

**HOUSING AUTHORITY OF THE CITY OF NEW BERN,  
NORTH CAROLINA  
HUD Project No. NC005**

Financial Statements

December 31, 2017

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## INDEPENDENT AUDITORS' REPORT

To the Board of Commissioners  
Housing Authority of the City of New Bern  
New Bern, North Carolina

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of the business-type activities of the Housing Authority of the City of New Bern, North Carolina, HUD Project No. NC005, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Housing Authority of the City of New Bern's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditors' Responsibility***

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Housing Authority of the City of New Bern as of December 31, 2017, and the changes in its net position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 8 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.

### *Supplementary and Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Housing Authority of the City of New Bern's basic financial statements. The budgetary schedule, certificates of actual capital fund program costs, as well as the schedule of expenditures of federal awards as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and the Financial Data Schedule required by the U.S. Department of Housing and Urban Development are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The budgetary schedule, certificates of actual capital fund program costs, the schedule of expenditures of federal awards, as well as the Financial Data Schedule are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated July 16, 2018, on our consideration of the Housing Authority of the City of New Bern'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 Housing Authority of the City of New Bern's internal control over financial reporting and compliance.

*Thomas, Judy & Dicks, P.A.*

July 16, 2018

## HOUSING AUTHORITY OF THE CITY OF NEW BERN, NORTH CAROLINA

Management's Discussion and Analysis  
For the Year ended December 31, 2017

The management of the Housing Authority of the City of New Bern (the "Authority") offers readers of the Authority's financial statements this management's discussion and analysis to (a) assist the reader in focusing on significant financial issues, (b) provide an overview of the Authority's financial activity, (c) identify changes in the Authority's financial position, and (d) identify individual fund issues or concerns for the fiscal year ended December 31, 2017.

Since the Management's Discussion and Analysis (MD&A) is designed to focus on the current year's activities, resulting changes and currently known facts, we encourage readers to read it in conjunction with Authority's financial statements, which follow this narrative.

### Financial Highlights

- The Authority's Net Position decreased by \$98,729 (or .75%) to \$12,898,538 as compared to fiscal year end 2016. Net Position invested in capital assets, net of related debt decreased by \$482,629 (or 5.53%) to \$8,243,593 as compared to fiscal year 2016.
- Unrestricted Net Position increased by \$383,900 (or 8.99%) to \$4,654,945 as compared to fiscal year 2016.
- The business-type activity operating revenues decreased by \$1,711,949 (or 41.38%) to \$2,425,513 for the year ended December 31, 2017.
- Total operating expenses of all the Authority's programs decreased by \$1,923,524 (or 36.11%) to \$3,406,433 for the year ended December 31, 2017.

### Overview of the Financial Statements

The Authority's annual report consist of three major components; 1) the "Management's Discussion and Analysis (MD&A)", 2) "Basic Financial Statements", and 3) "Other Required Supplementary Information". Because the Authority is a special-purpose government entity engaged in business-type activities only, the financial statements are presented in accordance with paragraph 138 of GASB Statement 34. In addition to the management's discussion and analysis, management has prepared the Statement of Net Position, the Statement of Revenues, Expenses and Change in Net Position, the Statement of Cash Flows, and Notes to the Financial Statements following the MD&A.

The Statement of Net Position, which is similar to a Balance Sheet, reports all financial and capital resources for the Authority. The statement is presented in the format where assets minus liabilities, equals "Net Position", formerly known as equity. Assets and liabilities are classified as "Current" (convertible within one year) and "Non-Current"

The focus of the Statement of Net Position is designed to represent the net available liquid (non-capital) assets, net of liabilities, for the entire Authority. Net Position is reported in three broad categories, Invested in Capital Assets, Net of Related Debt, Restricted, and Unrestricted.

Net Position, Invested in Capital, Net of Related Debt consists of all Capital Assets, 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 restricted assets, when constraints are placed on the assets by creditors, grantors, contributors, laws, regulations, etc. The Authority had \$0 in Restricted Assets as of December 31, 2017.

**HOUSING AUTHORITY OF THE CITY OF NEW BERN, NORTH CAROLINA**  
Management's Discussion and Analysis  
For the Year ended December 31, 2017

Unrestricted Net Position consist of amounts that do not meet the definition of "Invested in Capital Assets, Net of Related Debt", or "Restricted".

The Statement of Revenues, Expenses, and Changes in Net Position which is similar to an Income Statement, includes Operating Revenues such as rental income, Operating Expenses such as administrative, utilities, maintenance, and depreciation, and Non-Operating Revenue and Expenses, such as grant revenue, investment income, and interest expense.

The Statement of Cash Flows discloses net cash provided by, or used for operating activities, non-capital financing activities, and from capital and related financing activities.

In addition to the financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of the Authority.

### **Overview of the Authority**

The Housing Authority of the City of New Bern's primary mission is to provide affordable low income housing to those eligible in the City of New Bern area as determined by the US Department of Housing and Urban Development (HUD). The Authority's operations and capital fund programs are funded almost entirely through rental fees and subsidies received from HUD.

### **Fund Financial Statements**

The financial statements are presented on the fund basis. The fund financial statements provide a more detailed look at the Authority's most significant activities by focusing on the individual activities of the major funds. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Authority, like all other governmental entities in North Carolina, uses fund accounting to ensure and reflect compliance, or non-compliance, with finance-related legal requirements, such as the General Statutes (G.S.), the Authority's budget ordinance, or applicable HUD guidelines. The focus is now on the activities of the major funds, and not on the type of fund. The Authority maintains several different funds based on their activities as required by HUD and for accountability and control. All of the funds are enterprise funds which use the full accrual basis of accounting and account for the Authority's activities in a manner similar to a for-profit business.

### **Notes to the Financial Statements**

The next section of the financial statements is the notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements are on pages 13-23 of this report. After the notes, supplemental information is provided to show other financial information about the Authority's individual funds.

### **Other Information**

In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information required by the US Department of Housing and Urban Development.

**HOUSING AUTHORITY OF THE CITY OF NEW BERN, NORTH CAROLINA**  
Management's Discussion and Analysis  
For the Year ended December 31, 2017

**The Authority's Net Position**  
**Figure 1**

	2017	2016
Current assets	\$ 4,089,437	\$ 4,259,767
Capital assets	8,243,593	8,726,222
Noncurrent assets	5,352,772	4,743,482
Total assets	\$ 17,685,802	\$ 17,729,471
Current liabilities	\$ 134,515	\$ 82,128
Non-current liabilities	4,652,749	4,650,076
Total liabilities	4,787,264	4,732,204
Net position:		
Investment in capital assets, net of related debt	8,243,593	8,726,222
Unrestricted	4,654,945	4,271,045
Total net position	\$ 12,898,538	\$ 12,997,267

Net Position may serve over time as one useful indicator of a government's financial condition. The assets of the Authority exceeded liabilities by \$12,898,538 as of December 31, 2017. The Authority's Net Position decreased by \$98,729 for the fiscal year ended December 31, 2017. The largest portion of Net Position (63.91%) reflects the Authority's investment in capital assets (e.g. Land, buildings, machinery, and equipment), less any outstanding debt issued to acquire those items. The Authority uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. The Authority's investment in its capital assets has no outstanding debt issued to acquire those items. Included in noncurrent assets are Notes Receivable of \$4,130,000 for the capital lease from the Craven Terrace project. An offsetting liability of \$4,130,000 is included in noncurrent liabilities. The remaining balance consists of \$0 restricted funds and \$4,654,945 of unrestricted funds.

