued interest receivable	-	-	-		
120		Total receivables, net of allowances for doubtful accounts	348,370	-	348,370		
Current investments							
131		Investments - unrestricted	1,140,861	-	1,140,861		
132		Investments - restricted	-	-	-		
135		Investments - restricted for payment of current liability	-	-	-		
142		Prepaid expenses and other assets	73,196	-	73,196		
143		Inventories	-	-	-		
143		Allowance for obsolete inventories	-	-	-		
144		Interprogram - due from	-	-	-		
145		Assets held for sale	-	-	-		
150		TOTAL CURRENT ASSETS	3,544,910	74,982	3,619,892		
NONCURRENT ASSETS:							
Fixed assets:							
161		Land	250,000	-	250,000		
162		Buildings	22,278,136	-	22,278,136		
163		Furniture, equipment & machinery - dwellings	955,420	-	955,420		
164		Furniture, equipment & machinery - administration	1,650,501	-	1,650,501		
165		Leasehold improvements	-	-	-		
166		Accumulated depreciation	(15,135,791)	-	(15,135,791)		
167		Construction in Progress	1,147,687	-	1,147,687		
168		Infrastructure	-	-	-		
160		Total fixed assets, net of accumulated depreciation	11,145,953	-	11,145,953		
Other non-current assets:							
171		Notes and mortgages receivable - non-current	-	-	-		
172		Notes and mortgages receivable-non-current - past due	-	-	-		
173		Grants Receivable Non Current	-	-	-		
174		Other assets	-	-	-		
175		Undistributed debits	-	-	-		
176		Investment in joint ventures	-	-	-		
180		TOTAL NONCURRENT ASSETS	11,145,953	-	11,145,953		
200		Deferred Outflows of Resources	1,034,038	114,187	1,148,225		
290		TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 15,724,901	\$ 189,169	\$ 15,914,070		

Morristown Housing Authority							
NJ023							
Financial Data Schedule (FDS)							
September 30, 2018							
Line	Item #	Account Description	Project Total	14,871 Housing Choice Vouchers	TOTAL		
LIABILITIES AND EQUITY:							
Liabilities:							
Current Liabilities:							
311		Bank overdraft	\$ -	\$ -	\$ -		
312		Accounts payable ≤ 90 days	83,005	-	83,005		
313		Accounts payable > 90 days past due	-	-	-		
321		Accrued wage/payroll taxes payable	38,683	3,430	42,113		
322		Accrued compensated absences - current portion	18,444	2,394	20,838		
324		Accrued contingency liability	-	-	-		
325		Accrued interest payable	27,477	-	27,477		
331		Accounts payable - HUD PHA programs	-	-	-		
332		Accounts payable - PHA projects	-	-	-		
333		Accounts payable - other government	58,797	-	58,797		
341		Tenant security deposits	208,974	-	208,974		
342		Unearned revenue	5,865	-	5,865		
343		Current portion of L-T debt - capital projects	160,000	-	160,000		
344		Current portion of L-T debt - operating borrowings	-	-	-		
345		Other current liabilities	-	-	-		
346		Accrued liabilities - other	230,746	1,016	231,762		
347		Interprogram - due to	-	-	-		
348		Loan liability - Current	-	-	-		
310		TOTAL CURRENT LIABILITIES	831,991	6,840	838,831		
NONCURRENT LIABILITIES:							
351		Long-term debt, net of current - capital projects	1,260,000	-	1,260,000		
352		Long-term debt, net of current - operating borrowings	-	-	-		
353		Non-current liabilities- other	-	44,455	44,455		
354		Accrued compensated absences - noncurrent	165,999	21,550	187,549		
355		Loan Liability - Non Current	-	-	-		
356		FASB 5 Liabilities	-	-	-		
357		Accrued pension and OPEB liabilities	5,667,549	585,710	6,253,259		
350		TOTAL NONCURRENT LIABILITIES	7,093,548	651,715	7,745,263		
300		TOTAL LIABILITIES	7,925,539	658,555	8,584,094		
400		Deferred Inflows of Resources	2,739,699	253,439	2,993,138		
EQUITY:							
508		Invested in Capital Assets, Net of Related Debt	9,725,953	-	9,725,953		
511		Restricted Net Assets	2,298	28,629	30,927		
512		Unrestricted Net Assets	(4,668,588)	(751,454)	(5,420,042)		
513		TOTAL EQUITY	5,059,663	(722,825)	4,336,838		
600		TOTAL LIABILITIES, DEFERRED INFLOWS AND EQUITY	\$ 15,724,901	\$ 189,169	\$ 15,914,070		
Proof of concept					-	-	-

