

Report On Audit

**HOUSING AUTHORITY OF THE
CITY OF UNION CITY**

**For the Year Ended
June 30, 2019**

Housing Authority of the City of Union City

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INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Housing Authority of the City of Union City
3911 Kennedy Boulevard
Union City, New Jersey 07087

Report on the Financial Statements

We have audited the accompanying financial statements of the Housing Authority of the City of Union City (a governmental public corporation) in Union City, New Jersey, hereafter referred to as the Authority, which comprise the statement of net position as of June 30, 2019, and the related statement of revenue, expenses and changes in net position, and the statement of cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Housing Authority of the City of Union City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Housing Authority of the City of Union City's internal control. Accordingly, we express no such opinion.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Housing Authority of the City of Union City as of June 30, 2019, and the respective changes in financial position, and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and OPEB and PERS supplemental information on pages 4 through 17 and pages 59-61 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 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 method of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the basic financial statements Housing Authority of the City of Union City. The accompanying supplemental information on pages 62-71 is presented for additional analysis and is not required part of the basic financial statements.

The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The electronic filed Financial Data Schedule is presented for additional analysis as required by the U.S. Department of Housing and Urban Development's Real Estate Assessment Center and is also not required part of the basic financial statements.

The Schedule of Expenditures of Federal Awards and the Financial Data Schedule, are the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements.

The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards and the Financial Data Schedule, is 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 reports dated March 16, 2020 on our consideration of the Housing Authority of the City of Union City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters.

The purpose of that report is solely 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 the effectiveness of the Housing Authority of the City of Union City 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 Housing Authority of the City of Union City's internal control over financial reporting and compliance.

Hymanson, Parnes & Giampaolo

Lincroft, New Jersey

Date: March 16, 2020

**HOUSING AUTHORITY OF THE CITY OF UNION CITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
AT JUNE 30, 2019**

As Management of the Housing Authority of the City of Union City (the Authority), present the following discussion and analysis which is supplementary information required by the Governmental Accounting Standards Board (GASB), and is intended to provide an easily readable explanation of the information provided in the attached financial statements. Management Discussion and Analysis is designed to focus on the current year activities, resulting changes, and current known facts. It is by necessity highly summarized, and in order to gain a thorough understanding of the Authority's financial position, the financial statements and footnotes should be viewed in their entirety beginning on page 18 of this report. New standards issued by GASB have significantly changed the format of the financial statements. We encourage readers to consider the information presented here in conjunction with the Authority's financial statements as presented elsewhere in this report.

FINANCIAL HIGHLIGHTS

The liabilities and deferred inflows of the Authority exceeded its assets and deferred outflows at the close of the most recent fiscal year by \$90,052 an increase in the financial position of \$1,846,917 or 95% percent as compared to the prior year.

As noted above, the net position of the Authority was a negative (\$90,052) as of June 30, 2019. Of this amount, the unrestricted net position is a negative (\$10,234,839) representing a decrease in the deficit of \$2,499,420 or 20% percent from the previous year. During the year, the Authority recorded a prior period adjustment for the adjusting the opening balance of the OPEB report in the amount of \$3,339,663. Additional information on the Authority's unrestricted net positions can be found in Note 20 the financial statements, which is included in this report.

The net investment in capital assets decreased \$662,964 or 6% percent for an ending balance of \$9,931,559.

The restricted net position increased \$10,461 from the previous year for an ending balance of \$213,228. Additional information on the Authority's restricted and unrestricted net positions can be found in Note 19 to the financial statements.

The Authority's unrestricted cash, and cash equivalent at June 30, 2019 is \$2,390,528 representing an increase of \$491,623 or 26% percent from the prior year. Total restricted deposit and funded reserves increased \$15,177 or 4% percent for an ending balance of \$395,720. The full detail of this amount can be found in the Statement of Cash Flows on pages 21-22 of this report.

The Authority's total assets and deferred outflows are \$16,966,371 of which capital assets net book value is \$11,586,559; deferred outflow amount is \$2,142,129, restricted deposits and funded reserves is \$395,720, leaving total current assets at \$2,841,963.

**HOUSING AUTHORITY OF THE CITY OF UNION CITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
AT JUNE 30, 2019**

FINANCIAL HIGHLIGHTS - CONTINUED

Total current assets increased from the previous year by \$652,676 or 30% percent. Unrestricted cash and cash equivalents increased by \$491,623, accounts receivables increased by \$104,297, and prepaid expenses increased by \$56,756.

Total restricted deposits and funded reserves increased from the previous year by \$15,177 or 4% percent for an ending balance of \$395,720.

Capital assets reported a decrease in the net book value of the capital assets in the amount of \$872,964 or 7% percent. The major factor that contributed for the decreased was the purchase of fixed assets in the amount of \$119,190, less the recording of depreciation expense in the amount of \$992,154. A full detail of the capital outlays can be found in the Notes to the Financial Statements Section Note – 8 Fixed Assets.

The Authority reported an increase in the deferred outflow for the pension cost in the amount of \$1,084,171 for an ending balance of \$2,142,129. The Authority reported an increase in the deferred inflow for the pension cost in the amount of \$2,857,147 for an ending balance of \$4,382,814. A full detail of the pension reporting requirement can be found in the Notes to the Financial Statements Section Note – 9 Deferred Outflows/Inflows of Resources.

The Authority's total liabilities are reported at \$12,673,609, of which noncurrent liabilities are stated at \$11,294,811. Total liabilities decreased during the year as compared to the prior year in the amount of \$3,825,004 or 23% percent. Total current liabilities increased during the year by \$53,279, leaving non-current liabilities for a decrease of \$3,878,283 as compared to the previous fiscal year.

Total current liabilities increased from the previous year by \$53,279 or 4% percent. Accounts payables increased by \$105,289, accrued liabilities decreased by \$51,716, tenant security deposit payable increased by \$4,624, unearned revenue decreased \$14,918 and the current portion of the note payable increased \$10,000.

Total noncurrent liabilities decreased by \$3,878,283 or 26% percent. The increased was comprised of four accounts, long-term capital bonds which decreased by \$220,000 for an ending balance of \$1,435,000, accrued compensated absences – long term with no offsetting assets decreased \$38,847 from the prior fiscal year for an ending balance of \$541,866. Noncurrent other liabilities remained the same.

Accrued other post-employment benefits (OPEB) liabilities decreased \$3,619,436 for ending balance of \$9,309,016. Additional information on GASB #68 and #75 effect and the Authority's accrued OPEB liabilities at June 30, 2019 can be found in Notes 17-18 to the financial statements, which is included in this report.

**HOUSING AUTHORITY OF THE CITY OF UNION CITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
AT JUNE 30, 2019**

FINANCIAL HIGHLIGHTS - CONTINUED

The Authority had total operating revenue of \$13,535,750 as compared to \$13,298,106 from the prior year for an increase of \$237,644 or 2% percent. The Authority had total operating expenses of \$15,336,233 as compared to \$15,043,101 from the previous year for an increase of \$293,132 or 2% percent, resulting in a deficiency of revenue from operations in the amount of \$1,800,483 for the current year as compared to a deficiency of revenue from operations in the amount of \$1,744,995 for an increase in deficit of \$55,488 or 3% percent from the previous year.

