

HUDSON HOUSING AUTHORITY
FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2018

HUDSON HOUSING AUTHORITY

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INDEPENDENT AUDITORS' REPORT

To The Board of Commissioners
Hudson Housing Authority
Hudson, Massachusetts

Report on the Financial Statements

We have audited the accompanying financial statements of the Hudson Housing Authority, as of September 30, 2018, and for the year then ended, and the related notes to the financial statements, which collectively comprise the Hudson Housing Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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



An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the 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 that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Hudson Housing Authority, as of September 30, 2018, and the changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Notes 9 and 12 to the financial statements, the Authority adopted new accounting pronouncement, Government Accounting Standards Board Statement 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions*. Our opinion is not modified with respect to this matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis and the required supplementary information presented on pages 37 through 40, as listed 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 audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with evidence sufficient 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 Hudson Housing Authority's basic financial statements. The supplementary information presented on pages 42 through 46, as listed in the table of contents, and the Schedule of Expenditures of Federal Awards, as required by the audit requirements of *Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information presented on pages 42 through 46 and the Schedule of Expenditures of Federal Awards 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 supplemental information presented on pages 42 through 46 and the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have issued our report dated June 25, 2019 on our consideration of the Hudson Housing Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Hudson Housing Authority's 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 Hudson Housing Authority's internal control over financial reporting and compliance.

Marcum LLP

Boston, Massachusetts
June 25, 2019

HUDSON HOUSING AUTHORITY

MANAGEMENT'S DISCUSSION & ANALYSIS

September 30, 2018

As management of the Hudson Housing Authority (the Authority), we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal year ended September 30, 2018. We encourage readers to consider the information presented here in conjunction with the Authority's financial statements.

FINANCIAL HIGHLIGHTS

- The assets of the Authority exceeded its liabilities at the close of the most recent fiscal year by \$2,496,548 (net position).
- The net position of the Authority consisted of Net Invested in Capital Assets in the amount of \$3,550,878, Unrestricted Net Position in the amount of \$(1,069,828), and Restricted Net Position of \$15,498.
- The Authority's cash and investments at September 30, 2018 was \$1,392,195.
- The Authority had total revenue of \$2,716,125, and program expenses (inclusive of depreciation expense) of \$2,165,386 for the year ended September 30, 2018.

OVERVIEW OF THE AUTHORITY

The Authority was created in 1962 to provide and promote safe and sanitary housing for low-income persons residing in Hudson, MA. The Authority is a municipal corporation located in Hudson, MA as was established under Chapter 121B of the State Statutes.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Authority's financial statements consist of two parts -1) management's discussion and analysis, which is intended to serve as an introduction to the Authority's basic financial statements, and 2) the Authority's basic financial statements which are comprised of four components: 1) statement of net position, 2) statement of revenues, expenses and changes in net position, 3) statement of cash flows, and 4) notes to the financial statements. This report also contains the schedule of expenditures of federal awards as supplementary information in addition to the basic financial statements themselves.

The Authority is considered by accounting principles generally accepted in the United States of America (GAAP) to be a special purpose government accounted for as enterprise funds. Its chartered purpose is the housing of low and moderate income families and elderly individuals. All of the activities, programs and grants administered by the Authority are focused for that purpose.

As a single purpose enterprise fund government the Authority is permitted to issue combined entity level and fund level financial statements. These statements report financial information for each of the Authority's funds and a combined total of all funds that represents the Authority wide financial position. The following is a brief description of each financial statement.

The government-wide 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.

HUDSON HOUSING AUTHORITY

MANAGEMENT'S DISCUSSION & ANALYSIS

September 30, 2018

Statement of Net Position

- The Statement of Net Position is prepared using the accrual basis of accounting and provides information relating to all financial and capital resources for the Authority as of the reporting date and related debts and other liabilities. The Statement of Net Position is presented in a format where assets equal liabilities plus net position. Assets and liabilities are presented in order of liquidity, and are classified as “Current” (those which are reasonably expected to be realized in cash or sold or consumed during the normal operating cycle of the business), and “Non-current.”
- Net position (formerly equity) represent the cumulative effect of revenue and expenses. It is also the difference between assets and liabilities. Net position is reported in three broad categories:

Unrestricted Net Position is designed to represent the net available liquid (non-capital) assets, net of liabilities, for the entire Authority.

Net Investment in Capital Assets consists of all Capital Assets, reduced by the outstanding balances of any bonds, mortgages, notes or other borrowing that are attributable to the acquisition, construction, or improvement of those assets.

Restricted Net Position consists of restricted assets, when constraints are placed on the assets by creditors (such as debt covenants), grantors, contributors, laws, regulations, etc.

Statement of Revenue, Expenses and Changes in Fund Net Position

- This statement is similar to an Income Statement. This statement includes operating revenue, such as rental income; operating expenses, such as administrative, utilities, maintenance and depreciation; and non-operating revenue and expenses, such as grant revenue, investment income and interest expense and capital contributions and operating transfers.
- The focus of this Statement of Revenue, Expenses and Changes in Fund Net Position is the “Change in Net Position,” which is similar to Net Income or Loss.

Statement of Cash Flows

- The Statement of Cash Flows shows the sources and amounts from which the Authority received cash such as income from tenants, income from grants, loans, etc. and the items and amounts for which cash was used such as payments to vendors and contractors, payments to employees, repayment of loans, etc. The statement is divided into four major sections: operating activities, non-capital financing activities, capital and related financing activities and investing activities. The statement functions down to the net increase or decrease in the Authority’s cash accounts for the reporting period.

HUDSON HOUSING AUTHORITY

MANAGEMENT'S DISCUSSION & ANALYSIS

September 30, 2018

Authority Funds

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Authority, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The programs of the Authority has one business-type fund and the programs supporting this fund are as follows:

Low Rent Public Housing – Under this program the Authority owns, operates and maintains rental housing acquired with grants from The U.S. Department of Housing and Urban Development (HUD). Dwelling units are leased to low income tenants at rates based on their ability to pay. Operations are supported by the HUD via operating grants.

Public Housing Capital Fund – HUD provides grant funds to authorities with Low Rent Public Housing units on a formula basis. The funds are predominantly used to make physical improvements to buildings and dwelling units owned by the Authority under the Low Rent Public Housing Program. A portion of Capital funds may also be used to support operations and to make improvements in the management and operation of the Authority.

Section 8 Housing Choice Voucher – HUD provides grants to the Authority to subsidize rents paid by low income families and individuals who rent dwelling units from private landlords. Under this program qualified applicants are issued vouchers which may be used by the applicant to obtain housing in the private rental market. The Authority will subsidize the landlord for the difference between the rent requested and the tenant's share of the rent not to exceed a predetermined payment standard.

State and Local Programs – The Authority operates the following state and local programs:

State Consolidated Housing and State Chapter 705 Housing – Under these programs the Authority owns, operates and maintains rental housing acquired with grants from Massachusetts Department of Housing & Community Development (DHCD). Dwelling units are leased to low income tenants at rates based on their ability to pay. Operations are supported by the DHCD via operating grants.

State Chapter 689 Housing – Under this program the Authority owns operates and maintains rental housing acquired with grants from DHCD. The building is generally rented to a non-profit corporation who provides health and human resource needs to mentally disabled individuals.

Massachusetts Rental Voucher Program - DHCD provides grants to the Authority to subsidize rents paid by low income families and individuals who rent dwelling units from private landlords. Under this program, qualified applicants are issued vouchers which may be used by the applicant to obtain housing in the private rental market. The Authority will subsidize the landlord for the difference between the rent requested and the tenants share of the rent not to exceed a contract amount.

HUDSON HOUSING AUTHORITY

MANAGEMENT'S DISCUSSION & ANALYSIS

September 30, 2018

State Modernization Program – DHCD provides grant funds to authorities with State Consolidated units based on the Authority's application and determination of need. The funds are predominantly used to make physical improvements to buildings and dwelling units owned by the Authority under the State Consolidated Housing Program.

AN OVERVIEW OF THE AUTHORITY – WIDE FINANCIAL POSITION AND OPERATIONS

The Authority's overall financial position and operations for the past two years are summarized on the following pages based on the information included in the current and prior financial statements.

The Authority's total financial position at September 30, 2018 was \$2,496,548.

CAPITAL ASSETS

As of September 30, 2018, the Authority's investment in capital assets for its governmental activities was \$3,550,878 (net of accumulated depreciation). This investment in capital assets includes land, buildings, furniture and equipment, and construction in progress. As of September 30, 2018 there was \$301,276 in construction in progress that is expected to be placed in service in entirety in fiscal year 2019.

CAPITAL ASSET ANALYSIS September 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>	<u>Change</u>	<u>% Change</u>
Land	\$ 314,195	\$ 314,195	\$ -	0.00%
Buildings	12,567,478	12,567,478	-	0.00%
Furniture and equipment	144,703	144,703	-	0.00%
Construction in progress	<u>301,276</u>	<u>113,158</u>	<u>188,118</u>	166.24%
Total capital assets	13,327,652	13,139,534	188,118	1.43%
Accumulated depreciation	<u>(9,776,774)</u>	<u>(9,526,024)</u>	<u>(250,750)</u>	2.63%
Capital assets, net of accumulated depreciation	<u>\$ 3,550,878</u>	<u>\$ 3,613,510</u>	<u>\$ (62,632)</u>	-1.73%

LONG-TERM DEBT

The Authority had no outstanding debt as of September 30, 2018.