**HOUSING AUTHORITY OF THE CITY OF NEW BERN, NORTH CAROLINA**  
 Management's Discussion and Analysis  
 For the Year ended December 31, 2017

**Authority's Changes in Net Position**  
**Figure 2**

	Building-type Activities <u>2017</u>	Building-type Activities <u>2016</u>
Operating revenues:		
Tenant rental revenue	\$ 845,681	\$ 828,398
Rental assistance payments	597,551	568,574
Tenant revenue other	155,279	133,294
Non Tenant rental revenue	18,000	0
Capital fund operations	23,411	530,796
Operating subsidy-HUD	785,591	2,076,400
Total operating revenues	<u>2,425,513</u>	<u>4,137,462</u>
Operating expenses:		
Administration	886,264	994,798
Tenant services	5,542	12,474
Utilities	693,751	734,795
Ordinary maintenance	634,956	652,622
Insurance	142,018	147,871
Protective services	10,587	7,070
General expense	86,399	1,864,788
Depreciation	946,920	915,539
Total operating expenses	<u>3,406,437</u>	<u>5,329,957</u>
Loss from operations	<u>(980,924)</u>	<u>(1,192,495)</u>
Non-operating revenues (expenses):		
Interest income	110,270	109,539
Capital grants	432,045	192,678
Development fee/other income	339,880	285,202
Other government grants		78,165
Total non-operating revenues	<u>882,195</u>	<u>665,584</u>
Decrease in net position	<u>(98,729)</u>	<u>(526,911)</u>
Net position, beginning of year	12,997,267	13,524,178
Net position, end of year	<u>\$ 12,898,538</u>	<u>\$ 12,997,267</u>

**Capital Assets**

The Authority's investment in capital assets as of December 31, 2017, totals \$8,243,593 (net of accumulated depreciation). These assets include land, buildings and improvements, furniture, equipment and vehicles. Capital asset includes building and land lease to the Craven Terrace project in the net amount of \$4,205,210.

Major capital asset transactions during the year include additions to building and improvements of \$415,037, Furniture and Equipment of \$32,243 and Vehicles of \$17,011.

**HOUSING AUTHORITY OF THE CITY OF NEW BERN, NORTH CAROLINA**  
 Management's Discussion and Analysis  
 For the Year ended December 31, 2017

**Authority's Capital  
 Assets Figure 3**

	Capital Asset 2017	Capital Asset 2016
Land	\$ 22,999	\$ 22,999
Buildings and improvements	35,536,525	35,121,488
Furniture and equipment	400,629	368,386
Vehicles	159,055	142,044
Accumulated Depreciation	(27,875,615)	(26,928,695)
Total	\$ 8,243,593	\$ 8,726,222

Additional information on the Authority's capital assets can be found in note 2 of the basic financial statements.

**Economic Factors**

- Federal funding provided by Congress to the Department of Housing and Urban Development
- Local labor supply and demand, which can affect salary and wage rates
- Local inflationary, recessionary, and employment trends, which can affect resident incomes and therefore the amount of rental income
- Inflationary pressure ON supplies and other cost

**Accomplishments**

Trent Court has 218 units of public housing. Built in 1941, it is quite difficult to maintain and is functionally obsolete. Its location, adjacent to Lawson's Creek, is quite attractive and desirable for redevelopment.

In furtherance of the recently completed Greater Five Points Transformation Plan, which was prepared under the auspices of a HUD Choice Neighborhood Initiative Planning Grant, we procured the services of a developer in 2016 to create a plan for its implementation. The first step is to submit a Low-Income Housing Tax Credit application to build 80 units of affordable, off-site housing. A feasible and competitive site was identified and we are attempting to secure an option (which is necessary in order to submit an application.) Numerous meeting were held with Trent Court residents and other stakeholders throughout the year.

Trent Court roofs were replaced using Capital Fund Program resources. There have been no leaks or associated damage since completion. Payback is expected within five years.

In anticipation of the eventual transformation of Trent Court, seventeen underground storage tanks were either abated or removed.

**HOUSING AUTHORITY OF THE CITY OF NEW BERN, NORTH CAROLINA**  
Management's Discussion and Analysis  
For the Year ended December 31, 2017

New Bern Towers consists of 106 apartments for seniors through Section 8 Project-Based Rental Assistance. We continue to invest in this property, addressing deferred maintenance items. Having completed improvements to common areas and the building's infrastructure, in 2017 we started upgrading individual dwelling units. Improvements include, but are not limited to, replacement carpets, ceiling fans and light fixtures, countertops and bath fixtures.

**Requests for Information**

This report is designed to provide an overview of the Authority's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to:

Martin Blaney  
Executive Director  
Housing Authority of the City of New Bern  
P.O. Box 1486  
New Bern, North Carolina 28563

**HOUSING AUTHORITY OF THE CITY OF NEW BERN, NORTH CAROLINA**  
**STATEMENT OF NET POSITION**  
December 31, 2017

**ASSETS**

Current assets:

Cash and cash equivalents	\$ 2,791,425
Cash - tenant security deposits	73,549
Tenant receivables, net	16,301
Accounts receivable - HUD	296,805
Accounts receivable - other, net	10,108
Accounts receivable - related party	68,704
Development fee receivable	695,033
Inventories, net	9,083
Prepaid items	128,429

Total current assets	4,089,437
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Capital assets:

Land	22,999
Other depreciable assets, net of depreciation	8,220,594

Total capital assets	8,243,593
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Noncurrent assets:

Interest receivable	222,772
Capital lease receivable	4,130,000
Notes receivable - related party	1,000,000

Total noncurrent assets	5,352,772
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Total assets	\$ 17,685,802
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LIABILITIES

Current liabilities:

Accounts payable	\$	47,670
Resident counsel escrow		1,355
Tenant security deposits		73,549
Compensated absences, current		7,583
Unearned revenue		4,358

Total current liabilities 134,515

Noncurrent liabilities:

Capital lease obligation		4,130,000
Note payable		500,000
Compensated absences, non-current		22,749

Total noncurrent liabilities 4,652,749

Total liabilities \$ 4,787,264

NET POSITION

Net investment in capital assets	\$	8,243,593
Unrestricted		4,654,945

Total net position \$ 12,898,538

**HOUSING AUTHORITY OF THE CITY OF NEW BERN, NORTH CAROLINA**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET POSITION**  
For The Year Ended December 31, 2017

Operating revenues:	
Tenant rental revenue	\$ 845,681
Rental assistance payments	597,551
Tenant revenue - other	155,279
Non Tenant rental revenue	18,000
Operating subsidy - HUD	785,591
Capital fund - operations	<u>23,411</u>
Total operating revenues	<u>2,425,513</u>
Operating expenses:	
Administration	886,264
Tenant services	5,542
Utilities	693,751
Ordinary maintenance	634,956
Insurance	142,018
Protective services	10,587
General expense	86,399
Depreciation	<u>946,920</u>
Total operating expenses	<u>3,406,437</u>
Operating loss	<u>(980,924)</u>
Non-operating revenues:	
Capital grants	432,045
Development fee	339,880
Interest income	<u>110,270</u>
Total non-operating revenues	<u>882,195</u>
Change in net position	(98,729)
Net position, beginning of year	<u>12,997,267</u>
Net position, end of year	<u><u>\$ 12,898,538</u></u>

**HOUSING AUTHORITY OF THE CITY OF NEW BERN, NORTH CAROLINA**  
**STATEMENT OF CASH FLOWS**  
For The Year Ended December 31, 2017