Total capital improvements contributions from HUD were in the amount of \$329,190 as compared to \$276,801 from the previous year for an increase of \$52,389 or 19% percent. The Authority's had capital outlays in the amount of \$119,190 for the fiscal year. A full detail of capital outlays can be found in the Notes to the Financial Statements Section Note – 8 Fixed Assets.

The Authority's Expenditures of Federal Awards amounted to \$9,109,660 for the fiscal year 2019 as compared to \$8,886,500 for the previous fiscal year 2018 for an increase of \$223,160 or 3% percent.

USING THIS ANNUAL REPORT

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

1. Public and Indian Housing Program
2. Section 8 Housing Choice Vouchers
3. Public Housing Capital Fund Program

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

OVERVIEW OF THE FINANCIAL STATEMENT PRESENTATION

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

- 1) Statement of Net Position
- 2) Statement of Revenue, Expenses, and Changes in Net Position
- 3) Statement of Cash Flows
- 4) Notes to the Financial Statements

**HOUSING AUTHORITY OF THE CITY OF UNION CITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
AT JUNE 30, 2019**

OVERVIEW OF THE FINANCIAL STATEMENT PRESENTATION - CONTINUED

The Authority's financial statements and notes to financial statements included in this Report were prepared in accordance with generally accepted accounting principles (GAAP) applicable to governmental entities in the United States of America. The Authority's activities are primarily supported by HUD subsidies and grants. The Authority's function is to provide decent, safe, and sanitary housing to low income and special needs populations. The financial statements can be found on pages 18 through 22.

Statement of Net Position – This statement presents information on the Authority's total of assets and deferred outflow of resources, and total of liabilities and deferred inflows of resources, 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 Authority is improving or deteriorating.

Statement of Revenue, Expenses and Changes in Net Position – This statement presents information showing how the Authority's net position increased or decreased during the current 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 related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash inflows and cash outflows in the future periods.

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

Notes to the Financial Statements - Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided. These notes give greater understanding on the overall activity of the Housing Authority and how values are assigned to certain assets and liabilities and the longevity of these values. In addition, notes reflect the impact (if any) of any uncertainties the Housing Authority may face. The Notes to Financial Statements can be found in this Report beginning on page 23 through 58.

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

**HOUSING AUTHORITY OF THE CITY OF UNION CITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
AT JUNE 30, 2019**

OVERVIEW OF THE FINANCIAL STATEMENT PRESENTATION - CONTINUED

The Schedule of Expenditures of Federal Awards is presented for purpose of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), Audits of States, Local Governments and Non-profit Organizations. The schedule of Expenditures of Federal Awards can be found on pages 62-63 of this report.

- 1. Federal Awards** - Pursuant to the Single Audit Act Amendments of 1996 (Public Law 104-156) and Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), federal award is defined as federal financial assistance and federal cost reimbursement contracts that non-federal agencies receive directly or indirectly from federal agencies or pass-through entities. Federal financial assistance is defined as assistance that nonfederal entities receive or administer in the form of grants, loans, loan guarantees, property, cooperative agreements, interest subsidies, insurance, direct appropriations and other assistance.

- 2. Type A and Type B Programs** - The Single Audit Act Amendments of 1996 and the Uniform Guidance establish the levels of expenditures or expenses to be used in defining Type A and Type B Federal financial assistance programs. Type A programs for the Housing Authority of the City of Union City are those which equal or exceeded \$750,000 in expenditures for the fiscal year ended June 30, 2019. Type B programs for the Housing Authority of the City of Union City are those which are less than \$750,000 in expenditures for the fiscal year ended June 30, 2019.

**HOUSING AUTHORITY OF THE CITY OF UNION CITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
AT JUNE 30, 2019**

FINANCIAL ANALYSIS OF THE AUTHORITY (ENTITY WIDE)

The following summarizes the computation of Net Position between June 30, 2019 and June 30, 2018:

	<u>Year Ended</u>		Increase
	June-19	June-18	(Decrease)
Cash	\$ 2,786,248	\$ 2,279,448	\$ 506,800
Other Current Assets	451,435	290,382	161,053
Capital Assets - Net	11,586,559	12,459,523	(872,964)
Deferred Outflow of Resources	2,142,129	1,057,958	1,084,171
Total Assets	16,966,371	16,087,311	879,060
Less: Current Liabilities	(1,378,798)	(1,325,519)	(53,279)
Less: Non Current Liabilities	(11,294,811)	(15,173,094)	3,878,283
Less: Deferred Inflow of Resources	(4,382,814)	(1,525,667)	(2,857,147)
Net Position	\$ (90,052)	\$ (1,936,969)	\$ 1,846,917
Net Investment in Capital Assets	\$ 9,931,559	\$ 10,594,523	\$ (662,964)
Restricted Net Position	213,228	202,767	10,461
Unrestricted Net Position	(10,234,839)	(12,734,259)	2,499,420
Net Position	\$ (90,052)	\$ (1,936,969)	\$ 1,846,917

Cash increased by \$506,800 or 22% percent. Net cash used by operating activities was \$964,950, net cash provided by capital and related financing activities was \$1,423,481, and net cash provided by investing activities was \$48,269. The full detail of this amount can be found in the Statement of Cash Flows on pages 21-22 of this audit report.

Other current assets increased \$161,053. Account receivable increased \$104,297 mainly for a advances to a development project and prepaid expenses increased \$56,756 due to an increase in prepaid insurance, and maintenance inventory.

Capital assets reported a decrease in the net book value of the capital assets in the amount of \$872,964 or 7% percent. The major factor that contributed for the decreased was the purchase of fixed assets in the amount of \$119,190, less the recording of depreciation expense in the amount of \$992,154. A full detail of the capital outlays can be found in the Notes to the Financial Statements Section Note – 8 Fixed Assets.

The Authority reported an increase in the deferred outflow for the pension cost in the amount of \$1,084,171 for an ending balance of \$2,142,129. The Authority reported an increase in the deferred inflow for the pension cost in the amount of \$2,857,147 for an ending balance of \$4,382,814.

**HOUSING AUTHORITY OF THE CITY OF UNION CITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
AT JUNE 30, 2019**

FINANCIAL ANALYSIS OF THE AUTHORITY (ENTITY WIDE) – CONTINUED

Total current liabilities increased from the previous year by \$53,279 or 4% percent. Accounts payables increased by \$105,289, accrued liabilities decreased by \$51,716, tenant security deposit payable increased by \$4,624, unearned revenue decreased \$14,918 and the current portion of the note payable increased \$10,000.