HUDSON HOUSING AUTHORITY

MANAGEMENT'S DISCUSSION & ANALYSIS

September 30, 2018

ECONOMIC FACTORS AFFECTING NEXT YEAR'S BUDGET

The following factors were considered in preparing the Authority's budget for the 2019 fiscal year:

- Administrative Fee Subsidies for the Housing Choice Voucher Program are expected to only be funded at 79%.
- Increased costs of Employer Health Insurance, Employer Retirement Contributions, Workers Compensation and Fire and Liability Insurance, continue to rise at unprecedented rates.
- The allowable spending "cap" by DHCD is 4% increase.

FUTURE EVENTS THAT WILL FINANCIALLY IMPACT THE AUTHORITY

Funding cuts during the next fiscal year by the Department of Housing and Community Development (DHCD) along with sharp cost increases will have an impact on the State Housing in the future.

REQUEST FOR INFORMATION

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, Hudson Housing Authority, 8 Brigham Circle, Hudson, MA 01749.

STATEMENTS OF NET POSITION September 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>	<u>Change</u>	<u>% Change</u>
Current Assets	\$ 1,417,141	\$ 1,332,332	\$ 84,809	6.37%
Capital Assets	3,550,878	3,613,510	(62,632)	-1.73%
Other Noncurrent Assets	<u>68,645</u>	<u>60,980</u>	<u>7,665</u>	12.57%
Total Assets	<u>5,036,664</u>	<u>5,006,822</u>	<u>29,842</u>	0.60%
Deferred Outflows of Resources	<u>259,471</u>	<u>244,452</u>	<u>15,019</u>	6.14%
Current Liabilities	284,253	388,086	(103,833)	-26.76%
Noncurrent Liabilities	<u>2,198,206</u>	<u>1,816,563</u>	<u>381,643</u>	21.01%
Total Liabilities	<u>2,482,459</u>	<u>2,204,649</u>	<u>277,810</u>	12.60%
Deferred Inflows of Resources	<u>317,128</u>	<u>108,751</u>	<u>208,377</u>	191.61%
Net Invested in Capital Assets	3,550,878	3,613,510	(62,632)	-1.73%
Restricted	15,498	4,527	10,971	242.35%
Unrestricted (Deficit)	<u>(1,069,828)</u>	<u>(680,163)</u>	<u>(389,665)</u>	57.29%
Total Net Position	<u>\$ 2,496,548</u>	<u>\$ 2,937,874</u>	<u>\$ (441,326)</u>	-15.02%

HUDSON HOUSING AUTHORITY

MANAGEMENT'S DISCUSSION & ANALYSIS

September 30, 2018

- Other Noncurrent Assets increased due to increase in Pension Outflows increase
- Restricted net position increased due to HAP activity.
- Current Liabilities decreased due to less accrued liabilities and wages payable.
- Non-current liabilities increased due to GASB 68.
- Unrestricted Net Position increased due to Pension and OPEB.
- Deferred Inflows increased due to Pension accruals.

STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN NET POSITION For the years ended September 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>	<u>Change</u>	<u>% Change</u>
Revenue				
Operating Revenue	\$ 2,324,687	\$ 2,384,608	\$ (59,921)	-2.51%
Non-operating Revenue	<u>391,438</u>	<u>206,023</u>	<u>185,415</u>	90.00%
Total Revenue	<u>2,716,125</u>	<u>2,590,631</u>	<u>125,494</u>	4.84%
Expenses				
Housing assistance payments	1,088,608	1,012,991	75,617	7.46%
Administration	262,881	480,231	(217,350)	-45.26%
Repair and maintenance	487,938	537,838	(49,900)	-9.28%
Depreciation expense	250,750	427,777	(177,027)	-41.38%
Utilities	233,045	222,026	11,019	4.96%
Insurance expense	50,101	48,998	1,103	2.25%
Other general expenses	<u>42,813</u>	<u>41,253</u>	<u>1,560</u>	3.78%
Total Expenses	<u>2,416,136</u>	<u>2,771,114</u>	<u>(354,978)</u>	-12.81%
Change in Net Position	299,989	(180,483)	480,472	-266.21%
Net Position - Beginning of Year	<u>2,937,874</u>	<u>3,118,357</u>	<u>(180,483)</u>	-5.79%
Prior Period Adjustments	<u>(741,315)</u>	<u>-</u>	<u>(741,315)</u>	-
Net Position - End of Year	<u>\$ 2,496,548</u>	<u>\$ 2,937,874</u>	<u>\$ (441,326)</u>	-15.02%

- Non-Operating Revenues increased due to increase federal/state grants received for capital improvements in 2018.
- Administration decreased due to decrease in administrative benefits due to pension.
- Depreciation decreased due to items being fully depreciated.

HUDSON HOUSING AUTHORITY

STATEMENT OF NET POSITION

September 30, 2018

ASSETS

Current Assets:

Cash and cash equivalents	\$ 1,314,628
Restricted cash and cash equivalents	8,922
Accounts receivable, net	57,161
Prepaid expenses and other current assets	<u>36,430</u>
Total Current Assets	<u>1,417,141</u>

Noncurrent Assets:

Restricted cash and cash equivalents	68,645
Capital assets, net of accumulated depreciation	<u>3,550,878</u>
Total Noncurrent Assets	<u>3,619,523</u>

Total Assets 5,036,664

DEFERRED OUTFLOWS OF RESOURCES

259,471

LIABILITIES

Current Liabilities:

Accounts payable	2,000
Accounts payable, other government	76,463
Accrued wages and current portion of compensated absences	23,696
Accrued attorney fees	78,595
Other accrued expenses	57,929
Unearned revenue	36,648
Tenant security deposits	<u>8,922</u>
Total Current Liabilities	<u>284,253</u>

Noncurrent Liabilities:

Other noncurrent liabilities	53,147
Accrued pension	1,155,541
OPEB liability	<u>989,518</u>
Total Noncurrent Liabilities	<u>2,198,206</u>

Total Liabilities 2,482,459

DEFERRED INFLOWS OF RESOURCES

317,128

NET POSITION

Net investment in capital assets	3,550,878
Restricted:	
Housing assistance payments	15,498
Unrestricted (deficit)	<u>(1,069,828)</u>
Total Net Position	<u>\$ 2,496,548</u>

The accompanying notes are an integral part of these financial statements.

HUDSON HOUSING AUTHORITY

STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET POSITION

For the year ended September 30, 2018

OPERATING REVENUE	
HUD grants and contributions	\$ 1,102,524
Tenant rental income	1,034,958
Other government grants and contributions	141,401
Other revenue	<u>45,804</u>
Total Operating Revenue	<u>2,324,687</u>
OPERATING EXPENSES	
Housing assistance payments	1,088,608
Repair and maintenance	487,938
Depreciation expense	250,750
Administration	262,881
Utilities	233,045
Insurance expense	50,101
Other general expenses	<u>42,813</u>
Total Operating Expenses	<u>2,416,136</u>
Operating Loss	<u>(91,449)</u>
NONOPERATING REVENUES	
Interest and investment revenue	105
Gain/Loss on sale of capital assets	<u>100</u>
Total Nonoperating Revenues	<u>205</u>
Loss before Capital Contributions	<u>(91,244)</u>
CAPITAL CONTRIBUTIONS	
Other government capital grants	298,519
HUD capital grants	<u>92,714</u>
Total Capital Contributions	<u>391,233</u>
Change in Net Position	299,989
Net Position - Beginning of Year - As restated	<u>2,196,559</u>
Net Position - End of Year	<u>\$ 2,496,548</u>

The accompanying notes are an integral part of these financial statements.

HUDSON HOUSING AUTHORITY

STATEMENT OF CASH FLOWS

For the year ended September 30, 2018

CASH FLOWS FROM OPERATING ACTIVITIES	
HUD grants	\$ 1,102,524
Other government grants	144,628
Receipts from tenants	1,038,849
Other operating receipts	45,690
Payments to employees	(574,091)
Payments to suppliers	<u>(1,849,813)</u>
Net cash used in operating activities	<u>(92,213)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Other government capital grants	338,373
HUD capital grants	59,756
Proceeds from the sale of capital assets	100
Acquisitions of capital assets	<u>(188,118)</u>
Net cash provided by capital and related financing activities	<u>210,111</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest and dividends received	<u>105</u>
Net cash provided by investing activities	<u>105</u>
Net increase in cash and cash equivalents	118,003
Cash and cash equivalents at beginning of year	<u>1,274,192</u>
Cash and cash equivalents at end of year	<u>\$ 1,392,195</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating Loss	\$ (91,449)
Adjustments:	
Depreciation	250,750
Change in assets and liabilities:	
(Increase) decrease in accounts receivable, tenants	3,529
(Increase) decrease in accounts receivable, other	2,106
(Increase) decrease in accounts receivable, other government	13,412
(Increase) decrease in prepaid expenses and other current assets	(414)
(Decrease) increase in accounts payable	(802)
(Decrease) increase in accounts payable, other government	(49,797)
(Decrease) increase in compensated absences and accrued wages	(5,281)
(Decrease) increase in accrued pension and OPEB liabilities	(163,008)
(Decrease) increase in accrued expenses and other current liabilities	(58,121)
(Decrease) increase in tenant security deposits	561
(Decrease) increase in unearned revenue	<u>6,301</u>
Net cash used in operating activities	<u>\$ (92,213)</u>

The accompanying notes are an integral part of these financial statements.

