

BERKELEY HOUSING AUTHORITY
FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION
YEARS ENDED DECEMBER 31, 2012 AND 2011

**BERKELEY HOUSING AUTHORITY
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YEARS ENDED DECEMBER 31, 2012 AND 2011**

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INDEPENDENT AUDITORS' REPORT

To the Board of Commissioners
Berkeley Housing Authority:

We have audited the accompanying financial statements of the Berkeley Housing Authority ("the Authority") as of and for the years ended December 31, 2012 and 2011, which collectively comprise the Authority's basic financial statements as listed in the table of contents, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Berkeley Housing Authority, as of December 31, 2012 and 2011, and the respective changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITORS' REPORT (continued)

Other-Matters

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

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the Berkeley Housing Authority's financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and is not a required part of the financial statements. The accompanying financial data schedule and schedule of capital fund program costs and advances are also not required parts of the financial statements and are presented for the purposes of additional analysis as required by the U.S. Department of Housing and Urban Development. The schedules of federal awards, financial data schedule and schedule of capital fund program costs and advances are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

May 14, 2013
Toms River, New Jersey

Fallon & Larsen LLP

MANAGEMENT'S DISCUSSION AND ANALYSIS

**BERKELEY HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
AT DECEMBER 31, 2012**

As Management of the Authority, we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal year ended December 31, 2012. We encourage readers to consider the information presented here in conjunction with the Authority's financial statements as presented elsewhere in this Report.

A. Financial Highlights

1. The assets of the Authority exceeded its liabilities at the close of the most recent fiscal year by \$1,754,526 (net position) as opposed to \$1,967,136 for the prior fiscal year.
2. As of the close of the current fiscal year, the Authority's Proprietary Fund reported ending Unrestricted Net Position of \$442,696.
3. The Authority's cash and cash equivalent balance (including restricted cash) at December 31, 2012 was \$881,352 representing a decrease of \$60,176 from the prior fiscal year.
4. The Authority had Total Operating Revenues of \$2,017,858 and Total Operating Expenses of \$2,204,677 for the year ended December 31, 2012.
5. The Authority's capital outlays for the fiscal year were \$7,659.
6. The Authority's Expenditures of Federal Awards amounted to \$1,674,017 for the fiscal year.

B. Using the Annual Report

1. Management's Discussion and Analysis

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

**BERKELEY HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
AT DECEMBER 31, 2012**

B. Using the Annual Report (continued)

2. Basic Financial Statements

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

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

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

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

The basic financial statements report is on the Authority's activities. The activities are primarily supported by HUD subsidies and grants. The Authority's function is to provide decent, safe and sanitary housing to low income and special needs populations. The basic financial statements can be found on pages 10 through 13 in this Report.

3. Notes to Financial Statements

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

**BERKELEY HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
AT DECEMBER 31, 2012**

B. Using the Annual Report (continued)

4. Supplemental Information

The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-profit Organizations. The Schedule of Expenditures of Federal Awards can be found on page 32 of this report.

C. The Authority as a Whole

The Authority's Net Position weakened during the fiscal year as detailed on the next page. The Authority's revenues are primarily subsidies and grants received from HUD. The Authority receives subsidies each month based on a pre-approved amount by HUD. Grants are drawn down based on need against a pre-authorized funding level. The Authority's revenues were not sufficient to cover all expenses, excluding depreciation during the fiscal year.

By far, the largest portion of the Authority's net position is reflected in its investment in capital assets (e.g., land, buildings, equipment and construction in progress). The Authority uses these capital assets to provide housing services for its tenants; consequently, these assets are not available for future spending. The unrestricted net position of the Authority is available for future use to provide program services.

**BERKELEY HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
AT DECEMBER 31, 2012**

Computations of Net Position are as follows:

