

PASSAIC COUNTY PUBLIC HOUSING AGENCY

**FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION**

**FOR THE YEARS ENDED
DECEMBER 31, 2013 AND 2012**

**PASSAIC COUNTY PUBLIC HOUSING AGENCY
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INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners
Passaic County Public Housing Agency:

Report on the Financial Statements

We have audited the accompanying financial statements of the Passaic County Public Housing Agency ("the Agency") as of and for the years ended December 31, 2013 and 2012, which collectively comprise the Agency's basic financial statements as listed in the table of contents, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Agency'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 Agency'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.

INDEPENDENT AUDITORS' REPORT (continued)

Basis for Qualified Opinion

Management has not received an actuarial report to determine the amount of liability to be accrued for other post employment benefits as is required by GASB 45. Accounting principles generally accepted in the United States of America require that a liability be accrued for other post employment benefits which would increase the liabilities and decrease net position and increase expenses. The amount by which this departure would affect the liabilities, net position and expenses of the Enterprise Fund has not been determined.

Qualified Opinion

In our opinion, except for the effects of the matter described in the "Basis for Qualified Opinion" paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Passaic County Public Housing Agency, as of December 31, 2013 and 2012, and the respective changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other-Matters

Required Supplementary Information

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

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Passaic County Public Housing Agency's basic financial statements. The schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and the Division of Local Government Services, Department of Community Affairs, State of New Jersey is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying financial data schedule is also not a required part of the financial statements and is presented for the purposes of additional analysis as required by the U.S. Department of Housing and Urban Development.

INDEPENDENT AUDITOR'S REPORT (continued)

Other Information (continued)

The schedule of expenditures of federal awards and financial data schedule are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits 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 July 11, 2014 on our consideration of the Passaic County Public Housing Agency'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 Passaic County Public Housing Agency's internal control over financial reporting and compliance.

Fallon & Larsen LLP

July 11, 2014
Toms River, New Jersey

MANAGEMENT'S DISCUSSION AND ANALYSIS

**PASSAIC COUNTY PUBLIC HOUSING AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2013**

As Management of the Passaic County Public Housing Agency (the "Agency"), we offer readers of the Agency's financial statements this narrative overview and analysis of the financial activities of the Agency for the fiscal year ended December 31, 2013. We encourage readers to consider the information presented here in conjunction with the Agency's financial statements as presented elsewhere in this report.

A – Financial Highlights

1. For the fiscal year ended December 31, 2013, the assets of the Agency exceeded its liabilities by \$5,977,663, (net position). This represents an increase from the previous year when assets exceeded liabilities by \$6,150,679.
2. For the fiscal year December 31, 2013, the Agency reported ending unrestricted net position of \$5,519,433. The unrestricted net position decreased \$84,970 from the prior year.
3. The Agency had total revenues of \$9,436,692 and total expenses of \$9,609,708 for the year ended December 31, 2013.
4. The Agency had capital outlays of \$8,061 for the fiscal year ended December 31, 2013.
5. The Agency's expenditures of federal awards amounted to \$9,617,635 for the fiscal year ended December 31, 2013.

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 Agency's financial statements. The Agency's financial statements and notes to the financial statements included in this report were prepared in accordance with Generally Accepted Accounting Principles in the United States ("GAAP"), applicable to the Governmental entities for Proprietary Fund types.

2. Financial Statements

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

The Statements of Net Position presents information on all the Agency's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position will serve as a useful indicator of whether the financial position of the Agency is improving or deteriorating.

**PASSAIC COUNTY PUBLIC HOUSING AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2013**

B – Using the Annual Report (continued)

2. Financial Statements (continued)

The Statements of Revenues, Expenses and Changes in Net Position present information showing how the Agency's net position changed during the most recent fiscal year. All changes in the net position are included, regardless of when cash is received or paid.

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

The financial statements report on the Agency's activities. The activities are primarily supported by HUD subsidies and grants. The Agency's function is to provide decent, safe and sanitary housing to low income and special needs populations. The financial statements can be found on pages 8 through 11 included in this report.

3. Notes To Financial Statements

The accompanying 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 begin on page 12 of this report.

C – Budgetary Highlights

For the fiscal year ended December 31, 2013, the Agency prepared a budget for its Housing Choice Voucher Program. The budget was prepared in accordance with the accounting procedures prescribed by HUD.

D – The Agency as a Whole

The Agency's net position increased during the fiscal year. The Agency's revenues include subsidies and grants received from HUD. The Agency receives subsidies each month based on a pre-authorized funding level. The Agency's revenues were sufficient to cover all expenses during the fiscal year.

The following table provides a summary of the Agency's assets, liabilities and net position:

	<u>2013</u>	<u>2012</u>
Cash and other current assets	\$ 5,932,009	\$ 5,952,087
Capital assets, net	7,927	-
Restricted cash	<u>656,115</u>	<u>837,121</u>
Total assets	<u>\$ 6,596,051</u>	<u>\$ 6,789,208</u>

**PASSAIC COUNTY PUBLIC HOUSING AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2013**

D – The Agency as a Whole (continued)

	<u>2013</u>	<u>2012</u>
Liabilities	\$ 618,388	\$ 638,529
Net position:		
Net invest. in capital assets	7,927	-
Restricted	450,303	546,276
Unrestricted	<u>5,519,433</u>	<u>5,604,403</u>
Total net position	<u>5,977,663</u>	<u>6,150,679</u>
Total net position & liabilities	<u>\$ 6,596,051</u>	<u>\$ 6,789,208</u>

The following table provides a summary of the Agency's changes in net position:

	<u>2013</u>	<u>%</u>	<u>2012</u>	<u>%</u>
<u>Revenues:</u>				
HUD grants	\$ 9,207,667	97.57	\$ 5,829,799	98.41
Other revenues	221,968	2.35	80,274	1.36
Investment income	<u>7,057</u>	0.08	<u>13,636</u>	0.23
Total revenues	<u>9,436,692</u>	100.00	<u>5,923,709</u>	100.00
<u>Expenses:</u>				
Other operating expenses	958,267	9.97	893,389	9.52
HAP expenses	<u>8,651,441</u>	90.03	<u>8,624,240</u>	90.48
Total expenses	<u>9,609,708</u>	100.00	<u>9,517,629</u>	100.00
Change in net position	(173,016)		(3,593,920)	
Beginning net position	<u>6,150,679</u>		<u>9,744,599</u>	
Ending net position	<u>\$ 5,977,663</u>		<u>\$ 6,150,679</u>	

E – Capital Assets and Long-term Debt

The Agency purchased a vehicle costing \$8,061 during the year ended December 31, 2013 and as of December 31, 2012 has incurred no interest bearing long-term debt. A summary of capital assets can be found in note 5 of the financial statements.

**PASSAIC COUNTY PUBLIC HOUSING AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2013**

E – Capital Assets and Long-term Debt

The Agency is in the process of evaluating sites for the development of an affordable housing complex, utilizing funds held in the Passaic County Affordable Housing Development Fund and other sources of grants and tax exempt financing.

F – Significant Changes From Year Ended December 31, 2012 to December 31, 2013

HUD grants increased by \$3,377,868 from 2012 to 2013 as HUD required the Agency to utilize \$3,676,085 of restricted reserves to pay housing assistance payments during the year ended December 31, 2012. This resulted in the Agency receiving less funding in 2012.

Other revenues increased by \$141,694 as the Agency received more funds from portable tenants during the year ended December 31, 2013.

Administrative expenses increased \$53,503 primarily due to increases in employee benefits of \$18,193 and office expenses of \$28,503.

Tenant services costs increased from \$117,585 in 2012 to \$130,907 in 2013 primarily due to an increase in employee benefit costs.

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

The state of the Federal budget deficit and the uncertainty surrounding the funding of domestic programs remains a significant factor in planning the Agency's annual budget. Housing Choice Voucher Program subsidies have been experiencing slow growth and administrative fees are being funded at a level less than 100% per year.

The Agency's unrestricted net position totaling \$5,519,433 appears sufficient to cover any reasonable shortfall that may occur in 2014.

H – Contacting the Agency's Financial Management

The financial report is designed to provide a general overview of the Agency'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 Janice DeJohn, Executive Director, Passaic County Housing Agency, 100 Hamilton Plaza, Suite 510, Paterson, NJ 07505.

FINANCIAL STATEMENTS

**PASSAIC COUNTY PUBLIC HOUSING AGENCY
STATEMENTS OF NET POSITION
AS OF DECEMBER 31, 2013 AND 2012**

ASSETS		
	<u>2013</u>	<u>2012</u>
Current assets:		
Cash and cash equivalents	\$ 5,910,500	\$ 5,944,733
Accounts receivable - miscellaneous	15,590	6,940
Accrued interest receivable	313	414
Prepaid expenses	<u>5,606</u>	<u>-</u>
Total current assets	<u>5,932,009</u>	<u>5,952,087</u>
Non-current assets:		
Restricted cash and cash equivalents	656,115	837,121
Capital assets, net	<u>7,927</u>	<u>-</u>
Total non-current assets	<u>664,042</u>	<u>837,121</u>
Total assets	<u>6,596,051</u>	<u>6,789,208</u>
LIABILITIES		
Current liabilities:		
Accounts payable	333,546	282,913
Accounts payable - other government	10,751	-
Accrued compensated absences, current	<u>6,828</u>	<u>6,477</u>
Total current liabilities	<u>351,125</u>	<u>289,390</u>
Non-current liabilities:		
Accrued compensated absences, noncurrent	61,451	58,294
Non-current liabilities, other	<u>205,812</u>	<u>290,845</u>
Total non-current liabilities	<u>267,263</u>	<u>349,139</u>
Total liabilities	<u>618,388</u>	<u>638,529</u>
NET POSITION		
Net position:		
Net investment in capital assets	7,927	-
Restricted	450,303	546,276
Unrestricted	<u>5,519,433</u>	<u>5,604,403</u>
Total net position	<u>\$ 5,977,663</u>	<u>\$ 6,150,679</u>

See accompanying notes to financial statements.

**PASSAIC COUNTY PUBLIC HOUSING AGENCY
STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012**

	<u>2013</u>	<u>2012</u>
Operating revenues:		
HUD grants	\$ 9,207,667	\$ 5,829,799
Other revenues	<u>221,968</u>	<u>80,274</u>
Total operating revenue	<u>9,429,635</u>	<u>5,910,073</u>
Operating expenses:		
Administrative	796,756	743,249
Tenant services	130,907	117,585
General expenses	30,470	30,155
Housing assistance payments	8,651,441	8,624,240
Depreciation	<u>134</u>	<u>2,400</u>
Total operating expenses	<u>9,609,708</u>	<u>9,517,629</u>
Operating income (loss)	<u>(180,073)</u>	<u>(3,607,556)</u>
Non-operating revenues:		
Investment income	<u>7,057</u>	<u>13,636</u>
Changes in net position	(173,016)	(3,593,920)
Total net position, beginning of year	<u>6,150,679</u>	<u>9,744,599</u>
Total net position, end of year	<u>\$ 5,977,663</u>	<u>\$ 6,150,679</u>

See accompanying notes to financial statements.