HUDSON HOUSING AUTHORITY

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

NOTE 1 – ORGANIZATION

The Hudson Housing Authority (the Authority) was incorporated under the laws of the Commonwealth of Massachusetts. The Authority operates under a board of commissioner form of government to provide safe and decent housing to low and moderate-income families and elderly individuals.

The Authority maintains its accounting records by program and operates the following programs:

Low Rent Public Housing – This program accounts for all activities relating to the leasing and operation of apartments in buildings that were constructed and are owned by the Authority. These units are rented to low income families and low-income elderly, disabled, and special needs individuals. The properties were constructed with grants and or loans provided by the U.S. Department of Housing and Urban Development (HUD). The Authority receives grants from HUD to subsidize operating deficits. Tenants are charged rents based on a percentage of their income.

Public Housing Capital Fund – HUD provides grant funds to authorities with Low Rent Public Housing units on a formula basis. The funds are predominantly used to make physical improvements to buildings and dwelling units owned by the Authority under the Low Rent Public Housing Program. A portion of these funds may also be used to support operations and to make improvements in the management and operation of the Authority.

Section 8 Housing Choice Voucher – HUD provides grants to the Authority to subsidize rents paid by low income families and individuals who rent dwelling units from private landlords. Under this program, qualified applicants are issued vouchers which may be used by the applicant to obtain housing in the private rental market. The Authority will subsidize the landlord for the difference between the rent requested and the tenant's share of the rent not to exceed a predetermined payment standard.

State and Local Programs – The Authority operates the following state and local programs:

State Consolidated and State Chapter 705 Housing – Under these programs, the Authority owns, operates and maintains rental housing acquired with grants from Massachusetts Department of Housing & Community Development (DHCD). Dwelling units are leased to low income tenants at rates based on their ability to pay. Operations are supported by DHCD via operating grants.

State Chapter 689 Housing – Under this program, the Authority owns operates and maintains rental housing acquired with grants from DHCD. The building is generally rented to a non-profit corporation who provides health and human resource needs to mentally disabled individuals.

HUDSON HOUSING AUTHORITY

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

NOTE 1 – ORGANIZATION (CONTINUED)

Massachusetts Rental Voucher Program (MRVP) – DHCD provides grants to subsidize rents paid by low income families and individuals who rent dwelling units from private landlords. Qualified applicants are issued vouchers which may be used by the applicant to obtain housing in the private rental market. The Authority subsidizes the landlord for the difference between the rent requested and the tenant’s share of the rent not to exceed a contract amount.

State Modernization Program – DHCD provides grant funds to authorities with State Consolidated units based on the Authority’s application and determination of need. The funds are predominantly used to make physical improvements to buildings and dwelling units owned by the Authority under the State Consolidated Housing Program.

Business Activities – This program was established in order for the Authority to own, rehabilitate and rent residential dwelling units to low and moderate income families.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

FINANCIAL REPORTING ENTITY

The Authority’s financial statements include the accounts of all of the Authority’s operations. The criteria for including organizations as component units within the Authority’s reporting entity, as set forth in Section 2100 of GASB’s Codification of Governmental Accounting and Financial Reporting Standards, include whether:

- the organization is legally separate (can sue and be sued in their own name)
- the Authority holds the corporate powers of the organization
- the Authority appoints a voting majority of the organization’s board
- the Authority is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the Authority
- there is fiscal dependency by the organization on the Authority

Based on the aforementioned criteria, the Authority has no component units.

HUDSON HOUSING AUTHORITY

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION AND ACCOUNTING

The Authority is a special-purpose government entity engaged only in business-type activities and, as such, the financial statements are presented as a single enterprise fund.

The Authority's financial statements are prepared in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* ("GASB 34") and GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* ("GASB 63"). GASB 34 and GASB 63 require the basic financial statements to be prepared using the economic resources measurement focus and the accrual basis of accounting and requires the presentation of a Statement of Net Position, a Statement of Revenues, Expenses, and Changes in Net Position, and a Statement of Cash Flows. GASB 34 requires the Authority to include Management's Discussion and Analysis as part of the Required Supplementary Information. GASB 63 requires the Authority to report deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related disclosures.

The Authority's primary source of nonexchange revenue relates to grants and subsidies. Grants and subsidies revenue is recognized at the time eligible program expenditures occur and/or the Authority has complied with the grant and subsidy requirements, in accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. Grants received in advance of expenditures are recorded as a liability until earned.

New Accounting Standard Adopted

During 2018, the Authority adopted the following accounting standards:

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB)*, addresses accounting and financial reporting for OPEB that is provided to employees of state and local governmental employers. The provisions of this Statement are effective for periods beginning after June 15, 2017. The adoption of this accounting standard resulted in an increase in the accrual for Postemployment Benefits other than Pensions of \$624,954. Refer to Notes 8, 11, and 15.

GASB Statement No. 81, *Irrevocable Split-Interest Agreements*, which is required to be implemented in 2018. There is no impact on the Authority's financial statements as a result of this standard.

GASB Statement No. 82, *Pension Issues*, will address certain issues that have been raised regarding GASB Statements No. 67, No. 68, and No. 73. The requirements of this statement are effective for periods beginning after June 15, 2017. There is no impact on the Authority's financial statements as a result of this standard.

HUDSON HOUSING AUTHORITY

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION AND ACCOUNTING – (CONTINUED)

GASB Statement No. 85, *Omnibus 2017*, will address certain issues that have been raised regarding other GASB Statements. This statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits.

GASB Statement No. 86, *Certain Debt Extinguishment Issues*, will improve consistency in accounting and financial reporting for in-substance defeasance of debt.

New Accounting Standards to be Adopted in Future Years

GASB Statement No. 83, *Certain Asset Retirement Obligations*, which is required to be implemented in 2019.

GASB Statement No. 84, *Fiduciary Activities*, which is required to be implemented in 2020.

GASB Statement No. 87, *Leases*, which is required to be implemented in 2021.

GASB Statement No. 88, *Certain Disclosures Related to Debt*, which is required to be implemented in 2019.

GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which is required to be implemented in 2020.

GASB Statement No. 90, *Majority Equity Interests*, which is required to be implemented in 2019.

The Authority's management is currently evaluating these new standards to determine what impact they will have on the Authority.

USE OF ESTIMATES

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires the use of estimates that affect reported amounts of assets, liabilities, revenues and expenses and related disclosures. Actual amounts could differ from those estimates.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash on deposit with financial institutions and other debt securities that are readily convertible into cash and purchased with original maturities of three months or less. Also included in cash equivalents are non-negotiable certificates of deposits, recorded at cost in accordance with GASB 31.

HUDSON HOUSING AUTHORITY

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ACCOUNTS RECEIVABLE

Accounts receivable from tenants are carried at the original amount billed less an estimate made for doubtful accounts based on a review of all outstanding amounts on a monthly basis. Management determines the allowance for doubtful accounts by using historical experience applied to an aging of accounts receivable. Accounts receivable from tenants are written off with board approval when deemed uncollectible. Recoveries of accounts receivable previously written off are recorded when received. Allowances for other non-tenant receivables are reviewed annually. See Note 6 for details of accounts receivable and allowances at year end.

CAPITAL ASSETS

Capital assets include land, buildings, furniture and equipment, and construction in progress with initial, individual costs that equal or exceed \$5,000 and estimated useful lives of more than one year. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at fair value at the date of donation. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed. Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Buildings	30-40 years
Land and Building Improvements	15-20 years
Furniture, Equipment and Machinery	3-10 years

COMPENSATED ABSENCES

Vacation leave accrues from 2 to 5 weeks per year based on years of service. An employee may carry unused vacation leave to the following year of up to 5 days. The Authority's policy does not allow employees to accumulate any sick leave. Total accrued compensated absences at September 30, 2018 aggregated \$8,755.

OPERATING REVENUE AND EXPENSES

GASB 34 paragraph 102 requires governments to establish a policy that defines operating revenue and expenses. The Authority uses the criteria prescribed in GASB 9 paragraphs 17 and 18 for cash flows to determine operating revenue and expenses. Operating revenue includes operating grants and subsidies, rental income, management services provided and all other revenue relating to the provision of safe, decent and affordable housing services that do not result from transactions defined as capital and related financing, non-capital and related financing or investing activities.

