

**HOUSING AUTHORITY OF THE
CITY OF OCEAN CITY
Ocean City, New Jersey**

REPORT ON AUDIT OF

**FOR THE YEARS ENDED
SEPTEMBER 30, 2016 AND 2015**

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FORD - SCOTT

& ASSOCIATES, L.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

1535 HAVEN AVENUE • OCEAN CITY, NJ • 08226

PHONE 609.399.6333 • FAX 609.399.3710

www.ford-scott.com

INDEPENDENT AUDITOR'S REPORT

The Honorable Chairman and Members
of the Board of Commissioners -
Housing Authority of the City
of Ocean City
Ocean City, New Jersey

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Housing Authority of the City of Ocean City (the "Authority"), a component unit of the City of Ocean City in the County of Cape May, State of New Jersey, as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents. The financial statements of the Authority as of September 30, 2015 were audited by other auditors whose report dated June 14, 2016 expressed an unmodified opinion on those statements in accordance with Generally Accepted Accounting Principles.

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 the 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 and in compliance with the audit requirements as prescribed by the Bureau of Authority Regulation, 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Housing Authority of the City of Ocean City as of September 30, 2016 and the 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* identified in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Housing Authority of the City of Ocean City's basic financial statements. The Other Supplementary Information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards as required by U.S. Office of Management and Budget OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and the Financial Data Schedule as required by the U.S. Department of Housing and Urban Development are presented for purposes of additional analysis and are not a required part of the financial statements.

The Other Supplementary Information, the Schedule of Expenditures of Federal Awards as required by U.S. Office of Management and Budget OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and the Financial Data Schedule as required by the U.S. Department of Housing and Urban Development 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Other Supplementary Information, the Schedule of Expenditures of Federal Awards and the Financial Data Schedule are fairly stated, in all material respects, in relation to the 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 June 16, 2017 on our consideration of the Housing Authority of the City of Ocean City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Ford, Scott & Associates, L.L.C.
FORD, SCOTT & ASSOCIATES, L.L.C.
CERTIFIED PUBLIC ACCOUNTANTS

Leon P. Costello

Leon P. Costello
Certified Public Accountant
Registered Municipal Accountant
No. 393

June 16, 2017

REQUIRED SUPPLEMENTARY INFORMATION

**HOUSING AUTHORITY OF THE CITY OF OCEAN CITY
OCEAN CITY, NEW JERSEY
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2016**

As Management of the Authority, we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal year ended September 30, 2016. We encourage readers to consider the information presented here in conjunction with the Authority's financial statements as presented elsewhere in this report.

A – Financial Highlights

- 1 - The assets of the Authority exceeded its liabilities at the close of the most recent fiscal year by \$1,944,558 (net position) as opposed to \$2,368,365 for the prior fiscal year.
- 2 - As of the close of the current fiscal year, the Authority's Proprietary Fund reported a deficit in Unrestricted Net Position of \$900,160.
- 3 – The Authority's cash and cash equivalent balances at September 30, 2016 were \$243,642, representing an increase of \$25,619 from the prior fiscal year.
- 4 - The Authority had Total Operating Revenues of \$795,745 and Total Operating Expenses of \$1,179,089 (Including depreciation \$266,903) for the year ended September 30, 2016.
- 5 - The Authority's capital outlays for the fiscal year were \$52,073.
- 6 - The Authority's Expenditures of Federal Awards amounted to \$311,073 for the fiscal year.

B - Using the Annual Report

1 - Management's Discussion and Analysis

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

2 - Financial Statements

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

The Comparative Statements of Net Position present information on the Authority's assets and liabilities with the difference between the two reported as net position. Increases or decreases in net position serve as a useful indicator of whether the Authority's financial position is improving or deteriorating.

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

The Comparative Statements of Cash Flows present information showing how the Authority's cash and cash equivalents position changed during the year. The statements classify cash

**HOUSING AUTHORITY OF THE CITY OF OCEAN CITY
OCEAN CITY, NEW JERSEY
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2016**

receipts and cash payments as resulting from operating activities, capital and related financing activities and investing activities.

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

3 - Notes to Financial Statements

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

4 - Supplemental Information and Required Supplementary Information

The Schedule of Expenditures of Federal Awards (SEFA) is presented for purpose of additional analysis and can be found on page 37 of this report. The Schedule of Proportionate Share of the Net pension liability of the Public Employees Retirement System (PERS) and Schedule of Authority Contributions to the Public Employees Retirement System (PERS) can be found on pages 27 and 28, respectively.

C -The Authority as a Whole

The Authority's Net Position decreased \$423,807 during the fiscal year as detailed below. The Authority's revenues are primarily tenant revenues and subsidies 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, and equipment less accumulated depreciation). The Authority uses these capital assets to provide housing services to its tenants. Consequently, these assets are not available for future spending.

D- Budgetary Highlights

For the year ended September 30, 2016 individual program or grant budgets were prepared by the Authority and were approved by the Board of Commissioners.

E- Capital Assets and Debt Administration

1 - Capital Assets

As of September 30, 2016, the Authority's net investment in capital assets was \$2,844,718 (net of accumulated depreciation of \$5,200,952). This net investment in capital assets includes land, buildings and improvements, furniture, equipment and machinery, and construction in progress.

Major capital assets purchased during the current fiscal year totaled \$52,073. These expenditures were made in accordance with the Authority's Capital Fund Programs.

Additional informational on the Authority's capital assets can be found in Note 7 to the Financial Statements which is included in this Report.

**HOUSING AUTHORITY OF THE CITY OF OCEAN CITY
OCEAN CITY, NEW JERSEY
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2016**

2 - Long Term Debt

The Authority does not have any long-term debt outstanding at this time.

F - Significant Changes from FYE September 30, 2016 to September 30, 2015

Accounts Receivable Other decreased \$107,221 primarily because at September 31, 2015, the Authority recorded a receivable due from FEMA related to reimbursement for Super-storm Sandy damages. These funds were received In January 2016.

Net capital assets decreased \$214,830. The Authority purchased \$52,073 of capital assets and incurred \$266,903 of depreciation expense during the current fiscal year.

Due to Other Governments increased by \$152,707 due to PILOT Fees not yet being remitted to the City of Ocean City and due to FEMA proceeds received that are due to the City as reimbursement for Super-storm Sandy repairs made by the City on Behalf of the Housing Authority.

Unrestricted net position decreased \$208,977 primarily because of the charge for FEMA proceeds that are due to the City of Ocean City in the amount of \$106,421.

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

The following factors were considered in preparing the Authority's budget for the fiscal year ending September 30, 2017.

- 1- The state of the economy, particularly its effect on tenant incomes, which are used in determining tenant rents paid to the Authority.
- 2- The strain and Congressional Funding in general, and the possible cut-back on HUD subsidies and grants.

**HOUSING AUTHORITY OF THE CITY OF OCEAN CITY
OCEAN CITY, NEW JERSEY
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2016**

H- Net Position and Changes in Net Position

SUMMARIZED STATEMENT OF NET POSITION			
AS OF SEPTEMBER 30,			
	2016	2015	2014
Cash & Other Current Assets	\$ 297,124	\$ 374,459	\$ 414,504
Net Capital Assets	2,844,718	3,059,548	3,317,124
Deferred Outflows of Resources	1,321,643	1,321,507	-
Total	\$ 4,463,485	\$ 4,755,514	\$ 3,731,628
Total Liabilities	\$ 1,310,484	\$ 845,682	\$ 273,469
Deferred Inflow of Resources	1,208,443	1,541,467	-
Net Position	1,944,558	2,368,365	3,458,159
Total	\$ 4,463,485	\$ 4,755,514	\$ 3,731,628
Net Investment in Capital Assets	\$ 2,844,718	\$ 3,059,548	\$ 3,317,124
Unrestricted Net Position	(900,160)	(691,183)	141,035
Total Net Position	\$ 1,944,558	\$ 2,368,365	\$ 3,458,159

SUMMARIZED STATEMENT OF CHANGES IN NET POSITION			
AS OF SEPTEMBER 30,			
	2016	2015	2014
Revenues:			
Tenant Revenues	\$ 479,905	\$ 484,919	\$ 492,115
HUD Subsidies & Other Grants	245,442	288,804	296,108
Other Revenue	70,398	166,606	23,351
Total Operating Revenues	795,745	940,329	811,574
Expenses:			
Operating Expenses	912,186	935,498	1,049,302
Depreciation	266,903	265,980	231,125
Total Operating Expenses	1,179,089	1,201,478	1,280,427
Deficiency of Operating Revenues			
Over Expenses	(383,344)	(261,149)	(468,853)
Non Operating Revenue & Expenses:			
Interest Income	327	455	748
Capital Grants	65,631	5,704	113,350
Prior Period Adjustment	(106,421)	(834,804)	-
Total Increase / (Decrease)	(423,807)	(1,089,794)	(354,755)
Beginning Net Position	2,368,365	3,458,159	3,812,914
Ending Net Position	\$ 1,944,558	\$ 2,368,365	\$ 3,458,159

**HOUSING AUTHORITY OF THE CITY OF OCEAN CITY
OCEAN CITY, NEW JERSEY
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2016**

I - Contacting the Authority's Financial Management

The financial report is designed to provide a general overview of the Authority's finances for all those with an interest. Questions concerning any of the Information provided in this report or requests for additional financial Information should be addressed to the Executive Director, Housing Authority of the City of Ocean City, 204 4th Street, Ocean City, New Jersey 08226, or call (609) 399-1062.