**PASSAIC COUNTY PUBLIC HOUSING AGENCY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012**

	<u>2013</u>	<u>2012</u>
Cash Flows from Operating Activities:		
Cash received from tenants	\$ 461,375	\$ 80,730
Cash received from grantors	9,207,768	5,830,181
Cash paid to suppliers	(9,382,991)	(9,001,064)
Cash paid to employees	<u>(500,387)</u>	<u>(502,689)</u>
Net cash flows provided (used) by operating activities	<u>(214,235)</u>	<u>(3,592,842)</u>
Cash Flows from Capital and Related Financing Activities:		
Purchases of capital assets	<u>(8,061)</u>	<u>-</u>
Net cash flows provided (used) by capital and related financing activities	<u>(8,061)</u>	<u>-</u>
Cash Flows from Investing Activities:		
Interest received on investments	<u>7,057</u>	<u>13,636</u>
Net cash flows provided (used) by investing activities	<u>7,057</u>	<u>13,636</u>
Net increase (decrease) in cash	(215,239)	(3,579,206)
Cash and cash equivalents, beginning of year	<u>6,781,854</u>	<u>10,361,060</u>
Cash and cash equivalents, end of year	<u>\$ 6,566,615</u>	<u>\$ 6,781,854</u>

	<u>2013</u>	<u>2012</u>
A reconciliation of cash and cash equivalents to Statements of Net Position is as follows:		
Cash and cash equivalents	\$ 5,910,500	\$ 5,944,733
Restricted cash and cash equivalents	<u>656,115</u>	<u>837,121</u>
	<u>\$ 6,566,615</u>	<u>\$ 6,781,854</u>

See accompanying notes to financial statements.

**PASSAIC COUNTY PUBLIC HOUSING AGENCY
STATEMENTS OF CASH FLOWS (continued)
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012**

	<u>2013</u>	<u>2012</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	\$ (180,073)	\$ (3,607,556)
Items which did not use cash:		
Depreciation	134	2,400
Changes in operating assets and liabilities:		
Accounts receivable - miscellaneous	(8,650)	456
Accrued interest receivable	101	382
Prepaid expenses	(5,606)	-
Accounts payable	61,384	(8,014)
Accrued compensated absences	3,508	8,980
Other liabilities	<u>(85,033)</u>	<u>10,510</u>
Net cash provided (used) by operating activities	<u>\$ (214,235)</u>	<u>\$ (3,592,842)</u>

See accompanying notes to financial statements.

**PASSAIC COUNTY PUBLIC HOUSING AGENCY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization

The Passaic County Public Housing Agency ("the Agency") was created by resolution of the Board of Chosen Freeholders of the County of Passaic to administer the County's Section 8 rental assistance 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 Agency is governed by the County of Passaic's board of commissioners who appoint an executive director to manage the day-to-day operations of the Agency.

B. Description of Programs

Housing Assistance Payments Program - Section 8

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

C. Reporting Entity

In accordance with Statement No. 39 of the Government Accounting Standards Board ("GASB"), the Agency's basic financial statements include those of the Passaic County Public Housing Agency and any component units. Component units are legally separate, tax-exempt organizations that meet all of the following criteria:

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

Based upon the application of these criteria, this report includes all programs and activities operated by the Agency. There were no additional entities required to be included in the reporting entity under these criteria in the current fiscal year.

However, the Agency is a department of the County of Passaic ("the County") and as such is included in the Comprehensive Annual Financial Report of the County.

**PASSAIC COUNTY PUBLIC HOUSING AGENCY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Basis of Accounting

The Agency'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 Agency administers one federal program (Housing Choice Vouchers). The program is accounted for by a separate set of self-balancing accounts that comprise its assets, liabilities, net position (program equity), revenues, and expenses. The individual program accounts for the governmental resources allocated to it for the purpose of carrying on specific programs in accordance with laws, regulations, or other restrictions, including those imposed by HUD. The Housing Choice Voucher program is accounted for within 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 Agency's enterprise fund is accounted for using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, and losses from assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

The Agency's financial statements are prepared in accordance with GASB Statement No. 34 (as amended), *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 Agency to include Management's Discussion and Analysis as part of the Required Supplemental Information.

The Agency's primary source of non-exchange revenue relates to grants and subsidies. In accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Non-exchange Transactions*, grant and subsidy revenue are recognized at the time eligible program expenditures occur and/or the Agency has complied with the grant and subsidy requirements.

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Activities that use Proprietary Fund Accounting*, the Agency has elected to apply all Financial Accounting Standards Board pronouncements, Accounting Principle Board Opinions and Accounting Research Bulletins issued that do not conflict with or contradict GASB pronouncements.

**PASSAIC COUNTY PUBLIC HOUSING AGENCY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Basis of Accounting (continued)

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

Both administrative fee and HAP revenues continue to be recognized under the guidelines set forth in GASB Statement No. 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 Housing Choice Voucher program is no longer a cost reimbursement grant, therefore the Agency recognizes unspent administrative fee and HAP revenue in the reporting period as revenue for financial statement reporting.

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

E. Cash and cash equivalents

HUD requires housing authorities / agencies 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 Agency or with an unaffiliated bank or trust company for the account of the Agency.

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 Agency's policy to maintain collateralization in accordance with HUD requirements.

F. Prepaid Expenses

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

**PASSAIC COUNTY PUBLIC HOUSING AGENCY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

G. Capital Assets, net

Capital assets are stated at cost. Expenditures for repairs and maintenance are charged directly to expense as they are incurred. Expenditures determined to represent additions or betterments are capitalized. Upon the sale or retirement of capital assets, the cost and related accumulated depreciation is eliminated from the accounts and any related gain or loss is reflected in the Statement of Revenues, Expenses and Changes in Net Position. Depreciation is calculated using the straight-line method based on the estimated useful lives of the following asset groups:

- Furniture and Equipment 3 - 5 Years
- Buildings 40 Years

The Agency has established a capitalization threshold of \$5,000.

H. Prepaid revenue

Prepaid grants consist of the receipt of HUD and other governmental program funding applicable to future periods.