HUDSON HOUSING AUTHORITY

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

OPERATING REVENUE AND EXPENSES – (CONTINUED)

Operating expenses include wages, housing assistance payments, utilities, maintenance, depreciation of capital assets, administrative expenses and all other expenses relating to the provision of safe, decent and affordable housing services that do not result from transactions defined as capital and related financing, non-capital and related financing or investing activities.

NON-OPERATING REVENUE AND EXPENSE

The Authority's nonoperating revenue relate primarily to capital grants provided by HUD and the Commonwealth of Massachusetts, donations of capital assets, and interest income. For reporting purposes, capital grant revenue is recognized when expenditures are incurred, and advance receipts are initially recorded as unearned revenue. Nonoperating expenses are expenditures derived from transactions other than those associated with the Authority's primary housing operations and are reported as incurred.

PENSIONS

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the retirement system and additions to/deductions from the system's fiduciary net position have been determined on the same basis as they are reported by the retirement system. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, have been determined on the same basis as they are reported by the Authority's Other Postemployment Benefits Plan (OPEB plan). For this purpose, the OPEB plan recognizes benefit payments when due and payable in accordance with the benefit terms.

HUDSON HOUSING AUTHORITY

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES

Deferred outflows of resources are the consumption of net position by the government that is applicable to a future reporting period. Deferred inflows of resources are the acquisition of net position by the government that is applicable to a future reporting period. These consist of the deferral of the recognition of revenue and expenses until the future period to which the outflows and inflows are related. The Authority's deferred outflows of resources are either related to pension (See Note 11), related to OPEB (See Note 12), or related to another source. The following is a summary of deferred outflows and inflows of resources at September 30, 2018:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Related to Pensions	\$ 227,264	\$ 317,128
Related to OPEB	<u>32,207</u>	<u>-</u>
Total	<u>\$ 259,471</u>	<u>\$ 317,128</u>

NOTE 3 – NET POSITION: RESTRICTED

At September 30, 2018, restrictions of \$15,498, represent the net position restricted by HUD related to the Housing Choice Voucher Program to be used for future housing assistance payments (HAP).

NOTE 4 – CASH AND INVESTMENT DEPOSITS

The Authority has adopted HUD's Investment Regulation PIH 1996-33 as its investment policy. HUD regulations require that all HUD deposits in financial institutions and investments be fully insured or collateralized, by U.S. Government obligations that have a market value of not less than the principal amount of the deposits. The policy also requires that investments not have a maturity period longer than three years.

Custodial Credit Risk – Cash Deposits

In the case of cash deposits, this is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority does not have a formal policy for custodial credit risk, except ensuring that it follows the HUD regulations for federal deposits. At September 30, 2018, the Authority's cash deposits in excess of the FDIC insured limit were \$1,045,685. As of September 30, 2018, the Authority has suffered no losses in connection with its banking activity.

HUDSON HOUSING AUTHORITY

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

NOTE 5 – RESTRICTIONS ON CASH, CASH EQUIVALENTS AND INVESTMENTS

The Authority's restricted cash and cash equivalents balance consists of funds restricted for future HAP payments, funds held in escrow for tenant organizations, as well as funds designated for tenant security deposits. These amounts support either a corresponding liability or restricted net position. At September 30, 2018, restricted cash was categorized as follows:

<u>Category of Restriction</u>	
Housing assistance payments	\$ 15,498
Program restrictions	53,147
Tenant security deposits	<u>8,922</u>
Total	<u>\$ 77,567</u>

NOTE 6 – ACCOUNTS RECEIVABLE

The following is a listing of receivables for the Authority including the applicable allowances for uncollectible accounts at September 30, 2018.

<u>Category of Receivable</u>	
HUD	\$ 32,958
Other Government	20,302
Miscellaneous	2,306
Judgement Receivable	858,515
Tenants	<u>5,707</u>
Gross Receivables	919,788
Allowance - Tenants	(4,112)
Allowance - Other	<u>(858,515)</u>
Net Receivables	<u>\$ 57,161</u>

In July of 2013, a judgment was made in favor of the Authority in a breach of contract action against Coolidge Greene, LLC (the Company). The Authority, in its role as monitoring agent, had sought damages related to noncompliance in the Company's development of the 30 unit property known as Coolidge Greene Apartments. In a written stipulation dated July 16, 2013, the Authority was awarded \$616,543 in damages, with interest from May 2, 2011 to July 16, 2013 in the amount of \$163,377, together with attorney's fees in the sum of \$63,152 and additional expenses of \$15,443. The Authority has recorded a receivable of \$858,515, has fully reserved against the entire balance due to the uncertainty of collection, and has recorded a current liability of \$78,595 for the fees owed to the attorney. As of September 30, 2018, the Authority has not received payments related to this judgment.

HUDSON HOUSING AUTHORITY

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

NOTE 7 – CAPITAL ASSETS

The following is a summary of changes in capital assets and related accumulated depreciation. Construction in progress in the amount of \$301,276 is made up if various building improvements to the Authority's Federal and State projects. These projects are expected to be placed in service in fiscal year 2019.

	<u>9/30/2017</u>	<u>Increases</u>	<u>Decreases</u>	<u>9/30/2018</u>
Capital assets not being depreciated				
Land	\$ 314,195	\$ -	\$ -	\$ 314,195
Construction in Progress	<u>113,158</u>	<u>188,118</u>	-	<u>301,276</u>
Total capital assets not being depreciated	<u>427,353</u>	<u>188,118</u>	-	<u>615,471</u>
Other Capital Assets				
Buildings	12,567,478	-	-	12,567,478
Furniture, equipment & machinery	<u>144,703</u>	-	-	<u>144,703</u>
Total other capital assets	<u>12,712,181</u>	-	-	<u>12,712,181</u>
Less accumulated depreciation				
Buildings	9,458,288	231,504	-	9,689,792
Furniture, equipment & machinery	<u>67,736</u>	<u>19,246</u>	-	<u>86,982</u>
Total accumulated depreciation	<u>9,526,024</u>	<u>250,750</u>	-	<u>9,776,774</u>
Capital Assets Net	<u>\$ 3,613,510</u>	<u>\$ (62,632)</u>	<u>\$ -</u>	<u>\$ 3,550,878</u>
Depreciation expense was charged to:				
Asset Managed Projects (PIH)		<u>\$ 255,273</u>		
State/Local		<u>\$ (13,186)</u>		
Business Activities		<u>\$ 8,663</u>		

NOTE 8 – NONCURRENT LIABILITIES

Noncurrent liability activity for the year ended September 30, 2018 is as follows:

	<u>9/30/2017</u>	<u>Additions</u>	<u>Reductions</u>	<u>9/30/2018</u>	<u>Amount due within one year</u>
Tenant Services	\$ 56,453	\$ -	\$ (3,306)	\$ 53,147	\$ -
Pension Accrual	1,432,642	-	(277,101)	1,155,541	-
OPEB Liability	<u>1,068,783</u>	-	<u>(79,265)</u>	<u>989,518</u>	-
Total	<u>\$ 2,557,878</u>	<u>\$ -</u>	<u>\$ (359,672)</u>	<u>\$ 2,198,206</u>	<u>\$ -</u>

HUDSON HOUSING AUTHORITY

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

NOTE 9 – REAL ESTATE TAXES

Property owned by the Authority is exempt from local real estate taxes. The Authority makes a payment in lieu of taxes equal to 10% of rental income charged less utility expenses annually for all of its properties constructed with and funded by HUD. State funded scattered site units make payments in lieu of real estate taxes equal to one half of the Municipality's tax rate plus \$100 multiplied by the number of available bedrooms. State funded family properties make payments in lieu of real estate taxes equal to \$3 per unit per month. The payment in lieu of taxes for the year ended September 30, 2018 aggregated \$38,106.

NOTE 10 – COST-SHARING DEFINED BENEFIT PENSION PLAN

PLAN DESCRIPTION AND MEMBERSHIP

The Authority provides pension benefits to certain employees through the Middlesex County Retirement System (MCRS), a cost-sharing, multiple-employer public employee retirement system regulated by Public Employee Retirement Administration Commission (PERAC) of the Massachusetts Public Pension System. The plan is a defined benefit plan. Participation is mandatory for all full time employees of the Authority. The retirement plan is a pooled risk type of plan. Under this type of plan, funding is determined based on all employees covered for all employing units. The funding liabilities are shared by each employing unit pro-rata based on the number of employees in the employing unit. Since the Authority's share of pension liability is not based on their employees, pension expense is determined by the total required payment to be made to the retirement plan for the year. The MCRS issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained by writing to MCRS, 25 Linnell Circle, Billerica, MA 01865 or by calling (978) 439-3000.