FINANCIAL STATEMENTS

**HOUSING AUTHORITY OF THE CITY OF OCEAN CITY
OCEAN CITY, NEW JERSEY
STATEMENT OF NET POSITION
SEPTEMBER 30, 2016 and 2015**

	2016	2015
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
Current Assets		
Cash & Cash Equivalents	\$ 243,642	\$ 218,023
Accounts Receivable:		
Tenants (net)	6,003	2,433
Other	-	107,221
HUD		
Inventories	-	5,527
Prepaid Expenses & Other Current Assets	47,479	41,255
Total Current Assets	297,124	374,459
Capital Assets		
Land	352,648	352,648
Buildings & Improvements	7,398,001	7,345,928
Furniture Equipment & Machinery	295,021	295,021
Total Capital Assets	8,045,670	7,993,597
Less: Accumulated Depreciation	(5,200,952)	(4,934,049)
Net Capital Assets	2,844,718	3,059,548
Total Assets	3,141,842	3,434,007
Deferred Outflows of Resources		
Deferred Outflows Related to Pensions	1,321,643	1,321,507
Total Assets & Deferred Outflows of Resources	\$ 4,463,485	\$ 4,755,514

**HOUSING AUTHORITY OF THE CITY OF OCEAN CITY
OCEAN CITY, NEW JERSEY
STATEMENT OF NET POSITION
SEPTEMBER 30, 2016 and 2015**

	2016	2015
LIABILITIES, DEFERRED INFLOWS OF RESOURCES & NET POSITION		
Current Liabilities		
Accounts Payable:		
Vendors & Contractors	\$ 31,531	\$ 64,388
Accrued Payroll & Related Taxes	812	2,381
Unearned Revenue - Prepaid Tenant Rents	1,100	586
Compensated Absences	6,534	-
Total Current Liabilities	39,977	67,355
Noncurrent Liabilities		
Security Deposits	39,705	41,079
Due to Other Governments	302,290	149,583
Compensated Absences	2,178	39,292
Accrued OPEB Liability	43,773	40,032
Accrued Pension Liability	882,561	508,341
Total Noncurrent Liabilities	1,270,507	778,327
Total Liabilities	1,310,484	845,682
Deferred Inflows of Resources		
Deferred Inflows Related to Pensions	1,208,443	1,541,467
Net Position		
Net Invested in Capital Assets	2,844,718	3,059,548
Unrestricted	(900,160)	(691,183)
Total Net Position	1,944,558	2,368,365
Total Liabilities, Deferred Inflows & Net Position	\$ 4,463,485	\$ 4,755,514

**HOUSING AUTHORITY OF THE CITY OF OCEAN CITY
OCEAN CITY, NEW JERSEY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED SEPTEMBER 30, 2016 and 2015**

	2016	2015
Operating Revenues		
Tenant Rental & Other Revenue	\$ 479,905	\$ 484,919
HUD Grants	245,442	288,804
Other	70,398	166,606
Total Operating Revenues	795,745	940,329
Operating Expenses		
Administrative	330,749	358,624
Tenant Services	10,714	34,130
Utilities	229,088	223,890
Ordinary Maintenance & Operations	210,268	170,900
Protective Services	1,719	13,439
General Expense	129,648	134,515
Depreciation Expense	266,903	265,980
Total Operating Expenses	1,179,089	1,201,478
Excess (Deficit) of Operating Revenues Over Expenses	(383,344)	(261,149)
Nonoperating Revenues & (Expenses)		
Interest on Investments	327	455
Prior Year FEMA Grant - Due to City of Ocean City	(106,421)	-
Capital Grants	65,631	5,704
Total Nonoperating Revenues & (Expenses)	(40,463)	6,159
Increase / (Decrease) in Net Position	(423,807)	(254,990)
Beginning Net Position	2,368,365	3,458,159
Prior Period Adjustment	-	(834,804)
Ending Net Position	\$ 1,944,558	\$ 2,368,365

**HOUSING AUTHORITY OF THE CITY OF OCEAN CITY
OCEAN CITY, NEW JERSEY
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2016 and 2015**

	2016	2015
Cash Flows From Operating Activities		
Cash Received from:		
Tenants & Rental Income	\$ 475,475	\$ 496,096
HUD Operating Grants	245,442	298,177
Other Operating Revenues	71,198	166,606
Cash Paid to:		
Employees	(209,728)	(225,891)
Vendors & Suppliers	(677,074)	(857,406)
Net Cash Provided (Used) by Operating Activities	(94,687)	(122,418)
Cash Flows From Financing Activities		
Capital Grants Received	65,631	5,704
Prior Year FEMA Grant - Due to City of Ocean City	106,421	-
Acquisition of Property & Equipment	(52,073)	(8,404)
Net Cash Flows Provided (Used) by Financing Activities	119,979	(2,700)
Cash Flows From Investing Activities		
Interest on Investments	327	455
Net Cash Provided (Used) by Investing Activities	327	455
Net Increase / (Decrease) in Cash & Cash Equivalents	25,619	(124,663)
Cash & Cash Equivalents at Beginning of Period	218,023	342,686
Cash & Cash Equivalents at End of Period	\$ 243,642	\$ 218,023
Reconciliation of Operating Income to Net Cash Provided (Used) by Operations		
Operating Income	(383,344)	(261,149)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:		
Depreciation	266,903	265,980
Net Deferred Inflows & Outflows	(333,160)	219,960
Changes in Assets:		
Accounts Receivable:		
Tenants (net)	(2,770)	11,038
HUD	-	(105,668)
Inventories	5,527	-
Prepaid Expenses & Other Current Assets	(6,224)	10,012
Changes in Liabilities:		
Accounts Payable & Accrued Expenses	(34,426)	38,277
Unearned Revenue - Prepaid Tenant Rents	514	(1,513)
Due to Other Governments	46,286	(145)
Security Deposits	(1,374)	11,025
Other Current Liabilities	-	(1,461)
Compensated Absences	(30,580)	13,948
Accrued OPEB Liability	3,741	3,741
Accrued Pension Liability	374,220	(326,463)
Net Cash Provided (Used) by Operations	\$ (94,687)	\$ (122,418)

The Notes to the Financial Statements are an Integral Part of this Statement

**HOUSING AUTHORITY OF THE CITY OF OCEAN CITY
OCEAN CITY, NEW JERSEY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2016 AND 2015**

NOTE 1: Organization and Activities

The Housing Authority of The City of Ocean City (the Authority) is a governmental entity created under federal and state housing laws as defined by State statute (N.J.S.A. 40A:12A-1, et. seq., the "Housing Authority Act"). The Authority is governed by a board of seven commissioners (the Commissioners) who serve five year terms. Five of the Commissioners are appointed by the City Council of the City of Ocean City (the City). One Commissioner is appointed by the Mayor of the City of Ocean City and one Commissioner is appointed by the Governor of the State of New Jersey. The governing board is 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 the City of Ocean City, New Jersey. Operating and modernization subsidies are provided to the Authority by the federal government.

In evaluating how to define the Authority for financial reporting purposes, management has considered all potential component units. The decision to include any potential component units in the financial reporting entity was made by applying the criteria set forth in GASB Statements No. 14, The Financial Reporting Entity, as amended by GASB Statement No. 39, Determining Whether Certain Organizations are Component Units, and GASB Statement No. 61, The Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14 and No. 34. Blended component units, although legally separate entities, are in-substance part of the government's operations. Each discretely presented component unit would be or is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government.

The basic-but not the only-criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters.

A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the government and / or its citizens.

A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the government is able to exercise oversight responsibilities.

Finally, the nature and significance of a potential component unit to the primary government could warrant its inclusion within the reporting entity.

Based upon the application of these criteria, the Authority has no component units but is a component unit of the City of Ocean City. The Mayor and Council of the City of Ocean City appoint six of the seven Commissioners. These financial statements would be either blended or discretely presented as a part of the City's financial statements if the City reported using generally accepted accounting principles applicable to governmental entities.

The combined financial statements include all 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.

**HOUSING AUTHORITY OF THE CITY OF OCEAN CITY
OCEAN CITY, NEW JERSEY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2016 AND 2015**

NOTE 2: Significant Accounting Policies

Basis of Accounting - The financial statements of the Authority are prepared using the accrual basis of accounting to recognize the flow of economic resources. Transactions are recognized when they occur, regardless of when cash is received or disbursed. Revenues are recognized in the accounting period in which they are earned and become measurable, and expenses recognized in the period incurred, if measurable. Operating revenues and expenses consist of those revenues and expenses that result from the ongoing principal operations of the Authority. Non-operating revenues and expenses consist of those revenues and expenses that are related to financing and investing types of activities and result from non-exchange transactions or ancillary activities. All assets, liabilities, net position, revenue and expenses are accounted for using a single enterprise fund for the primary government.

Revenue - The major sources of revenue are various subsidies and grants received from the United States Department of Housing and Urban Development, charges to tenants and other miscellaneous revenues discussed below.