Cash flows from operating activities:	
Cash received from tenants	\$ 1,590,998
Cash paid for goods and services	(1,352,503)
Cash paid to employees	(1,014,954)
Non Tenant rental revenue	18,000
Operating grants and subsidies	<u>721,111</u>
Net cash used by operating activities	<u>(37,348)</u>
Cash flows from capital and related financing activities:	
Capital grants	432,045
Acquisition of capital assets	(464,291)
Other government grants	<u>7,182</u>
Net cash used by capital and related financing activities	<u>(25,064)</u>
Cash flows from investing activities:	
Decrease in accounts receivable - other	127,262
Increase in accounts receivable - related party	(11,235)
Increase in notes receivable - related party	(500,000)
Interest on investments	<u>980</u>
Net cash used by investing activities	<u>(382,993)</u>
Net decrease in cash and cash equivalents	(445,405)
Cash and cash equivalents at beginning of year	<u>3,236,830</u>
Cash and cash equivalents at end of year	<u>\$ 2,791,425</u>
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	\$ (980,924)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation	946,920
(Increase) decrease in tenant rents receivable	(6,148)
(Increase) decrease in operating grant receivable	(87,891)
(Increase) decrease in supplies inventory	25,019
(Increase) decrease in prepaid expenses	13,623
Increase (decrease) in accounts payable and accrued liabilities	46,445
Increase (decrease) in prepaid rent	685
Increase (decrease) in resident counsel escrow	1,356
Increase (decrease) in accrued vacation pay	<u>3,563</u>
Total adjustments	<u>943,572</u>
Net cash used by operating activities	<u>\$ (37,352)</u>

**HOUSING AUTHORITY OF THE CITY OF NEW BERN, NORTH CAROLINA**  
NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2017

1. Summary of Significant Accounting Policies

The accounting policies of the Housing Authority of the City of New Bern, North Carolina (the "Authority") conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant accounting policies.

A. Reporting Entity

The Housing Authority of the City of New Bern, North Carolina, is a public body and a body corporate and politic created under the authority of Chapter 157 of the General Statutes of North Carolina. The Authority was created for the purpose of providing safe and sanitary housing for the low-income citizens of the City of New Bern (the "City").

To accomplish this purpose, the City appoints a Governing Board of Commissioners, but the Board designates its own management. Additionally the Authority has entered into annual contribution contracts with the U.S. Department of Housing and Urban Development ("HUD") to be the administrator of the housing related programs described herein.

In determining how to define the reporting entity, management has considered all potential component units by applying the criteria set forth in Section 2100 and 2600 of the *Codification of the Government Accounting Standards Board and Financial Accounting Standards Board and Statement Number 39 and Statement Number 80 of the Government Accounting Standards Board, the Financial Reporting Entity*.

*Financial Accountability* – The Authority is responsible for its own debts, does not impose a financial burden on the City of New Bern, and is entitled to all surpluses. No separate agency receives a financial benefit nor imposes a financial burden on the Authority.

*Appointment of a Voting Majority* – The Authority is governed by a Board of Commissioners and has governance responsibilities over all activities related to all housing activities within the City of New Bern. The Board of Commissioners has decision-making authority and the power to designate management. The members do not serve at the discretion of the City; i.e., they can be removed only for cause. The Authority's Board elects its own chairperson.

*Imposition of Will* – The City has no influence over the management, budget, or policies of the Authority. The Authority's Board of Commissioners has the responsibility to significantly influence the Authority's operations. This includes, but is not limited to, adoption of the budget, personnel management, signing contracts, issuing bonds, and deciding which programs are to be provided.

On the basis of the application of these criteria, the Authority is a legally separate entity that is fiscally independent of other governments; therefore, the Authority is not included in the City of New Bern's financial reports.

Blended Component Unit – Although legally separate, Transformation Venture Capital is reported as if it was part of the Authority.

Transformation Venture Capital ("TVC") is organized as a non-profit to develop, acquire, rehabilitate, construct, operate and maintain decent and affordable public housing for low income families and the elderly in New Bern, North Carolina and associated regions.

Condensed combining information regarding the blended component unit is provided in Note 3.

**HOUSING AUTHORITY OF THE CITY OF NEW BERN, NORTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
December 31, 2017

1. Summary of Significant Accounting Policies (Continued)

B. Description of a Public Housing Authority

Funding for public housing authorities is received from the United States Department of Housing and Urban Development ("HUD") and from participants in public housing programs.

The Authority has 324 units in management.

<u>Management</u>	<u>Units</u>
Owned Housing	218
HAPs Program	<u>106</u>
	<u>324</u>

C. Basis of Presentation – Enterprise Fund Accounting

The Authority's accounts are organized as an enterprise fund. The operations are accounted for with a set of self-balancing accounts that comprise its assets, liabilities, net position, revenues and expenses. Enterprise funds are used to account for operations that provide a service to the public financed by charges to users of that service and activities where the periodic measurement of net income is deemed appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

D. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Enterprise funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of this fund are included on the statement of net position, which is the result of deducting all the liabilities from all the assets. Net position is segregated into three components: 1) net investment in capital assets, 2) restricted assets, and 3) unrestricted assets. Operating statements for this fund present increases (e.g., revenues) and decreases (e.g., expenses) in total net position.

All funds of the Authority are maintained on the modified accrual basis during the year; however, the financial statements for the Authority have been reported on the accrual basis. Under this basis, revenues are recorded when earned and expenses are recorded when incurred. In converting from the modified accrual basis to the full accrual basis, the changes required may include adjustments for unpaid interest, depreciation, prepaid tenant rents payments of principal on outstanding debt, and capital outlay.

**HOUSING AUTHORITY OF THE CITY OF NEW BERN, NORTH CAROLINA**  
NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2017

1. Summary of Significant Accounting Policies (Continued)

E. Budgetary Data

The Authority maintains budgetary controls over all funds, as required by North Carolina General Statute 159-42 (c-d) and the terms of the Authority's annual contributions contract with HUD. An annual budget is adopted for all enterprise funds, except for capital project funds. A multi-year budget is adopted for those funds. Expenditures may not legally exceed appropriations at the departmental level for the enterprise funds or at the object level for the capital project subsidiary fund. The management of the Authority may transfer appropriations within a fund up to \$500 without Board approval, except that all increases in appropriation to administration and capital expenditures must be approved by the Board. The budget was prepared on the modified accrual basis of accounting. The budget presented in these statements is the budget ordinance as amended through December 31, 2017.

F. Assets, Deferred Outflow of Resources, Liabilities, Deferred Inflow of Resources, and Net Position

Deposits and Investments

All deposits of the Authority are made in board-designated official depositories and are secured as required by HUD regulations. The Authority may designate as an official depository any bank or savings and loan association whose principal office is located in North Carolina. Also, the Authority may establish time deposit accounts such as NOW and Super NOW accounts, money market accounts, and certificates of deposit.

Section 401(e) of the federal annual contribution contract authorizes the Authority to invest excess funds in instruments issued by or guaranteed by the federal government. The Authority practices this policy for all invested funds, regardless of source. Investments with a maturity of more than one year at acquisition and non-money market investments are carried at fair value as determined by quoted market prices. Money market investments that have a maturity at the time of purchase of one year or less are carried at amortized cost.

As required by the annual contributions contract, the Authority prepares cash forecasts for each program to determine the amount of funds available for investment and to maximize investment earnings. During the fiscal year and at year-end, all cash was held in the form of interest bearing accounts. The deposits and certificates of deposit with an original maturity of three months or less are considered cash and cash equivalents for the Statement of Cash Flows. At December 31, 2017, the Authority had \$516,863 in cash equivalents.

Due from the United States Department of Housing and Urban Development

The amount due from HUD as of December 31, 2017 consisted of the Capital Fund Program payments earned as of December 31<sup>st</sup> but not received as of that date.