As of

	12/31/12	12/31/11
Cash and Other Assets	\$ 899,737	\$ 986,808
Capital Assets – Net	1,344,607	1,472,902
Total Assets	2,244,344	2,459,710
Less: Total Liabilities	489,818	492,574
Net Position	1,754,526	1,967,136
Invested in Capital Assets, Net	1,024,607	1,137,902
Restricted Net Position	287,223	286,354
Unrestricted Net Position	442,696	542,880
Total Net Position	\$ 1,754,526	\$ 1,967,136
Computations of Changes in Net Position are as follows:	Years Ended	
	12/31/12	12/31/11
Revenues		
Tenant Revenues	\$ 318,817	\$ 320,004
HUD Subsidies	1,611,722	1,618,221
Other Revenues	87,319	64,906
Total Operating Revenues	2,017,858	2,003,131
Expenses		
Other Operating Expenses	789,852	809,765
Housing Assistance Payments	1,278,871	1,195,186
Depreciation Expense	135,954	154,153
Total Operating Expenses	2,204,677	2,159,104
Excess (Deficiency) of Operating Expenses Over Revenue	(186,819)	(155,973)
Non-Operating Revenues (Expenses)		
Extraordinary Maintenance	(14,000)	(38,136)
Interest Expense	(15,612)	(17,110)
Interest on Investments	21	18
Deficiency of Expenses over Revenue before Capital Grants Received	(216,410)	(211,201)
HUD Capital Grants	3,800	7,461
Excess of Expenses over Revenue	(212,610)	(203,740)
Net Position – Beginning of Year	1,967,136	2,170,876
Net Position – End of Year	\$ 1,754,526	\$ 1,967,136

**BERKELEY HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
AT DECEMBER 31, 2012**

C. The Authority as a Whole (continued)

- Capital Assets – Net decreased \$128,295 primarily due to depreciation expense of \$135,954 exceeding capital purchases of \$7,659 for the fiscal year.
- Cash - Restricted increased \$2,703 as housing assistance payment reserves increased by \$14,848 which was offset by a decrease of \$12,145 in modernization and development reserves.
- Administrative expenses decreased \$4,885 or 1.7% primarily due to a decrease in certain office expenses.
- Utilities expenses decreased \$18,362 or 6.7% primarily due to lower rates for gas and reduced consumption of water.
- Housing assistance payments increased by \$83,685 primarily due to port-in expenses increasing \$26,754 in the Housing Choice Voucher Program and housing assistance payments increasing \$70,167 in the Section 8 New Construction program due to an increase of 60 unit months leased.

D. Budgetary Highlights

For the year ended December 31, 2012, individual program or grant budgets were prepared by the Authority and were approved by the Board of Commissioners. The budgets were primarily used as a management tool and have no legal stature. Also, the Authority adopted a comprehensive annual budget for the General Fund. The budgets were prepared in accordance with the accounting procedures prescribed by the applicable funding agency.

As indicated by the excess of expenses over revenues, the Authority's net position decreased during the fiscal year.

**BERKELEY HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
AT DECEMBER 31, 2012**

E. Capital Assets and Debt Administration

1. Capital Assets

As of December 31, 2012, the Authority's investment in capital assets for its Proprietary Fund was \$1,024,607. This investment in capital assets includes land, buildings, equipment and construction in progress, net of accumulated depreciation and related debt.

Major capital assets purchased for the year totaled \$7,659. Of that amount \$3,800 pertained to expenditures made in accordance with the Authority's Capital Fund Program. These activities are funded by grants from HUD.

Additional information on the Authority's capital assets can be found in the Notes to the Financial Statements, which is included in this Report.

2. Long Term Debt

During 2007, the Authority entered into a Capital Fund leveraging pool. The New Jersey Housing and Mortgage Finance Agency issued tax exempt, twenty year Capital Fund Program Revenue Bonds, 2007 Series A with a face value of \$390,000 on August 2, 2007. The Authority's share of funds from the bond issue pool amounted to \$371,595. Interest accrues at 4.50% and is payable semi-annually on May 1st and November 1st. Repayment of the funds shall be paid solely from Capital Fund allocations received by the Authority from the Department of Housing and Urban Development.

Please refer to the notes to the financial statements for additional information on the Authority's long-term debt.

**BERKELEY HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
AT DECEMBER 31, 2012**

F. Economic Factors and Next Year's Budgets and Rates

The following factors were considered in preparing the Authority's budget for the fiscal year ending December 31, 2013:

1. The state of the economy.
2. The need for Congress to fund the war on terrorism and the continued cut-back on HUD subsidies and grants.
3. The use of the Authority's Unrestricted Net Position of \$442,696 to fund any shortfalls rising from a possible economic turndown and reduced subsidies and grants. The Authority's Unrestricted Net Position appears sufficient to cover any shortfall.
4. The significant increase in health benefits resulting from coverage offered to an additional employee.

G. Contacting the Authority's Financial Management

The financial report is designed to provide a general overview of the Authority's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Grace Dekker, Executive Director, Berkeley Housing Authority, 44 Frederick Drive, Bayville, NJ 08721.

