ARLINGTON GARDENS

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

FOR THE YEAR ENDED MARCH 31, 2019

WITH
REPORT OF INDEPENDENT AUDITORS

ARLINGTON GARDENS
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CERTIFIED PUBLIC ACCOUNTANTS

REPORT OF INDEPENDENT AUDITORS

To the Board of Commissioners
Jersey City Housing Authority:

Report on the Financial Statements

We have audited the accompanying financial statements of Arlington Gardens (the "Project"), which comprise the statement of net position as of March 31, 2019, and the related statements of revenues, expenses and changes in net position, and cash flows for the year then ended.

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 auditors consider 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.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position of the Project, as of March 31, 2019, and the changes in its net 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

Change in Accounting Principle

As discussed in Note 14 to the financial statements, during the year ended March 31, 2019, the Project adopted GASB 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pension Plans*. We did not modify our opinion regarding this matter.

Other Matters

Required Supplementary Information

Management has omitted the management's discussion and analysis report that accounting principles generally accepted in the United States of America require to be presented to supplement the financial statements. Such missing information, although not a part of the financial statements is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. Our opinion on the financial statements is not affected by the missing information.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Project's financial statements. The accompanying computation of payment in lieu of taxes (the "schedule") is presented for purposes of additional analysis and is not a required part of the financial statements. The schedule is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued our report dated February 18, 2020, on our consideration of the Project'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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Project's internal control over financial reporting and compliance.

Novogradac & Company LLP

Toms River, New Jersey
February 18, 2020

FINANCIAL STATEMENTS

ARLINGTON GARDENS
STATEMENT OF NET POSITION
AS OF MARCH 31, 2019

ASSETS

Current assets:	
Cash and cash equivalents	$ 161,198
Tenant security deposits	55,865
Accounts receivable - tenants	8,002
Prepaid expenses	30,140
Inventory	50,877
Total current assets	306,082
Non-current assets:	
Restricted deposits	326,167
Capital assets, net	2,472,109
Total non-current assets	2,798,276
Total assets	3,104,358

DEFERRED OUTFLOWS OF RESOURCES

State of New Jersey P.E.R.S.	155,378
State of New Jersey OPEB	81,217
Total deferred outflows of resources	236,595
Total assets and deferred outflows of resources	$ 3,340,953

See accompanying notes to financial statements.

ARLINGTON GARDENS
STATEMENT OF NET POSITION (continued)
AS OF MARCH 31, 2019

LIABILITIES

Current liabilities:		
Accounts payable	$	9,656
Accrued expenses		14,154
Accrued compensated absences, current portion		7,361
Mortgage payable, current portion		54,994
Accrued P.I.L.O.T.		3,202
Tenant security deposits		55,865
Total current liabilities		145,232
Non-current liabilities:		
Mortgages payable, excluding current portion		1,228,953
Accrued compensated absences, net of current portion		66,249
Due to JCHA		1,207,225
Net pension liability		688,754
Net OPEB liability		1,162,401
Total non-current liabilities		4,353,582
Total liabilities		4,498,814

DEFERRED INFLOWS OF RESOURCES

State of New Jersey OPEB		269,510
State of New Jersey P.E.R.S.		270,970
Total deferred inflows of resources		540,480

NET POSITION

Net position:		
Net investment in capital assets		1,188,162
Restricted		326,167
Unrestricted		(3,212,670)
Total net position		(1,698,341)
Total liabilities, deferred inflows of resources and net position	$	3,340,953

See accompanying notes to financial statements.