Allowance for Doubtful Accounts

All receivables that historically experience uncollectable accounts are shown net of an allowance for doubtful accounts. This amount is estimated by analyzing the percentage of receivables that were written off in prior years. The allowance was \$5,434 for tenant receivables and \$0 for other receivables at December 31, 2017.

**HOUSING AUTHORITY OF THE CITY OF NEW BERN, NORTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
December 31, 2017

1. Summary of Significant Accounting Policies (Continued)

Prepaid Items

Payments made to vendors for services that will benefit periods beyond the fiscal year-end are recorded as prepaid.

Capital Assets

Donated capital assets received prior to December 31, 2014 are stated at their estimated fair value on the date donated. This includes site acquisition and improvements, structures, and equipment. Donated capital assets received on or after January 1, 2015, are recorded at amortized cost, the price is adjusted for transportation costs but would not otherwise be adjusted for transaction costs.

Other capital assets are recorded at historical cost at the date of acquisition. It is the policy of the Authority to capitalize all assets costing more than \$1,000 with an estimated useful life of two or more years. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Capital assets are depreciated on a straight-line basis over the following estimated useful lives in years:

Buildings and improvements	15 - 40 years
Furniture and equipment	3 - 10 years
Vehicles	5 years

Inventories

Inventories are recorded at the lower of cost or net realizable value using the First-In, First-Out (FIFO) method. The Authority's inventory consists mostly of expendable supplies that are recorded as an expense as it is consumed or sold.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *Deferred Outflows of Resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The Authority has no items that meet this criterion. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *Deferred Inflows of Resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The Authority has no items that meet the criterion for this category.

Unearned Revenue

Unearned revenue consists of rental payments made by tenants in advance of their due date.

Compensated Absences

The Authority allows its full time employees to accumulate earned vacation leave, and such leave is fully vested when earned. An expense and a liability for compensated absences and the salary-related payments are recorded as the leave is earned.

Employees can accumulate 96 hours of sick leave annually and can be rolled forward indefinitely. Sick leave does not vest. Since the Authority has no obligation for the accumulated sick leave until it is actually taken, no accrual for sick leave has been made.

**HOUSING AUTHORITY OF THE CITY OF NEW BERN, NORTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
December 31, 2017

1. Summary of Significant Accounting Policies (Continued)

Operating Revenues

Subsidies received from HUD or other grantor agencies for operating purposes, are recorded as operating revenues. Those that are received for capital purposes are recorded as a capital contribution and is included in non-operating revenues.

Net Position

Net position is classified into three parts; net investment in capital assets, restricted, and unrestricted. Restricted net position represent constraints on resources that are either externally imposed (as by creditors, grantors, contributors, or laws or regulations of other governments), or imposed by the law.

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 the reported amounts of assets and liabilities and the 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. Actual results could differ from these estimates.

Advertising

Advertising costs are expensed as incurred. The Authority had \$0 of advertising expense during the year ended December 31, 2017.

Impairment of Long-Lived Assets

Accounting principles generally accepted in the United States of America require that long-lived assets and certain identifiable intangibles held and used by an entity be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The adoption of this accounting principle has not materially affected the Authority's reported earnings, financial condition or cash flows.

Income Taxes

As a political subdivision of the State of North Carolina, the Authority is exempt from federal and State income taxes.

2. Detailed Notes on All Funds

A. Assets

Deposits

The Authority's deposits are either insured or are collateralized using the dedicated method. Under the dedicated method of collateralization, all deposits that exceed the federal depository insurance coverage level are collateralized with securities held by the Authority's agent in the Authority's name. At the year-end, the Authority's deposits had a carrying amount of \$2,864,974 and a bank balance of \$2,942,158. Of the bank balance \$392,941 was covered by federal depository insurance and \$2,549,217 was covered by collateral held under the dedicated method. The Authority's total cash balances were fully insured. The Authority has \$200 of cash on hand at December 31, 2017.

Investments

At December 31, 2017 the Authority had no investments.

**HOUSING AUTHORITY OF THE CITY OF NEW BERN, NORTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
December 31, 2017

2. Detailed Notes on All Funds (Continued)

Tenant receivable – allowance for doubtful accounts

At December 31, 2017, the Authority's allowance for doubtful accounts was \$5,434.

Due from U.S. Department of HUD

The following amounts were due from HUD at December 31, 2017:

Capital Grants \$ 296,805

Development Fee Receivable

The Development Fee Receivable is due to the Authority upon completion of the initial development and construction budget for The Craven Terrace project. At December 31, 2017, \$695,033 has been earned but not paid.

Changes in Capital Assets

The capital assets of the Authority at December 31, 2017 consisted of the following:

	<u>Balance at</u> <u>12/31/16</u>	<u>Additions</u>	<u>Transfers</u>	<u>Balance at</u> <u>12/31/17</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 22,999	\$ _____	\$ _____	\$ 22,999
Total capital assets not being depreciated	<u>22,999</u>	<u>_____</u>	<u>_____</u>	<u>22,999</u>
Capital assets being depreciated:				
Buildings and improvements	35,121,488	415,037		35,536,525
Furniture and equipment	368,386	32,243		400,629
Vehicles	142,044	17,011		159,055
Total assets	<u>35,631,918</u>	<u>464,291</u>		<u>36,096,209</u>
Less accumulated depreciation	<u>26,928,695</u>	<u>946,920</u>		<u>27,875,615</u>
Depreciable assets - net	<u>8,703,223</u>	<u>\$ (482,629)</u>	<u>\$ _____</u>	<u>8,220,594</u>
Total capital assets - net	<u>\$ 8,726,222</u>			<u>\$ 8,243,593</u>

B. Liabilities

Pension Plan Obligation

The Authority provides a defined contribution pension plan through the Principal Financial Group for all eligible full-time employees. The Board of Commissioners authorized participation in the pension plan. The Authority contributes an amount equal to 6.8% of each employee's annual compensation to the plan. Employees are not required to contribute to the plan. Pension expense totaled \$41,137, \$37,814, and \$57,686 for the years ended December 31, 2017, 2016, and 2015 respectively. The financial statements for the plan are available by contacting Billings and Company at 712-239-0314 or by writing to 2020 Indian Hills Drive, Sioux City, IA 51104.

**HOUSING AUTHORITY OF THE CITY OF NEW BERN, NORTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
December 31, 2017

2. Detailed Notes on All Funds (Continued)

Capital Lease Obligation/Receivable

In December 2015, the Authority entered into a 99 year lease as a lessor with Craven Terrace, LP and Craven Terrace Phase II, LP (collectively known as the "Partnerships") whereby the Authority leases to the Partnerships land and buildings. The Partnerships agreed to pay a total base rental amount of \$4,130,000 to the Authority. Annual payments are due following completion of construction, but only if cash flows of the project allows. The interest rate on the lease is 2.61% and accrues annually. Total accrued interest was \$222,772 at December 31, 2017. An obligation in the amount of \$4,130,000 and a corresponding receivable have been recorded at December 31, 2017.

Assets held under the capital lease and the related accumulated depreciation have been included in property and equipment as follows as of December 31, 2017:

Building	\$ 18,599,045
Less Accumulated Depreciation	<u>14,392,504</u>
	<u>\$ 4,206,541</u>

Long Term Debt

On March 30, 2016, TVC received a direct subsidy of \$500,000 from a FHLB Pittsburgh with no stated interest. No payments of principal are due until maturity, December 18, 2055. The proceeds of this loan were lent to the Authority, which then lent the proceeds to Craven Terrace LP as disclosed in Footnote 2.C.