FINANCIAL STATEMENTS

**BERKELEY HOUSING AUTHORITY
STATEMENTS OF NET POSITION
AS OF DECEMBER 31, 2012 AND 2011**

ASSETS		
	<u>2012</u>	<u>2011</u>
Current assets:		
Cash and cash equivalents	\$ 591,180	\$ 654,059
Accounts receivable - HUD	14,718	16,638
Account receivable - tenants, net	3,667	3,460
Accounts receivable - other	-	1,041
Prepaid expenses	<u>-</u>	<u>24,141</u>
Total current assets	<u>609,565</u>	<u>699,339</u>
Non-current assets		
Restricted cash and cash equivalents	290,172	287,469
Capital assets, net	<u>1,344,607</u>	<u>1,472,902</u>
Total non-current assets	<u>1,634,779</u>	<u>1,760,371</u>
Total assets	<u>\$ 2,244,344</u>	<u>\$ 2,459,710</u>
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 34,013	\$ 28,412
Accrued wages and payroll taxes	2,499	2,297
Accrued compensated absences	45,392	43,412
Tenant security deposits	31,084	29,424
Prepaid tenant rents	778	603
Current portion of long term debt	<u>15,000</u>	<u>15,000</u>
Total current liabilities	<u>128,766</u>	<u>119,148</u>
Non-current liabilities:		
Accrued compensated absences, net of current portion	56,052	53,426
Long term debt, net of current portion	<u>305,000</u>	<u>320,000</u>
Total non-current liabilities	<u>361,052</u>	<u>373,426</u>
Total liabilities	<u>489,818</u>	<u>492,574</u>
NET POSITION		
Net position:		
Net investment in capital assets	1,024,607	1,137,902
Restricted	287,223	286,354
Unrestricted	<u>442,696</u>	<u>542,880</u>
Total net position	<u>\$ 1,754,526</u>	<u>\$ 1,967,136</u>

See accompanying notes to financial statements.

**BERKELEY HOUSING AUTHORITY
STATEMENTS OF REVENUES, EXPENSES, AND
CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
Operating revenues:		
Tenant revenue	\$ 318,817	\$ 320,004
HUD grants	1,611,722	1,618,221
Other revenues	<u>87,319</u>	<u>64,906</u>
Total operating revenues	<u>2,017,858</u>	<u>2,003,131</u>
Operating expenses:		
Administrative	278,744	283,629
Tenant services	15,946	15,256
Utilities	254,020	272,382
Ordinary maintenance and operations	197,309	196,931
Insurance expense	31,307	28,824
General expenses	12,526	12,743
Housing assistance payments	1,278,871	1,195,186
Depreciation	<u>135,954</u>	<u>154,153</u>
Total operating expenses	<u>2,204,677</u>	<u>2,159,104</u>
Operating gain (loss)	<u>(186,819)</u>	<u>(155,973)</u>
Non-operating revenue (expense):		
Investment income	21	18
Interest expense	(15,612)	(17,110)
Extraordinary maintenance	<u>(14,000)</u>	<u>(38,136)</u>
Net non-operating revenue (expense)	<u>(29,591)</u>	<u>(55,228)</u>
Income (loss) before capital grants	(216,410)	(211,201)
Capital grants	<u>3,800</u>	<u>7,461</u>
Change in net position	(212,610)	(203,740)
Net position, beginning of year (as restated)	<u>1,967,136</u>	<u>2,170,876</u>
Net position, end of year	<u>\$ 1,754,526</u>	<u>\$ 1,967,136</u>

See accompanying notes to financial statements.

**BERKELEY HOUSING AUTHORITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
Cash Flows from Operating Activities:		
Cash received from tenants	\$ 406,297	\$ 380,759
Cash received from grantors	1,613,817	1,607,982
Cash paid to employees	(327,169)	(363,981)
Cash paid to suppliers	<u>(1,704,671)</u>	<u>(1,658,016)</u>
Net cash flows provided (used) by operating activities	<u>(11,726)</u>	<u>(33,256)</u>
Cash Flows from Capital and Related Financing Activities:		
Purchases of capital assets	(7,659)	(7,461)
Extraordinary maintenance	(14,000)	(38,136)
Principal payments on long-term debt	(15,000)	(15,000)
Capital grant contributions	<u>3,800</u>	<u>7,461</u>
Net cash flows provided (used) by capital and related financing activities	<u>(32,859)</u>	<u>(53,136)</u>
Cash Flows from Investing Activities:		
Investment expense	(15,612)	(17,110)
Investment income	<u>21</u>	<u>18</u>
Net cash flows provided (used) by investing activities	<u>(15,591)</u>	<u>(17,092)</u>
Net increase (decrease) in cash	(60,176)	(103,484)
Cash and cash equivalents, beginning of year	<u>941,528</u>	<u>1,045,012</u>
Cash and cash equivalents, end of year	<u>\$ 881,352</u>	<u>\$ 941,528</u>
	<u>2012</u>	<u>2011</u>
A reconciliation of cash and cash equivalents to Statement of Net Position is as follows:		
Cash and cash equivalents	\$ 591,180	\$ 654,059
Restricted cash and cash equivalents	<u>290,172</u>	<u>287,469</u>
	<u>\$ 881,352</u>	<u>\$ 941,528</u>

See accompanying notes to financial statements.