ARLINGTON GARDENS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED MARCH 31, 2019

Operating revenues:	
Rental income	$ 895,605
Tenant revenue - other	19,960
Total operating revenues	915,565
Operating expenses:	
Administrative	671,748
Tenant services	1,714
Maintenance and repairs	364,378
Payments in lieu of taxes	57,623
Utilities expenses	226,794
Insurance and general	27,729
Depreciation	150,743
Total operating expenses	1,500,729
Operating loss	(585,164)
Non-operating revenues (expenses):	
Interest expense	(50,358)
Net loss	(635,522)
Net position, beginning of year (as originally reported)	(176,365)
Change in accounting principle - adoption of GASB 75	(886,454)
Net position, beginning of year (as restated)	(1,062,819)
Net position, end of year	$ (1,698,341)

See accompanying notes to financial statements.

ARLINGTON GARDENS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED MARCH 31, 2019

Cash Flows from Operating Activities:	
Cash received from and on behalf of tenants	$ 924,333
Cash paid to vendors	(833,014)
Cash paid to employees	(207,508)
Net cash used in operating activities	(116,189)
Cash Flows from Noncapital Financing Activities:	
Net borrowings from JCHA	229,872
Cash Flows from Capital and Related Financing Activities:	
Principal paid on capital debt	(52,929)
Interest paid on capital debt	(50,358)
Net cash used in capital and related financing activities	(103,287)
Net increase in cash and cash equivalents	10,396
Cash and cash equivalents, beginning of year	532,834
Cash and cash equivalents, end of year	$ 543,230

A reconciliation of cash and cash equivalents to Statement of Net Position is as follows:

Cash and cash equivalents	$ 161,198
Tenant security deposits	55,865
Restricted deposits	326,167
	$ 543,230

See accompanying notes to financial statements.

ARLINGTON GARDENS
STATEMENT OF CASH FLOWS (continued)
FOR THE YEAR ENDED MARCH 31, 2019

Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	$	(585,164)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation		150,743
Changes in assets, deferred outflows of resources, liabilities and deferred outflows of resources		
Accounts receivable - tenants		(4,171)
Prepaid expenses		13,649
Inventory		(8,160)
Accounts payable		(4,018)
Accrued expenses		(3,721)
Accrued compensated absences		(23,167)
Tenant security deposits		6,463
Deferred outflows of resources		20,219
Deferred inflows of resources		282,679
Net pension liability		(237,488)
Net OPEB liability		275,947
Net cash used in operating activities	$	(116,189)

See accompanying notes to financial statements.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization

The Jersey City Housing Authority (the "Authority" or "JCHA") is a governmental, public corporation created under federal and state housing laws for the purpose of engaging in the development, acquisition and administrative activities of the low-income housing program and other programs with similar objectives for low and moderate income families residing in the City of Jersey City (the "City"). The Authority is responsible for operating certain low-rent housing programs in the City under programs administered by the U.S. Department of Housing and Urban Development ("HUD"). These programs provide housing for eligible families under the United States Housing Act of 1937, as amended.

The Authority is governed by an appointed board of commissioners who serve several year terms. The governing board is essentially autonomous but responsible to HUD and the State of New Jersey, Division of Local Government Services. An executive director is appointed by the Authority's board to manage the day-to-day operations of the Authority.

Arlington Gardens (the "Project") is a ninety (90) unit affordable housing site operated by the Authority to provide low-rent housing for qualified individuals. The Project is owned by the Authority and is governed by the Board of Commissioners of the Authority. The accompanying financial statements present the financial activity of the Project and not the Authority as a whole.

The Project maintains its accounting records by program. The following program is operated by the Authority within the Project:

Public and Indian Housing
The Public and Indian Housing Program is designed to provide low-cost housing. Under this program, HUD provides funding via an annual contributions contract. These funds, combined with the rental income received from tenants, are available solely to meet the operating expenses of the program.