Federal Grant Revenue - Operating Subsidies and Capital Fund Program revenue received from HUD are recorded under the accrual method of accounting and are recognized in the period earned in accordance with applicable HUD guidelines. The Authority is generally entitled to receive funds from HUD under an established payment schedule or as expenditures are made under the Capital Fund Program or Comprehensive Improvements Assistance Program.

Tenant Charges - Rental charges to tenants are determined and billed monthly and are recognized as revenue when billed since they are measurable and collectible within the current period. Amounts not collected at year-end are included in the balance sheet as accounts receivable, and amounts paid by tenants for the subsequent fiscal year are recorded as deferred revenue.

Report Presentation - The financial statements included in this Report were prepared in accordance with generally accepted accounting principles (GAAP) in the United States of America applicable to governmental entities for Proprietary Fund Types. The Authority has implemented the provisions of Governmental Accounting Standards Board Statement No. 34 "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments (Statement No. 34). The Authority also adopted the provisions of Statement No. 37 "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments Omnibus" and Statement No. 38 "Certain Financial Statement Note Disclosures", which supplement Statement No. 34. Statement No. 34 established standards for all state and local governmental entities that includes a statement of net assets, a statement of activities and a statement of cash flows. It requires the classification of net assets into three components - Invested in Capital Assets, Net of Related Debt; Restricted Net Assets and Unrestricted Net Assets. Statement No. 63 "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of resources, and Net Position" requires the re-naming of the Statement of Net Assets to the Statement of Net Position. The Statement of Net Position reports all assets, deferred outflows of resources, liabilities and deferred inflows of resources and net position. These classifications are defined as follows:

Net Investment in Capital Assets - This component consists of land, construction in progress and depreciable assets, net of accumulated depreciation and net of the related debt outstanding. If there are significant unspent related debt proceeds as of year-end, the portion of the debt related 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.

**HOUSING AUTHORITY OF THE CITY OF OCEAN CITY
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NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2016 AND 2015**

Restricted Net Position - This component includes net assets subject to restrictions placed on net asset use through external constraints imposed by creditors (such as debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by the law through constitutional provisions or enabling legislation.

Unrestricted Net Position - This component consists of net position that does not meet the definition of Restricted Net Position or Net Investment in Capital Assets.

The adoption of Governmental Accounting Standards Board Statements 34, 37 and 38 have no significant effect on the basic financial statements, except for the classification of net position in accordance with Statement No. 34.

Significant accounting policies are as follows:

1 - Cash and cash equivalents are stated at cost, which approximates market. Cash and cash equivalents include cash in banks, petty cash and certificates of deposit, and other investments with original maturities of less than three months from the date of purchase. Investments are recorded at fair value based on quoted market prices. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties.

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. Interest costs necessary to place a Capital Asset in its intended location and condition are capitalized.

4 - Repairs funded out of operations, such as painting, roofing and plumbing, are charged against income for all programs.

5 - The Authority is subsidized by the Federal Government. The Authority is not subject to Federal or State income taxes, nor is it required to file Federal and State Income tax returns.

6 - Operating subsidies received from HUD are recorded as income when earned.

7 - The cost of accumulated unpaid compensated absences, including fringe benefits, is reported in the period earned rather than in the period paid.

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

9 - Inventories in the Proprietary Fund consist of supplies and are recorded at the lower of first-in first-out, cost or market.

10 - The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and reported amounts of revenues and expenses during the reporting period.

11 - The Authority has elected not to apply to its proprietary activities Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee of Accounting Procedure issued after November 30, 1989.

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12 - The Authority does not have any infrastructure assets.

13 - Inter-fund receivables and payables arise from inter-fund transactions and are recorded by all funds affected in the period in which the transactions are executed.

14 - Long-lived assets to be held and used are tested for recoverability whenever events of changes in circumstances indicate that the carrying amount may not be recoverable. When required, impairment losses on assets to be held and used are recognized based on the fair value of the asset and long-lived assets to be disposed of by sale are reported at the lower of carrying amount or fair value less cost to sell. As of September 30, 2016, the Authority has not recognized any reduction in the carrying value of its fixed assets.

Budgetary Policy and Control - The housing authority 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.

Recent Accounting Pronouncements Not Yet Effective -

In June 2015, the Governmental Accounting Standards Board (GASB) issued Statement No. 73, "Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68". This statement, which is effective for fiscal periods beginning after June 30, 2016. It is anticipated that this statement will not have any effect on the Authority's financial reporting.

In June 2015, the Governmental Accounting Standards Board (GASB) issued Statement No. 74, "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans". This statement, which is effective for fiscal periods beginning after June 30, 2016, establishes new accounting and financial reporting requirements for OPEB plans. The impact of this statement will be additional disclosures.

In June 2015, the Governmental Accounting Standards Board (GASB) issued Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions". This statement is effective for fiscal periods beginning after June 30, 2017. The impact of this statement will be additional disclosures.

In January 2016, the Governmental Accounting Standards Board (GASB) issued Statement No. 80, "Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14". This statement is effective for fiscal periods beginning after June 15, 2016. It is anticipated that this statement will not have any effect on the Authority's financial reporting.

In March 2016, the Governmental Accounting Standards Board (GASB) issued Statement No. 81, "Irrevocable Split-Interest Agreements". This statement is effective for fiscal periods beginning after June 15, 2016. It is anticipated that this statement will not have any effect on the Authority's financial reporting.

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In March 2016, the Governmental Accounting Standards Board (GASB) issued Statement No. 82, "Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73". This statement is effective for fiscal periods beginning after June 15, 2016. The impact of this statement will be additional disclosures.

In November 2016, the Governmental Accounting Standards Board (GASB) issued Statement No. 83, "Certain Asset Retirement Obligations". This statement is effective for fiscal periods beginning after June 15, 2018. It is anticipated that this statement will not have any effect on the Authority's financial reporting.

In January 2017, the Governmental Accounting Standards Board (GASB) issued Statement No. 84, "Fiduciary Activities". This statement is effective for fiscal periods beginning after December 15, 2018. It is anticipated that this statement will not have any effect on the Authority's financial reporting.

NOTE 3: Cash and Cash Equivalents

The Authority maintains cash and investments in local banks. These funds are covered by the Governmental Unit Deposit Protection Act of the state of New Jersey, which requires the institutions to pool collateral for all governmental deposits and have the collateral held by an approved custodian in the institution's name.

Cash and Cash Equivalents of \$243,642 and \$218,023 at September 30, 2016 and 2015, consisted of the following:

		September 30, 2016		September 30, 2015
Checking Accounts	\$	203,911	\$	176,794
Tenant Security Deposits		39,705		41,079
Petty Cash		26		150
Total	\$	243,642	\$	218,023

The carrying amount of the Authority's cash and cash equivalents on deposit at financial institutions as of September 30, 2016 was \$243,642 and the bank balances were \$243,766. All the \$243,766 bank balances were covered by FDIC insurance. The Authority's cash and cash equivalents are categorized as prescribed in GASB 40 to give an indication of the level of risk assumed by the Authority. As described above none of the Authority's deposits exceeded FDIC insurance and were not required to be covered by a collateral pool maintained by the banks as required by New Jersey statutes.

NOTE 4: Tenant Accounts Receivable

Tenant accounts receivable are stated net of an allowance for doubtful accounts of \$2,001 and \$1,533 at September 30, 2016 and 2015, respectively.

NOTE 5: Inter-Program Receivables and Payables

At September 30, 2016 and 2015, the Authority had no inter-program accounts receivable or payable.

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NOTE 6 - Deferred Revenue

Deferred revenue of \$1,100 and \$586 at September 30, 2016 and 2015, respectively, represents prepaid tenant rents.

NOTE 7 - Fixed Assets

Fixed assets consist primarily of expenditures to acquire, construct, place in operation and improve the facilities of the Authority and are stated at cost, less accumulated depreciation. The following is a summary of the changes in fixed assets for the fiscal years ended September 30, 2016 and 2015:

	September 30, 2015	Additions	Deletions	September 30, 2016
Land	\$ 352,648	\$	\$	\$ 352,648
Buildings & Improvements	7,345,928	52,073		7,398,001
Furniture, Equipment & Machinery	295,021			295,021
Total Fixed Assets	7,993,597	52,073	-	8,045,670
Accumulated Depreciation	(4,934,049)	(266,903)		(5,200,952)
Net Fixed Assets	\$ 3,059,548	\$ (214,830)	\$ -	\$ 2,844,718

	September 30, 2014	Additions	Deletions	September 30, 2015
Land	\$ 352,648	\$	\$	\$ 352,648
Buildings & Improvements	7,233,346	112,582		7,345,928
Furniture, Equipment & Machinery	285,849	9,172		295,021
Construction in Progress	113,350		(113,350)	-
Total Fixed Assets	7,985,193	121,754	(113,350)	7,993,597
Accumulated Depreciation	(4,668,069)	(265,980)		(4,934,049)
Net Fixed Assets	\$ 3,317,124	\$ (144,226)	\$ (113,350)	\$ 3,059,548

Depreciation expense for the fiscal years ended September 30, 2016 and 2015 amounted to \$266,903 and \$265,980, respectively.