BERKELEY HOUSING AUTHORITY
STATEMENTS OF CASH FLOWS (continued)
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
Reconciliation of operating gain (loss) to net cash provided (used) by operating activities:		
Operating loss	\$ (186,819)	\$ (155,973)
Items which did not use cash:		
Depreciation	135,954	154,153
Bad debts	2,003	1,385
Working capital changes which provided (used) cash:		
Accounts receivable - HUD	1,920	(10,096)
Accounts receivable - tenants	(2,210)	(2,391)
Accounts receivable - other	1,041	(1,041)
Prepaid expenses	24,141	(21,439)
Accounts payable	5,601	(1,794)
Accrued expenses	202	66
Accrued compensated absences	4,606	6,121
Tenant security deposits	1,660	(2,104)
Prepaid tenant rents	<u>175</u>	<u>(143)</u>
Net cash provided (used) by operating activities	\$ <u>(11,726)</u>	\$ <u>(33,256)</u>

See accompanying notes to financial statements.

**BERKELEY HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization

The Housing Authority of the Township of Berkeley ("Berkeley Housing Authority") (the "Authority") is a public body corporate and politic of the State of New Jersey ("the State") created by the Township of Berkeley ("the Township") under Local Redevelopment and Housing Law (N.J.S.A 40A:12A-1, et seq) of the State. The Authority is responsible for operating certain low-rent housing programs in the Township 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.

At December 31, 2012, the Authority maintained 70 federally funded public housing units, a leased housing program, which is authorized to provide housing assistance payments to approximately 25 families and a Section 8 New Construction Program which provides housing to 100 families through a private landlord.

The Authority is governed by a board of seven members who serve five-year terms. The governing board is essentially autonomous but is responsible to HUD and the State of New Jersey Department of Community Affairs. An executive director is appointed by the Authority's Board to manage the day-to-day operations of the Authority.

B. Description of Programs

The Authority maintains its accounting records by program. A summary of the significant programs operated by the Authority is as follows:

Housing Choice Voucher Program

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

Low Rent Public Housing Program

The public housing program is designed to provide low-cost housing within the Township of Berkeley. 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.

Public Housing Capital Fund Program

The capital fund program provides funds annually, via a formula, to public housing agencies for capital and management activities including modernization and development of public housing units.

BERKELEY HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Description of Programs (continued)

Section 8 New Construction Substantial Rehabilitation Program

The Section 8 New Construction and Substantial Rehabilitation program allows for the construction, purchase and rehabilitation of low-income housing units to be subsidized for a contracted period of time. Both for profit and not-for-profit developers may provide low-income housing under this program. Developers must obtain their own financing and HUD subsidizes rents once the units are occupied. The Authority administers the program for HUD in conjunction with a not-for-profit landlord that owns the contracted units.

C. Reporting Entity

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

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

Based upon the application of these criteria, this report includes all programs and activities operated by the Authority. There were no additional entities required to be included in the reporting entity under these criteria in the current fiscal year. Furthermore, the Authority is not included in any other reporting entity on the basis of such criteria.

D. Basis of Accounting

The Authority's financial statements are prepared in accordance with GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, ("GASB 34"). GASB 34 requires the basic financial statements to be prepared using the economic resources measurement focus and the accrual basis of accounting and requires the presentation of a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Net Assets and Statement Cash Flows. GASB 34 also requires the Authority to include Management's Discussion and Analysis as part of the Required Supplemental Information.

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

BERKELEY HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Basis of Accounting (continued)

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

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

In accordance with GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities that Use Proprietary Fund Accounting*, the aforementioned funds are treated as restricted cash and cash equivalents on the Authority's Statements of Net Assets and Cash Flows.

Both administrative fee and HAP revenue continue to be recognized under the guidelines set forth in GASB Statement No. 33. Accordingly, both the time and purpose restrictions as defined by GASB 33 are met when these funds are available and measurable, not when these funds are expended. The Housing Choice Voucher program is no longer a cost reimbursement grant, therefore the Authority recognizes unspent administrative fee and HAP revenue in the reporting period as revenue for financial statement reporting.