B. Basis of Accounting/Preparation of the Financial Statements

The Project's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). All transactions are accounted for using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, and losses from assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

The Project's primary source of non-exchange revenue relates to grants and subsidies. In accordance with GASB 33, *Accounting and Financial Reporting for Non-exchange Transactions*, grant and subsidy revenue are recognized at the time eligible program expenditures occur and/or the Project has complied with the grant and subsidy requirements.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Accounting/Preparation of the Financial Statements (continued)

The Authority adopted GASB 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions* ("GASB 75"). GASB 75 established standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenditures associated with post employment benefits other than pensions ("OPEB") of State and Local Governments. For defined benefit OPEB, GASB 75 identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actual present value, and attribute that present value to periods of employee service. In addition, GASB 75 details the recognition and disclosure requirements for employers with liabilities to a defined benefit OPEB plan and for employers whose employees are provided with defined contribution OPEB.

C. Reporting Entity

In accordance with GASB 61, *The Financial Reporting Entity Omnibus - An Amendment of GASB Statements No. 14 and No. 34*, the Authority's basic financial statements include those of the Project and any component units. Component units are legally separate organizations whose majority of officials are appointed by the primary government or the organization is fiscally dependent on the primary government and there is a potential for those organizations either to provide specific financial benefits to, or impose specific financial burdens on, the primary government. An organization has a financial benefit or burden relationship with the primary government if any one of the following conditions exist:

1. The primary government (Authority) is legally entitled to or can otherwise access the organization's resources.

2. The primary government is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide financial support to, the organization.

3. The primary government is obligated in some manner for the debt of the organization.

Based upon the application of these criteria, this report includes all programs and activities operated by the Project. There were no additional entities required to be included in the reporting entity under these criteria in the current fiscal year. However, the Project is owned by the Authority and as such is included in their financial statements.

D. Cash and Cash Equivalents

Cash and cash equivalents include all unrestricted cash balances and highly liquid investments with a maturity of three months or less at the date of purchase. Restricted deposits and funded reserves which are required under the terms of the financing are not considered cash and cash equivalents. The Project places its temporary cash investments with high credit quality financial institutions. At times, such investments may be in excess of the FDIC insurance limits.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Accounts Receivable

Rents are due from tenants on the first day of each month. As a result, tenants' accounts receivable balances primarily consist of rents past due and vacated tenants. Also included in accounts receivable are those amounts that tenants owe the Project as payment for committing fraud or misrepresentation. An allowance for doubtful accounts is established to provide for all accounts, which may not be collected in the future for any reason. Collection losses on accounts receivable are charged against the allowance for doubtful accounts.

F. Allowance for Doubtful Accounts

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

G. Prepaid Expenses

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

H. Inventory

Inventory is valued at cost using the First In First Out (FIFO) method. If inventory falls below cost due to damage, deterioration, or obsolescence, the Project establishes an allowance for obsolete inventory. The Project uses the consumption method for expense recognition and relies upon its periodic (annual) inventory for financial reporting purposes.

I. Capital Assets, Net

Capital assets, net are stated at cost. Expenditures for repairs and maintenance are charged directly to expense as they are incurred. Expenditures determined to represent additions or betterments are capitalized.

Depreciation is calculated using the straight-line method based on the estimated useful lives of the following asset groups:

- Buildings — 27.5 - 40 Years
- Furniture and Equipment — 3 - 7 Years

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

J. Impairment of Long Lived Assets

The Project evaluates events or changes in circumstances affecting long-lived assets to determine whether an impairment of its assets has occurred. If the Project determines that a capital asset is impaired, and that the impairment is significant and other-than-temporary, then an impairment loss will be recorded in the Project's financial statements. There were no impairment losses for the year ended March 31, 2019.

K. Revenue Recognition

Rental revenue attributable to residential leases is recorded when due from residents, generally upon the first day of each month. Leases are for periods of up to one year, with rental payments due monthly. Other income includes fees for late payments, cleaning, damages, laundry facilities and other charges and is recorded when earned. Advance receipts of revenue are deferred and classified as liabilities until earned.

L. Deferred Outflows / Inflows of Resources

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

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

M. Equity Classifications

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

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

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

<u>Unrestricted net position</u> - All other resources that do not meet the definition of "restricted" or "net investment in capital assets."