Total noncurrent liabilities decreased by \$3,878,283 or 26% percent. The increased was comprised of four accounts, long-term capital bonds which decreased by \$220,000 for an ending balance of \$1,435,000, accrued compensated absences – long term with no offsetting assets decreased \$38,847 from the prior fiscal year for an ending balance of \$541,866. Noncurrent other liabilities remained the same.

Accrued other post-employment benefits (OPEB) liabilities decreased \$3,619,436 for ending balance of \$9,309,016. Additional information on GASB #68 and #75 effect and the Authority's accrued OPEB liabilities at June 30, 2019 can be found in Notes 17-18 to the financial statements, which is included in this report.

The Authority's reported net position of a negative (\$90,052) which is made up of three categories. The net investment in capital assets in the amount of \$9,931,559 represents the majority of the net position balance. The net investment in capital assets (e.g., land, buildings, vehicles, equipment, and construction in process); less any related debt used to acquire those assets that are still outstanding. The Authority uses these capital assets to provide housing services to the tenants; consequently, these assets are not available for future spending. The schedule below reflects the activity in this account for the current fiscal year:

Balance June 30, 2018	\$ 10,594,523
Payment of Debt	210,000
Acquisition in Fixed Assets	119,190
Depreciation Expense	(992,154)
Balance June 30, 2019	\$ 9,931,559

The Authority reported a restricted net position of \$213,228, an increase of \$10,461 from the prior year. This balance represents available resources that may be used only for specific purposes stipulated by the grantor. The account balance consists of the amount of cash that is restricted for the Housing Choice Voucher program. Additional information on these funds can be found in Note 4 Restricted Cash and Note 19 Restricted Net Position.

Housing Authority of the City of Union City operating results for June 30, 2019 reported a decrease in the deficit in unrestricted position of \$2,499,420 or 20% percent for an ending balance of a deficit (\$10,234,839). A full detail of these accounts can be found in the Notes to the Financial Statements Section Note – 20 Unrestricted Net Position. During the year, the Authority had a prior period adjustment in the amount of \$3,339,663 for the adjustment in the OPEB opening balance.

**HOUSING AUTHORITY OF THE CITY OF UNION CITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
AT JUNE 30, 2019**

FINANCIAL ANALYSIS OF THE AUTHORITY (ENTITY WIDE) - CONTINUED

The following summarizes the changes in Net Position between June 30, 2019 and June 30, 2018:

	<u>Year Ended</u>		Increase (Decrease)
	June-19	June-18	
<u>Revenues</u>			
Tenant Revenues	\$ 3,110,952	\$ 2,965,432	\$ 145,520
HUD Subsidies	8,780,470	8,609,699	170,771
Other Revenues	1,644,328	1,722,975	(78,647)
Total Operating Income	13,535,750	13,298,106	237,644
<u>Expenses</u>			
Operating Expenses	14,344,079	14,054,487	289,592
Depreciation Expense	992,154	988,614	3,540
Total Operating Expenses	15,336,233	15,043,101	293,132
Operating Income before Non Operating Income	(1,800,483)	(1,744,995)	(55,488)
Interest Income	48,269	9,230	39,039
Extraordinary Maintenance	(69,722)	(82,893)	13,171
Capital Grants	329,190	276,801	52,389
Change in Net Position	(1,492,746)	(1,541,857)	49,111
Net Position Prior Year	(1,936,969)	6,618,299	(8,555,268)
Prior Period Adjustments	3,339,663	(7,013,411)	10,353,074
Total Net Position	\$ (90,052)	\$ (1,936,969)	\$ 1,846,917

Approximately 65% percent of the Authority's total operating revenue was provided by HUD operating subsidy, while 23% percent resulted from tenant revenue. Charges for various services provided the remaining 12% percent of the total operating income.

The Housing Authority of the City of Union City received from the capital fund program \$329,190 in grant money an increase of \$52,389 from the prior fiscal year. The Authority had capital expenditures of \$119,191 which was funded through the capital fund program. The current year additions included replacement of apartment appliances.

**HOUSING AUTHORITY OF THE CITY OF UNION CITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
AT JUNE 30, 2019**

ANALYSIS OF THE AUTHORITY (ENTITY WIDE) - CONTINUED

The Authority's operating expenses cover a range of expenses. The largest expense was for housing assistance payment expenses representing 45% percent of total operating expenses. Administrative expenses accounted for 24% percent, tenant services accounted for less than 1% percent, utilities expense accounted for 9% percent, maintenance expense accounted for 8% percent, protective services accounted for 2% percent, other operating expenses accounted for 4% percent, interest expenses accounted for 1% percent, and depreciation accounted for the remaining 6% percent of the total operating expenses.

The Authority operating expenses exceeded its operating revenue resulting in a deficiency of revenue from operations in the amount of \$1,800,483 from operations as compared to excess expenses from operations of \$1,744,995 for the previous year. The key elements for the increase in the deficit in comparison to the prior year are as follow:

- Total tenant rental income increased in the amount of \$145,520 or 5% mainly due to tenant's recertification process of finding additional household income.
- The Authority reported an increase in HUD PHA operating grants in the amount of \$170,771 or 2% percent, due to additional Federal funding subsidy by HUD in comparison to the past few fiscal years.
- The Authority experienced a decrease in other revenue in the amount of \$206,917 or 13%.
- The Authority experienced increases in the following operating expense accounts:
 - Administrative expenses increased \$674,413 or 22% percent
 - Utilities expense increased \$113,562 or 9% percent
 - Other operating expenses increased \$54,510 or 11% percent
- To combat the above increases, the Authority reduced the following operating expense accounts:
 - Maintenance expense decreased \$270,419 or 17% percent
 - Protective services decreased \$6,558 or 3% percent
 - Interest expense decreased \$10,199 or 11% percent
 - Housing Assistance Payments decreased \$263,349 or 4% percent

Total net cash used by operating activities during the year was \$964,950 as compared to cash used by operating activities was \$588,212 from the prior year. A full detail of these amounts can be found on the Statement of Cash Flows on pages 21-22 of this report.

**HOUSING AUTHORITY OF THE CITY OF UNION CITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
AT JUNE 30, 2019**

'FINANCIAL ANALYSIS OF THE AUTHORITY (ENTITY WIDE) - CONTINUED

The following are financial highlights of significant items for a four-year period of time ending on June 30, 2019:

	June-19	June-18	June-17	June-16
Significant Income				
Total Tenant Revenue	\$ 3,110,952	\$ 2,965,432	\$ 2,824,232	\$ 2,661,596
HUD Operating Grants	8,780,470	8,609,699	8,538,437	8,743,211
HUD Capital Grants	228,746	276,801	369,173	254,429
Investment Income	48,269	9,230	6,190	4,746
Other Income	1,415,582	1,722,975	1,541,091	1,426,993
Total	\$ 13,584,019	\$ 13,584,137	\$ 13,279,123	\$ 13,090,975
Payroll Expense				
Administrative Salaries	\$ 1,253,349	\$ 1,264,098	\$ 1,185,931	\$ 1,139,622
Utilities Labor	55,542	65,390	73,184	60,428
Maintenance Labor	514,797	424,869	413,374	419,825
Protective Services Labor	172,190	145,210	188,991	154,563
Employee Benefits Expense	2,391,194	1,988,738	1,377,236	1,125,330
Total Payroll Expense	\$ 4,387,072	\$ 3,888,305	\$ 3,238,716	\$ 2,899,768
Other Significant Expenses				
Other Administrative Expenses	\$ 401,648	\$ 381,185	\$ 422,754	\$ 416,252
Utilities Expense	1,365,333	1,234,197	1,437,689	1,219,059
Maintenance Supplies	423,107	585,558	454,315	498,370
Maintenance Contract Cost	166,107	141,874	186,961	156,654
Insurance Premiums	213,246	260,763	261,418	190,873
Housing Assistance Payments	6,934,767	7,198,116	6,886,076	6,678,292
Total	\$ 9,504,208	\$ 9,801,693	\$ 9,649,213	\$ 9,159,500
Total Operating Expenses	\$ 15,336,233	\$ 15,043,101	\$ 14,184,760	\$ 13,482,361
Total of Federal Awards	\$ 9,109,660	\$ 8,886,500	\$ 8,907,610	\$ 8,997,640

THE AUTHORITY AS A WHOLE

The Authority's revenues consist primarily of rents and subsidies and grants received from HUD. The Authority receives subsidies each month based on a pre-approved amount by HUD. Grants are drawn down based on need against a pre-authorized funding level. By far, the largest portion of the Authority's net position reflects its net investment in capital assets (e.g., land, buildings, equipment, and construction in progress).

**HOUSING AUTHORITY OF THE CITY OF UNION CITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
AT JUNE 30, 2019**

HOUSING AUTHORITY OF THE CITY OF UNION CITY PROGRAMS

Public and Indian Housing Program:

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

Public Housing Capital Fund Program:

The Public Housing Capital Fund was established under the Quality Housing & Work Responsibility Act of 1998 (QHWRA). Substantially all additions to land, structures and equipment are accomplished through these programs (included in the financial statements under PHA Owned Housing). These funds replace or materially upgrade deteriorated portions of existing Authority property. This fund is used for repairs, major replacements, upgrading and other non-routine maintenance work that needs to be done on the Authority's apartments to keep them clean, safe and in good condition.

Section 8 Housing Choice Voucher Program

Under the Section 8 Housing Choice Voucher Program, the Authority administers contracts with independent landlords to provide housing to Section 8 tenants. The Authority subsidizes the tenant's rent through Housing Assistance Payment made to the landlord. This program is also administered under an Annual Contributions Contract (ACC) with HUD. HUD provides annual contributions funding to enable the Authority to structure a contract that sets the participants' rent at approximately 30% of household income subject to certain restrictions.

BUDGETARY HIGHLIGHTS

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

**HOUSING AUTHORITY OF THE CITY OF UNION CITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
AT JUNE 30, 2019**

NEW INITIATIVES

For the fiscal year 2019 the Housing Authority's primary focus has been on funding and accountability. As a public entity that derives approximately 67% percent of its revenue from the Department of Housing and Urban Development, (2018 fiscal year was 65% percent), the Authority is constantly monitoring for any appropriation changes, especially since it appears the nation is continuing an era of need for additional public assistance to help families meet the challenges of a very tumultuous economy.

The current administration of the Authority is determined to improve the financial results of the Authority's operations. The Authority has made steady progress in various phases of our operations, all the while maintaining a strong occupancy percentage in the public housing units and a high utilization rate in Housing Assistance Programs. Interactions with the residents are a constant reminder of the need of the services.

Regardless of the constraints (financial or regulatory) placed on this Housing Authority, the Authority will continuously look for ways to better provide or expand housing and housing assistance to qualified residents of the City of Union City all the while being mindful of their responsibility to be good stewards of the public's tax dollars.

CAPITAL ASSETS AND DEBT ADMINISTRATION

1 – Capital Assets

The Authority's net investment in capital assets as of June 30, 2019 was \$11,586,559 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, and construction in progress. The total decrease during the year in the Authority's investment in capital assets was \$872,964 or 7% percent. Major capital expenditures of \$119,191 were made during the year for appliance replacements in the apartments.

	June-19	June-18	Increase (Decrease)
Land	\$ 697,390	\$ 697,390	\$ -
Building	33,645,265	33,645,265	-
Furniture, Equipment - Dwelling	128,979	128,979	-
Furniture, Equipment - Administration	476,345	476,345	-
Construction in Process	365,165	245,974	119,191
Total Fixed Assets	35,313,144	35,193,953	119,191
Accumulated Depreciation	(23,726,585)	(22,734,430)	(992,155)
Net Book Value	<u>\$ 11,586,559</u>	<u>\$ 12,459,523</u>	<u>\$ (872,964)</u>

Additional information on the Authority's capital assets can be found in Note 8 to the financial statements, which is included in this report.

**HOUSING AUTHORITY OF THE CITY OF UNION CITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
AT JUNE 30, 2019**

CAPITAL ASSETS AND DEBT ADMINISTRATION -CONTINUED

2 - Long Term Debt

The Authority has participated in the New Jersey pooled leveraging program. Through this financing of majority capital projects will be completed on an expedited basis. Capital Project Bond payable of \$1,655,000 in outstanding debt. A full disclosure of loans payable at June 30, 2019 can be found in Note 16 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Housing Authority of the City of Union City is primarily dependent upon HUD for the funding of operations; therefore, the Housing Authority is affected more by Federal budget than by local economic conditions. Pressure on the federal budget will remain in the form of both record deficits and competing funding needs.

The capital budgets for the 2019 fiscal year have already been submitted to HUD for approval and no major changes are expected. The Capital fund programs are multiple year budgets and have remained relatively stable. Capital Funds are used for the modernization of public housing property including administrative fees involved in the modernization.

The following factors were considered in preparing the Authority's budget for the fiscal year ending June 30, 2020.

- State of New Jersey economy including the impact on tenant income. Local inflationary, recessionary and employment trends, which can affect resident incomes and therefore the amount of rental income. Tenant rental payments are based on tenant income.
- The need for Congress to fund the war on terrorism and other impending military activities, and the impact these activities may have on federal funds available for HUD subsidies and grants.
- Continued increases in health care insurance are expected to impact employee benefits cost over the next several years.
- Inflationary pressure on utility rates, supplies and other cost.
- Trends in the housing market which affect rental housing available for the Section 8 tenants, along with the amount of the rents charged by the private landlords, are expected to have a continued impact on Section 8 HAP payments.
- Converting Low Income Housing Program rental units into RAD subsidy units.
- Even if HUD was fully funded for both the Operating and Capital Funds, it is unlikely that Congress would appropriate adequate funding. Pressure on the federal budget will remain in the form of both record deficits and competing funding needs.