Changes in Long-term Liabilities

	<u>Balance at</u> <u>12/31/16</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at</u> <u>12/31/17</u>	<u>Current</u> <u>Portion</u>
Compensated absences	\$ 26,768	\$ 45,953	\$ 42,390	\$ 30,331	\$ 7,583
Capital lease obligation	4,130,000			4,130,000	
Note payable	<u>500,000</u>			<u>500,000</u>	
	<u>\$ 4,656,768</u>	<u>\$ 45,953</u>	<u>\$ 42,390</u>	<u>\$ 4,660,331</u>	<u>\$ 7,583</u>

Conduit Debt

Mortgage revenue bonds related to the original acquisition and later modernization of the public housing developments were issued in 2015. These bonds were secured by a deed of trust, security agreement, and assignment of revenues from the project. This obligation does not constitute a debt or pledge of faith and credit of the Authority and accordingly, has not been reported in the accompanying financial statements.

The original amount issued totaled \$16,050,000 and as of December 31, 2017, \$13,788,718 remained outstanding.

**HOUSING AUTHORITY OF THE CITY OF NEW BERN, NORTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
December 31, 2017

2. Detailed Notes on All Funds (Continued)

C. Related Party Transactions

Accounts Receivable

Accounts Receivable – Related Party consists of amounts due from Better Vision Housing Corporation and Craven Terrace.

Better Vision Housing Corporation (“BVHC”) is a nonprofit instrumentality created in 2013 to work with the Authority in developing new housing for the citizens of New Bern and rehabilitating existing units in the Authority. During 2017, various projects were considered and put before the Board of Commissioners. The Authority paid for various expenses on behalf of BHVC related to these projects and as of December 31, 2017 operating accounts receivable amounts due were \$10,724.

The Authority agreed to provide supportive services for Craven Terrace LP for a contracted fee of 2.50% payable within 60 days following the end of Craven Terrace’s fiscal year. Supportive services fees on behalf of Craven Terrace LP as of December 31, 2017 due were \$57,980.

Notes Receivable – Related Party

Notes receivable related party represents \$500,000 receivable from Craven Terrace LP and \$500,000 receivable for Craven Terrace Phase II, LP to the Authority. There is no stated interest and annual repayments are due following completion of construction, but only if cash flows from the project allow.

Development Fee

Craven Terrace LP and Craven Terrace Phase II, LP (collectively known as “the Partnerships”) signed a lease with the Authority for the Craven Terrace land and buildings (see note 3). The Authority’s blended component unit, Transformation Venture Capital, is .005% owner in the Partnerships. The Authority has signed an agreement whereby the Partnerships will reimburse a total of \$781,353 in development fees for the Authority’s assistance with redeveloping Craven Terrace. As of December 31, 2017, \$695,033 is receivable.

D. Risk Management

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

In accordance with G.S. 159-42, the Authority’s finance office is individually bonded for \$50,000. The Authority also has a blanket bond for the remaining employees who have access to inventories in the amount of \$100,000.

The Authority carries commercial insurance against all other risks of loss, including property and general liability insurance. There have been no significant reductions in insurance coverage in the prior year, and settled claims from these risks have not exceeded commercial insurance coverage in any of the last three fiscal years.

**HOUSING AUTHORITY OF THE CITY OF NEW BERN, NORTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
December 31, 2017

2. Detailed Notes on All Funds (Continued)

E. Claims and Judgments

At December 31, 2017, the Authority was not a defendant to any lawsuit. No provision was made in the audited financial statements for any contingent liabilities. In the opinion of management and the Authority attorney, there are no legal matters that will have a materially adverse effect on the Authority's financial position.

3. Blended Component Unit

Condensed combining information for the Authority's blended component unit for the year ended December 31, 2017, is presented as follows:

Condensed Statement of Net Position  
December 31, 2017

	<u>Transformation Venture Capital</u>	<u>Eliminations</u>	<u>Total</u>
<b>Assets</b>			
Current assets	\$ 642,941	\$ (500,000)	\$ 142,941
Total assets	<u>642,941</u>	<u>(500,000)</u>	<u>142,941</u>
<b>Liabilities</b>			
Current Liabilities	11,651	(11,651)	
Noncurrent liabilities	<u>653,984</u>	<u>(153,984)</u>	<u>500,000</u>
Total liabilities	<u>665,635</u>	<u>(165,635)</u>	<u>500,000</u>
<b>Net position</b>			
Unrestricted	<u>(22,694)</u>	<u>(119,524)</u>	<u>(142,218)</u>
Total net position	<u>\$ (22,694)</u>	<u>\$ (119,524)</u>	<u>\$ (142,218)</u>

**HOUSING AUTHORITY OF THE CITY OF NEW BERN, NORTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
December 31, 2017

3. Blended Component Unit (Continued)

Condensed Statement of Revenues, Expenses and  
Changes in Net Position  
December 31, 2017

	<u>Transformation Venture Capital</u>	<u>Eliminations</u>	<u>Total</u>
Operating expenses:			
Operating expenses	\$	\$	\$
Total operating expenses	_____	_____	_____
Operating loss	_____	_____	_____
Non-operating revenues:			
Interest income	316		316
Interest expense	<u>(11,651)</u>	<u>11,651</u>	_____
Total non-operating revenues	<u>(11,335)</u>	<u>11,651</u>	<u>316</u>
Change in net position	(11,335)	11,651	316
Net position:			
Net position, beginning of year	<u>(11,359)</u>	<u>(131,175)</u>	<u>(142,534)</u>
Net position, end of year	<u>\$ (22,694)</u>	<u>\$ (119,524)</u>	<u>\$ (142,218)</u>

**HOUSING AUTHORITY OF THE CITY OF NEW BERN, NORTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
December 31, 2017

3. Blended Component Unit (Continued)

Condensed Statement of Cash Flows  
December 31, 2017

	Transformation Venture Capital	Eliminations	Total
Net cash used by operating activities	\$ (12,173)	\$ 12,489	\$ 316
Net cash used by capital and related financing activities	(527,105)	527,105	
Net decrease in cash and cash equivalents	(539,278)	\$ 539,594	\$ 316
Cash and cash equivalents at beginning of year	682,219		
Cash and cash equivalents at end of year	\$ 142,941		

The Authority loaned Transformation Venture Capital ("TVC") \$1,000,000 in January of 2014. Principal is due annually on December 31 of each year and is calculated at 25% of net cash flow. Interest is also due annually and is calculated at the one-month LIBOR plus 1% (2.37% at December 31, 2017) with a maximum rate of 5%. All remaining principal and interest are due December 31, 2044.

4. Subsequent Events

Management evaluates events occurring subsequent to the date of the financial statements in determining the accounting for and disclosure of transactions and events that affect the financial statements. Subsequent events have been evaluated through July 16, 2018, which is the date the financial statements were available to be issued.