I. Taxes

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

J. Compensated Absences

Accumulated unpaid leave time is accrued at the estimated amounts of future benefits attributable to services already rendered. Unused sick leave may be carried to future periods and used in the event of extended illness. In the event of retirement an employee is compensated for one-half of the unused sick days up to a maximum of \$12,000 under the Agency's current personnel policy. The Agency's sick leave policy, in accordance with New Jersey State law, allows employees to carry over unused sick leave without penalty. Employees shall be permitted to carry a maximum of one year's accrued vacation time in addition to the employee's allotted time for the current year. No employee may carry more than one year's worth of vacation time to the next year without written approval of the County Administrator.

K. Operating Revenues and Expenses

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

**PASSAIC COUNTY PUBLIC HOUSING AGENCY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

L. Equity Classifications

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

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

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

Unrestricted net position — All other net position that do not meet the definition of “restricted” or “investment in capital assets.”

M. Economic Dependency

The Section 8 Housing Choice Voucher Program of the Agency is economically dependent on operating grants and subsidies from HUD.

N. Use of Management Estimates

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

O. Budgets and Budgetary Accounting

The Agency is required by contractual agreements to adopt annual, appropriated operating budgets for its Housing Choice Voucher program. The budget is prepared on a HUD basis, which is materially consistent with accounting principles generally accepted in the United States of America. All appropriations lapse at HUD's program year end or at the end of grant period.

**PASSAIC COUNTY PUBLIC HOUSING AGENCY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

P. Risk Management

The Agency is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; error and omission, injuries to employees; and natural disaster. There have been no significant reductions in insurance coverage and settlement amounts have not exceeded insurance coverage for the previous three years.

NOTE 2. CASH AND CASH EQUIVALENTS

At December 31, 2013 and 2012, the Agency had funds on deposit in checking, money market accounts and certificates of deposit.

For the fiscal years ended December 31, 2013 and 2012, the carrying amount of the Agency's cash (including restricted cash) was \$6,566,615 and \$6,781,854 and the bank balances were \$6,608,147 and \$6,785,243, respectively.

Of the bank balances, \$750,000 and \$750,000 were covered by federal depository insurance and the remaining \$5,858,147 and \$6,035,243 were collateralized through the Government Unit Deposit Protection Act ("GUDPA") for the fiscal years ended December 31, 2013 and 2012, respectively.

<u>Cash Account</u>	<u>2013</u>	<u>2012</u>
Insured:		
FDIC	\$ 750,000	\$ 750,000
Collateralized:		
GUDPA	<u>5,858,147</u>	<u>6,035,243</u>
	<u>\$ 6,608,147</u>	<u>\$ 6,785,243</u>

Custodial credit risk is the risk that, in the event of a bank failure, the government's deposits may not be returned to it. The Agency does not have a formal policy for custodial credit risk. As of December 31, 2013 and 2012, the Agency's bank balances were not exposed to custodial credit risk.

NOTE 3. ACCOUNTS RECEIVABLE - MISCELLANEOUS

As of December 31, 2013 and 2012, Accounts receivable - miscellaneous represents amounts due to the Agency from other local governments for portable tenants and amounts due from tenants for fraud recovery. There was no allowance for doubtful accounts because the Authority deemed all amounts to be fully collectible.

**PASSAIC COUNTY PUBLIC HOUSING AGENCY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012**

NOTE 4. RESTRICTED CASH

Restricted cash consists of the following at December 31, 2013 and 2012:

<u>Cash Category</u>	<u>2013</u>	<u>2012</u>
Housing assistance payments	\$ 450,303	\$ 546,276
Family self sufficiency program escrows	<u>205,812</u>	<u>290,845</u>
	<u>\$ 656,115</u>	<u>\$ 837,121</u>

Housing assistance payment reserves are restricted for use only in the Housing Choice Voucher program for tenant rents.

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

NOTE 5. CAPITAL ASSETS, NET

A summary of the changes in capital assets during the year ended December 31, 2013 were as follows:

<u>Description</u>	<u>December 31, 2012</u>	<u>Additions</u>	<u>Dispositions</u>	<u>December 31, 2013</u>
Depreciable capital assets:				
Furniture and equipment	\$ <u>194,409</u>	\$ <u>8,061</u>	\$ <u>-</u>	\$ <u>202,470</u>
Total	194,409	8,061	-	202,470
Less: accumulated depreciation	<u>194,409</u>	<u>134</u>	<u>-</u>	<u>194,543</u>
Net capital assets	\$ <u>-</u>	\$ <u>7,927</u>	\$ <u>-</u>	\$ <u>7,927</u>

A summary of the changes in capital assets during the year ended December 30, 2012 were as follows:

<u>Description</u>	<u>December 31, 2011</u>	<u>Additions</u>	<u>Dispositions</u>	<u>December 31, 2012</u>
Depreciable capital assets:				
Furniture and equipment	\$ <u>194,409</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>194,409</u>
Total	194,409	-	-	194,409
Less: accumulated depreciation	<u>192,009</u>	<u>2,400</u>	<u>-</u>	<u>194,409</u>
Net capital assets	\$ <u>2,400</u>	\$ <u>(2,400)</u>	\$ <u>-</u>	\$ <u>-</u>

**PASSAIC COUNTY PUBLIC HOUSING AGENCY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012**

NOTE 6. LONG TERM OBLIGATIONS

Long term liabilities had the following activity for the years ended December 31, 2013 and 2012:

	December 31, 2012	Additions	Retirements	December 31, 2013	Due in One Year
Accrued compensated absences	\$ 64,771	\$ 43,162	\$ 39,654	\$ 68,279	\$ 6,828
FSS escrows	<u>290,845</u>	<u>61,800</u>	<u>146,833</u>	<u>205,812</u>	<u>-</u>
	<u>\$ 355,616</u>	<u>\$ 104,962</u>	<u>\$ 186,487</u>	<u>\$ 274,091</u>	<u>\$ 6,828</u>
	December 31, 2011	Additions	Retirements	December 31, 2012	Due in One Year
Accrued compensated absences	\$ 55,791	\$ 49,330	\$ 40,350	\$ 64,771	\$ 6,477
FSS escrows	<u>280,335</u>	<u>89,058</u>	<u>78,548</u>	<u>290,845</u>	<u>-</u>
	<u>\$ 336,126</u>	<u>\$ 138,388</u>	<u>\$ 118,898</u>	<u>\$ 355,616</u>	<u>\$ 6,477</u>

NOTE 7. PENSION PLAN

A. Description of the Plan

All employees of the Agency are covered by the Public Employees' Retirement System which has been established by state statute and is administered by the New Jersey Division of Pension and Benefits (Division). According to the State of New Jersey Administrative Code, all obligations of the System will be assumed by the State of New Jersey should the System terminate. The Division issues a publicly available financial report that includes the financial statements and required supplementary information for the Public Employees Retirement System. This report may be obtained by writing to the Division of Pensions and Benefits, PO Box 295, Trenton, New Jersey, 08625.

B. Public Employees Retirement System ("PERS")

The Public Employees' Retirement System (PERS) was established as of January 1, 1955 under the provisions of N.J.SA 43:15A to provide retirement, death, disability and medical benefits to certain qualified members. The Public Employees' Retirement System is a cost-sharing multiple-employer plan. Membership is mandatory for substantially all full-time employees of the State of New Jersey or any county, municipality, school district, or public agency, provided the employee is not required to be a member of another state-administered retirement system or other state or local jurisdiction. Medical benefits are now provided by the State Health Benefits Program.

**PASSAIC COUNTY PUBLIC HOUSING AGENCY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012**

NOTE 7. PENSION PLAN (continued)

C. Vesting and Benefit Provisions

The vesting and benefit provisions for PERS are set by N.J.S.A. 43:15A and 43:3B. All benefits vest after ten years of service, except for medical benefits that vest after 25 years of service. Retirement benefits for age and service are available at age 60 and are generally determined to be 1/55 of the final average salary for each year of service credit, as defined. Final average salary equals the average salary for the final three years of service prior to retirement (or highest three years' compensation if other than the final three years). Members may seek early retirement after achieving 25 years of service credit or they may elect deferred retirement after achieving eight to ten years of service in which case benefits would begin the first day of the month after the member attains normal retirement age. Members are always fully vested for their own contributions and, after three years of service credit, become vested for 2% of related interest earned on the contributions. In the case of death before retirement, members' beneficiaries are entitled to full interest credited to the members' accounts.

D. Contribution Requirements – PERS

The contribution policy is set by N.J.S.A 43:15A and requires contributions by active members and contributing employers. Plan member and employer contributions may be amended by State of New Jersey legislation. Members contribute at a uniform rate. The full normal employee contribution rate became 5.5% of annual compensation, effective July 1, 2007 for most PERS state employees and effective July 1, 2008 for PERS local employees, based on Chapter 103, P.L. 2007. Pursuant to the provisions of Chapter 78, P.L. 2011, the active member contribution rate will be increased from 5.5% of annual compensation to 6.5% plus an additional 1% phased-in over 7 years beginning in the first year. For fiscal year 2012, the member contribution rate increased in October 2011. The phase-in of the additional incremental member contribution rate will take place in July of each subsequent fiscal year. Employers' contribution amounts are based on an actuarially determined rate. The annual employer contributions include funding for basic retirement allowances, cost-of-living adjustments, and non-contributory death benefits.

Chapter 19, P.L. 2009, effective March 17, 2009, provided an option for local employers to contribute 50% of the normal and accrued liability contribution amounts certified by PERS for payment due in State fiscal year 2009. This law also provided that a local employer may pay 100% of the required contribution. Such an employer will be credited with the full payment and any such amounts will not be included in their unfunded liability. The actuaries for PERS 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 State fiscal year ending December 31, 2013 and will be adjusted by the rate of return on the actuarial value of assets.

**PASSAIC COUNTY PUBLIC HOUSING AGENCY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012**

NOTE 7. PENSION PLAN (continued)

D. Contribution Requirements – PERS (continued)

The actuarially determined contribution includes funding for cost-of-living adjustments, noncontributory death benefits, and post-retirement medical premiums.

Three Year Trend Information for PERS			
Year Funding	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
December 31, 2011	\$ <u>32,388</u>	<u>100</u>	\$ <u>-</u>
December 31, 2012	\$ <u>33,975</u>	<u>100</u>	\$ <u>-</u>
December 31, 2013	\$ <u>33,810</u>	<u>100</u>	\$ <u>-</u>

NOTE 8. POST-RETIREMENT BENEFITS

A. Plan Description

As a department of the County of Passaic, the Agency employees are covered through the County for post-employment benefits other than pensions. The County of Passaic provides lifetime medical benefits to County employees who retire under the following conditions:

- After twenty-five years of State pension membership; or
- Upon disability retirement

Employees who do not meet the above requirements and retire after age 60 may purchase coverage for themselves and their dependents through direct billing.

Eligible retirees are provided several medical benefit plans to select from. Their selection can be changed during open enrollment periods. Members who become Medicare eligible must enroll in both Part A and Part B in order to maintain eligibility in the County plan. For retirees with 25 years of service, Part B premiums are reimbursed by the County.

Dependents of retirees are covered until the death of the retiree, however, dependant spouses may continue coverage through direct billing upon the death of the retiree.