Expenditures are capitalized when they meet the Authority's Capitalization policy. Under that policy, assets purchased or constructed at a cost not exceeding \$1,000 are expensed when incurred. Depreciation of Fixed Assets is provided using the straight-line method for reporting purposes at rates based upon the following estimated useful lives:

Buildings	40 Years
Improvements	15 Years
Furniture	5 Years
Equipment	5 Years
Vehicles	5 Years
Computers and	

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NOTE 8 – Due to Other Governments

Under Federal, State and local law, the Authority's programs are exempt from income, property and excise taxes. However, the Authority is required to make a payment in lieu of taxes (PILOT) in accordance with the provisions of its Cooperation Agreement with the City of Ocean City. Under the Cooperation Agreement, the Authority must pay the City the lesser of 10% of its net shelter rent or the approximate full real property taxes. During the fiscal years ended September 30, 2016 and 2015, PILOT expense was accrued in the amount of \$25,848 and \$24,008 respectively, neither of which have yet been paid to the City.

In addition to the PILOT liability, the Authority also owes the City \$252,434 for renovation costs related to Super-storm Sandy. Therefore, the total Due to Other Governments at September 30, 2016 and 2015 is \$302,290 and \$149,583, respectively.

NOTE 9 – Accrued Compensated Absences

Accrued compensated absences of \$8,712 and \$39,292 at September 30, 2016 and 2015, represent amounts of accumulated leave for which employees are entitled to receive payment in accordance with the Authority's Personnel Policy. Employees may be compensated for accumulated vacation leave in the event of retirement or termination from service at 100% of the time accumulated, to a maximum of thirty (30) days in addition to the amount accrued in the year of retirement or termination. Employees may be compensated for accumulated sick leave in the event of retirement at the rate of one day for every two days accumulated at the current rate of pay, with a maximum not to exceed \$12,000.

NOTE 10 – Other Post Employment Benefits

Annual OPEB Cost & Net OPEB Obligation - The Authority's annual other postemployment benefit ("OPEB") cost (expense) is calculated based on the annual required contribution of employer ("ARC"), an amount actuarially determined in accordance with parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty (30) years. The following table shows the components of the Authority's annual OPEB costs for the fiscal year, the amount contributed to the plan and changes in the Authority's net OPEB obligation to the plan:

Annual Required Contribution "ARC"	\$	26,954	
Interest on Net OPEB Obligation		1,301	
Adjustment to ARC		1,448	
Annual OPEB Cost		29,703	
Contributions Made		(25,962)	
Increase in Net OPEB Obligation		3,741	
Net OPEB Obligation - Beginning of Year		40,032	
Net OPEB Obligation - End of Year	\$	43,773	

The Authority's annual OPEB cost, percentage of the annual OPEB cost contributed to the plan, and the net OPEB obligation for the 2016 fiscal year and the two preceding years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
9/30/2016	\$ 29,703	87.41%	\$ 43,773
9/30/2015	29,703	87.41%	40,032
9/30/2014	29,703	87.41%	36,291

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Funded Status & Funding Progress - As of October 1, 2013, the most recent valuation date, the plan was 0.0% funded. The actuarial liability for benefits was \$259,165 and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAL) of \$259,165. The covered payroll (annual payroll of active employees covered by the plan) was \$198,909 and the ratio of the UAL to covered payroll was not computed since benefit and retiree rates were not based on payroll.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrences of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contribution of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented in the required supplementary information following the financial statements, presents multiyear trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods & Assumptions - Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by employer and plan members) and include the types of benefits provided at the time each valuation and the historical pattern of sharing benefit costs between employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Actuarial Cost Method	Projected Unit Credit
Investment Rate of Return	5.00% per annum
Actuarial Value of Plan Assets	Not Applicable
Amortization of UAAL	Level Dollar Amount over 30 Years
Remaining Amortization Period	24 Years at September 30, 2016

NOTE 11 – Risk Management

The Authority is exposed to various risks of loss related to torts, theft, damage to and destruction of assets; errors and omissions; and natural disasters for which the Authority carries commercial insurance. During the years ended September 30, 2016 and 2015, the Authority's risk management program, in order to deal with potential liabilities, consisted of various insurance policies for fire, general liability, crime, auto and public-officials errors and omissions. Periodically, but not less than once annually, the Authority conducts a physical Inspection of its Projects for determining potential liability issues. Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Settled claims relating to the commercial insurance have not exceeded the amount of insurance in any of the past three fiscal years.

NOTE 12 – Construction Commitments

At September 30, 2016 and 2015, the Authority's outstanding construction commitments pertaining to its Capital Fund Programs were not material. The costs pertaining to such commitments will be paid by grants approved and committed to the Authority by the U.S. Department of Housing and Urban Development.

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NOTE 13 - Economic Dependency

For the year ended September 30, 2016 and 2015, a substantial portion of the Authority's revenues were received from the United States Department of Housing and Urban Development, which are subject to availability of funds and Congressional approval, as well as the Authority's compliance with Federal rules and regulations.

NOTE 14 - Other Revenue

Other revenue of \$70,398 at September 30, 2016, consists primarily of Insurance Reimbursements and the Proceeds of the Shared Services Agreement with the Brick Township Housing Authority. Other Revenue of \$166,606 at September 30, 2015 consists primarily of FEMA funds related to Super-storm Sandy damages.

NOTE 15 – Pension Plans

Description of Plans

Substantially all the entity's employees participate in the Public Employees' Retirement System (PERS) cost sharing multiple-employer defined benefit pension plans which have been established by State Statute and are administered by the New Jersey Division of Pensions and Benefits (Division). According to the State of New Jersey Administrative Code, all obligations of both Systems will be assumed by the State of New Jersey should the Systems terminate. The Division issues a publicly available financial report that includes the financial statements and required supplementary information for the Public Employees Retirement System. These reports may be obtained by writing to the Division of Pensions and Benefits, P.O. Box 295, Trenton, New Jersey, 08625 or the report can be accessed on the internet at:

<http://www.state.nj.us/treasury/pensions/annrprts.shtml>.

Public Employees' Retirement System (PERS) - The Public Employees' Retirement System (PERS) was established as of January 1, 1955 under the provisions of N.J.S.A. 43:15A to provide retirement, death, disability and medical benefits to certain qualified members. The PERS 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, Authority, school district or public agency, provided the employee is not required to be a member of another state-administered retirement system or other state pension fund or local jurisdiction's pension fund.

Funding Policy

The contribution policy is set by N.J.S.A. 43:15A, Chapter 62, P.L. of 1994, Chapter 115, P.L. of 1997 and N.J.S.A. 18:66, and requires contributions by active members and contributing employers. Plan member and employer contributions may be amended by State of New Jersey legislation. PERS provided for employee contributions of 7.06% through June 30, 2016 and 7.20% thereafter of employee's annual compensation, as defined. Employers are required to contribute at an actuarially determined rate in PERS. The entity's contributions to PERS for the years ended December 31, 2016, 2015, and 2014 were \$20,560, \$21,190, and \$19,102.

The total payroll for the year ended December 31, 2016, 2015, and 2014 was \$198,909, \$225,891, and \$228,957. Payroll covered by PERS was \$150,816, \$220,506 and \$216,050.

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Significant Legislation

Chapter 78, P.L. 2011, effective June 28, 2011 made various changes to the way the Public Employees' Retirement System (PERS) operates and to the benefit provisions of the system.

Chapter 78's provisions impacting employee pension and health benefits include:

New members of the PERS hired on or after June 28, 2011 (Tier 5 members) will need 30 years of creditable service and age 65 for receipt of the early retirement benefit without a reduction of $\frac{1}{4}$ of 1% for each month that the member is under age 65.

The eligibility age to qualify for a service retirement in the PERS is increased from age 63 to 65 for Tier 5 members.

Increases in active member contribution rates. PERS active member rates increase from 5.5% of annual compensation to the current rate of 7.20% plus an additional 1% phased-in over 7 years to 7.50% in 2018. The phase-in of the additional incremental member contribution rates for PERS members will take place in July of each subsequent fiscal year.

The payment of automatic cost-of-living adjustment (COLA) additional increases to current and future retirees and beneficiaries is suspended until reactivated as permitted by this law.

New employee contribution requirements towards the cost of employer-provided health benefit coverage. Employees are required to contribute a certain percentage of the cost of coverage. The rate of contribution is determined based on the employee's annual salary and the selected level of coverage. The increased employee contributions will be phased in over a 4-year period for those employed prior to Chapter 78's effective date with a minimum contribution required to be at least 1.5% of salary. The 4-year phase in period is now complete.

In addition, this new legislation changes the method for amortizing the pension systems' unfunded accrued liability (from a level percent of pay method to a level dollar of pay).

Chapter 1, P.L. 2010, effective May 21, 2010, made a number of changes to the State-administered retirement systems concerning eligibility, the retirement allowance formula, the definition of compensation, the positions eligible for service credit, the non-forfeitable right to a pension, the prosecutor's part of the PERS and employer contributions to the retirement systems.

Also, Chapter 1, P.L. 2010 changed the membership eligibility criteria for new members of PERS from the amount of annual compensation to the number of hours worked weekly. Also, it returned the benefit multiplier for new members of PERS to 1/60th from 1/55th, and it provided that new members of PERS have the retirement allowance calculated using the average annual compensation for the last five years of service instead of the last three years of service. New members of PERS will no longer receive pension service credit from more than one employer. Pension service credit will be earned for the highest paid position only. This law also closed the Prosecutors Part of the PERS to new members and repealed the law for new members that provided a non-forfeitable right to receive a pension based on the laws of the retirement system in place at the time 5 years of pension service credit is attained. The law also requires the State to make its full pension contribution, defined a 1/7th of the required amount, beginning in fiscal years 2012.