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

N. Income Taxes

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

O. Compensated Absences

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

P. Use of Management Estimates

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

Q. Economic Dependency

The Project is economically dependent on operating advances from JCHA. The Project operates at a cash flow deficit prior to receiving such advances.

NOTE 2. CASH AND CASH EQUIVALENTS

At March 31, 2019, the Project had funds on deposit in checking accounts. All bank deposits are entirely insured or collateralized by a collateral pool maintained by public depositories as required by New Jersey law.

As of March 31, 2019, the carrying amount of the Project's cash (including restricted deposits) was $543,230, and the bank balances approximated $543,273.

NOTE 2. CASH AND CASH EQUIVALENTS (continued)

Of the bank balances, $466,933 was covered by federal depository insurance and the remaining $76,340 was collateralized with the pledging financial institutions as of March 31, 2019.

Custodial credit risk is the risk that, in the event of a bank failure, the government's deposits may not be returned to it. The Project does not have a formal policy for custodial credit risk. As of March 31, 2019, the Project's bank balances were not exposed to custodial credit risk.

NOTE 3. ACCOUNTS RECEIVABLE, NET

Tenant accounts receivable represents amounts owed to the Authority by tenants for outstanding rent. The balance is shown net of an allowance for doubtful accounts of $6,477.

NOTE 4. RESTRICTED DEPOSITS

The mortgage loan agreement requires that the Project fund various reserve accounts which are held in escrow with the Community Preservation Corp. As of March 31, 2019, restricted deposits consisted of the following::

Cash Category	Amount
Tenant security deposits	$ 55,865
Replacement reserve fund	291,093
Real estate tax and insurance escrow	35,074
	$ 382,032

Tenant security deposits represent amounts held by the Project on behalf of tenants. Upon move-out, the tenant is due amounts deposited plus interest earned less any amounts charged for damage to the unit.

Replacement Reserve Fund represents the future cost of major repairs and improvements and annual debt service. During the year ended March 31, 2019, the Project contributed $1,831 per month to this fund. Moneys in this fund may be drawn upon by the Project for capital improvements at the sole discretion of the mortgagee.

Real Estate Tax and Insurance Escrow represents the cost of the property's payment in lieu of taxes payment with the City and annual premiums for insurance. During the year ended March 31, 2019, the Project contributed $6,527, per month to this fund.

NOTE 5. CAPITAL ASSETS, NET

The following is a summary of the changes in capital assets for the year ended March 31, 2019:

	Balances at March 31, 2018	Additions	Dispositions	Balances at March 31, 2019
Non-depreciable capital assets:				
Land	$ 931,098	$ -	$ -	$ 931,098
Depreciable capital assets:				
Buildings	5,164,084	-	-	5,164,084
Furniture and fixtures	11,547	-	-	11,547
Total	5,175,631	-	-	5,175,631
Total capital assets	6,106,729	-	-	6,106,729
Accumulated depreciation	(3,483,877)	(150,743)	-	(3,634,620)
Net capital assets	$ 2,622,852	$ (150,743)	$ -	$ 2,472,109

Depreciation expense for the fiscal year ended March 31, 2019 amounted to $150,743.

NOTE 6. RELATED PARTY TRANSACTIONS

The Project is owned and operated by JCHA. JCHA allocates certain general and administrative expenses, including salaries, fringe benefits (pension, compensated absences and health insurance), maintenance, insurance and legal, to the Project. Costs are reimbursed periodically. As of March 31, 2019, the Project owed JCHA $1,207,225 for unreimbursed costs. The advances are interest free and due upon demand.

NOTE 7. PAYMENT IN LIEU OF TAXES

The Project is required to pay to the City a payment in lieu of taxes as an annual charge for services. For the year ended March 31, 2019, P.I.L.O.T. expense amounted to $57,623.