The number of retirees receiving premium-free benefits as of December 31, 2009, the effective date of the most recent biannual Other Post-Employment Benefit, herein referred to as "OPEB", valuation is 675. Of these, 390 retirees retain dependant or spousal coverage. Active employees number 2,288 as of the same valuation date. There have been no significant changes in the number of covered employees or type of coverage since the valuation date. The County did not update this analysis as of December 31, 2013 as required by GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.

**PASSAIC COUNTY PUBLIC HOUSING AGENCY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012**

NOTE 8. POST-RETIREMENT BENEFITS (continued)

B. Funding Policy

The County currently accounts for these post retirement benefits on a pay-as-you-go basis.

C. Actuarial Valuation Results

Under GASB Statement 45, the County would recognize the cost of other post-employment benefits in the year when the employees services are received, report the accumulated liability from prior years, and provide information useful in assessing potential demands on the County's future cash flows. The accumulated liability from the prior years is phased in over the 30 year period beginning the year ended December 31, 2008. The county is required to perform actuarial valuations every two years and was in that process at the time of audit. However, those valuations were not available at the time of audit.

NOTE 9. RESTRICTED NET POSITION

As of December 31, 2013 and 2012, restricted net position consisted of the following:

	<u>2013</u>	<u>2012</u>
Housing assistance payments	\$ <u>450,303</u>	\$ <u>546,276</u>

Housing assistance payments reserves are restricted for rent payments to landlords as part of the Housing Choice Voucher program.

NOTE 10. CONTINGENCIES

The Agency receives financial assistance from HUD in the form of grants and subsidies. Entitlement to the funds is generally conditional upon compliance with terms and conditions of the grant agreements and applicable regulations, including the expenditure of the funds for eligible purposes. Substantially all grants, entitlements and cost reimbursements are subject to financial and compliance audits by HUD. As a result of these audits, costs previously reimbursed could be disallowed and require payments to HUD. As of December 31, 2013 and 2012, the Agency estimates that no material liabilities will result from such audits.

NOTE 11. COMMITMENTS

During the fiscal year ended December 31, 2003 the Agency's Board of Commissioners, by resolution, designated up to \$3,300,000 of its unrestricted net position to be set aside for the development of affordable housing units within its jurisdiction. The fund is known as the "Passaic County Affordable Housing Development Fund". Through December 31, 2013, the Agency has not spent any of these funds.

**PASSAIC COUNTY PUBLIC HOUSING AGENCY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012**

NOTE 12. RISK MANAGEMENT

The Agency is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets: error and omission, injuries to employees; and natural disaster. The County insures against these risks through self-insurance trust funds.

NOTE 13. SELF-INSURANCE WORKMEN'S COMPENSATION PLAN

The County has established a Workers' Compensation Plan for its employees. The County funds the entire cost of the plan. Claims are paid directly by the plan to Statutory Limits. The County has not created a loss reserve for claims incurred which were unpaid at December 31, 2013 and 2012. In addition, the County has not created a reserve for any potential unreported losses which have taken place but in which the County has not received notices or report of losses. The effect on the financial statements from these omissions could not be determined, but is probably material. A contingent liability exists with respect to reinsurance which would become an actual liability in the event the reinsuring company might be unable to meet their obligations to the County under existing reinsurance agreements.

NOTE 14. SELF-INSURANCE LIABILITY PLAN

The County has established a liability trust reserve for the purpose of funding payments that may arise from any general, auto or other liability claims against the County on a self-insured basis. The County funds the entire cost of the plan. The County has not created a loss reserve for claims incurred which were unpaid at December 31, 2013 and 2012. In addition, the County has not created a reserve for any potential unreported losses which have taken place but in which the county has not received notices or report of losses. The effect on the financial statements from these omissions could not be determined, but is probably material.

NOTE 15. SELF-INSURANCE HEALTH BENEFITS PLAN

The County has established a Health Benefits plan for its employees. The County funds the entire cost of the plan. Claims are paid directly by the plan up to a maximum of \$150,000 per employee per year, with any excess benefit being reimbursed through a Re-Insurance Agreement with Pacific Mutual Insurance Company up to \$1,000,000 per employee per year. The County has not created a loss reserve for claims incurred which were unpaid at December 31, 2013 and 2012. In addition, the County has not created a reserve for any potential unreported losses which have taken place but in which the County has not received notices or report of losses. The effect on the financial statements from these omissions could not be determined, but is probably material. A contingent liability exists with respect to reinsurance which would become an actual liability in the event the reinsuring company might be unable to meet their obligations to the County under existing reinsurance agreements.

**PASSAIC COUNTY PUBLIC HOUSING AGENCY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012**

NOTE 16. 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 Agency through July 11, 2014 (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 AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Commissioners
Passaic County Public Housing Agency:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the Passaic County Public Housing Agency, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise Passaic County Public Housing Agency's basic financial statements, and have issued our report thereon dated July 11, 2014.

Internal Control Over Financial Reporting

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

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. However as described in the accompanying schedule of findings and questioned costs, we identified a certain deficiency we consider to be a material weakness.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness. (2013-1)

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

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.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the 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.

Fallon & Larsen LLP

July 11, 2014
Toms River, New Jersey



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

To the Board of Commissioners
Passaic County Public Housing Agency:

Report on Compliance for Each Major Federal Program

We have audited the Passaic County Public Housing Agency's compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on each of Passaic County Public Housing Agency's major federal programs for the year ended December 31, 2013. Passaic County Public Housing Agency's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Passaic County Public Housing Agency's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the 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 Passaic County Public Housing Agency'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 Passaic County Public Housing Agency's compliance.

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 (continued)**

Opinion on Each Major Federal Program

In our opinion, Passaic County Public Housing Agency complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2013.

Report on Internal Control Over Compliance

Management of Passaic County Public Housing Agency 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 Passaic County Public Housing Agency'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 OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Passaic County Public Housing Agency's internal control over compliance.