Chapter 3, P.L. 2010, effective May 21, 2010, replaced the accidental and ordinary disability retirement for new members of the PERS with disability insurance coverage similar to that provided by the State to individuals enrolled in the State's Defined Contribution Retirement Program.

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NOTE 16: Pension Liabilities

In 2012, the Governmental Accounting Standards Board issued GASB statement 68. This statement is effective for fiscal years beginning after June 15, 2014. This statement changes the method of reporting the Authority's pension liabilities.

The following represents the Authority's pension liabilities as June 30, 2016:

Public Employees' Retirement System

The Authority has a liability of \$882,561 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Authority's proportion of the net pension liability was based on a projection of the Authority's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2016, the Authority's proportion would be 0.00297989930%, which would be an increase of 31.59% from its proportion measured as of June 30, 2015.

For the year ended December 31, 2016, the Authority recognized pension expense of \$67,529.

At December 31, 2016, the Authority reported deferred outflows of resources and deferred inflows of resources related to PERS from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected & actual experience	\$ 16,413	
Changes of assumptions	182,819	
Changes in proportion	1,088,758	1,208,443
Net difference between projected and actual earnings on pension plan investments	33,653	
Total	\$ 1,321,643	1,208,443

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions would be recognized in pension expense as follows:

Year ended June 30,		
2017	\$	25,618
2018		25,618
2019		29,286
2020		24,508
2021		8,170
Total	\$	113,200

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Actuarial Assumptions

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

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

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

The actuarial assumptions used in the July 1, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2011 to June 30, 2014. It is likely that future experience will not exactly conform to these assumptions. To the extent that actual experience deviates from these assumptions, the emerging liabilities may be higher or lower than anticipated. The more experience deviates, the larger the impact on future financial statements.

In accordance with State statute, the long-term expected rate of return on plan investments (7.65% at June 30, 2016) is determined by the State Treasurer, after consultation with the Directors of the Division of Investments and Division of Pensions and Benefits, the board of trustees and the actuaries. The long term expected rate of return was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflations. Best estimates of arithmetic real rates of return for each major asset class included in PERS's target asset allocation as of June 30, 2016 are summarized in the table on the following page:

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

Discount Rate

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

Sensitivity of the Authority's proportionate share of the net pension liability to changes in the discount rate.

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

	1% Decrease (2.98%)	Current Discount Rate (3.98%)	1% Increase (4.98%)
Authority's proportionate share of the net pension liability	\$ 1,057,664	882,561	\$ 738,153

Pension plan fiduciary net position.

Detailed information about the pension plan's fiduciary net position is available in the separately issued PERS financial report.

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NOTE 18: Subsequent Events

The Authority has evaluated subsequent events through June 16, 2017, the date which the financial statements were available to be issued and identified no events requiring disclosure, other than the item listed below.

In May of 2017, the previous Executive Director resigned after pleading guilty to embezzling funds from the Authority. The plea agreement states that the embezzlement was more than \$6,500 but less than \$15,000.

REQUIRED SUPPLEMENTARY INFORMATION

**HOUSING AUTHORITY OF THE CITY OF OCEAN CITY
SCHEDULE OF THE AUTHORITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
PUBLIC EMPLOYEE RETIREMENT SYSTEM
YEARS ENDED SEPTEMBER 30,**

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Authority's proportion of the net pension liability (asset)	0.0029798993%	0.0022650000%	0.0119170000%
Authority's proportionate of the net pension liability (asset)	\$ 882,561	\$ 508,341	\$ 2,231,256
Authority's covered payroll	\$ 150,816	\$ 220,506	\$ 216,050
Authority's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	585.19%	230.53%	1032.75%
Plan fiduciary net position as a percentage of the total pension liability	40.14%	47.93%	52.08%

Source: GASB 68 report on Public Employees' Retirement System; Authority records

Note: This schedule is required by GASB 68 to be show information for a 10 year period. However, information is only currently available for the above listed years. Additional years will be presented as they become available

**HOUSING AUTHORITY OF THE CITY OF OCEAN CITY
SCHEDULE OF AUTHORITY CONTRIBUTIONS
PUBLIC EMPLOYEE RETIREMENT SYSTEM
YEARS ENDED SEPTEMBER 30,**

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 20,560	\$ 19,469	\$ 21,150
Contributions in relation to the contractually required contribution	<u>20,560</u>	<u>19,469</u>	<u>21,150</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Authority's covered-employee payroll	\$ 150,816	\$ 220,506	\$ 216,050
Contributions as a percentage of covered-employee payroll	13.63%	8.83%	9.79%

Source: GASB 68 report on Public Employees' Retirement System; Authority records

Note: This schedule is required by GASB 68 to be show information for a 10 year period.
However, information is only currently available for the above listed years.
Additional years will be presented as they become available.

CITY OF OCEAN CITY HOUSING AUTHORITY
OPEB SCHEDULE OF FUNDING PROGRESS AND
SCHEDULE OF EMPLOYER CONTRIBUTIONS
YEARS ENDED SEPTEMBER 30,

SCHEDULE OF FUNDING PROGRESS

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ([b-a]/c)</u>
10/1/2011	\$ -	\$ 224,293	\$ 224,293	0.0%	\$ 198,433	113.0%
10/1/2014	\$ -	\$ 259,165	\$ 259,165	0.0%	\$ 216,050	120.0%

SCHEDULE OF EMPLOYER CONTRIBUTIONS

<u>Year Ended September, 30</u>	<u>Annual OPEB Cost</u>	<u>Contributions From Employer**</u>	<u>Percentage Contributed</u>	<u>Net OPEB Obligation</u>
2014	29,703	25,962	87.41%	36,291
2015	29,703	25,962	87.41%	40,032
2016	29,703	25,962	87.41%	43,773

** Employer contributions are adjusted for implicit rate subsidies.

OTHER SUPPLEMENTARY INFORMATION

Ocean City Housing Authority (NJ053)
OCEAN CITY, NJ
Entity Wide Balance Sheet Summary

Submission Type: Audited/Non Single Audit

Fiscal Year End: 09/30/2016

	Project Total	Subtotal	ELIM	Total
111 Cash - Unrestricted	\$203,937	\$203,937		\$203,937
112 Cash - Restricted - Modernization and Development				
113 Cash - Other Restricted				
114 Cash - Tenant Security Deposits	\$39,705	\$39,705		\$39,705
115 Cash - Restricted for Payment of Current Liabilities				
100 Total Cash	\$243,642	\$243,642		\$243,642
121 Accounts Receivable - PHA Projects				
122 Accounts Receivable - HUD Other Projects				
124 Accounts Receivable - Other Government				
125 Accounts Receivable - Miscellaneous				
126 Accounts Receivable - Tenants	\$6,003	\$6,003		\$6,003
126.1 Allowance for Doubtful Accounts - Tenants	\$0	\$0		\$0
126.2 Allowance for Doubtful Accounts - Other				
127 Notes, Loans, & Mortgages Receivable - Current				
128 Fraud Recovery				
128.1 Allowance for Doubtful Accounts - Fraud				
129 Accrued Interest Receivable				
120 Total Receivables, Net of Allowances for Doubtful Accounts	\$6,003	\$6,003		\$6,003
131 Investments - Unrestricted				
132 Investments - Restricted				
135 Investments - Restricted for Payment of Current Liability				
142 Prepaid Expenses and Other Assets	\$47,479	\$47,479		\$47,479
143 Inventories				
143.1 Allowance for Obsolete Inventories				
144 Inter Program Due From				
145 Assets Held for Sale				
150 Total Current Assets	\$297,124	\$297,124		\$297,124
161 Land	\$352,648	\$352,648		\$352,648
162 Buildings	\$6,615,764	\$6,615,764		\$6,615,764
163 Furniture, Equipment & Machinery - Dwellings	\$84,963	\$84,963		\$84,963
164 Furniture, Equipment & Machinery - Administration	\$210,058	\$210,058		\$210,058
165 Leasehold Improvements	\$782,237	\$782,237		\$782,237
166 Accumulated Depreciation	-\$5,200,952	-\$5,200,952		-\$5,200,952
167 Construction in Progress				
168 Infrastructure				
160 Total Capital Assets, Net of Accumulated Depreciation	\$2,844,718	\$2,844,718		\$2,844,718

Ocean City Housing Authority (NJ053)
OCEAN CITY, NJ
Entity Wide Balance Sheet Summary