SIGNIFICANT PLAN PROVISIONS AND REQUIREMENTS

State law establishes benefit provisions and contribution requirements of the MCRS. Employees who have at least 10 years of longevity and have attained 55 years of age are eligible to receive retirement benefits. Retired employees receive an allowance based upon the average of their three highest consecutive salary years of service multiplied by (1) the number of years and full months of creditable service at the time of retirement and (2) a percentage based on age at retirement in accordance with a schedule provided by state law. Assuming normal retirement at age 65, this percentage is 2.5%, which is reduced for individuals who retire prior to age 65 to reflect the longer payout period. Employees may elect early retirement after 20 years of service or at any time after attaining age 55 with 10 years of eligible service. Plan members who become permanently and totally disabled may be eligible to receive a disability retirement allowance. The amount of benefits to be received depends on several factors, including the member's age, compensation, veteran status, years of creditable service, and whether or not the disability is work-related. In addition, certain death benefits exist for beneficiaries of employees who die in active service.

HUDSON HOUSING AUTHORITY

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

NOTE 10 – COST-SHARING DEFINED BENEFIT PENSION PLAN (CONTINUED)

PLAN MEMBERSHIP

At September 30, 2018, there are 5 active employees and 5 retired employees enrolled in the plan.

FUNDING POLICY

Depending on their employment date, active Plan members must contribute either 5%, 7%, 8%, or 9% of their gross regular compensation. Members hired after December 31, 1978 must contribute an additional 2% of regular compensation in excess of \$30,000. These deductions earn interest at a rate determined by PERAC that vests based upon years of service. Member employers are required to contribute the remaining amounts necessary to finance benefits, except for certain cost-of-living adjustments (COLAs) granted before July 1, 1998, which are reimbursed by the Commonwealth. The current and two preceding years' apportionment of the annual pension cost between the employers required the Authority to contribute approximately .081% of the total. The Authority's required and actual contributions to MCRS for the year ended September 30, 2018 were \$100,489. Employee contributions for the same period were \$31,505.

PENSION LIABILITIES

At September 30, 2018, the Authority reported a liability of \$1,155,541 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2017, 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.

HUDSON HOUSING AUTHORITY

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

NOTE 10 – COST-SHARING DEFINED BENEFIT PENSION PLAN (CONTINUED)

PENSION EXPENSE AND DEFERRED INFLOWS AND OUTFLOWS OF RESOURCES

For the year ended September 30, 2018, the Authority recognized pension expense of \$56,253. At September 30, 2018, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 3,897	\$ 5,901
Changes of assumptions	110,456	-
Net difference between projected and actual earnings on pension plan investments	-	31,387
Changes in proportion and differences between contributions and proportionate share of contributions	5,430	279,840
Contributions subsequent to the measurement date	<u>107,481</u>	<u>-</u>
Total	<u>\$ 227,264</u>	<u>\$ 317,128</u>

These amounts will be recognized as expense, or as a (reduction) of expense, as follows:

Year ending September 30	
2019	\$ 60,288
2020	(48,019)
2021	(51,781)
2022	<u>(50,352)</u>
Total	<u>\$ (89,864)</u>

HUDSON HOUSING AUTHORITY

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

NOTE 10 – COST-SHARING DEFINED BENEFIT PENSION PLAN (CONTINUED)

PENSION EXPENSE AND DEFERRED INFLOWS AND OUTFLOWS OF RESOURCES – (CONTINUED)

ACTUARIAL METHODS AND ASSUMPTIONS

The total pension liability in the January 1, 2018 actuarial valuation was determined using the following actuarial methods and assumptions, applied to all periods included in the measurement:

Valuation date	January 1, 2018
Actuarial cost method	Entry Age Normal Cost Method
Investment rate of return	7.50%
Discount rate	7.50%
Inflation	3.25%
Salary increases	4.00% to 4.50%
Cost of living adjustments	3.00% on first \$14,000 of retirement income
Mortality rates	Based on the RP-2014 Blue Collar Employee Mortality Table projected generationally with Scale MP-2017

The long-term expected rate of return on pension plan investments 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 inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Expected Rate of Return</u>
Domestic equity	6.15%	17.50%
International developed markets equity	7.11%	15.50%
International emerging markets equity	9.41%	6.00%
Core fixed income	1.68%	12.00%
High-yield fixed income	4.13%	10.00%
Real estate	4.90%	10.00%
Commodities	4.71%	4.00%
Hedge funds, GTAA, risk parity	3.94%	13.00%
Private equity	10.28%	12.00%

HUDSON HOUSING AUTHORITY

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

NOTE 10 – COST-SHARING DEFINED BENEFIT PENSION PLAN (CONTINUED)

DISCOUNT RATE

The discount rate used to measure the total pension liability was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from the Authority will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

SENSITIVITY 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 7.50 percent, as well as what the Authority's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current rate:

	1% Decrease <u>6.50%</u>	Current Discount <u>7.50%</u>	1% Increase <u>8.50%</u>
Net pension liability	\$ <u>1,418,236</u>	\$ <u>1,155,541</u>	\$ <u>934,058</u>

PENSION PLAN FIDUCIARY NET POSITION

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

PAYABLES TO THE PENSION PLAN

As of September 30, 2018, the Authority had no outstanding payables to MCRS.

NOTE 11 – POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

PLAN DESCRIPTION AND BENEFITS PROVIDED

The Authority's defined benefit OPEB plan provides OPEB for all permanent full-time employees of the Authority. The OPEB plan is a single employer defined benefit OPEB plan administered by the Authority. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB statement 75.

HUDSON HOUSING AUTHORITY

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

NOTE 11 – POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)

PLAN DESCRIPTION AND BENEFITS PROVIDED (CONTINUED)

The Authority provides comprehensive medical insurance, both with and without Medicare coordination, and life insurance to its employees who meet certain eligibility requirements. Employees are eligible for postretirement benefits if he/she has reached the age of 55 as an active employee and completed 10 years of service.

All active employees who retire from the Authority and meet the eligibility criteria will receive these benefits. The duration of these benefits is for the employee's lifetime. Under this cost sharing plan, these benefits cover 80% of premiums for Medical for those who retire on or after October 1, 2009 (85% for those who retired after July 1, 1994 but before October 1, 2009, and 90% for all others) for both individuals and family members (percentages represent the employees' portion).

The face value of each life insurance policy is \$5,000. Life insurance benefits do not apply to family members. This benefit covers 20% of premiums for Medical for those who retire on or after October 1, 2009 (15% for those who retired after July 1, 1994 but before October 1, 2009, and 10% for all others) for individuals.

PLAN MEMBERSHIP

At September 30, 2018, there are 6 active employees and 8 retired employees enrolled in the plan.

TOTAL OPEB LIABILITY

The Authority's total OPEB liability of \$989,518 was measured as of September 30, 2018 and was determined by an actuarial valuation as of October 1, 2017.

ACTUARIAL METHODS AND ASSUMPTIONS

The total OPEB liability was determined by an actuarial valuation as of October 1, 2017, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified.

Valuation Date: Actuarially Determined Contribution was calculated as of October 1, 2017.

Actuarial Cost Method: Individual Entry Age Normal

Investment Rate of Return: 6.50%, net of OPEB plan investment, including inflation

Municipal Bond Rate: 3.35% as of October 1, 2017 (Source: S&P Municipal Bond 20-Year High Grade Index – SAPIHG)

HUDSON HOUSING AUTHORITY

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

NOTE 11 – POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)

ACTUARIAL METHODS AND ASSUMPTIONS (CONTINUED)

Discount Rate: 3.50%, net of OPEB plan investment expense, including inflation.

Inflation: 2.75 % as of October 1, 2017 and for future periods

Salary Increase: 3.00% annually as of October 1, 2017 and for future periods

Cost of Living Adjustment: Not Applicable

Pre-Retirement Mortality: RP 2000 Employees Mortality Table projected generationally with scale BB and a base year 2009 for males and females.

Post-Retirement Mortality: RP 2000 Healthy Annuitant Mortality Table projected generationally with scale BB and a base year 2009 for males and females.

Disabled Mortality: RP 2000 Healthy Annuitant Mortality Table projected generationally with scale BB and a base year 2012 for males and females.

Mortality Experience Study: The mortality assumptions reflect PERAC's recent experience analysis published in 2014 (based on the years 2006-2011), updated to reflect data through January 1, 2015 for post-retirement mortality, and professional judgement. As such, mortality assumptions reflect observed current mortality as well as expected mortality improvements.

Healthcare Trend: It is assumed that healthcare costs will increase at a rate of 5.0% per annum

Withdrawal Rates: Plan participants are expected to withdraw from the plan at a decreasing rate, based on years of service and age, from 27.0% at age 20 and 0-4 years of service to 3.50% at age 60 and 10+ years of service.

Retirement Rates: Plan participants are expected to retire at an increasing rate based on age and gender. Males are expected to retire at a rate of 1% for those aged 50 years, to 100% for those aged 70 years. Females are expected to retire at a rate of 1.5% for those aged 50 years, to 100% for those aged 70 years.

HUDSON HOUSING AUTHORITY

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

NOTE 11 – POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)

CHANGES IN THE TOTAL OPEB LIABILITY

Balance at beginning of year	\$	327,468
Adoption of GASB 75		741,315
Balance at beginning of year - restated	\$	1,068,783
Changes for the year:		
Service cost		38,150
Interest		34,011
Changes of benefit terms		(119,218)
Benefit payments		(32,208)
Net Changes		(79,265)
Balance at end of year	\$	989,518

SENSITIVITY OF THE TOTAL OPEB LIABILITY TO CHANGES IN THE DISCOUNT RATE

The following table presents the Plan's total OPEB liability, calculated using the discount rate of 3.50% as well as what the total OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower (2.50%) or 1 percentage-point higher (4.50%) than the current rate.