**HOUSING AUTHORITY OF THE CITY OF NEW BERN, NORTH CAROLINA**  
**ENTERPRISE FUND**  
**SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET TO ACTUAL (NON-GAAP)**  
**ACC # A-4053**  
**For The Year Ended December 31, 2017**

	2017		Variance Favorable (Unfavorable)
	Budget	Actual	
<b>Operating revenues:</b>			
Net tenant rent	\$ 800,000	\$ 845,681	\$ 45,681
Rental assistance payments	550,000	597,551	47,551
Tenant revenue - other	184,100	155,279	(28,821)
Operating subsidy - HUD	755,000	785,591	30,591
Capital fund - operations	240,465	23,411	(217,054)
Rent Income	18,000	18,000	-
<b>Total operating revenues</b>	<b>2,547,565</b>	<b>2,425,513</b>	<b>(122,052)</b>
<b>Operating expenditures:</b>			
<b>Administration:</b>			
Salaries and employee benefits	729,000	617,270	111,730
Auditing fees	25,000	27,000	(2,000)
Office expenses	78,450	80,466	(2,016)
Legal expenses	37,000	47,283	(10,283)
Other	132,400	114,245	18,155
<b>Total administration</b>	<b>1,001,850</b>	<b>886,264</b>	<b>115,586</b>
<b>Tenant services:</b>			
Resident Councils	4,590	4,187	403
Tenant services - other	3,360	1,355	2,005
<b>Total tenant services</b>	<b>7,950</b>	<b>5,542</b>	<b>2,408</b>
<b>Utilities:</b>			
Water	325,000	298,105	26,895
Electricity	345,000	301,612	43,388
Gas	85,500	94,034	(8,534)
<b>Total utilities</b>	<b>755,500</b>	<b>693,751</b>	<b>61,749</b>
<b>Ordinary maintenance:</b>			
Salaries and employee benefits	376,000	348,114	27,886
Materials	119,000	140,360	(21,360)
Contracted service	201,650	146,482	55,168
<b>Total ordinary maintenance</b>	<b>696,650</b>	<b>634,956</b>	<b>61,694</b>
<b>Insurance:</b>			
Workers comp insurance	27,700	24,214	3,486
Property insurance	110,500	117,804	(7,304)
<b>Total insurance</b>	<b>138,200</b>	<b>142,018</b>	<b>(3,818)</b>
<b>Protective services:</b>			
Protective services	6,000	10,587	(4,587)
<b>Total protective services</b>	<b>6,000</b>	<b>10,587</b>	<b>(4,587)</b>

**HOUSING AUTHORITY OF THE CITY OF NEW BERN, NORTH CAROLINA**  
**ENTERPRISE FUND**  
**SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET TO ACTUAL (NON-GAAP)**  
**ACC # A-4053**  
**For The Year Ended December 31, 2017**  
**(Continued)**

	2017		
	Budget	Actual	Variance
General expense:			
Compensated absences	\$ *	\$ 45,952	\$ (45,952)
Bad debt - tenants	17,820	16,585	1,235
Other general expenses	28,370	23,862	4,508
Total general expense	<u>46,190</u>	<u>86,399</u>	<u>(40,209)</u>
Total operating expenditures	<u>2,652,340</u>	<u>2,459,517</u>	<u>192,823</u>
Net operating income (loss)	<u>(104,775)</u>	<u>(34,004)</u>	<u>70,771</u>
Other revenues (expenditures):			
Development Fee		339,880	339,880
Interest Income	900	110,270	109,370
Fund Balance Appropriated	103,875		(103,875)
Revenue over expenditures	<u>\$</u>	<u>\$ 416,146</u>	<u>\$ 416,146</u>

Reconciliation of modified accrual basis net income to full accrual basis net income:

Revenue over expenditures - operating fund (as above)	\$ 416,146
Nonbudget items:	
Capital grants	432,045
Depreciation expense	<u>(946,920)</u>
Change in net assets - full accrual basis	<u>\$ (98,729)</u>

\*Budgeted expenses are included in various salary line items.

**HOUSING AUTHORITY OF THE CITY OF NEW BERN, NORTH CAROLINA**

Statement and Certification of Actual Capital Fund Program Costs

Project NC 19E005501-16

For The Year Ended December 31, 2017

1. The actual capital fund costs of NC 19P005501-16 are as follows:

Funds approved	\$ 755,128
Funds expended	<u>544,617</u>
Excess (deficiency) of funds approved	<u>\$ 210,511</u>
Funds advanced	\$ 544,617
Funds expended	<u>544,617</u>
Excess (deficiency) of funds advanced	<u>\$</u>

2. Costs audited during the current audit period totaled \$455,456.
3. All costs have been paid and all related liabilities have been discharged through payment.

**HOUSING AUTHORITY OF THE CITY OF NEW BERN, NORTH CAROLINA**  
Statement and Certification of Actual Capital Fund Program Costs  
Project NC 19E005501-17  
For The Year Ended December 31, 2017

1. The actual capital fund costs of NC 19P005501-17 are as follows:

Funds approved	\$	356,390
Funds expended		
Excess (deficiency) of funds approved	\$	356,390
Funds advanced	\$	
Funds expended		
Excess (deficiency) of funds advanced	\$	

2. Costs audited during the current audit period totaled \$0.

3. All costs have been paid and all related liabilities have been discharged through payment.

**HOUSING AUTHORITY OF THE CITY OF NEW BERN, NORTH CAROLINA**  
Statement and Certification of Actual Capital Fund Program Costs  
Grant NC 4F005CNP1-13  
For The Year Ended December 31, 2017

1. The actual grant fund costs of NC 4F005CMP1-13 are as follows:

Funds approved	\$	400,000
Funds expended		400,000
Excess (deficiency) of funds approved	\$	
Funds advanced	\$	400,000
Funds expended		400,000
Excess (deficiency) of funds advanced	\$	

2. Costs audited during the current audit period totaled \$7,182.

3. All costs have been paid and all related liabilities have been discharged through payment.

4. The total program costs as stated on the Annual Statement/Performance and Evaluation Report is in agreement with the Actual Modernization Cost Certificate dated October 25, 2017, as submitted to HUD for approval.

**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  
Housing Authority of the City of New Bern  
New Bern, North Carolina

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 the Housing Authority of the City of New Bern, North Carolina, HUD Project No. NC005 (the "Authority") as of and for the year ended December 31, 2017 and the related notes to the financial statements, which collectively comprise the Housing Authority of the City of New Bern's financial statements, and have issued our report thereon dated July 16, 2018.

***Internal Control over Financial Reporting***

In planning and performing our audit of the financial statements, we considered the Housing Authority of the City of New Bern'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 Housing Authority of the City of New Bern's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

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

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

***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the Housing Authority of the City of New Bern'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 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.

*Thomas, Judy & Pucka, P.A.*

July 16, 2018

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

To the Board of Commissioners  
Housing Authority of the City of New Bern  
New Bern, North Carolina

***Report on Compliance for Each Major Federal Program***

We have audited the Housing Authority of the City of New Bern's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Housing Authority of the City of New Bern's major federal programs for the year ended December 31, 2017. The Housing Authority of the City of New Bern'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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

***Auditors' Responsibility***

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

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

***Opinion on Each Major Federal Program***

In our opinion, the Housing Authority of the City of New Bern 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, 2017.

### **Report on Internal Control over Compliance**

Management of the Housing Authority of the City of New Bern 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 the Housing Authority of the City of New Bern's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Thomas, Judy & Ducka, P.A.*

July 16, 2018

**HOUSING AUTHORITY OF THE CITY OF NEW BERN, NORTH CAROLINA**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
For the Year Ended December 31, 2017

SECTION I – SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified

Internal control over financial reporting:

- Material weakness identified? \_\_\_\_\_ Yes      X   No
- Significant deficiencies identified that are not considered to be material weaknesses? \_\_\_\_\_ Yes      X   None Reported
- Noncompliance material to financial statements noted? \_\_\_\_\_ Yes      X   No

Federal Awards

Internal control over major federal programs:

- Material weakness identified? \_\_\_\_\_ Yes      X   No
- Significant deficiency identified that is not considered to be a material weakness? \_\_\_\_\_ Yes      X   None Reported

Type of auditor's report issued on compliance for major federal programs: Unmodified

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

Identification of major federal programs:

<u>Program Name</u>	<u>CFDA #</u>
Public and Indian Housing	14.850

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

Auditee qualified as low-risk auditee?   X   Yes    \_\_\_\_\_ No

SECTION II – FINANCIAL STATEMENT FINDINGS

None

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None

**HOUSING AUTHORITY OF THE CITY OF NEW BERN, NORTH CAROLINA**  
**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
For the Year Ended December 31, 2017

None noted.