**HOUSING AUTHORITY OF THE CITY OF UNION CITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
AT JUNE 30, 2019**

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 Mr. Stanley Sanger, Executive Director, Housing Authority of the City of Union City, 3911 Kennedy Boulevard, Union City, N.J. 07087, or call (201) 864-1515.

HOUSING AUTHORITY OF THE CITY OF UNION CITY
STATEMENT OF NET POSITION - 1
AS OF JUNE 30, 2019

	2019
Assets	
Current Assets:	
Cash and Cash Equivalents - Unrestricted	\$ 2,390,528
Accounts Receivables, Net of Allowances	127,401
Prepaid Expenses	324,034
Total Current Assets	2,841,963
 Restricted Deposits and Funded Reserves	
Tenant Security Deposit	173,471
HAP Funded Reserve	213,228
FSS Escrow Deposits	8,929
CFP Funded Reserves	92
Total Restricted Deposits and Funded Reserves	395,720
 Noncurrent Assets	
Capital Assets	
Land	697,390
Building	33,645,265
Furniture, Equipment - Dwelling	128,979
Furniture, Equipment - Administration	476,345
Construction in Process	365,165
Total Capital Assets	35,313,144
Less: Accumulated Depreciation	(23,726,585)
Net Book Value	11,586,559
Total Assets	14,824,242
 Deferred Outflow of Resources	
NJ PERS and OPEB	2,142,129
Total Assets and Deferred Outflow of Resources	\$ 16,966,371

See accompanying notes to the financial statements.

HOUSING AUTHORITY OF THE CITY OF UNION CITY
STATEMENT OF NET POSITION - 2
AS OF JUNE 30, 2019

	2019
Liabilities	
Current Liabilities:	
Accounts Payable	\$ 800,852
Accrued Liabilities	170,228
Tenant Security Deposit Payable	173,471
Unearned Revenue	14,247
Long Term Debt - Current	220,000
Total Current Liabilities	1,378,798
 Noncurrent Liabilities	
Long Term Debt - Noncurrent	1,435,000
Accrued Compensated Absences - Long-Term	541,866
Noncurrent Liabilities - Other	8,929
Accrued Pension and OPEB Liabilities	9,309,016
Total Noncurrent Liabilities	11,294,811
Total Liabilities	12,673,609
 Deferred Inflow of Resources	
NJ PERS and OPEB	4,382,814
 Net Position:	
Net Investment in Capital Assets	9,931,559
Restricted	213,228
Unrestricted	(10,234,839)
Total Net Position	(90,052)
Total Liabilities, Deferred Inflow of Resources, and Net Position	\$ 16,966,371

See accompanying notes to the financial statements.

**HOUSING AUTHORITY OF THE CITY OF UNION CITY
STATEMENT OF REVENUE, EXPENSES AND
CHANGES IN NET POSITION
FOR THE TWELVE MONTHS ENDED JUNE 30, 2019**

	2019
Revenue:	
Tenant Rental Revenue	\$ 3,110,952
HUD PHA Operating Grants	8,780,470
Fraud Recovery	228,746
Other Revenue	1,415,582
Total Revenue	13,535,750
 Operating Expenses:	
Administrative Expense	3,764,233
Tenant Services	11,755
Utilities Expense	1,442,597
Maintenance Expense	1,298,314
Protective Services	238,123
Other Operating Expenses	571,093
Interest Expense	83,197
Housing Assistance Payments	6,934,767
Depreciations Expense	992,154
Total Operating Expenses	15,336,233
Excess Expenses Over Revenue From Operations	(1,800,483)
 Non Operating Income and (Expenses):	
Investment Income	48,269
Extraordinary Maintenance	(69,722)
Total Non Operating (Expenses)	(21,453)
Excess Expenses Over Revenue Before Capital Contributions	(1,821,936)
Capital Grant Contributions	329,190
Change in Net Position	(1,492,746)
Beginning Net Position	(1,936,969)
Prior period Adjustment	3,339,663
Beginning Net Position - Restated	1,402,694
Ending Net Position	\$ (90,052)

See accompanying notes to the financial statements.

**HOUSING AUTHORITY OF THE CITY OF UNION CITY
STATEMENT OF CASH FLOWS - 1
FOR THE TWELVE MONTHS ENDED JUNE 30, 2019**

	2019
Cash Flow From Operating Activities	
Receipts from Tenants	\$ 3,093,192
Receipts from Federal Grants	8,780,470
Receipts from Fraud Recovery	32,421
Receipts from Misc. Sources	1,360,136
Payments to Vendors and Suppliers	(2,909,330)
Housing Assistance Payments	(6,934,767)
Payments to Employees	(1,995,878)
Payment of Employee Benefits	(2,391,194)
Net Cash (Used) by Operating Activities	(964,950)
 Cash Flow From Capital and Related Financing Activities	
Receipts from Capital Grants	329,190
Acquisitions and Construction of Capital Assets	(119,190)
Payment of Extraordinary Maintenance	(69,722)
Payment of Debt	(210,000)
Net Effect of Deferred Inflows and Outflows	1,772,976
(Decrease) Increase in Accrued Pension and OPEB Liabilities	(3,619,436)
Prior Period Adjustment	3,339,663
Net Cash Provided by Capital and Related Financing Activities	1,423,481
 Cash Flow From Investing Activities	
Interest Income	48,269
Net Cash Provided by Investing Activities	48,269
 Net Increase in Cash and Cash Equivalents	506,800
 Beginning Cash	2,279,448
 Ending Cash	\$ 2,786,248
 Reconciliation of Cash Balances:	
Cash and Cash Equivalents - Unrestricted	\$ 2,390,528
Cash and Cash Equivalents - Restricted	395,720
Total Ending Cash	\$ 2,786,248

See accompanying notes to the financial statements.

HOUSING AUTHORITY OF THE CITY OF UNION CITY
STATEMENT OF CASH FLOWS - 2
FOR THE TWELVE MONTHS ENDED JUNE 30, 2019

	2019
Reconciliation of Operating Income to Net Cash	
(Used) by Operating Activities	
Excess of Expenses Over Revenue	\$ (1,800,483)
Adjustments to reconcile excess revenue over expenses to net cash provided by operating activities:	
Depreciation Expense	992,154
(Increase) Decrease in:	
Accounts Receivables	(104,297)
Prepaid Expenses	(56,756)
Increase (Decrease) in:	
Accounts Payable	105,289
Accrued Expenses	(51,716)
Unearned Revenue	(14,918)
Compensated Absences - Long Term	(38,847)
Tenant Security Deposit	4,624
Net Cash (Used) By Operating Activities	\$ (964,950)
Interest Expense Paid during the Year	\$ 69,883

See accompanying notes to the financial statements.

HOUSING AUTHORITY OF THE CITY OF UNION CITY

Notes to Financial Statements

June 30, 2019

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

1. Organization - The Authority is a governmental, public corporation which was organized under the laws public corporation created under federal and state housing laws as defined by State statute (N.J., S.A. 40A:12A-1 et al the Housing Authority Act) for the purpose of engaging in the development, acquisition and administrative activities of the low-income housing program and other programs with similar objectives for low and moderate income families residing in the City of Union City in accordance with the rules and regulations prescribed by the Department of Housing and Urban Development (HUD).