Submission Type: Audited/Non Single Audit

Fiscal Year End: 09/30/2016

	Project Total	Subtotal	ELIM	Total
171 Notes, Loans and Mortgages Receivable - Non-Current				
172 Notes, Loans, & Mortgages Receivable - Non Current - Past Due				
173 Grants Receivable - Non Current				
174 Other Assets				
176 Investments in Joint Ventures				
180 Total Non-Current Assets	\$2,844,718	\$2,844,718		\$2,844,718
200 Deferred Outflow of Resources	\$1,321,643	\$1,321,643		\$1,321,643
290 Total Assets and Deferred Outflow of Resources	\$4,463,485	\$4,463,485		\$4,463,485
311 Bank Overdraft				
312 Accounts Payable <= 90 Days	\$31,531	\$31,531		\$31,531
313 Accounts Payable >90 Days Past Due				
321 Accrued Wage/Payroll Taxes Payable	\$812	\$812		\$812
322 Accrued Compensated Absences - Current Portion	\$6,534	\$6,534		\$6,534
324 Accrued Contingency Liability				
325 Accrued Interest Payable				
331 Accounts Payable - HUD PHA Programs				
332 Account Payable - PHA Projects				
333 Accounts Payable - Other Government	\$49,856	\$49,856		\$49,856
341 Tenant Security Deposits	\$39,705	\$39,705		\$39,705
342 Unearned Revenue	\$1,100	\$1,100		\$1,100
343 Current Portion of Long-term Debt - Capital Projects/Mortgage Revenue				
344 Current Portion of Long-term Debt - Operating Borrowings				
345 Other Current Liabilities				
346 Accrued Liabilities - Other				
347 Inter Program - Due To				
348 Loan Liability - Current				
310 Total Current Liabilities	\$129,538	\$129,538		\$129,538
351 Long-term Debt, Net of Current - Capital Projects/Mortgage Revenue				
352 Long-term Debt, Net of Current - Operating Borrowings				
353 Non-current Liabilities - Other	\$252,434	\$252,434		\$252,434
354 Accrued Compensated Absences - Non Current	\$2,178	\$2,178		\$2,178
355 Loan Liability - Non Current				
356 FASB 5 Liabilities				
357 Accrued Pension and OPEB Liabilities	\$926,334	\$926,334		\$926,334
350 Total Non-Current Liabilities	\$1,180,946	\$1,180,946		\$1,180,946

Ocean City Housing Authority (NJ053)
OCEAN CITY, NJ
Entity Wide Balance Sheet Summary

Submission Type: Audited/Non Single Audit

Fiscal Year End: 09/30/2016

	Project Total	Subtotal	ELIM	Total
300 Total Liabilities	\$1,310,484	\$1,310,484		\$1,310,484
400 Deferred Inflow of Resources	\$1,208,443	\$1,208,443		\$1,208,443
508.4 Net Investment in Capital Assets	\$2,844,718	\$2,844,718		\$2,844,718
511.4 Restricted Net Position				
512.4 Unrestricted Net Position	-\$900,160	-\$900,160		-\$900,160
513 Total Equity - Net Assets / Position	\$1,944,558	\$1,944,558		\$1,944,558
600 Total Liabilities, Deferred Inflows of Resources and Equity - Net	\$4,463,485	\$4,463,485		\$4,463,485

Ocean City Housing Authority (NJ053)
OCEAN CITY, NJ
Entity Wide Revenue and Expense Summary

Submission Type: Audited/Non Single Audit

Fiscal Year End: 09/30/2016

	Project Total	Subtotal	ELIM	Total
70300 Net Tenant Rental Revenue	\$465,998	\$465,998		\$465,998
70400 Tenant Revenue - Other	\$13,907	\$13,907		\$13,907
70500 Total Tenant Revenue	\$479,905	\$479,905		\$479,905
70600 HUD PHA Operating Grants	\$267,952	\$267,952		\$267,952
70610 Capital Grants	\$43,121	\$43,121		\$43,121
70710 Management Fee				
70720 Asset Management Fee				
70730 Book Keeping Fee				
70740 Front Line Service Fee				
70750 Other Fees				
70700 Total Fee Revenue				
70800 Other Government Grants				
71100 Investment Income - Unrestricted	\$327	\$327		\$327
71200 Mortgage Interest Income				
71300 Proceeds from Disposition of Assets Held for Sale				
71310 Cost of Sale of Assets				
71400 Fraud Recovery				
71500 Other Revenue	\$70,398	\$70,398		\$70,398
71600 Gain or Loss on Sale of Capital Assets				
72000 Investment Income - Restricted				
70000 Total Revenue	\$861,703	\$861,703		\$861,703
91100 Administrative Salaries	\$109,880	\$109,880		\$109,880
91200 Auditing Fees	\$6,500	\$6,500		\$6,500
91300 Management Fee	\$47,704	\$47,704		\$47,704
91310 Book-keeping Fee				
91400 Advertising and Marketing	\$408	\$408		\$408
91500 Employee Benefit contributions - Administrative	\$95,836	\$95,836		\$95,836
91600 Office Expenses	\$4,644	\$4,644		\$4,644
91700 Legal Expense	\$12,877	\$12,877		\$12,877
91800 Travel	\$892	\$892		\$892
91810 Allocated Overhead				
91900 Other	\$52,006	\$52,006		\$52,006
91000 Total Operating - Administrative	\$330,747	\$330,747		\$330,747

Ocean City Housing Authority (NJ053)
OCEAN CITY, NJ

Entity Wide Revenue and Expense Summary

Submission Type: Audited/Non Single Audit

Fiscal Year End: 09/30/2016

	Project Total	Subtotal	ELIM	Total
92000 Asset Management Fee				
92100 Tenant Services - Salaries	\$5,425	\$5,425		\$5,425
92200 Relocation Costs				
92300 Employee Benefit Contributions - Tenant Services	\$3,170	\$3,170		\$3,170
92400 Tenant Services - Other	\$2,119	\$2,119		\$2,119
92500 Total Tenant Services	\$10,714	\$10,714		\$10,714
93100 Water	\$95,677	\$95,677		\$95,677
93200 Electricity	\$105,157	\$105,157		\$105,157
93300 Gas	\$28,254	\$28,254		\$28,254
93400 Fuel				
93500 Labor				
93600 Sewer				
93700 Employee Benefit Contributions - Utilities				
93800 Other Utilities Expense				
93000 Total Utilities	\$229,088	\$229,088		\$229,088
94100 Ordinary Maintenance and Operations - Labor	\$63,840	\$63,840		\$63,840
94200 Ordinary Maintenance and Operations - Materials and Other	\$29,120	\$29,120		\$29,120
94300 Ordinary Maintenance and Operations Contracts	\$59,534	\$59,534		\$59,534
94500 Employee Benefit Contributions - Ordinary Maintenance	\$57,775	\$57,775		\$57,775
94000 Total Maintenance	\$210,269	\$210,269		\$210,269
95100 Protective Services - Labor				
95200 Protective Services - Other Contract Costs	\$1,719	\$1,719		\$1,719
95300 Protective Services - Other				
95500 Employee Benefit Contributions - Protective Services				
95000 Total Protective Services	\$1,719	\$1,719		\$1,719
96110 Property Insurance	\$25,430	\$25,430		\$25,430
96120 Liability Insurance	\$24,816	\$24,816		\$24,816
96130 Workmen's Compensation	\$9,243	\$9,243		\$9,243
96140 All Other Insurance	\$44,311	\$44,311		\$44,311
96100 Total insurance Premiums	\$103,800	\$103,800		\$103,800

Ocean City Housing Authority (NJ053)
OCEAN CITY, NJ
Entity Wide Revenue and Expense Summary

Submission Type: Audited/Non Single Audit

Fiscal Year End: 09/30/2016

	Project Total	Subtotal	ELIM	Total
96200 Other General Expenses				
96210 Compensated Absences				
96300 Payments in Lieu of Taxes	\$25,848	\$25,848		\$25,848
96400 Bad debt - Tenant Rents	\$0	\$0		\$0
96500 Bad debt - Mortgages				
96600 Bad debt - Other				
96800 Severance Expense				
96000 Total Other General Expenses	\$25,848	\$25,848		\$25,848
96710 Interest of Mortgage (or Bonds) Payable				
96720 Interest on Notes Payable (Short and Long Term)				
96730 Amortization of Bond Issue Costs				
96700 Total Interest Expense and Amortization Cost	\$0	\$0		\$0
96900 Total Operating Expenses	\$912,185	\$912,185		\$912,185
97000 Excess of Operating Revenue over Operating Expenses	-\$50,482	-\$50,482		-\$50,482
97100 Extraordinary Maintenance				
97200 Casualty Losses - Non-capitalized				
97300 Housing Assistance Payments				
97350 HAP Portability-In				
97400 Depreciation Expense	\$266,904	\$266,904		\$266,904
97500 Fraud Losses				
97600 Capital Outlays - Governmental Funds				
97700 Debt Principal Payment - Governmental Funds				
97800 Dwelling Units Rent Expense				
90000 Total Expenses	\$1,179,089	\$1,179,089		\$1,179,089