**HOUSING AUTHORITY OF THE CITY OF NEW BERN, NORTH CAROLINA**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
For the Year Ended December 31, 2017

<u>Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>State/ Pass-through Number</u>	<u>Expenditures</u>
<b>Federal Grants:</b>			
<u>U.S. Department of Housing and Urban Development</u>			
Public and Indian Housing	14.850	XXXX	\$ 785,591
Section 8 Housing Payments	14.182	XXXX	597,551
Capital Fund Cluster:			
Public Housing Capital Fund	14.872	XXXX	<u>455,456</u>
 Total Federal Assistance			 <u>1,838,598</u>
 Total Federal Assistance			 <u>\$ 1,838,598</u>

Basis of Presentation

The Schedule of Expenditures of Federal Awards is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 US Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost of Principles, and Audit Requirements for Federal Awards. Therefore, some amounts in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

Housing Authority of the City of New Bern (NC005)

NEW BERN, NC

Entity Wide Balance Sheet Summary

Submission Type: Audited/Single Audit

Fiscal Year End: 12/31/2017

	Project Total	14.892 Choice Neighborhoods Planning Grants	6.2 Component Unit Blended	14.182 N/C S/R Section 8 Programs	Business Activities	COCC	Subtotal	ELIM	Total
111 Cash - Unrestricted	\$830,120		\$142,941	\$1,071,810	\$746,554		\$2,791,425		\$2,791,425
112 Cash - Restricted - Modernization and Development									
113 Cash - Other Restricted									
114 Cash - Tenant Security Deposits	\$48,700			\$24,849			\$73,549		\$73,549
115 Cash - Restricted for Payment of Current Liabilities									
100 Total Cash	\$878,820	\$0	\$142,941	\$1,096,659	\$746,554	\$0	\$2,864,974	\$0	\$2,864,974
121 Accounts Receivable - PHA Projects									
122 Accounts Receivable - HUD Other Projects	\$296,805						\$296,805		\$296,805
124 Accounts Receivable - Other Government									
125 Accounts Receivable - Miscellaneous	\$10,108				\$763,737		\$773,845		\$773,845
126 Accounts Receivable - Tenants	\$18,370			\$3,364			\$21,734		\$21,734
126.1 Allowance for Doubtful Accounts - Tenants	-\$4,592			-\$841			-\$5,433		-\$5,433
126.2 Allowance for Doubtful Accounts - Other	\$0			\$0			\$0		\$0
127 Notes, Loans, & Mortgages Receivable - Current									
128 Fraud Recovery									
128.1 Allowance for Doubtful Accounts - Fraud									
129 Accrued Interest Receivable				\$11,651			\$11,651	-\$11,651	\$0
120 Total Receivables, Net of Allowances for Doubtful Accounts	\$320,691	\$0	\$0	\$14,174	\$763,737	\$0	\$1,098,602	-\$11,651	\$1,086,951
131 Investments - Unrestricted									
132 Investments - Restricted									
135 Investments - Restricted for Payment of Current Liability									
142 Prepaid Expenses and Other Assets	\$125,067			\$3,364			\$128,431		\$128,431
143 Inventories	\$9,102			\$990			\$10,092		\$10,092
143.1 Allowance for Obsolete Inventories	-\$910			-\$99			-\$1,009		-\$1,009
144 Inter Program Due From									
145 Assets Held for Sale									
150 Total Current Assets	\$1,332,770	\$0	\$142,941	\$1,115,088	\$1,510,291	\$0	\$4,101,090	-\$11,651	\$4,089,439
161 Land				\$22,999			\$22,999		\$22,999
162 Buildings	\$13,206,871			\$3,993,343	\$18,599,045		\$35,799,259		\$35,799,259
163 Furniture, Equipment & Machinery - Dwellings	\$8,798			\$91,693			\$100,491		\$100,491
164 Furniture, Equipment & Machinery - Administration	\$58,191			\$138,266			\$196,457		\$196,457
165 Leasehold Improvements									
166 Accumulated Depreciation	-\$9,957,967			-\$3,525,144	-\$14,392,504		-\$27,875,615		-\$27,875,615
167 Construction in Progress									
168 Infrastructure									
160 Total Capital Assets, Net of Accumulated Depreciation	\$3,315,893	\$0	\$0	\$721,157	\$4,206,541	\$0	\$8,243,591	\$0	\$8,243,591
171 Notes, Loans and Mortgages Receivable - Non-Current			\$500,000	\$153,984	\$5,130,000		\$5,783,984	-\$653,984	\$5,130,000

172 Notes, Loans, & Mortgages Receivable - Non Current - Past Due									
173 Grants Receivable - Non Current									
174 Other Assets					\$222,772		\$222,772		\$222,772
176 Investments in Joint Ventures									
180 Total Non-Current Assets	\$3,315,893	\$0	\$500,000	\$875,141	\$9,559,313	\$0	\$14,250,347	-\$653,984	\$13,596,363
200 Deferred Outflow of Resources									
290 Total Assets and Deferred Outflow of Resources	\$4,648,663	\$0	\$642,941	\$1,990,229	\$11,069,604	\$0	\$18,351,437	-\$665,635	\$17,685,802
311 Bank Overdraft									
312 Accounts Payable <= 90 Days	\$47,670						\$47,670		\$47,670
313 Accounts Payable >90 Days Past Due									
321 Accrued Wage/Payroll Taxes Payable									
322 Accrued Compensated Absences - Current Portion	\$5,447			\$1,508	\$628		\$7,583		\$7,583
324 Accrued Contingency Liability									
325 Accrued Interest Payable			\$11,651				\$11,651	-\$11,651	\$0
331 Accounts Payable - HUD PHA Programs									
332 Account Payable - PHA Projects									
333 Accounts Payable - Other Government									
341 Tenant Security Deposits	\$48,700			\$24,849			\$73,549		\$73,549
342 Unearned Revenue	\$1,352			\$3,006			\$4,358		\$4,358
343 Current Portion of Long-term Debt - Capital Projects/Mortgage Revenue									
344 Current Portion of Long-term Debt - Operating Borrowings									
345 Other Current Liabilities	\$1,355						\$1,355		\$1,355
346 Accrued Liabilities - Other									
347 Inter Program - Due To									
348 Loan Liability - Current									
310 Total Current Liabilities	\$104,524	\$0	\$11,651	\$29,363	\$628	\$0	\$146,166	-\$11,651	\$134,515
351 Long-term Debt, Net of Current - Capital Projects/Mortgage Revenue									
352 Long-term Debt, Net of Current - Operating Borrowings									
353 Non-current Liabilities - Other									
354 Accrued Compensated Absences - Non Current	\$16,340			\$4,524	\$1,885		\$22,749		\$22,749
355 Loan Liability - Non Current			\$653,984		\$4,630,000		\$5,283,984	-\$653,984	\$4,630,000
356 FASB 5 Liabilities									
357 Accrued Pension and OPEB Liabilities									
350 Total Non-Current Liabilities	\$16,340	\$0	\$653,984	\$4,524	\$4,631,885	\$0	\$5,306,733	-\$653,984	\$4,652,749
300 Total Liabilities	\$120,864	\$0	\$665,635	\$33,887	\$4,632,513	\$0	\$5,452,899	-\$665,635	\$4,787,264
400 Deferred Inflow of Resources									
508.4 Net Investment in Capital Assets	\$3,315,893	\$0		\$721,157	\$4,206,541		\$8,243,591		\$8,243,591
511.4 Restricted Net Position	\$0	\$0					\$0		\$0
512.4 Unrestricted Net Position	\$1,211,906	\$0	-\$22,694	\$1,235,185	\$2,230,550	\$0	\$4,654,947		\$4,654,947