The Authority is governed by a Board of Commissioners which is essentially autonomous but is responsible to the U.S. Department of Housing and Urban Development and the State of New Jersey Department of Community Affairs. An Executive Director is appointed by the Housing Authority's Board to manage the day-to-day operations of the Authority. The Authority is responsible for the development, maintenance, and management of public housing for low and moderate income families residing in Union City. Operating and modernization subsidies are provided to the Authority by the federal government.

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

Based on the following criteria, the Authority has not identified any entity which should be subject to evaluation for inclusion in the Authority's reporting entity. The criteria for including or excluding a component unit relationship as set forth in GASB's #61 *The financial Reporting Entity* and Financial Reporting Standards, include whether:

- A. The organization is legally separate.
- B. The organization is fiscal dependency on the primary government.
- C. The organization has potential to impose a financial benefit or burden on the primary government.
- D. The organization meets the financial accountability criteria for inclusion as a component unit of the primary government.
- E. The primary government is able to impose its will on the organization.

HOUSING AUTHORITY OF THE CITY OF UNION CITY

Notes to Financial Statements

June 30, 2019

2. Significant Accounting Policies

The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The accompanying financial statements are presented in conformity with accounting principles generally accepted in the United States of America for governmental units as prescribed by the Governmental Accounting Standards Board (GASB) and other authoritative sources. The Authority has determined that the applicable measurement focus (flow of economic resources) and accounting basis (accrual) is similar to that of a commercial enterprise. As such, the use of proprietary funds best reflects the activities of the Authority.

The Authority has adopted GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. The Statement establishes accounting and financial reporting standards for non-exchange transactions including financial or capital resources. The Authority's primary source of non-exchange revenue relates to grants and subsidies. Grant and subsidy revenue are recognized at the time eligible program expenditures occur and/or the Authority has complied with the grant and subsidy requirements.

In accordance with GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, the Authority incorporates FASB and AICPA guidance into GASB authoritative literature.

On January 30, 2008, HUD issued *PIH Notice 2008-9* which among other things 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 the Statement of Net Position and 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 fees and HAP revenue 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 Authority recognizes unspent administrative fees and HAP revenue in the reporting period as revenue for financial statement reporting.

HOUSING AUTHORITY OF THE CITY OF UNION CITY

Notes to Financial Statements

June 30, 2019

Significant Accounting Policies -Continued

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

Statement No. 75 of the Government Accounting Standards Board ("GASB 75") *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* was issued June 2015. GASB 75 establishes financial reporting standards for other postemployment benefits (OPEB) plans for state and local governments. This standard replaces the requirements of GASB 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended. The statement establishes standards for recognizing and measuring liabilities, deferred inflows and outflows of resources, and expense/expenditures, as well as identifying the methods and assumptions required to project benefit payments, discount projected benefit payments, to their actuarial present value, and attribute that present value to periods of employee service. Additionally, GASB 75 lays out requirements for additional note disclosures and required supplementary information. The Authority adopted this accounting standards effective July 1, 2017.

Basis of Accounting –

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

The major sources of revenue are tenants dwelling rentals, HUD operating subsidy, and other revenue. The Authority provides housing assistance payments to participating owners on behalf of eligible tenants to provide decent, safe and sanitary housing for extremely low and very low income families.

HOUSING AUTHORITY OF THE CITY OF UNION CITY

Notes to Financial Statements

June 30, 2019

Basis of Accounting – Continued

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

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

Tenants dwelling rental charges are determined and billed monthly and are recognized as revenue when assessed because they are measurable and are collectible within the current period. The amounts not received by June 30, are considered to be accounts receivable and any amounts received for subsequent period are recorded as deferred revenue.

Other revenue composed primarily of miscellaneous services fees and resident's late charges. The revenue is recorded as earned since it is measurable and available. Non-operating revenue and expenses consist of revenues and expenses that are related to financing and investing activities and result from non-exchange transactions or ancillary activities.

HUD Section 8 Housing Choice Voucher Assistance Program receives from HUD an Annual Budget Amount (ABA) during the year in accordance with applicable HUD program guidelines. As of January 1, 2005 excess funds disbursed by HUD to the Authority for the payment of HAP's that are not utilized are not returned to HUD, but become part of the undesignated fund balance and may only be used to assist additional families up to the number of units under contract.

Administrative fee paid by HUD to the Authority in excess of administrative expenses are a part of the undesignated fund balance and are considered to be administrative fee reserves.

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

HOUSING AUTHORITY OF THE CITY OF UNION CITY

Notes to Financial Statements

June 30, 2019

Report Presentation

The Authority'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* ("Statement"). The Statement 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 a Statement of Cash Flows. The Statement also requires the Authority to include Management's Discussion and Analysis as part of Required Supplementary Information.

The Authority is a single enterprise fund and maintains its records on the accrual basis of accounting. Enterprise funds account for activities (i) that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity; or (ii) that are required by law or regulations that the activity's cost of providing services, including capital cost (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues, or (iii) that the pricing policies of the activity establish fees and charges, designated to recover its costs, including capital costs (such as depreciation or debt service). Under this method, revenues are recorded when earned and expenses are recorded when the related liability is incurred.

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

Other accounting policies are as follows:

- 1 – Cash and cash equivalents are stated at cost, which approximates market. The Authority considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.
- 2 – Collection losses on accounts receivable are charged against an allowance for doubtful accounts.
- 3 – Buildings and equipment are recorded at cost for all programs and depreciation is computed on the straight line basis.
- 4 – Repairs funded out of operations, such as painting, roofing and plumbing, are charged against income for all programs.
- 5 – Operating subsidies received from HUD are recorded as income when earned.
- 6 – The cost of accumulated unpaid compensated absences, including fringe benefits, is reported in the period earned rather than in the period paid.

HOUSING AUTHORITY OF THE CITY OF UNION CITY

Notes to Financial Statements

June 30, 2019

Other accounting policies - Continued

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

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

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

10- Advertising cost is charged to expense when incurred.

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

12- When expenses are incurred where both restricted and unrestricted net positions are available the Authority will first use the restricted funds until they are exhausted and then the unrestricted net position will be used.

13 - Operating and non-operating revenues and expenses

The major sources of revenue for the Authority are various subsidies from the U.S. Department of Housing and Urban Development, tenant rents, Hap portability income, and other charges to the tenants. Operating revenues and expenses consist of those revenues and expenses that result from the ongoing principal operations of the Authority. Non-operating revenues and expense consist of those revenues and expenses that are related to financing and investing types of activities and result from nonexchange transactions or ancillary activities.

14 - Taxes

The Authority operates as defined by the Internal Revenue Code Section 115 and is exempt from income taxes under Section 115.