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

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

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

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 (continued)**

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of Passaic County Public Housing Agency as of and for the year ended December 31, 2013, and have issued our report thereon dated July 11, 2014, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

July 11, 2014
Toms River, New Jersey

Fallon & Larsen LLP

**PASSAIC COUNTY PUBLIC HOUSING AGENCY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2013**

<u>Federal and State Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Grant Expenditures</u>
U.S. Department of Housing and Urban Development:		
Housing Choice Vouchers	14.871	\$ <u>9,609,574</u>

**PASSAIC COUNTY PUBLIC HOUSING AGENCY
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2013**

NOTE 1. BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Passaic County Public Housing Agency under programs of the federal government for the year ended December 31, 2013. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of operations of the Passaic County Public Housing Agency, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Passaic County Public Housing Agency.

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 OMB Circular A-87, Cost Principles for State, Local and Indian Tribes, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.

NOTE 3. SUBRECIPIENTS

The Agency did not provide federal awards to any subrecipients.

NOTE 4. NON-CASH FEDERAL ASSISTANCE

The Agency did not receive any non-cash Federal assistance for the year ended December 31, 2013.

**PASSAIC COUNTY PUBLIC HOUSING AGENCY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2013**

I. Summary of Auditor's Results

Financial Statement Section

- | | | |
|----|--|-----------|
| 1. | Type of auditor's report issued: | Qualified |
| 2. | Internal control over financial reporting | |
| | a. Material Weakness(es) identified? | Yes |
| | b. Were reportable conditions identified not considered to be material weaknesses? | No |
| 3. | Noncompliance material to the financial statements? | No |

Federal Awards Section

- | | | |
|----|---|------------|
| 1. | Dollar threshold used to distinguish between Type A and Type B Programs: | \$300,000 |
| 2. | Auditee qualified as low-risk Auditee? | Yes |
| 3. | Type of auditor's report on compliance for major programs: | Unmodified |
| 4. | Internal Control over compliance: | |
| | a. Material weakness(es) identified? | No |
| | b. Were reportable conditions identified not considered to be material weaknesses? | No |
| | c. Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133 (section .510(a))? | No |
| 5. | Identification of major programs: | |

CFDA Number

Name of Federal Program

14.871

Housing Choice Voucher Program

PASSAIC COUNTY PUBLIC HOUSING AGENCY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
DECEMBER 31, 2013

II. Financial Statement Findings

Material Weakness

2013-1

Criteria: Accounting principles generally accepted in the United States of America require that a liability be accrued for the other post employment benefits in accordance with GASB 45. Management is required to put in place a system of internal controls to reasonably assure the financial statements are prepared and presented in conformity with generally accepted accounting principles.

Context: The agency employees are provided post retirement health benefits through the county plan. As such, a portion of the the county's other post employment benefit liability should be allocated to the housing agency. Although the county has engaged an actuary to perform the necessary work and provide the necessary reports those reports were not available at the time of audit.

Condition: The agency has not accrued a liability for other post employment benefits.

Cause: Internal controls were not in place to ensure that an actuarial report was completed in a timely manner.

Effect: Liabilities are understated, net position is overstated, expenses are understated and the audit report is qualified for a departure from generally accepted accounting principles.

Recommendation: We recommend that management design, implement and maintain internal controls to ensure actuarial reports are completed in a timely manner and compliance with GASB 45.

Agency Response: We agree with the auditor's findings and will design, implement and maintain internal controls to ensure that an actuarial report is completed in a timely manner as required by GASB 45.

III. Federal Award Findings and Questioned Costs

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

IV. Summary of Prior Audit Findings

None reported.

Passaic County Housing Authority				
NJ090				
Financial Data Schedule (FDS)				
December 31, 2013				
Line Item #		Account Description		Housing Choice Vouchers
		ASSETS:		
		CURRENT ASSETS:		
		Cash:		
111		Cash - unrestricted	\$	5,910,500
112		Cash - restricted - modernization and development		-
113		Cash - other restricted		656,115
114		Cash - tenant security deposits		-
115		Cash - restricted for payment of current liabilities		-
100		Total cash		6,566,615
		Accounts and notes receivables:		
121		Accounts receivable - PHA projects		-
122		Accounts receivable - HUD other projects		-
124		Accounts receivable - other government		-
125		Accounts receivable - miscellaneous		-
126		Accounts receivable- tenants		-
126.1		Allowance for doubtful accounts - tenants		-
126.2		Allowance for doubtful accounts - other		-
127		Notes and mortgages receivable- current		-
128		Fraud recovery		15,590
128.1		Allowance for doubtful accounts - fraud		-
129		Accrued interest receivable		313
120		Total receivables, net of allowances for doubtful accounts		15,903
		Current investments		
131		Investments - unrestricted		-
132		Investments - restricted		-
135		Investments - restricted for payment of current liability		-
142		Prepaid expenses and other assets		5,606
143		Inventories		-
143.1		Allowance for obsolete inventories		-
144		Interprogram - due from		-
145		Assets held for sale		-
150		TOTAL CURRENT ASSETS		6,588,124
		NONCURRENT ASSETS:		
		Fixed assets:		
161		Land		-
162		Buildings		-
163		Furniture, equipment & machinery - dwellings		-
164		Furniture, equipment & machinery - administration		8,061
165		Leasehold improvements		-
166		Accumulated depreciation		(134)
167		Construction in Progress		-
168		Infrastructure		-
160		Total fixed assets, net of accumulated depreciation		7,927
		Other non-current assets:		
171		Notes and mortgages receivable - non-current		-
172		Notes and mortgages receivable-non-current - past due		-
174		Other assets		-
175		Undistributed debits		-
176		Investment in joint ventures		-
180		TOTAL NONCURRENT ASSETS		7,927
190		TOTAL ASSETS	\$	6,596,051