Any investment income earned on these funds is reflected in the net asset account on which the investment income was earned. Investment income earned on HAP cash balances is credited to the HAP restricted net asset account and investment income earned on administrative fee cash balances is credited to the unrestricted net asset account.

E. Use of Management Estimates

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

BERKELEY HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Cash and Cash Equivalents

New Jersey Authorities are required by N.J.S.A. 40A: 5-14 to deposit public funds in a bank or trust company having its place of business in the State of New Jersey and organized under the laws of the United States or State of New Jersey or the New Jersey Cash Management Fund. N.J.S.A. 40A: 5-15.1 provides a list of securities that may be purchased by New Jersey Authorities. The Authority is required to deposit funds in public depositories protected from loss under the provisions of the Governmental Unit Deposit Protection Act ("GUDPA"). GUDPA was enacted in 1970 to protect governmental units from a loss of funds on deposit with a failed banking institution in New Jersey. No governmental unit under GUDPA has ever lost protected deposits.

HUD requires housing authorities to invest excess funds in obligations of the United States, Certificates of Deposit or any other federally insured investment.

HUD also requires that deposits be fully collateralized at all times. Acceptable collateralization includes FDIC insurance and the market value of securities purchased and pledged to the political subdivision. Pursuant to HUD restrictions, obligations of the United States are allowed as security for deposits. Obligations furnished as security must be held by the Authority or with an unaffiliated bank or trust company for the account of the Authority.

For the statement of cash flows, cash and cash equivalents include all cash balances and highly liquid investments with a maturity of three months or less at time of purchase.

It is the Authority's policy to maintain collateralization in accordance with state and HUD requirements.

G. 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. An allowance for doubtful accounts is established to provide for all accounts, which may not be collected in the future for any reason.

The Authority recognizes a receivable from HUD and other governmental agencies for amounts billed but not received and for amounts unbilled, but earned as of year-end.

H. Prepaid Expenses

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

BERKELEY HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

I. Capital Assets, Net

Development costs which are comprised of initial development costs, (acquisition costs, modernization costs, and the costs of urban renewal property), site preparation and property betterments, land, structures and equipment are recorded at historical cost. The costs of demolition expenses are capitalized as land improvements.

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

• Dwelling Equipment	3-7 Years
• Site Improvements	15 Years
• Buildings	40 Years

The Authority has established a capitalization threshold of \$1,000.

Maintenance and repairs expenditures are charged to operations when incurred. Expenditures determined to represent additions or betterments are capitalized. When buildings and equipment are sold or otherwise disposed of, the asset account and related accumulated depreciation account are removed from the books, and any gain or loss is included in operations.

J. Compensated Absences

Accumulated unpaid leave time is accrued at the estimated amounts of future benefits attributable to services already rendered.

Employees may be compensated for accrued vacation leave in the event of retirement or termination of service. Employees may be compensated for sick leave at retirement at the rate of three days for every five days accumulated, payable at the salary rate earned at the time of separation. Employees may only accumulate and carry over to the following year the prior year's unused vacation. The Authority's sick leave policy, in accordance with New Jersey State law, allows employees to carry over unused sick leave without penalty.

K. Operating Revenues and Expenses

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

BERKELEY HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

L. Taxes

The Authority is a governmental entity which is funded primarily by Federal sources and, as such, is exempt from income taxes and Federal unemployment taxes.

M. Equity Classifications

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

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

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

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

N. Economic Dependency

The Section 8 and Low Rent Housing programs of the Authority are economically dependent on operating grants and subsidies from HUD.

O. Inter-program Receivables and Payables

Inter-program receivables/payables are current, and are the result of the use of the Public Housing Program as the common paymaster for shared costs of the Authority. Cash settlements are made periodically and all inter-program balances net to zero. In accordance with GASB Statement No. 34, interprogram receivables and payables are eliminated for financial statement purposes, however they are reflected in the accompanying financial data schedule as required by HUD.

NOTE 2. CASH AND CASH EQUIVALENTS

As of December 31, 2012 and 2011, the Authority had funds on deposit in checking, statement savings and money market accounts.

For the fiscal years ended December 31, 2012 and 2011, the carrying amount of the Authority's cash (including restricted cash) was and \$881,352 and \$941,528 the bank balances were \$886,059 and \$951,915, respectively.