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

HOUSING AUTHORITY OF THE CITY OF UNION CITY

Notes to Financial Statements

June 30, 2019

Other accounting policies - Continued

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

16 - Net Position

In accordance with the provisions of Statement No. 34 ("Statement 34") of the Governmental Accounting Standards Board "*Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*", the Authority has classified its net position into three components - net investment in capital assets; restricted; and unrestricted. These classifications are defined as follows:

Net Investment in Capital Assets - This component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of net investment in capital assets. Rather that portion of the debt is included in the same net position component as the unspent proceeds.

Restricted - This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), granters, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

HOUSING AUTHORITY OF THE CITY OF UNION CITY

Notes to Financial Statements

June 30, 2019

Other accounting policies - Continued

16 - Net Position -Continued

Unrestricted Net Position - This component of net position consists of net position that do not meet the definitions of "restricted" or "net investment in capital assets."

17-Impairment Losses

The Authority reviews its investment in real estate for impairment whenever events or changes in circumstances indicate that the carrying value of such property may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the real estate to the future net undiscounted cash flow expected to be generated by the rental property including any estimated proceeds from the eventual disposition of the real estate. If the real estate is considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount of the real estate exceeds the fair value of such property. No impairment losses were recognized in 2019.

Budgetary and Policy Control –

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

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

<u>Program</u>	<u>CFDA #</u>	<u>Project #</u>	<u>Units Authorized</u>
<u>Public Housing</u>			
Public and Indian Housing Program	14.850	NJ-26	455
Public Housing Capital fund Program	14.872		
 <u>Section 8 Housing</u>			
Housing Choice Voucher	14.871	NJ-39VO-26	693

HOUSING AUTHORITY OF THE CITY OF UNION CITY

Notes to Financial Statements June 30, 2019

Activities -Continued

Public and Indian Housing Program

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

Public Housing Capital Fund Program:

The Public Housing Capital Fund was established under the Quality Housing & Work Responsibility Act of 1998 (QHWRA). Substantially all additions to land, structures and equipment are accomplished through these programs (included in the financial statements under PHA Owned Housing). These funds replace or materially upgrade deteriorated portions of existing Authority property. This fund is used for repairs, major replacements, upgrading and other non-routine maintenance work that needs to be done on the Authority's apartments to keep them clean, safe and in good condition.

Section 8 Housing Choice Vouchers Program

Under the Section 8 Housing Choice Voucher Program, the Authority administers contracts with independent landlords to provide housing to Section 8 tenants. The Authority subsidizes the tenant's rent through Housing Assistance Payment made to the landlord. This program is also administered under an Annual Contributions Contract (ACC) with HUD.

Business Activities -

The Authority owns 112 units of a Veterans housing complex in the City of Union City

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

HOUSING AUTHORITY OF THE CITY OF UNION CITY

Notes to Financial Statements

June 30, 2019

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

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

NOTE 2 – ESTIMATES

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

HOUSING AUTHORITY OF THE CITY OF UNION CITY

Notes to Financial Statements

June 30, 2019

NOTE 3 - PENSION PLAN

The Authority participates in the State of New Jersey Public Employees Retirement System (PERS), which is sponsored and administered by the New Jersey Division of Pensions and Benefits. It is a cost sharing, multiple-employer defined benefit pension plan. PERS was established in January 1955 under the provision of NJ SA 43:15A to provide coverage, including post-retirement health care, for substantially all full time employees of the state, its counties, municipalities, school districts or public agencies, provided the employee is not a member of another state administered retirement system.

Membership is mandatory for such employees. Contributions to the plan are made by both the employee and the Authority. Required employee contributions to the system are based on a flat rate determined by the New Jersey Division of Pensions for active plan members. Benefits paid to retired employees are based on length of service, latest earnings, and veteran status. Authority contributions to the system are determined by PERS and are billed annually to the Authority.

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

On the web:

<http://www.state.nj.us/treasury/pensions/pdf/financial/2019divisioncombined.pdf>

Funding Policy

The contribution policy is set by N.J.S.A. 43:15A, Chapter 62, P.L. of 1994 and Chapter 115, P.L. of 1998, and requires contributions by active members and contributing employers. Plan member and employer contributions may be amended by State of New Jersey legislation. Employer's contributions are actuarially determined annually by the Division of Pensions. Employee contributions are currently 7.50% of base wages.

The annual employer contribution includes funding for basic retirement allowances, cost-of-living adjustments, the cost of medical premiums after retirement for qualified retirees, and noncontributory death benefits. The Authority's contribution for 2019 amounted to \$179,868.

Post-Employment Retirement Benefits

The Authority provides post-employment health care benefits for its eligible retirees. Eligibility requires that employees be 55 years or older with various years of service.

Further information on the Pension Plan and its effects do to the adoption of GASB #68 can be found in Note 18- Accrued Pension Liability.

HOUSING AUTHORITY OF THE CITY OF UNION CITY

Notes to Financial Statements

June 30, 2019

NOTE 4 – CASH, CASH EQUIVALENTS

The Authority's cash, cash equivalents are stated at cost, which approximates market. Cash, cash equivalents and investment includes cash in banks, petty cash and a money market checking account and certificates of deposit, and other investments with original maturities of less than three months from the date of purchase. For the statement of cash flows, cash and cash equivalents include all cash balances and highly liquid investments with a maturity of three months or less at time of purchase. It is the Authority's policy to maintain collateralization in accordance with the State of New Jersey and HUD requirements.

Concentration of Credit Risk

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

Risk Disclosures

Collateral for Deposits

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

Interest Rate Risk

As a means of limiting its exposure to fair value losses arising from rising interest rates, the Authority's investment policy limits the Authority's investment portfolio to maturities not to exceed two years at time of purchase. At June 30, 2019, the Authority's deposits and investments were not limited and all of which are either available on demand or have maturities of less than two years.

HOUSING AUTHORITY OF THE CITY OF UNION CITY

Notes to Financial Statements
June 30, 2019

NOTE 4 – CASH, CASH EQUIVALENTS - CONTINUED

Credit Risk

This is risk that a security or a portfolio will lose some or all of its value due to a real or perceived change in the ability of the issuer to repay its debt. The Authority's investment policy is that none of its total portfolio may be invested in securities of any single issuer, other than the US Government, its agencies and instrumentalities.

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

<u>Depository Accounts</u>	<u>Bank Balances</u>
Insured	\$ 669,023
Collateralized held by pledging bank's trust department in the Authority's name	2,117,225
Total Cash, Cash Equivalents	<u>\$ 2,786,248</u>

Restricted Cash

The Authority has total restricted cash at June 30, 2019 in the amount of \$395,720 which consists of the following:

	<u>June-19</u>
Tenant Security Deposits	\$ 173,471
HAP Funded Reserve	213,228
FSS Escrow Deposits	8,929
CFP Funded Reserve	92
Total Restricted Cash	<u>\$ 395,720</u>

The restricted cash in the amount of \$213,228 was reported under the Housing Choice Voucher Program as a HAP reserve for future use. The Authority invested these funds with Bank of America. In accordance with HUD's PIH Notice 2007-03, the reserve fund balance may only be used to assist additional families up to the number of units under contract.