NOTE 8. MORTGAGE PAYABLE

Mortgage payable consisted of the following at March 31, 2019:

Mortgage loan payable to the Community Preservation Corp. in connection with the acquisition and rehabilitation of the Project. The loan with the original amount of $1,750,000 carries an annual interest rate of 3.836%, requires monthly principal and interest payments of $8,607, matures in March, 2036 and is secured by a first mortgage on the property.	$ 1,283,947
Less: current portion	54,994
Mortgage payable, excluding current portion	$ 1,228,953

NOTE 8. MORTGAGE PAYABLE (continued)

Annual debt service for principal and interest over the next five years and in five-year increments thereafter are as follows:

Year	Principal	Interest	Total
2020	$ 54,994	$ 48,292	$ 103,286
2021	57,141	46,145	103,286
2022	59,372	43,914	103,286
2023	61,690	41,596	103,286
2024	64,098	39,188	-
2025-2029	360,045	156,387	516,432
2030-2034	436,034	80,398	516,432
2035-2036	190,573	7,396	197,969
	$ 1,283,947	$ 463,316	$ 1,643,977

NOTE 9. NON-CURRENT LIABILITIES

Activity for non-current liabilities the year ended March 31,2019 consisted of the following:

Description	March 31, 2018	Increases	Decreases	March 31, 2019	Amounts due within one year
Mortgage payable	$ 1,336,876	$ -	$ (52,929)	$ 1,283,947	$ 54,944
Net pension liability	926,242	-	(237,488)	688,754	-
Net OPEB liability	1,695,580	-	(533,179)	1,162,401	-
Compensated absences	96,777	-	(23,167)	73,610	7,361
	$ 4,055,475	$ -	$ (846,763)	$ 3,208,712	$ 62,305

NOTE 10. PENSION PLAN

The Authority participates in the State of New Jersey, Public Employees Retirement System (PERS), which is a cost-sharing multiple employer defined benefit pension plan administered by the State of New Jersey, Division of Pensions and Benefits (the Division).

It is the Authority's policy to allocate pension liabilities, deferred inflows of resources and deferred outflows of resources to projects based on actual time spent by Authority personnel in the various projects and programs of the Authority.

The Project's share of the Authority's net pension liability, deferred inflows of resources, deferred outflows of resources and pension expense has been allocated as follows:

NOTE 10. PENSION PLAN (continued)

Account Description	Authority Share	Project Share
Net pension liability	$ (25,319,184)	$ (688,754)
Deferred inflow of resources	$ (9,961,099)	$ (270,970)
Deferred outflow of resources	$ 5,711,823	$ 155,378
Pension expense	$ 890,103	$ 122,883

For additional information about PERS, please refer to the Division's Comprehensive Annual Financial Report, which can be found at www.state.nj.us/treasury/pensions/annrprts.shtml.

NOTE 11. OPEB PLAN

The Authority participates in the State of New Jersey, State Health Benefit Local Government Retired Employees Plan ("SHBP"), which is a cost-sharing multiple-employer defined benefit OPEB plan administered by the Division. It covers employees of local government employers that have adopted a resolution to participate in the SHBP.

It is the Authority's policy to allocate OPEB liabilities, deferred inflows of resources and deferred outflows of resources to projects based on actual time spent by Authority personnel in the various projects and programs of the Authority.

The Project's share of the Authority's net OPEB liability, deferred inflows of resources, deferred outflows of resources and OPEB expense has been allocated as follows:

Account Description	Authority Share	Project Share
Net OPEB liability	$ (42,962,410)	$ (1,162,401)
Deferred inflow of resources	$ (22,347,624)	$ (269,510)
Deferred outflow of resources	$ 3,001,766	$ 81,217
OPEB expense	$ 4,699,241	$ 445,807

For additional information about SHBP, please refer to the Division's CAFR, which can be found at https://www.state.nj.us/treasury/pension/financial-reports.shtml.