BERKELEY HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 2. CASH AND CASH EQUIVALENTS (continued)

Of the bank balances, \$250,000 and \$250,000 were covered by federal depository insurance and the remaining \$636,059 and \$701,915 were collateralized with the pledging financial institution for the fiscal years ended December 31, 2012 and 2011, respectively.

<u>Cash Account</u>	<u>2012</u>	<u>2011</u>
Insured:		
FDIC	\$ 250,000	\$ 250,000
Collateralized:		
Collateralized amount held by pledging financial institution	<u>636,059</u>	<u>701,915</u>
	<u>\$ 886,059</u>	<u>\$ 951,915</u>

Custodial credit risk is the risk that, in the event of a bank failure, the government's deposits may not be returned to it. The Authority does not have a formal policy for custodial credit risk. As of December 31, 2012 and 2011, the Authority's bank balances were not exposed to custodial credit risk.

NOTE 3. ACCOUNTS RECEIVABLE

Accounts receivable - HUD

Accounts receivable - HUD represents amounts due to the Authority under the Capital Fund Program. At December 31, 2012 and 2011, Accounts receivable - HUD amounted to \$14,718 and \$16,638, respectively. The Authority considers these amounts fully collectible and accordingly, have made no allowance for doubtful accounts.

Accounts receivable - tenants

Accounts receivable - tenants represents amounts due for tenant rents and is shown net of an allowance for doubtful accounts of \$3,666 and \$1,124 for the years ended December 31, 2012 and 2011, respectively.

Accounts receivable - other

Accounts receivable - other consist of amounts due from a vendor as a result of an overpayment on account. The amount was collected in full during the year ended December 31, 2012.

NOTE 4. RESTRICTED CASH

As of December 31, 2012 and 2011, the Authority had restricted cash on deposit in checking, statement savings and money market accounts.

All bank deposits as of the financial statement dates are entirely insured or collateralized by a collateral pool maintained by public depositories as required by GUDPA.

BERKELEY HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 4. RESTRICTED CASH (continued)

Restricted cash consists of the following at December 31, 2012 and 2011

<u>Cash Category</u>	<u>2012</u>	<u>2011</u>
Housing assistance payment reserves	\$ 71,605	\$ 56,757
Capital fund debt leveraging proceeds	186	186
Modernization and development reserves	<u>218,381</u>	<u>230,526</u>
	<u>\$ 290,172</u>	<u>\$ 287,469</u>

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

Capital fund debt leveraging proceeds are restricted for use in the Low Rent Public Housing Program in accordance with the Authority's annual plan.

Modernization and development reserves consist of funds earned in connection with the refunding of bonds originally issued in conjunction with the construction of the Section 8 New Construction Project administered by the Authority. The funds are restricted for use in the Low Rent Public Housing Program.

NOTE 5. CAPITAL ASSETS, NET

The following is a summary of the changes in capital assets for the fiscal years ended December 31, 2012 and 2011:

<u>Description</u>	<u>December 31, 2011</u>	<u>Additions</u>	<u>Dispositions</u>	<u>Transfers</u>	<u>December 31, 2012</u>
<u>Non-depreciable capital assets:</u>					
Land	\$ 31,000	\$ -	\$ -	\$ -	\$ 31,000
Construction in progress	<u>12,301</u>	<u>3,800</u>	<u>-</u>	<u>(3,800)</u>	<u>12,301</u>
Total	<u>43,301</u>	<u>3,800</u>	<u>-</u>	<u>(3,800)</u>	<u>43,301</u>
<u>Depreciable capital assets:</u>					
Buildings	4,562,245	-	-	-	4,562,245
Leasehold improvements	542,330	-	-	-	542,330
Furniture and equipment	<u>136,224</u>	<u>3,859</u>	<u>-</u>	<u>3,800</u>	<u>143,883</u>
Total	<u>5,240,799</u>	<u>3,859</u>	<u>-</u>	<u>3,800</u>	<u>5,248,458</u>
Less: accumulated depreciation	<u>3,811,198</u>	<u>135,954</u>	<u>-</u>	<u>-</u>	<u>3,947,152</u>
Net capital assets	<u>\$ 1,472,902</u>	<u>\$ (128,295)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,344,607</u>

BERKELEY HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 5. CAPITAL ASSETS, NET (continued)

A summary of the changes in capital assets during the year December 31, 2011 were as follows:

Description	December 31, 2010	Additions	Dispositions	Transfers	December 31, 2011
<u>Non-depreciable capital assets:</u>					
Land	\$ 31,000	\$ -	\$ -	\$ -	\$ 31,000
Construction in progress	153,135	7,461	-	(148,295)	12,301
Total	<u>184,135</u>	<u>7,461</u>	<u>-</u>	<u>(148,295)</u>	<u>43,301</u>
<u>Depreciable capital assets:</u>					
Buildings	4,422,427	-	-	139,818	4,562,245
Leasehold improvements	533,853	-	-	8,477	542,330
Furniture and equipment	136,224	-	-	-	136,224
Total	<u>5,092,504</u>	<u>-</u>	<u>-</u>	<u>148,295</u>	<u>5,240,799</u>
Less: accumulated depreciation	<u>3,657,045</u>	<u>154,153</u>	<u>-</u>	<u>-</u>	<u>3,811,198</u>
Net capital assets	<u>\$ 1,619,594</u>	<u>\$(146,692)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,472,902</u>

NOTE 6. PAYMENTS IN LIEU OF TAXES (PILOT)

Under Federal, State and local law, the Authority's programs are exempt from income, property and excise taxes. However, the Authority is required to make payment in lieu of taxes (PILOT) for the PHA Owned Program in accordance with the provisions of its Cooperation Agreement with the Township. Under the Cooperation agreement, the Authority must pay the Township the lesser of 10% of its net shelter rent or the approximate full real property taxes. During the fiscal years ended December 31, 2012 and 2011, PILOT expense was accrued in the amount of \$5,917 and \$7,704, respectively.

NOTE 7. COMPENSATED ABSENCES

Accrued compensated absences of \$101,444 and \$96,838 as of December 31, 2012 and 2011, represents the amount of accumulated leave for which employees are entitled to receive payment in accordance with the Authority's Personnel Policy.

BERKELEY HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 8. NON-CURRENT LIABILITIES

During 2007, the Authority entered into a Capital Fund leveraging pool. The New Jersey Housing and Mortgage Finance Agency issued tax exempt, twenty year Capital Fund Program Revenue Bonds, 2007 Series A with a face value of \$390,000 on August 2, 2007. The Authority's share of funds from the bond issue pool amounted to \$371,595. Interest accrues at 4.50% and is payable semi-annually on May 1st and November 1st. Repayment of the funds shall be paid solely from Capital Fund allocations received by the Authority from the Department of Housing and Urban Development.

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

Year	Principal	Interest	Total
2013	15,000	15,009	30,009
2014	15,000	14,394	29,394
2015	15,000	13,767	28,767
2016	15,000	13,134	28,134
2017	20,000	12,386	32,386
2018 - 2022	105,000	47,155	152,155
2023 - 2027	135,000	17,472	152,472
	<u>\$ 320,000</u>	<u>\$ 133,317</u>	<u>\$ 453,317</u>

Debt service activity for the years ended December 31, 2012 and 2011 consisted of the following:

Description	December 31, 2011	Additions	Deductions	December 31, 2012	Due within one year
Capital fund revenue bonds	\$ 335,000	\$ -	\$ (15,000)	\$ 320,000	\$ 15,000
Accrued compensated absences	<u>96,838</u>	<u>19,115</u>	<u>(14,509)</u>	<u>101,444</u>	<u>45,392</u>
Non-current liabilities	<u>\$ 431,838</u>	<u>\$ 19,115</u>	<u>\$ (29,509)</u>	<u>\$ 421,444</u>	<u>\$ 60,392</u>

Description	December 31, 2010	Additions	Deductions	December 31, 2011	Due within one year
Capital fund revenue bonds	\$ 350,000	\$ -	\$ (15,000)	\$ 335,000	\$ 15,000
Accrued compensated absences	<u>90,717</u>	<u>25,402</u>	<u>(19,281)</u>	<u>96,838</u>	<u>43,412</u>
Non-current liabilities	<u>\$ 440,717</u>	<u>\$ 25,402</u>	<u>\$ (34,281)</u>	<u>\$ 431,838</u>	<u>\$ 58,412</u>

BERKELEY HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 9. PENSION PLAN

A. Public Employee's Retirement System

The Authority participates in the Public Employees Retirement System (PERS), a cost-sharing multiple employer defined benefit pension plan administered by the Division of Pensions within the Department of Treasury, State of New Jersey. PERS provides retirement, death and disability benefits, as well as medical benefits for certain qualified members and beneficiaries. The PERS was established on January 1, 1955 under the provisions of N.J.S.A. 43:15A. The PERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State of New Jersey, Division of Pensions CN-285, Trenton, NJ 08625, (609) 777-1777.