	1% Decrease <u>2.50%</u>	Current Discount <u>3.50%</u>	1% Increase <u>4.50%</u>
Total OPEB liability	\$ <u>1,150,694</u>	\$ <u>989,518</u>	\$ <u>861,334</u>

SENSITIVITY OF THE TOTAL OPEB LIABILITY TO CHANGES IN THE HEALTHCARE TREND RATE

The following table presents the net other postemployment benefit liability, calculated the healthcare trend rate if it was 1 percentage-point lower (4.00%) or 1 percentage-point higher (6.00%) than the current rate.

	1% Decrease <u>4.00%</u>	Current Trend <u>5.00%</u>	1% Increase <u>6.00%</u>
Total OPEB liability	\$ <u>821,654</u>	\$ <u>989,518</u>	\$ <u>1,203,556</u>

HUDSON HOUSING AUTHORITY

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

NOTE 11 – POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)

OPEB EXPENSE AND DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES RELATED TO OPEB

For the year ended September 30, 2018, the Authority recognized OPEB expenses of \$72,161. At September 30, 2018, the Authority reported deferred outflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources
Contributions subsequent to the measurement date	\$ 32,207
Total	\$ 32,207

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense in 2019.

NOTE 12 – RISK MANAGEMENT

LITIGATION

The Authority is contingently liable with respect to lawsuits and other claims incidental to the ordinary course of its operations. Claims covered by the risk management program are reviewed and losses are accrued as required in the judgment of management. In the opinion of management, based on the advice of legal counsel, the ultimate disposition of lawsuits and claims will not have a material adverse effect on the financial position of the Authority.

GRANTS

Amounts received or receivable from the grantor agencies are subject to audit and adjustment by grantor agencies. If expenditures are disallowed as a result of these audits, the claims for reimbursement to the grantor agency would become a liability of the Authority. In the opinion of management, any such adjustments would not be significant.

NOTE 13 – IMPAIRMENT OF CAPITAL ASSETS

Government Accounting Standards Board's, Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries* requires certain note disclosures regarding impairments of capital assets. The Authority did not recognize any impairments of capital assets in fiscal year 2018.

NOTE 14 – ECONOMIC DEPENDENCY

The Authority's state and federal programs are economically dependent on grants and annual contributions from DHCD and HUD, respectively. These programs operate at a loss prior to receiving these grants and contributions.

HUDSON HOUSING AUTHORITY

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

NOTE 15 – RESTATEMENT OF BEGINNING NET POSITION

Effective October 1, 2017, the Authority adopted Governmental Accounting Standards Board No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which replaces GASB 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for measuring and reporting other postemployment benefits (OPEB). GASB 75 requires the OPEB liability to be reported on the face of the financial statements rather than in the accompanying notes, as previously required by GASB 45. In addition, the net OPEB obligation previously stated by GASB 45 has been removed. As a result, the Authority has restated the net position as of October 1, 2017 to comply with the adoption requirements of GASB 75 as follows:

Beginning Net Position - As Previously Stated	\$ 2,937,874
Removal of net OPEB Obligation under GASB 45	327,469
Addition of OPEB Liability for Adoption of GASB 75	<u>(1,068,784)</u>
Beginning Net Position - Restated	<u>\$ 2,196,559</u>

NOTE 16 – SUBSEQUENT EVENTS

Events that occur after the balance sheet date but before the financial statements were available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the balance sheet date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the balance sheet date require disclosure in the accompanying notes. Management evaluated the activity of the Authority through June 25, 2019 (the date the financial statements were available to be issued) and concluded that no subsequent events have occurred that would require recognition in the financial statements or disclosure in the notes to the financial statements

HUDSON HOUSING AUTHORITY

SCHEDULE OF CHANGES IN THE TOTAL OPEB LIABILITY AND RELATED RATIOS

September 30, 2018

	2018
Total OPEB Liability	
Service cost	\$ 38,150
Interest	34,011
Changes of benefit terms	(119,218)
Benefit payments	(32,208)
Net Change in Total Pension Liability	(79,265)
Total OPEB Liability - Beginning	1,068,783
Total OPEB Liability - Ending (a)	\$ 989,518
Plan Fiduciary Net Position	
Contributions - Employer	\$ -
Net investment income	-
Benefit payments	-
Administrative expense	-
Net Change in Plan Fiduciary Net Position	-
Plan Fiduciary Net Position - Beginning	-
Plan Fiduciary Net Position - Ending (b)	\$ -
Net OPEB Liability/(Asset) - Ending (a) - (b)	\$ 989,518
Plan Fiduciary Net Position as a Percentage of Total OPEB Liability	0.00%
Covered Employee Payroll	\$ 372,070
Net OPEB Liability/(Asset) as a Percentage of Covered Employee Payroll	266%

See accompanying notes

HUDSON HOUSING AUTHORITY

SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY MIDDLESEX COUNTY RETIREMENT SYSTEM

LAST FOUR FISCAL YEARS

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Proportion of the net pension liability (asset)	0.081%	0.101%	0.102%	0.111%
Proportionate share of the net pension liability (asset)	\$ 1,155,541	\$ 1,432,356	\$ 1,399,262	\$ 1,329,916
Covered-employee payroll	\$ 257,663	\$ 325,812	\$ 283,285	\$ 347,298
Proportionate share of the net pension liability (asset) as a percentage of covered-employee payroll	448.5%	439.6%	493.9%	382.9%
Plan fiduciary net position as a percentage of the total pension liability	49.27%	47.65%	46.13%	47.65%

* The amounts presented for each fiscal year were determined as of 12/31.

See accompanying notes

HUDSON HOUSING AUTHORITY
SCHEDULE OF CONTRIBUTIONS
MIDDLESEX COUNTY RETIREMENT SYSTEM

LAST FOUR FISCAL YEARS

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 100,489	\$ 96,064	\$ 89,676	\$ 65,711
Contributions in relation to the contractually required contribution	<u>100,489</u>	<u>96,064</u>	<u>89,676</u>	<u>65,711</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 257,663	\$ 325,812	\$ 283,285	\$ 347,298
Contributions as a percentage of covered-employee payroll	39.00%	29.48%	31.66%	18.92%

* The amounts presented for each fiscal year were determined as of December 31

See accompanying notes

HUDSON HOUSING AUTHORITY

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

September 30, 2018

NOTE 1 – POSTEMPLOYMENT BENEFIT PLANS OTHER THAN PENSIONS

DESCRIPTION OF REQUIRED SUPPLEMENTARY INFORMATION

The Schedule of the Proportionate Share of the Net Other Postemployment Benefit Liability details the Plan's net other postemployment benefit liability (asset) and the covered employee payroll. It also demonstrates the Plan's net position as a percentage of the total liability and the Plan's net other postemployment benefit liability as a percentage of covered payroll.

10-YEAR TREND INFORMATION

The Schedule of the Total OPEB liability is intended to present information for 10 years. Until a 10-year trend is compiled, information is presented for those years in which information is available.

CHANGES IN ASSUMPTIONS

Effective September 30, 2018:

- Discount rate is 3.50%, previously 4.00%
- The assumed pre-retirement mortality table is the RP-2000 Employee Mortality Table projected generationally with scale BB and a base year 2009 for males and females – previously RP-2000 Mortality Table.
- The assumed post-retirement mortality table is the RP-2000 Healthy Annuitant Mortality Table projected generationally with scale BB and a base year 2009 for males and females – previously RP-2000 Mortality Table.
- The Actuarial Cost Method is Entry Age Normal – previously Projected Unit Credit.
- Assumption changes caused Normal Cost to increase by \$11 thousand.

CHANGES IN BENEFIT TERMS

There were no changes in benefit terms from the prior measurement report.

NOTE 2 – PENSION PLAN SCHEDULES

DESCRIPTION OF REQUIRED SUPPLEMENTAL INFORMATION

The Schedule of the Proportionate Share of the Net Pension Liability presents multi-year trend information on the Authority's share of the Net Pension Liability and related ratios.

The Schedule of Contributions presents multiyear trend information for the Authority's required and actual contributions relating to the pension plan.

10-YEAR TREND INFORMATION

The Schedules of the Proportionate Share of the Net Pension Liability and the Schedule of Contributions are intended to present information for 10 years. Until a 10-year trend is compiled, information is presented for those years in which information is available.

HUDSON HOUSING AUTHORITY

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION September 30, 2018

NOTE 2 – PENSION PLAN SCHEDULES – (CONTINUED)

CHANGES IN BENEFIT TERMS

There were no changes in benefit terms from the prior measurement report.