NOTE 12. RISK MANAGEMENT

The Project is exposed to various risks of loss related to torts, theft, damage, and destruction of assets; errors and omissions; and natural disasters. The Project maintains insurance policies acquired from independent insurance carriers covering all structural property, automobiles, crime coverage, personal property and general liability. Settlement amounts have not exceeded insurance coverage for the last three years.

NOTE 13. CONCENTRATION OF RISK

The Project's major asset is real estate. The Project's operations are concentrated in the multifamily real estate market. In addition, the Project operates in a heavily regulated environment. The operations of the Project are subject to the administrative directives, rules and regulations of federal, state, and local regulatory agencies. Such administrative directives, rules and regulations are subject to change by an act of congress or an administrative change mandated by HUD. Such changes may occur with little notice or inadequate funding to pay for the related cost, including the additional administrative burden, to comply with a change.

NOTE 14. CHANGE IN ACCOUNTING PRINCIPLE

During the year ended March 31, 2019, the Project adopted GASB 75. As a result of adopting GASB 75, the Project recorded a decrease in the beginning net position and an increase in net OPEB liability in the amount of $886.454.

NOTE 15. SUBSEQUENT EVENTS

Events that occur after the financial statement date but before the financial statements were available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the financial statement date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the financial statement date require disclosure in the accompanying notes to the financial statements. Management evaluated the activity of the Partnership through February 18, 2020 (the date the financial statements were available to be issued) and concluded that no subsequent events have occurred that would require recognition in the financial statements or disclosure in the notes to the financial statements.

NOVOGRADAC & COMPANY LLP®

CERTIFIED PUBLIC ACCOUNTANTS

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
Jersey City Housing Authority:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Arlington Gardens (the "Project") as of and for the year ended March 31, 2019, and the related notes to the financial statements, which collectively comprise the Project's basic financial statements, and have issued our report thereon dated February 18, 2020.

Internal Control Over Financial Reporting

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

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Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Project'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 Project's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Novogradac & Company LLP

Toms River, New Jersey
February 18, 2020

ARLINGTON GARDENS
SCHEDULE OF FINDINGS AND RESPONSES
MARCH 31, 2019

Financial Statement Findings

There were no findings relating to the financial statements which are required to be reported in accordance with *Government Auditing Standards*.

Schedule of Prior Year Audit Findings

There were no findings or questioned costs in the prior year.

SUPPLEMENTARY INFORMATION

ARLINGTON GARDENS
COMPUTATION OF PAYMENT IN LIEU OF TAXES
FOR THE YEAR ENDED MARCH 31, 2019

		2019		2018
Affordable Units Calculation:				
Number of units		63		63
Gross shelter rent:				
Dwelling rental revenue	$	915,565	$	911,105
Less: fair market rental units		(275,184)		(275,184)
Total gross rents		640,381		635,921
Less: utilities expenses attributable to affordable units		(65,521)		(67,764)
Total gross shelter rent		574,860		568,157
Affordable units PILOT rate percentage		6.28 %		6.28 %
Affordable units PILOT for the period	$	36,101	$	35,680
Market Rate Units Calculation:				
Number of units		26		26
Assessed value of the property	$	1,200,000	$	1,200,000
Multiplied by pro-rata share of market rate units		28.89 %		29.21 %
Pro-rata share of assessed value		346,680		350,520
Applicable tax rate		1.540 %		7.799 %
Market rate units PILOT for the period	$	5,339	$	27,337
Fiscal Year PILOT Reconciliation:				
PILOT Calendar Year 2018 for nine months	$	47,263		
PILOT Calendar Year 2019 for three months		10,360		
Total PILOT expense calculated for the year ended March 31, 2019		57,623		
Amount (prepaid) / payable at March 31, 2018		5,684		
Payments made during the period		(60,105)		
Amount (prepaid) / payable at March 31, 2019	$	3,202		

See Report of Independent Auditors.