Passaic County Housing Authority							
NJ090							
Financial Data Schedule (FDS)							
December 31, 2013							
Line Item #					Account Description		Housing Choice Vouchers
LIABILITIES AND EQUITY							
Liabilities:							
Current Liabilities:							
311					Bank overdraft	\$	-
312					Accounts payable ≤ 90 days		85,489
313					Accounts payable > 90 days past due		-
321					Accrued wage/payroll taxes payable		-
322					Accrued compensated absences - current portion		6,828
324					Accrued contingency liability		-
325					Accrued interest payable		-
331					Accounts payable - HUD PHA programs		-
332					Accounts payable - PHA projects		10,751
333					Accounts payable - other government		248,057
341					Tenant security deposits		-
342					Deferred revenue		-
343					Current portion of L-T debt - capital projects		-
344					Current portion of L-T debt - operating borrowings		-
345					Other current liabilities		-
346					Accrued liabilities - other		-
347					Interprogram - due to		-
310					TOTAL CURRENT LIABILITIES		351,125
NONCURRENT LIABILITIES							
351					Long-term debt, net of current - capital projects		-
352					Long-term debt, net of current - operating borrowings		-
353					Non-current liabilities- other		205,812
354					Accrued compensated absences - noncurrent		61,451
355					Loan Liability - Non Current		-
356					FASB 5 Liabilities		-
357					Accrued pension and OPEB liabilities		-
350					TOTAL NONCURRENT LIABILITIES		267,263
300					TOTAL LIABILITIES		618,388
EQUITY:							
508.1					Invested in Capital Assets, Net of Related Debt		7,927
511.1					Restricted Net Assets		450,303
512.1					Unrestricted Net Assets		5,519,433
513					TOTAL EQUITY		5,977,663
600					TOTAL LIABILITIES AND EQUITY	\$	6,596,051
					Proof of concept		-

Passaic County Housing Authority		
NJ090		
Financial Data Schedule (FDS)		
December 31, 2013		
Line Item #	Account Description	Housing Choice Vouchers
	REVENUE:	
70300	Net tenant rental revenue	\$ -
70400	Tenant revenue - other	-
70500	Total tenant revenue	-
70600	HUD PHA grants	9,207,667
70610	Capital grants	-
70710	Management fee	-
70720	Asset management fee	-
70730	Book keeping fee	-
70750	Other fees	-
70800	Other government grant	-
71100	Investment income - unrestricted	6,753
71200	Mortgage interest income	-
71300	Proceeds from disposition of assets held for sa	-
71301	Cost of sale of asset	-
71400	Fraud recovery	49,867
71500	Other revenue	172,101
71600	Gain or loss on sale of fixed asset	-
72000	Investment income - restricted	304
70000	TOTAL REVENUE	9,436,692
	EXPENSES:	
	Administrative	
91100	Administrative salaries	438,814
91200	Auditing fees	11,200
91300	Outside management fee	-
91310	Book-keeping fee	-
91400	Advertising and marketing	-
91500	Employee benefit contributions- administrativ	197,969
91600	Office expense	105,668
91700	Legal expense	36,786
91800	Travel	6,319
91810	Allocated overhead	-
91900	Other	-
92000	Asset Management Fee	-
	Tenant services	
92100	Tenant services - salaries	84,462
92200	Relocation costs	-
92300	Employee benefit contributions- tenant service	46,445
92400	Tenant services - other	-

Passaic County Housing Authority			
NJ090			
Financial Data Schedule (FDS)			
December 31, 2013			
Line Item #		Account Description	Housing Choice Vouchers
		Utilities	
93100		Water	-
93200		Electricity	-
93300		Gas	-
93400		Fuel	-
93500		Labor	-
93600		Sewer	-
93700		Employee benefit contributions- utilitie	-
93800		Other utilities expense	-
		Ordinary maintenance & operati	
94100		Ordinary maintenance and operations - labo	-
94200		Ordinary maintenance and operations - materials & othe	-
94300		Ordinary maintenance and operations - contract cost	-
94500		Employee benefit contributions- ordinary maintenanc	-
		Protective service:	
95100		Protective services - labo	-
95200		Protective services- other contract cost	-
95300		Protective services - othe	-
95500		Employee benefit contributions- protective service	-
		General expense:	
96100		Insurance premiums	-
96200		Other general expense:	30,470
96210		Compensated absence:	-
96300		Payments in lieu of taxes:	-
96400		Bad debt - tenant rents	-
96500		Bad debt- mortgage:	-
96600		Bad debt - other	-
96700		Interest expense	-
96710		Amortization of bond issue cost	-
96800		Severance expense	-
96900		TOTAL OPERATING EXPENSES	958,133
97000		EXCESS OPERATING REVENUE OVER OPERATING EXPENSES	8,478,559
97100		Extraordinary maintenance	-
97200		Casualty losses - non capitaliz	-
97300		Housing assistance payment:	8,541,462
97350		HAP Portability - in	109,979
97400		Depreciation expense	134
97500		Fraud losses	-
97800		Dwelling units rent expense	-
90000		TOTAL EXPENSES	9,609,708

Passaic County Housing Authority		
NJ090		
Financial Data Schedule (FDS)		
December 31, 2013		
Line Item #	Account Description	Housing Choice Vouchers
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	(173,016)
MEMO ACCOUNT INFORMATION:		
11020	Required annual debt principal payments	-
11030	Beginning equity	6,150,679
11040	Prior period adjustments and equity transfers	-
11170	Administrative fee equity	-
11180	Housing assistance payments equity	-
11190	Unit months available	10,020
11210	Number of unit months leased	9,875
Equity Roll Forward Test:		
	Calculation from R/E Statement	\$ 5,977,663
	B/S Line 513	\$ 5,977,663
		\$ -