CHANGES IN ASSUMPTIONS

- The mortality tables for healthy participants were changed from the RP-2000 Employee and Healthy Annuitant Mortality Tables projected generationally using Scale BB2D from 2009 to the RP-2014 Blue Collar Employee and Healthy Annuitant Mortality Tables projected generationally using Scale MP-2017.
- The mortality tables for disabled participants were changed from the RP-2000 Healthy Annuitant Mortality Table projected generationally using Scale BB2D from 2015 to the RP-2014 Blue Collar Healthy Annuitant Mortality Table set forward 1 year projected generationally using Scale MP-2017.
- The long-term salary increase assumption was lowered by 0.25% to 4.00% for Group 1 participants, 4.25% for Group 2 participants, and 4.50% for Group 4 participants.
- The investment rate of return was reduced from 7.75% to 7.50%.
- The inflation rate was reduced to 3.25% from the previous rate of 3.50%.

HUDSON HOUSING AUTHORITY

SUPPLEMENTARY FINANCIAL DATA SCHEDULE

September 30, 2018

FDS Line Item	Description	AMPs	Housing Choice Vouchers	Business Activities	State/Local	Eliminations	Total
111	Cash - Unrestricted	727,576	90,121	63,390	433,541	-	1,314,628
113	Cash - Other Restricted	8,693	15,498	-	44,454	-	68,645
114	Cash - Tenant Security Deposits	-	-	-	8,922	-	8,922
100	Total Cash	736,269	105,619	63,390	486,917	-	1,392,195
122	Accounts Receivable - HUD Other Projects	32,958	-	-	-	-	32,958
124	Accounts Receivable - Other Government	-	-	-	20,302	-	20,302
125	Accounts Receivable - Miscellaneous	-	767	858,515	1,539	-	860,821
126	Accounts Receivable - Tenants	1,848	-	-	1,998	-	3,846
126.1	Allowance for Doubtful Accounts -Tenants	(945)	-	-	(1,306)	-	(2,251)
126.2	Allowance for Doubtful Accounts - Other	-	-	(858,515)	-	-	(858,515)
128	Fraud Recovery	-	-	-	1,861	-	1,861
128.1	Allowance for Doubtful Accounts - Fraud	-	-	-	(1,861)	-	(1,861)
120	Total Receivables, Net of Allowances for Doubtful Accounts	33,861	767	-	22,533	-	57,161
142	Prepaid Expenses and Other Assets	23,349	1,289	2,173	9,619	-	36,430
144	Inter Program Due From	-	-	-	118,380	(118,380)	-
150	Total Current Assets	793,479	107,675	65,563	637,449	(118,380)	1,485,786
161	Land	54,035	-	-	260,160	-	314,195
162	Buildings	7,491,882	-	259,903	4,815,693	-	12,567,478
163	Furniture, Equipment & Machinery - Dwellings	122,969	-	-	-	-	122,969
164	Furniture, Equipment & Machinery - Administration	-	-	-	21,734	-	21,734
166	Accumulated Depreciation	(5,560,427)	-	(85,346)	(4,131,001)	-	(9,776,774)
167	Construction in Progress	92,714	-	-	208,562	-	301,276
160	Total Capital Assets, Net of Accumulated Depreciation	2,201,173	-	174,557	1,175,148	-	3,550,878
180	Total Non-Current Assets	2,201,173	-	174,557	1,175,148	-	3,550,878
200	Deferred Outflow of Resources	91,733	24,712	-	143,026	-	259,471
290	Total Assets and Deferred Outflow of Resources	3,086,385	132,387	240,120	1,955,623	(118,380)	5,296,135
313	Accounts Payable >90 Days Past Due	-	-	-	2,000	-	2,000
321	Accrued Wage/Payroll Taxes Payable	4,302	423	-	10,216	-	14,941

HUDSON HOUSING AUTHORITY

SUPPLEMENTARY FINANCIAL DATA SCHEDULE

September 30, 2018

FDS Line Item	Description	AMPs	Housing Choice Vouchers	Business Activities	State/Local	Eliminations	Total
322	Accrued Compensated Absences - Current Portion	3,282	291	-	5,182	-	8,755
333	Accounts Payable - Other Government	30,060	-	-	46,403	-	76,463
341	Tenant Security Deposits	-	-	-	8,922	-	8,922
342	Unearned Revenue	595	-	-	36,053	-	36,648
345	Other Current Liabilities	-	-	78,595	-	-	78,595
346	Accrued Liabilities - Other	15,203	2,766	-	39,960	-	57,929
347	Inter Program - Due To	-	-	118,380	-	(118,380)	-
310	Total Current Liabilities	53,442	3,480	196,975	148,736	(118,380)	284,253
353	Non-current Liabilities - Other	8,693	-	-	44,454	-	53,147
357	Accrued Pension and OPEB Liabilities	760,856	206,595	-	1,177,608	-	2,145,059
350	Total Non-Current Liabilities	769,549	206,595	-	1,222,062	-	2,198,206
300	Total Liabilities	822,991	210,075	196,975	1,370,798	(118,380)	2,482,459
400	Deferred Inflow of Resources	111,112	31,267	-	174,749	-	317,128
508.4	Net Investment in Capital Assets	2,201,173	-	174,557	1,175,148	-	3,550,878
511.4	Restricted Net Position	-	15,498	-	-	-	15,498
512.4	Unrestricted Net Position	(48,891)	(124,453)	(131,412)	(765,072)	-	(1,069,828)
513	Total Equity - Net Assets / Position	2,152,282	(108,955)	43,145	410,076	-	2,496,548
600	Total Liab., Def. Inflow of Res., and Equity - Net Assets / Position	3,086,385	132,387	240,120	1,955,623	(118,380)	5,296,135
70300	Net Tenant Rental Revenue	378,480	-	31,731	624,747	-	1,034,958
70500	Total Tenant Revenue	378,480	-	31,731	624,747	-	1,034,958
70600	HUD PHA Operating Grants	210,602	891,922	-	-	-	1,102,524
70610	Capital Grants	92,714	-	-	-	-	92,714
70700	Total Fee Revenue	-	-	-	-	-	-
70800	Other Government Grants	-	-	-	439,920	-	439,920
71100	Investment Income - Unrestricted	34	-	-	71	-	105
71500	Other Revenue	175	143,311	-	36,709	-	180,195
71600	Gain or Loss on Sale of Capital Assets	42	-	-	58	-	100
70000	Total Revenue	682,047	1,035,233	31,731	1,101,505	-	2,850,516

HUDSON HOUSING AUTHORITY

SUPPLEMENTARY FINANCIAL DATA SCHEDULE

September 30, 2018

FDS Line Item	Description	AMPs	Housing Choice Vouchers	Business Activities	State/Local	Eliminations	Total
91100	Administrative Salaries	64,939	31,391	-	108,323	-	204,653
91200	Auditing Fees	2,091	2,714	-	5,795	-	10,600
91500	Employee Benefit contributions - Administrative	(20,031)	4,841	-	(28,441)	-	(43,631)
91700	Legal Expense	2,486	241	1,163	689	-	4,579
91800	Travel	611	1,125	-	1,489	-	3,225
91900	Other	21,017	16,786	389	45,263	-	83,455
91000	Total Operating - Administrative	71,113	57,098	1,552	133,118	-	262,881
92500	Total Tenant Services	-	-	-	-	-	-
93100	Water	19,094	-	-	27,957	-	47,051
93200	Electricity	23,087	-	-	127,210	-	150,297
93300	Gas	35,697	-	-	-	-	35,697
93000	Total Utilities	77,878	-	-	155,167	-	233,045
94100	Ordinary Maintenance and Operations - Labor	54,829	-	-	84,627	-	139,456
94200	Ordinary Maintenance and Operations - Materials and Other	25,368	-	372	28,891	-	54,631
94300	Ordinary Maintenance and Operations Contracts	54,120	2,121	8,785	48,609	-	113,635
94500	Employee Benefit Contributions - Ordinary Maintenance	41,121	-	-	63,461	-	104,582
94000	Total Maintenance	175,438	2,121	9,157	225,588	-	412,304
95000	Total Protective Services	-	-	-	-	-	-
96110	Property Insurance	13,693	-	-	14,519	-	28,212
96120	Liability Insurance	4,935	502	137	-	-	5,574
96130	Workmen's Compensation	3,515	969	-	5,705	-	10,189
96140	All Other Insurance	2,576	377	-	3,173	-	6,126
96100	Total insurance Premiums	24,719	1,848	137	23,397	-	50,101
96200	Other General Expenses	-	2,105	-	-	-	2,105
96210	Compensated Absences	331	-	-	411	-	742
96300	Payments in Lieu of Taxes	30,060	-	6,196	1,850	-	38,106
96400	Bad debt - Tenant Rents	554	-	-	1,306	-	1,860
96000	Total Other General Expenses	30,945	2,105	6,196	3,567	-	42,813