Ocean City Housing Authority (NJ053)
OCEAN CITY, NJ

Entity Wide Revenue and Expense Summary

Submission Type: Audited/Non Single Audit

Fiscal Year End: 09/30/2016

	Project Total	Subtotal	ELIM	Total
10010 Operating Transfer In	\$22,510	\$22,510		\$22,510
10020 Operating transfer Out	-\$22,510	-\$22,510		-\$22,510
10030 Operating Transfers from/to Primary Government				
10040 Operating Transfers from/to Component Unit				
10050 Proceeds from Notes, Loans and Bonds				
10060 Proceeds from Property Sales				
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 Project and Program - Out				
10100 Total Other financing Sources (Uses)	\$0	\$0		\$0
10000 Excess (Deficiency) of Total Revenue Over (Under) Total Expenses	-\$317,386	-\$317,386		-\$317,386
11020 Required Annual Debt Principal Payments	\$0	\$0		\$0
11030 Beginning Equity	\$2,368,365	\$2,368,365		\$2,368,365
11040 Prior Period Adjustments, Equity Transfers and Correction of Errors	-\$106,421	-\$106,421		-\$106,421
11050 Changes in Compensated Absence Balance				
11060 Changes in Contingent Liability Balance				
11070 Changes in Unrecognized Pension Transition Liability				
11080 Changes in Special Term/Severance Benefits Liability				
11090 Changes in Allowance for Doubtful Accounts - Dwelling Rents				
11100 Changes in Allowance for Doubtful Accounts - Other				
11170 Administrative Fee Equity				
11180 Housing Assistance Payments Equity				
11190 Unit Months Available	1452	1452		1452
11210 Number of Unit Months Leased	1429	1429		1429
11270 Excess Cash	\$44,092	\$44,092		\$44,092
11610 Land Purchases	\$0	\$0		\$0
11620 Building Purchases	\$0	\$0		\$0
11630 Furniture & Equipment - Dwelling Purchases	\$0	\$0		\$0
11640 Furniture & Equipment - Administrative Purchases	\$0	\$0		\$0
11650 Leasehold Improvements Purchases	\$52,073	\$52,073		\$52,073
11660 Infrastructure Purchases	\$0	\$0		\$0
13510 CFFP Debt Service Payments	\$0	\$0		\$0
13901 Replacement Housing Factor Funds	\$0	\$0		\$0

CITY OF OCEAN CITY HOUSING AUTHORITY
 SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2016

Federal or State Grantor/Pass-Through Grantor/Program Title	CFDA Number	Grant Period		Program or Award Amount	Receipts or Revenue Recognized	Budgetary Expenditures			(MEMO) Passed Through to Sub-Recipients
		From	To			Pass Through	Source	Total	
Public and Indian Housing Program	14.850	10/1/2015	9/30/2016	245,442.00 \$	245,442.00 \$	\$	245,442.00 \$	245,442.00 \$	-
Public Housing - Capital Fund Program	14.872	10/1/2015	9/30/2016	65,631.00	65,631.00		65,631.00	65,631.00	-
Total Housing and Urban Development					311,073.00	-	311,073.00	311,073.00	-
Total Federal Assistance					\$ 311,073.00	\$	311,073.00 \$	311,073.00 \$	-

OTHER REPORTS & COMMENTS



FORD - SCOTT

& ASSOCIATES, L.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

1535 HAVEN AVENUE • OCEAN CITY, NJ • 08226

PHONE 609.399.6333 • FAX 609.399.3710

www.ford-scott.com

INDEPENDENT AUDITOR'S REPORT

The Honorable Chairman and Members
of the Board of Commissioners -
Housing Authority of the City
of Ocean City
Ocean City, New Jersey

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and in compliance with audit requirements as prescribed by the Bureau of Authority Regulation, Division of Local Government Services, Department of Community Affairs, State of New Jersey, the financial statements of the business-type activities of Housing Authority of the City of Ocean City, as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated June 16, 2017.

Internal Control over Financial Reporting

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

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 deficiencies described in the accompanying Schedule of Findings and Responses as Findings #2016-2,3,4,5 and 7 to be material weaknesses.

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. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as Findings #2016-1 and 8 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as Findings #2016-6,9,10,11,12,13,14 and 15.

Management's Response to Findings

The Authority's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. The Authority's responses were not subject to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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.

Ford, Scott & Associates, L.L.C.
FORD, SCOTT & ASSOCIATES, L.L.C.
CERTIFIED PUBLIC ACCOUNTANTS

Leon P. Costello

Leon P. Costello
Certified Public Accountant
Registered Municipal Accountant
No. 393

June 16, 2017

HOUSING AUTHORITY OF THE CITY OF OCEAN CITY
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDING SEPTEMBER 30, 2016

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: **Unmodified Opinion**

Internal control over financial reporting:

1) Material Weakness identified? **YES**

2) Significant Deficiency identified? **YES**

Non-Compliance material to Financial Statements – Statutory Basis noted? **NO**

II. FINDINGS RELATING TO THE FINANCIAL STATEMENTS – REGULATORY BASIS WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS

In accordance with Government Auditing Standards, our audit disclosed the following findings relating to the financial statements that are required to be reported.

Finding #2016-1:

The Minutes of the Meetings of the Board of Commissioners and the Resolutions approved at those meeting were incomplete and/or missing for some of the meetings during the year.

Criteria:

Minutes of all Meetings of the Board of Commissioners should be accurately maintained along with the approved Resolutions from those meetings.

Condition:

The Minutes of the Meetings of the Board of Commissioners and the Resolutions approved at those meeting were incomplete and/or missing for some of the meetings during the year.

Context:

The Minutes of the Meetings of the Board of Commissioners were inadequate as a source for the actions taken by the Board of Commissioners.

Cause:

The prior Executive Director's system of maintaining and retaining Minutes and Resolutions was inadequate.

Effect:

There is no reliable source to document the actions approved by the Board of Commissioners.

Questioned Cost:

None

Recommendation:

That minutes of all Meetings of the Board of Commissioners be accurately maintained and available and also that a centralized numerically indexed file of all Resolutions be maintained and available.

Management's Response

The newly appointed Executive Director agrees with this finding and will implement corrective action on this item.

Finding #2016-2:

The Authority was unable to produce approved Bill Lists.

Criteria:

All Vendor Bills should be submitted on a Bill List for approval of the Board of Commissioners prior to payment.

Condition:

The Authority was unable to produce approved Bill Lists.

Context:

No Bill Lists were available.

Cause:

It is our understanding that Bill Lists were not prepared but due to the inadequacy of the Minutes as discussed in Finding 2016-1, we are unable to determine if the Bill Lists are missing or if they were never actually prepared and submitted to the Board of Commissioners.

Effect:

We are unable to determine if the Bills that were paid during the year were approved by the Board of Commissioners.

Questioned Cost:

None

Recommendation:

That all Vendor Bills be presented to the Board of Commissioners on a Bill List for approval prior to the release of the check for payment and that the Bill List be incorporated into the Minutes of the Meetings of the Board of Commissioners by attachment.

Management's Response

The newly appointed Executive Director agrees with this finding and will implement corrective action on this item.

Finding #2016-3:

The Authority is not utilizing a Voucher System for the Payment of Bills.

Criteria:

All Vendor Bills should be processed with a Voucher for the Payment Request.

Condition:

No standard form is being used for the payment of bills.

Context:

A Voucher or Payment Request Form should be utilized to document, the approval of the order, the fact that the bill or invoice has been reviewed for accuracy, and the account number to be charged for the expense.

Cause:

No form is being used.

Effect:

The lack of a form or other method of documenting review and approval indicated a weakness in the Internal Control over Cash Disbursements and Expenditures.

Questioned Cost:

None

Recommendation:

That a Voucher or Payment Request Form be utilized to document, the approval of the order, the fact that the bill or invoice has been reviewed for accuracy, and the account number to be charged for the expense.

Management's Response

The newly appointed Executive Director agrees with this finding and has designed a Payment Request Form that will be implemented for all bills.

Finding #2016-4:

The Authority has been using a Store Credit Card Account.

Criteria:

All expenditures should be fully documented and paid in full monthly.

Condition:

Several of the Store Credit Card Bills were missing the itemized detail of what was purchased was and balances were not paid completely monthly.

Context:

The Store Credit Card Account carried an unpaid balance at September 30, 2016 of more than \$2,000, much of what was un-detailed & un-itemized.

Cause:

Poor Internal Control Procedures over the Store Credit Card Account.

Effect:

Unpaid Store Credit Card balances were accumulated and there is no way to determine the detail, purpose and use of what was purchased.

Questioned Cost:

\$687.68

Recommendation:

That Internal Controls over the use of the Store Credit Card Account be improved to control who has access to the account, ensure detailed and itemized receipts are retained and that balances are paid in full monthly OR that the account be closed.

Management's Response

The newly appointed Executive Director agrees with this finding and will close the Store Credit Card Account.

Finding #2016-5:

Some of the expenditures that were sampled for testing did not contain full documentation of the expense being incurred.

Criteria:

Full detailed receipts and/or invoices should be available to support the amount and nature of the expense being paid.

Condition:

Three of the expenditures sampled for reimbursement of out of pocket medical expenses for retirees did not contain receipts or other backup to support the dollar amount being reimbursed.

Context:

It appears that the reimbursements were for out of pocket prescription costs.

Cause:

Unknown.

Effect:

There is no way to determine if the reimbursements were calculated correctly.

Questioned Cost:

\$419.60

Recommendation:

That no payments be made until vendor invoice, paid receipt or other proof of expense is provided.

Management's Response

The newly appointed Executive Director agrees with this finding and will implement corrective action.

Finding #2016-6:

The Authority incurred back pension costs in the amount of \$78,139.02 due to the failure to enroll a former employee in the PERS Pension System.

Criteria:

All employees who earn at least \$1,500 annually must be enrolled in the PERS Pension System.

Condition:

A former employee was never enrolled in the PERS System.

Context:

During the 2015/2016 fiscal year, the Authority had 4 employees all who were properly enrolled in PERS. This finding relates to a former employee who had retired in a prior year.