B. Funding Policy

The contribution policy is set by N.J.S.A. 43:15A, Chapter 62, P.L. of 1994 and Chapter 115, P.L. of 1998, and requires contributions by active members and contributing employers. Plan member and employer contributions may be amended by State of New Jersey legislation. Employer's contributions are actuarially determined annually by the Division of Pensions. Employee contributions are currently 5% of base wages. The annual employer contribution includes funding for basic retirement allowances, cost-of-living adjustments, the cost of medical premiums after retirement for qualified retirees, and noncontributory death benefits. The Authority's contribution for 2012 and 2011 amounted to \$30,453 and \$30,161, respectively.

C. Post Employment Retirement Benefits

As part of PERS, the Authority also provides post employment health care benefits and life insurance to all eligible retirees through the State Health Benefits Program (SHBP). Eligibility requires that employees be 55 years or older with at least 25 years of service.

Participants are contractually required to contribute at a rate assessed each year by the SHBP, currently 5.5 percent of annual covered payroll. The SHBP sets the employer contribution rate based on the annual required contribution of the employers (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) of the plan over a period not to exceed thirty years.

Expenditures are recognized based on an actuarial study and report of the SHBP and are recorded as the contractually required premiums are incurred. For the years ended December 31, 2012 and 2011, the Authority incurred \$0 and \$0, respectively for post employment health care benefits, as the Authority currently has no retirees in the system.

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

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

BERKELEY HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 10. RESTRICTED NET POSITION

As of December 31, 2012 and 2011, restricted net position consisted of the following:

	<u>2012</u>	<u>2011</u>
Earnings from bond refunding	\$ 215,618	\$ 229,597
Housing assistance payments	<u>71,605</u>	<u>56,757</u>
Total restricted net position	<u>\$ 287,223</u>	<u>\$ 286,354</u>

Accumulated earnings in connection with the refunding of bonds originally issued in conjunction with the construction of the Section 8 New Construction Project are held in a separate bank account for the benefit of very low income households, including the improvement of the public housing developments known as Magnolia Gardens and Brian Apartments.

Accumulating earnings in connection with the overpayment of housing assistance payments are restricted for rent payments to landlords as part of the housing choice voucher program.

NOTE 11. PRIOR PERIOD ADJUSTMENT / CHANGE OF ACCOUNTING PRINCIPLE

For the year ended December 31, 2012, the Authority adopted Government Accounting Standards Board Opinion No. 65 ("GASB 65") *Items Previously Reported as Assets*. As a result of adopting GASB 65, debt issuance costs were reduced \$15,319 and beginning net assets as of January 1, 2011 were reduced by \$14,418 along with the related amortization expense of \$901.

Beginning net position also decreased by \$67,457 to correct an error in reporting accrued compensated absences for fiscal year 2011 where accrued sick time was not being reported. Under the personnel policy agreement, upon retirement the employee will be paid 85% of sick days at their current rate of pay up to \$15,000. As a result of the restatement, accrued compensated absences in 2011 were increased by \$67,457.

NOTE 12. RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts, theft, damage, and destruction of assets; errors and omissions; and natural disasters. The Authority 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 2012, 2011, and 2010 except for deductibles.

BERKELEY HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 13. CONTINGENCIES

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

NOTE 14. 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 Authority through May 14, 2013 (the date the financial statements were available to be issued) and concluded that no subsequent events occurred that would require disclosure in the notes to the financial statements.



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

To the Board of Commissioners
Berkeley Housing Authority:

We have audited the financial statements of Berkeley Housing Authority ("the Authority") as of and for the year ended December 31, 2012, and have issued our report therein dated May 14, 2013. 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.

Internal Control Over Financial Reporting

Management of the Authority is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

**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 (continued)**

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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 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.

May 14, 2013
Toms River, New Jersey

Fallon & Larsen LLP



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

To the Board of Commissioners
Berkeley Housing Authority:

Report on Compliance for Each Major Federal Program

We have audited the Berkeley Housing Authority compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on each of Berkeley Housing Authority's major federal programs for the year ended December 31, 2012. Berkeley Housing Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Berkeley 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 OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Berkeley 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 Berkeley Housing Authority's compliance.

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

Opinion on Each Major Federal Program

In our opinion, Berkeley 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 December 31, 2012.

Report on Internal Control Over Compliance

Management of Berkeley 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 Berkeley 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 OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Berkeley 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 combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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

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

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

We have audited the financial statements of Berkeley Housing Authority as of and for the year ended December 31, 2012, and have issued our report thereon dated May 14, 2013, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

May 14, 2013
Toms River, New Jersey

Fallon & Larsen LLP

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