HUDSON HOUSING AUTHORITY

SUPPLEMENTARY FINANCIAL DATA SCHEDULE

September 30, 2018

FDS Line Item	Description	AMPs	Housing Choice Vouchers	Business Activities	State/Local	Eliminations	Total
96700	Total Interest Expense and Amortization Cost	-	-	-	-	-	-
96900	Total Operating Expenses	380,093	63,172	17,042	540,837	-	1,001,144
97000	Excess of Operating Revenue over Operating Expenses	301,954	972,061	14,689	560,668	-	1,849,372
97100	Extraordinary Maintenance	16,191	-	2,794	56,649	-	75,634
97300	Housing Assistance Payments	-	803,129	-	285,479	-	1,088,608
97350	HAP Portability-In	-	134,391	-	-	-	134,391
97400	Depreciation Expense	255,273	-	8,663	(13,186)	-	250,750
90000	Total Expenses	651,557	1,000,692	28,499	869,779	-	2,550,527
10100	Total Other financing Sources (Uses)	-	-	-	-	-	-
10000	Excess (Deficiency) of Total Revenue Over (Under) Total Expenses	30,490	34,541	3,232	231,726	-	299,989
11030	Beginning Equity	2,378,281	(70,948)	39,913	590,628	-	2,937,874
11040	Prior Period Adjustments, Equity Transfers and Correction of Errors	(256,489)	(72,548)	-	(412,278)	-	(741,315)
11170	Administrative Fee Equity	-	(124,453)	-	-	-	(124,453)
11180	Housing Assistance Payments Equity	-	15,498	-	-	-	15,498
11190	Unit Months Available	1,104	816	24	2,031	-	3,975
11210	Number of Unit Months Leased	1,104	789	24	1,986	-	3,903
11620	Building Purchases	92,714	-	-	-	-	92,714

HUDSON HOUSING AUTHORITY

STATEMENT OF ACTUAL MODERNIZATION COSTS – UNCOMPLETED

For the Year Ended September 30, 2018

Project:	MA01P091501-17
Modernization Funds Approved	\$ 109,366
Modernization Funds Expended	<u>92,714</u>
Excess of Modernization Funds Approved	<u>\$ 16,652</u>
Modernization Funds Advanced	\$ 59,983
Modernization Funds Expended	<u>92,714</u>
Excess of Modernization Funds Advanced	<u>\$ (32,731)</u>

HUDSON HOUSING AUTHORITY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended September 30, 2018

	<u>CFDA Number</u>	<u>Pass- Through Award Number</u>	<u>Amounts Provided to Sub-recipients</u>	<u>Total Federal Assistance Expenditures</u>
Department of Housing & Urban Development (HUD)				
Housing Voucher Cluster				
Section 8 Housing Choice Vouchers	14.871	N/A	\$ -	\$ 867,307
Total Housing Voucher Cluster			<u>-</u>	<u>867,307</u>
Public and Indian Housing	14.850	N/A	-	210,602
Public Housing Capital Fund (CFP)	14.872	N/A	<u>-</u>	<u>92,714</u>
Total Department of Housing & Urban Development			<u>-</u>	<u>1,170,623</u>
Total Expenditures of Federal Awards			<u>\$ -</u>	<u>\$ 1,170,623</u>

See Notes to the Schedule of Expenditures of Federal Awards

HUDSON HOUSING AUTHORITY

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended September 30, 2018

NOTE 1 – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the schedule) includes the federal grant activity of Hudson Housing Authority, under programs of the federal government for the year ended September 30, 2018. The information in the schedule is presented in accordance with the requirements of the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirement, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of Hudson Housing Authority, it is not intended to and does not present the financial position, changes in net assets or cash flows of Hudson Housing Authority.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the schedule are reported on the accrual basis of accounting. For cost-reimbursement awards, such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. For performance-based awards, expenditures reported represent amounts earned.

NOTE 3 – INDIRECT COST RATE

The Hudson Housing Authority has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.



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

To The Board of Commissioners
Hudson Housing Authority
Hudson, Massachusetts

We have audited, 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, the financial statements of the Hudson Housing Authority as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the Hudson Housing Authority's basic financial statements, and have issued our report thereon dated June 25, 2019.

Internal Control over Financial Reporting

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

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



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

Compliance and Other Matters

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

Purpose of this Report

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

Marcum LLP

Boston, Massachusetts
June 25, 2019



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH THE UNIFORM GUIDANCE

To The Board of Commissioners
Hudson Housing Authority
Hudson, Massachusetts

Report on Compliance for Each Major Federal Program

We have audited the Hudson Housing Authority's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Compliance Supplement that could have a direct and material effect on each of the Hudson Housing Authority's major federal programs for the year ended September 30, 2018. The Hudson Housing Authority's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Hudson Housing Authority's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Hudson Housing Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.



We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Hudson Housing Authority's compliance.

Opinion on Each Major Federal Program

In our opinion, the Hudson Housing Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2018.

Other Matters

The results of our auditing procedures disclosed one instance of noncompliance which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2018-001. Our opinion on each major federal program is not modified with respect to this matter.

Hudson Housing Authority's response to the noncompliance finding identified in our audit is described in the accompanying corrective action plan. Hudson Housing Authority's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of Hudson Housing Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Hudson Housing Authority's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Hudson Housing Authority's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify certain one deficiency in internal control over compliance, described in the accompanying schedule of findings and questioned costs as item 2018-001 that we consider to be a significant deficiency.

Hudson Housing Authority's response to the internal control over compliance findings identified in our audit is described in the accompanying corrective action plan. Hudson Housing Authority's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

Marcum LLP

Boston, Massachusetts
June 25, 2019

HUDSON HOUSING AUTHORITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended September 30, 2018

SECTION I - SUMMARY OF AUDITORS' RESULTS

FINANCIAL STATEMENTS

Type of auditors' report issued on whether the financial statements audited were prepared in accordance with GAAP: *Unmodified Opinion*

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified? Yes None Reported

Noncompliance material to financial statements noted? Yes No

FEDERAL AWARDS

Internal control over major federal programs:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified? Yes None Reported

Type of auditors' report issued on compliance for major federal programs: *Unmodified Opinion*

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? Yes No

Identification of major federal programs:

CFDA # Name of Federal Program or Cluster

14.871 Section 8 Housing Choice Voucher (Cluster)
14.850 Public and Indian Housing

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee? Yes No

SECTION II - FINANCIAL STATEMENTS FINDINGS

No matters were reported.

HUDSON HOUSING AUTHORITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended September 30, 2018

Section III - Federal Award Findings and Questioned Costs

2018-001 – Reporting – Performance Reporting: SEMAP Certification

**U.S. Department of Housing and Urban Development
CFDA #: 14.874 – Section 8 Housing Choice Vouchers
Significant Deficiency**

Criteria

As prescribed by HUD, when pulling the samples for all SEMAP indicators, the Public Housing Authority (PHA) must leave a clear audit trail that can be used to verify that the PHA's quality control sample was drawn in an unbiased manner. (24 CFR 985.3)

Condition

As part of our audit, we examined the supporting documentation for the Authority's SEMAP assessment. As a result of our procedures, we identified that the Authority did not adequately document the related universes, samples, and sample methodology for the following indicators: Reasonable Rent (Indicator 2) and HQS Quality Control Inspections (Indicator 5).

Cause

The Authority did not implement procedures to ensure that adequate documentation is retained.

Questioned Costs

None identified.

Context

The Authority conducts the SEMAP assessment on an annual basis. During the SEMAP sample selection process, the Authority needs to generate reports to accurately represent the universes related to each indicator.

Effect or Potential Effect

The Authority may not have made adequate selections in accordance with the requirements of SEMAP and therefore may have potentially incorrectly reported the performance rating.

HUDSON HOUSING AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended September 30, 2018

Section III - Federal Award Findings and Questioned Costs – (Continued)

2018-001 – Reporting – Performance Reporting: SEMAP Certification – (Continued)

Repeat Finding

Not a repeat finding.

Recommendation

The Firm recommends that the Authority adequately documents the SEMAP populations and sample selection process for each indicator.

Auditee’s Response and Planned Corrective Action

See Corrective Action Plan.

SECTION IV – SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters were reported.



HUDSON HOUSING AUTHORITY

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For the Year Ended September 30, 2018

2018-001 – Reporting – Performance Reporting: SEMAP Certification

Auditee's Response and Planned Corrective Action:

The Hudson Housing Authority has been designated by HUD as a high-performing agency in relation to SEMAP submissions. The Hudson Housing Authority submits SEMAP certification for the Section 8 Housing Choice Voucher Program every other year, as is required by HUD for high-performing agencies. The Hudson Housing Authority selects quality control samples for all SEMAP submissions in an unbiased manner. The Hudson Housing Authority, at our next regularly-scheduled SEMAP submission for FYE 9/30/2020, will adequately document the SEMAP populations and sample selection process for each indicator required, including but not limited to Reasonable Rent (Indicator 2) and HQS Quality Control Inspections (Indicator 5), to leave a clear audit trail that the PHA continues to select SEMAP quality control samples in an unbiased manner.

Planned Implementation Date of Corrective Action:

The Hudson Housing Authority plans to correct this finding with our next scheduled SEMAP submission, scheduled for FYE 9/30/2020.

Person Responsible for Corrective Action:

Jaclyn Beaulieu, Executive Director