Cause:

The Authority failed to enroll the employee in the PERS Pension System.

Effect:

The Authority was charged interest and the employee's share of the back-pension costs.

Questioned Cost:

None

Recommendation:

That all required employees are properly enrolled in the PERS Pension System in accordance with the PERS requirements.

Management's Response

The newly appointed Executive Director agrees with this finding and will ensure that any new employees are properly enrolled in PERS in the future.

Finding #2016-7:

Checks and other documents were signed by office staff for the former Executive Director and the Board Chairmen's Signature Stamp was used without his knowledge or permission.

Criteria:

No one other than the Executive Director should sign the name of the Executive Director and No signature stamp should be used without proper authorization.

Condition:

Checks and other documents were signed by office staff for the former Executive Director and the Board Chairmen's Signature Stamp was used without his knowledge or permission.

Context:

Several Authority checks contained a signature of the former Executive Director that appears to have been signed by someone else and the Board Chairman's Signature Stamp was used to sign the Certificate of Incorporation of the Ocean City Community Development Corporation, without his knowledge.

Cause:

We were informed by office staff that they were instructed to sign the former Executive Director's name on several occasions. We do not know who used the Board Chairman's Signature Stamp on the Certificate of Incorporation.

Effect:

Checks and other documents are being signed by unauthorized individuals.

Questioned Cost:

None

Recommendation:

That all Signature Stamps be controlled and only used when properly authorized and that no checks or other documents be signed by someone other than the named individual.

Management's Response

The newly appointed Executive Director agrees with this finding and will implement corrective action.

Finding #2016-8:

The September 30, 2016 Bank Reconciliation and General Ledger Cash Account were incorrect.

Criteria:

The General Ledger should agree to the properly completed Bank Reconciliation.

Condition:

Two Deposits in Transit from January and March 2016 totaling \$10,363.00 were listed on the Bank Reconciliations but never cleared the bank.

Context:

Our audit procedures revealed that the two items were each recorded twice in the General Ledger and no cash was missing.

Cause:

Authority personnel failed to follow up and investigate reconciling items on the Bank Reconciliations in a timely manner.

Effect:

The General Ledger and the Unaudited Financial Data Schedule Submitted to HUD overstated Revenues and understated Cash by \$10,363.00.

Questioned Cost:

None

Recommendation:

That all reconciling items on the monthly Bank Reconciliations be investigated timely and that the General Ledger be adjusted to agree to the accurately prepared Bank Reconciliation.

Management's Response

The newly appointed Executive Director agrees with this finding and will implement corrective action.

Finding #2016-9:

Tennant Files selected for testing did not contain all the required HUD forms and documentation.

Criteria:

HUD requires that specific forms and documentation be retained for all tenants.

Condition:

In some cases, we were unable to find proof of Electronic Income Verification, Social Security Cards and Birth Certificates for all household members, proof of full time student status for adult dependents and proof of annual physical inspection of housing units.

Context:

HUD requires certain documentation to be obtained for all tenants.

Cause:

Authority personnel failed to maintain all the required documentation.

Effect:

The Tenant Files are incomplete according to the HUD Standards.

Questioned Cost:

None

Recommendation:

That the Tenant files be updated to contain all the documentation required by HUD.

Management's Response

The newly appointed Executive Director agrees with this finding and will implement corrective action.

Finding #2016-10:

Some of the Tenant Rent Calculations that we sampled for audit were incorrect or incorrectly documented.

Criteria:

HUD requires that Tennant Rent be calculated using the Income Formula or the Flat Rent Option.

Condition:

Some of the Tenant Rent Calculations that we sampled for audit were incorrect or incorrectly documented.

Context:

One of the items we selected for testing contained an incorrect income verification and two contained incorrect and undocumented Flat Rent Rates.

Cause:

The HUD Income and Flat Rate Rent Procedures are not being properly calculated and documented.

Effect:

Some Tenants are not paying the correct amount in monthly Rent.

Questioned Cost:

\$4,356 in the form of Underpaid Tenant Rental Revenue.

Recommendation:

That the Authority complete an Interim Recertification of all Tenants to ensure proper rent is being charged and collected.

Management's Response

The newly appointed Executive Director agrees with this finding and will implement corrective action.

Finding #2016-11:

During our audit, we became aware of four instances in which applicants were placed in housing units before applicants who were ahead of them on the Waiting List.

Criteria:

HUD requires that the Authority must establish and adopt written policies for admission of tenants. The tenant selection policies established by the Authority must include the requirements for applications and the Waiting List, descriptions of the policies for selection of applicants from the Waiting List and policies for verification and documentation of information relevant to acceptance or rejection of an applicant.

Condition:

Four applicants were placed in housing units before applicants who were ahead of them on the Waiting List.

Context:

The Authority's Standards of Eligibility give first preference to Ocean City Residents. Of the 121 Housing Units maintained by the Authority, four contain tenants who were housed before their Spot on the Waiting List would dictate.

Cause:

The Authority did not follow its Policy on Standards of Eligibility and Waiting List Preferences.

Effect:

Ocean City Residents were incorrectly bypassed on the Waiting List for Housing.

Questioned Cost:

None.

Recommendation:

That the Authority adhere to its Policy for Standards of Eligibility for Housing and the Waiting List Preferences.

Management's Response

The newly appointed Executive Director agrees with this finding and will implement corrective action.

Finding #2016-12:

In some cases, the Authority paid Time and a Half Overtime Rate before 40 hours had been worked.

Criteria:

Hourly employees should be paid their flat hourly rate for the first 40 hours worked in a weekly pay period. Once more than 40 hours are worked the Time and a Half Rate should be utilized.

Condition:

In some cases, the Authority paid Time and a Half Overtime Rate before 40 hours had been worked.

Context:

Two employees were overpaid during the year.

Cause:

The Former Executive Director authorized Overtime Rates once 35 hours were worked instead of 40.

Effect:

Two employees were overpaid during the year.

Questioned Cost:

\$440.57.

Recommendation:

That the Authority only pay Overtime Time and a Half Rates once more than 40 hours have been worked in the Weekly Pay Period.

Management's Response

The newly appointed Executive Director agrees with this finding and will implement corrective action.

Finding #2016-13:

Upon her resignation, The Former Executive Director received payment for two unused personal days that per the Authority Policy Manual were not allowed to be carried over and therefore the payment was not due to her.

Criteria:

The Former Executive Director's Contract allowed for accumulation and Carryover of Unused Vacation and Sick Time but Not Personal Time.

Condition:

Unused Sick and Vacation Time was properly paid but the payment of Personal Time was in violation of the Authority's Policy.

Context:

This finding relates only to the Former Executive Director.

Cause:

Incorrect application of the Contractual Terms.

Effect:

The Former Executive Director was overpaid at her Resignation from the Authority.

Questioned Cost:

\$576.94.

Recommendation:

That all employees be paid according to the terms of their contract and Authority Policy.

Management's Response

The newly appointed Executive Director agrees with this finding and will implement corrective action.

Finding #2016-14:

The Former Executive Director was paid as an employee of the Housing Authority after she resigned and became an employee of the Brick Township Housing Authority.

Criteria:

Beginning March 1, 2016, the Former Executive Director became an employee of the Brick Township Housing Authority and her services were shared with the Ocean City Housing Authority. No Salary payments should have been made because the Ocean City Housing Authority was paying the Brick Township Housing Authority for the services of the Shared Executive Director.

Condition:

The Former Executive Director was overpaid by the Ocean City Housing Authority.

Context:

The Former Executive Director was overpaid for two days of pay.

Cause:

The Former Executive Director submitted a Time Sheet to the Ocean City Housing Authority even though she was no longer an employee.

Effect:

The Ocean City Housing Authority paid twice for the services of the Former Executive Director for two days during the March of 2016.

Questioned Cost:

\$576.94.

Recommendation:

That once an employee leaves employment of the Authority, No Salary be paid to that employee.

Management's Response

The newly appointed Executive Director agrees with this finding and will implement corrective action.

Finding #2016-15:

The Authority was not in compliance with Chapter 78 of the Laws of 2011 that requires contributions from employees for their share of Health Benefit Costs.

Criteria:

Chapter 78 provides for the calculation of the minimum contribution by employees towards their health insurance costs. The Authority may impose employee contributions that are greater than the minimum amounts established by Chapter 78.

Condition:

The Authority was not in compliance with Chapter 78 of the Laws of 2011.

Context:

The Chapter 78 calculation is based on both Employee Salary & Premium Cost. The Authority was withholding 7.50% of the premium from all employees regardless of salary. The 7.50% Policy of the Authority caused contribution from two employees to be less than the Chapter 78 minimum requires.

Cause:

The 7.50% Policy of the Authority does not take into consideration all the determining factors that Chapter 78 requires.

Effect:

One employee contributed \$1,239 less and another contributed \$282 less than the Minimum Health Benefit Contribution required by Chapter 78.

Questioned Cost:

\$1,521.00

Recommendation:

That the Authority withhold from Employees, contributions towards their Health Benefit Costs in accordance with the provisions of Chapter 78.

Management's Response

The newly appointed Executive Director agrees with this finding and will implement corrective action.

STATUS OF PRIOR YEAR FINDINGS

There were No Findings in the Prior Year.