Morristown Housing Authority					
NJ023					
Financial Data Schedule (FDS)					
September 30, 2018					
Line Item #	Account Description	OPERATING	CAPITAL	14,871 Housing Choice Vouchers	TOTAL
REVENUE:					
70300	Net tenant rental revenue	\$ 2,384,672	\$ -	\$ -	\$ 2,384,672
70400	Tenant revenue - other	36,378	-	-	36,378
70500	Total tenant revenue	2,421,050	-	-	2,421,050
70600	HUD PHA grants	1,395,877	75,686	1,802,815	3,274,378
70610	Capital grants	-	393,672	-	393,672
70710	Management fee	-	-	-	-
70720	Asset management fee	-	-	-	-
70730	Book keeping fee	-	-	-	-
70740	Front line service fee	-	-	-	-
70750	Other fees	-	-	-	-
70800	Other government grants	-	-	-	-
71100	Investment income - unrestricted	10,100	-	521	10,621
71200	Mortgage interest income	-	-	-	-
71300	Proceeds from disposition of assets held for sale	-	-	-	-
71301	Cost of sale of assets	-	-	-	-
71400	Fraud recovery	-	-	-	-
71500	Other revenue	1,006,887	-	126,900	1,133,787
71600	Gain or loss on sale of fixed assets	-	-	-	-
72000	Investment income - restricted	-	-	-	-
70000	TOTAL REVENUE	4,833,914	469,358	1,930,236	7,233,508
EXPENSES:					
Administrative					
91100	Administrative salaries	389,578	50,000	83,032	522,610
91200	Auditing fees	11,790	-	2,570	14,360
91300	Outside management fees	-	-	-	-
91310	Book-keeping fee	-	-	-	-
91400	Advertising and marketing	5,587	-	-	5,587
91500	Employee benefit contributions- administrative	973,445	-	99,984	1,073,429
91600	Office expenses	175,408	-	26,906	202,314
91700	Legal expenses	185,289	-	8,999	194,288
91800	Travel	617	-	139	756
91810	Allocated overhead	-	-	-	-
91900	Other	-	-	-	-
	Total administrative	1,741,714	50,000	221,630	2,013,344
92000	Asset Management Fee	-	-	-	-
Tenant services					
92100	Tenant services - salaries	-	-	-	-
92200	Relocation costs	-	-	-	-
92300	Employee benefit contributions- tenant services	-	-	-	-
92400	Tenant services - other	6,165	-	-	6,165
	Total tenant services	6,165	-	-	6,165
Utilities					
93100	Water	159,916	-	-	159,916
93200	Electricity	368,647	-	-	368,647
93300	Gas	246,181	-	-	246,181
93400	Fuel	-	-	-	-
93500	Labor	134,109	-	-	134,109
93600	Sewer	210,381	-	-	210,381
93700	Employee benefit contributions- utilities	62,938	-	-	62,938
93800	Other utilities expense	-	-	-	-
	Total utilities	1,182,172	-	-	1,182,172
Ordinary maintenance & operation					
94100	Ordinary maintenance and operations - labor	437,302	25,000	-	462,302
94200	Ordinary maintenance and operations - materials & other	187,746	-	-	187,746
94300	Ordinary maintenance and operations - contract costs	475,098	-	-	475,098
94500	Employee benefit contributions- ordinary maintenance	216,963	-	-	216,963
	Total ordinary maintenance	1,317,109	25,000	-	1,342,109

Morristown Housing Authority								
NJ023								
Financial Data Schedule (FDS)								
September 30, 2018								
Line Item #	Account Description	OPERATING	CAPITAL	14,871 Housing Choice Vouchers	TOTAL			
	Protective services							
95100	Protective services - labor	-	-	-	-			
95200	Protective services- other contract costs	-	-	-	-			
95300	Protective services - other	-	-	-	-			
95500	Employee benefit contributions- protective services	-	-	-	-			
	Total protective services	-	-	-	-			
	General expenses							
96100	Insurance premiums	152,726	-	4,077	156,803			
96200	Other general expenses	-	3,204	6,825	10,029			
96210	Compensated absences	11,590	-	2,739	14,329			
96300	Payments in lieu of taxes	123,888	-	-	123,888			
96400	Bad debt - tenant rents	29,172	-	-	29,172			
96500	Bad debt- mortgages	-	-	-	-			
96600	Bad debt - other	-	-	-	-			
96700	Interest expense	-	-	-	-			
96710	Interest of mortgage (or bonds) payable	-	70,866	-	70,866			
96720	Interest on Notes Payable (Short and Long Term)	-	-	-	-			
96730	Amortization of bond issue costs	-	-	-	-			
96800	Severance expense	-	-	-	-			
	Total general expenses	317,376	74,070	13,641	405,087			
96900	TOTAL OPERATING EXPENSES	4,564,536	149,070	235,271	4,948,877			
97000	EXCESS OPERATING REVENUE OVER OPERATING	269,378	320,288	1,694,965	2,284,631			
97100	Extraordinary maintenance	-	-	-	-			
97200	Casualty losses - non capitalized	-	-	-	-			
97300	Housing assistance payments	-	-	1,667,596	1,667,596			
97350	HAP Portability - in	-	-	51,654	51,654			
97400	Depreciation expense	582,800	-	-	582,800			
97500	Fraud losses	-	-	-	-			
97800	Dwelling units rent expense	-	-	-	-			
90000	TOTAL EXPENSES	5,147,336	149,070	1,954,521	7,250,927			
	OTHER FINANCING SOURCES (USES)							
10010	Operating transfers in	-	-	-	-			
10020	Operating transfers out	-	-	-	-			
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)	-	-	-	-			
10000	EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES	(313,422)	320,288	(24,285)	(17,419)			
MEMO ACCOUNT INFORMATION:								
11020	Required annual debt principal payments	-	-	-	-			
11030	Beginning equity	8,993,313	-	(358,069)	8,635,244			
11040	Prior period adjustments and equity transfers	(3,940,516)	-	(340,471)	(4,280,987)			
11170	Administrative fee equity	-	-	-	-			
11180	Housing assistance payments equity	-	-	-	-			
11190	Unit months available	5,640	-	2,208	7,848			
11210	Number of unit months leased	5,340	-	2,064	7,404			
	Equity Roll Forward Test:							
	Calculation from R/E Statement	\$ 5,059,663		\$ (722,825)	\$ 4,336,838			
	B/S Line 513	\$ 5,059,663		\$ (722,825)	\$ 4,336,838			
		\$ -	\$ -	\$ -	\$ -			