The Authority under the Section 8 Housing Choice Voucher program is administering a Family Self-Sufficiency (FSS) program. An interest-bearing FSS escrow account is established by the PHA for each participating family. The amount of restricted cash held for this program at June 30, 2019 was in the amount of \$8,929.

The amount of \$92 for 2019 is held in trust at the Wells Fargo Bank. These funds at Wells Fargo Bank are controlled by the New Jersey Housing Mortgage Finance Agency (NJHMFA) for the capital leveraging project.

HOUSING AUTHORITY OF THE CITY OF UNION CITY

Notes to Financial Statements
June 30, 2019

NOTE 5 - ACCOUNTS RECEIVABLE

Accounts Receivable at June 30, 2019 consisted of the following:

	<u>June-19</u>
Tenants Accounts Receivable - Present	\$ 31,455
Less: Allowance for Doubtful Accounts - Tenants	<u>(8,581)</u>
Net Tenants Accounts Receivable	<u>22,874</u>
Tenants Accounts Receivable - Fraud	196,325
Less: Allowance for Doubtful Accounts - Fraud	<u>(147,244)</u>
Net Tenants Accounts Receivable - Fraud	<u>49,081</u>
Accounts Receivable - Central Avenue	49,292
Accounts Receivable - Home For Heroes	<u>6,154</u>
Net Other Receivables	<u>55,446</u>
Net Accounts Receivables Total	<u>\$ 127,401</u>

The Housing Authority of the City of Union City carries its accounts receivable at cost less an allowance for doubtful accounts. Accounts are written off as uncollectible when management determines that a sufficient period of time has elapsed without receiving payment and the individual do not exhibit the ability to meet their obligations. Management continually monitors payment patterns of the tenants, investigates past-due accounts to assess likelihood of collections, and monitors the industry and economic trends to estimate required allowances. It is reasonably possible that management's estimate of the allowance will change.

HOUSING AUTHORITY OF THE CITY OF UNION CITY

Notes to Financial Statements

June 30, 2019

NOTE 6 – PREPAID EXPENSES

Certain payments to vendors reflect cost applicable to future accounting periods and are recorded as prepaid items. All purchases of insurance premiums are written off on a monthly basis. Acquisition of materials and supplies are accounted for on the consumption method, that is, the expenses are charged when the items are consumed. Prepaid expenses at June 30, 2019 consisted of the following:

	<u>June-19</u>
Prepaid Insurance	\$ 38,304
Insurance Deposits	77,137
Inventory - Materials Net of Obsolete	190,928
Inventory - Fuel Oil	17,665
Total Prepaid Expenses	<u>\$ 324,034</u>

The Authority reported insurance deposit in the amount of \$77,137 which represents the required HAARG insurance deposits. This insurance deposit will be refunded once the Authority cancels the coverage with HAARG.

NOTE 7 – INTERFUND ACTIVITY

Interfund activity is reported as short term loans, services provided during the course of operations, reimbursements, or transfers. Short term loans are reported as interfund short term receivables and payable as appropriate. The amounts between the various programs administered by the Authority at June 30, 2019 are detailed on the Financial Data Schedule of this report. Interfund receivables and payables between funds are eliminated in the Statement of Net Position.

NOTE 8 - FIXED ASSETS

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

Expenditures for repairs, maintenance and minor renewals are charged against income in the year they are incurred. Major renewals and betterment are capitalized. Expenditures are capitalized when they meet the Capitalization Policy requirements. Under the policy, assets purchased or constructed at a cost not exceeding \$1,000 are expensed when incurred. Donated fixed assets are stated at their fair value on the date donated.

HOUSING AUTHORITY OF THE CITY OF UNION CITY

Notes to Financial Statements
June 30, 2019

NOTE 8 - FIXED ASSETS - CONTINUED

Depreciation Expense

Depreciation expense for June 30, 2019 was \$992,155. Depreciation is provided using the straight line method over the estimated useful lives of the assets.

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

The Housing Authority of the City of Union City reviews its rental property for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. When recoverability is reviewed, if the undiscounted cash flows estimated to be generated by the property are less than its carrying amount, management compares the carrying amount of the property to its fair value in order to determine whether an impairment loss has occurred. The amount of impairment loss is equal to the excess of the asset's carrying value over its estimated fair value. No impairment loss has been recognized during the year ended June 30, 2019.

Below is a schedule of changes in fixed assets for the twelve months ending June 30, 2019

	June-18	Additions	June-19
Land	\$ 697,390	\$ -	\$ 697,390
Building	33,645,265	-	33,645,265
Furniture, Equipment - Dwelling	128,979	-	128,979
Furniture, Equipment - Administration	476,345	-	476,345
Construction in Process	245,974	119,191	365,165
Total Fixed Assets	35,072,554	119,191	35,313,144
Accumulated Depreciation	(22,734,430)	(992,155)	(23,726,585)
Net Book Value	\$ 13,326,738	\$ (872,964)	\$ 11,586,559

HOUSING AUTHORITY OF THE CITY OF UNION CITY

Notes to Financial Statements

June 30, 2019

NOTE 8 - FIXED ASSETS – CONTINUED

Below is a schedule of the net book value of the fixed assets for the Authority as of June 30, 2019:

<u>Net Book Value of Fixed Assets</u>	<u>June-19</u>
Land	\$ 697,390
Building	10,359,054
Furniture, Equipment - Dwelling	54,680
Furniture, Equipment - Administration	110,270
Construction in Process	365,165
Net Book Value	<u>\$ 11,586,559</u>

NOTE 9 – DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

A deferred outflow is an outflow of resources, which is a consumption of net assets by the government that is applicable to the reporting period. A deferred inflow is an inflow of resources, which is an acquisition of net assets by the government that is applicable to the reporting period.

The OPEB and Pension Liability discussed in Note 18 and 19 resulted in the Authority incurring deferred outflows and inflows. The difference between expected and actual experience with regard to economic and demographic factors, when the actuary calculated the net pension liability, is amortized over a five-year closed period for PERS, reflecting the average remaining service life of members (active and inactive members), respectively. The first year of amortization is recognized as pension expense with the remaining years shown as either a deferred outflow of resources or a deferred inflow of resources. The Authority's deferred outflows and inflows are as follows:

Deferred Outflows of Resources	<u>OPEB</u>	<u>Pension</u>	<u>Total</u>
Differences Between Expected and Actual Experiences	\$ -	\$ 67,899	\$ 67,899
Changes in Assumptions	-	586,705	586,705
Net Difference Between Projected and Actual Earning on Pension Plan Investments	3,038	-	3,038
Changes in Proportion and Differences Between Contributions and Proportionate Share of Contributions	1,190,296	294,191	1,484,487
Contributions Subsequent to the Measurement	-	-	-
Total	<u>\$ 1,193,334</u>	<u>\$ 948,795</u>	<u>\$ 2,142,129</u>