513 Total Equity - Net Assets / Position	\$4,527,799	\$0	-\$22,694	\$1,956,342	\$6,437,091	\$0	\$12,898,538	\$0	\$12,898,538
600 Total Liabilities, Deferred Inflows of Resources and Equity - Net	\$4,648,663	\$0	\$642,941	\$1,990,229	\$11,069,604	\$0	\$18,351,437	-\$665,635	\$17,685,802



92400 Tenant Services - Other	\$3,622			\$1,920			\$5,542		\$5,542
92500 Total Tenant Services	\$3,622	\$0	\$0	\$1,920	\$0	\$0	\$5,542	\$0	\$5,542
93100 Water	\$205,704			\$92,400			\$298,104		\$298,104
93200 Electricity	\$198,628			\$102,984			\$301,612		\$301,612
93300 Gas	\$87,573			\$6,461			\$94,034		\$94,034
93400 Fuel									
93500 Labor									
93600 Sewer									
93700 Employee Benefit Contributions - Utilities									
93800 Other Utilities Expense									
93000 Total Utilities	\$491,905	\$0	\$0	\$201,845	\$0	\$0	\$693,750	\$0	\$693,750
94100 Ordinary Maintenance and Operations - Labor	\$176,117			\$56,888			\$233,005		\$233,005
94200 Ordinary Maintenance and Operations - Materials and Other	\$90,481			\$49,507	\$372		\$140,360		\$140,360
94300 Ordinary Maintenance and Operations Contracts	\$78,305			\$67,997	\$178		\$146,480		\$146,480
94500 Employee Benefit Contributions - Ordinary Maintenance	\$81,706			\$33,402			\$115,108		\$115,108
94000 Total Maintenance	\$426,609	\$0	\$0	\$207,794	\$550	\$0	\$634,953	\$0	\$634,953
95100 Protective Services - Labor									
95200 Protective Services - Other Contract Costs	\$10,587						\$10,587		\$10,587
95300 Protective Services - Other									
95500 Employee Benefit Contributions - Protective Services									
95000 Total Protective Services	\$10,587	\$0	\$0	\$0	\$0	\$0	\$10,587	\$0	\$10,587
96110 Property Insurance	\$74,336			\$40,887	\$2,581		\$117,804		\$117,804
96120 Liability Insurance									
96130 Workmen's Compensation	\$14,911			\$5,423	\$3,880		\$24,214		\$24,214
96140 All Other Insurance									
96100 Total Insurance Premiums	\$89,247	\$0	\$0	\$46,310	\$6,461	\$0	\$142,018	\$0	\$142,018
96200 Other General Expenses	\$8,923			\$7,758			\$16,681		\$16,681
96210 Compensated Absences	\$25,151			\$15,845	\$4,957		\$45,953		\$45,953
96300 Payments in Lieu of Taxes	\$7,181						\$7,181		\$7,181
96400 Bad debt - Tenant Rents	\$14,256			\$2,329			\$16,585		\$16,585
96500 Bad debt - Mortgages									
96600 Bad debt - Other									
96800 Severance Expense									
96000 Total Other General Expenses	\$55,511	\$0	\$0	\$25,932	\$4,957	\$0	\$86,400	\$0	\$86,400
96710 Interest of Mortgage (or Bonds) Payable									
96720 Interest on Notes Payable (Short and Long Term)			\$11,651				\$11,651	-\$11,651	\$0
96730 Amortization of Bond Issue Costs									
96700 Total Interest Expense and Amortization Cost	\$0	\$0	\$11,651	\$0	\$0	\$0	\$11,651	-\$11,651	\$0
96900 Total Operating Expenses	\$1,530,666	\$0	\$11,651	\$760,971	\$167,870	\$0	\$2,471,158	-\$11,651	\$2,459,507
97000 Excess of Operating Revenue over Operating Expenses	\$342,157	\$0	-\$11,335	\$178,087	\$339,279	\$0	\$848,188	\$0	\$848,188

97100 Extraordinary Maintenance									
97200 Casualty Losses - Non-capitalized									
97300 Housing Assistance Payments									
97350 HAP Portability-In									
97400 Depreciation Expense	\$312,188			\$133,049	\$501,683		\$946,920		\$946,920
97500 Fraud Losses									
97600 Capital Outlays - Governmental Funds									
97700 Debt Principal Payment - Governmental Funds									
97800 Dwelling Units Rent Expense									
90000 Total Expenses	\$1,842,854	\$0	\$11,651	\$894,020	\$669,553	\$0	\$3,418,078	-\$11,651	\$3,406,427
10010 Operating Transfer In	\$23,410						\$23,410		\$23,410
10020 Operating transfer Out	-\$23,410						-\$23,410		-\$23,410
10030 Operating Transfers from/to Primary Government									
10040 Operating Transfers from/to Component Unit									
10050 Proceeds from Notes, Loans and Bonds									
10060 Proceeds from Property Sales									
10070 Extraordinary Items, Net Gain/Loss									
10080 Special Items (Net Gain/Loss)									
10091 Inter Project Excess Cash Transfer In									
10092 Inter Project Excess Cash Transfer Out									
10093 Transfers between Program and Project - In									
10094 Transfers between Project and Program - Out									
10100 Total Other financing Sources (Uses)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
10000 Excess (Deficiency) of Total Revenue Over (Under) Total Expenses	\$29,969	\$0	-\$11,335	\$45,038	-\$162,404	\$0	-\$98,732	\$0	-\$98,732
11020 Required Annual Debt Principal Payments	\$0	\$0	\$0	\$0	\$0	\$0	\$0		\$0
11030 Beginning Equity	\$4,497,830	\$0	-\$11,359	\$1,911,304	\$6,599,495	\$0	\$12,997,270		\$12,997,270
11040 Prior Period Adjustments, Equity Transfers and Correction of Errors	\$0						\$0		\$0
11050 Changes in Compensated Absence Balance									
11060 Changes in Contingent Liability Balance									
11070 Changes in Unrecognized Pension Transition Liability									
11080 Changes in Special Term/Severance Benefits Liability									
11090 Changes in Allowance for Doubtful Accounts - Dwelling Rents									
11100 Changes in Allowance for Doubtful Accounts - Other									
11170 Administrative Fee Equity									
11180 Housing Assistance Payments Equity									
11190 Unit Months Available	2616			1272		0	3888		3888
11210 Number of Unit Months Leased	2454			1195		0	3649		3649
11270 Excess Cash	\$967,432						\$967,432		\$967,432
11610 Land Purchases	\$0					\$0	\$0		\$0
11620 Building Purchases	\$364,219					\$0	\$364,219		\$364,219
11630 Furniture & Equipment - Dwelling Purchases	\$0					\$0	\$0		\$0
11640 Furniture & Equipment - Administrative Purchases	\$22,531					\$0	\$22,531		\$22,531
11650 Leasehold Improvements Purchases	\$0					\$0	\$0		\$0
11660 Infrastructure Purchases	\$0					\$0	\$0		\$0
13510 CFFP Debt Service Payments	\$0					\$0	\$0		\$0

13901 Replacement Housing Factor Funds	\$0					\$0	\$0		\$0
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