

ARLINGTON GARDENS
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
FOR THE YEARS ENDED MARCH 31, 2015 AND 2014

**ARLINGTON GARDENS
TABLE OF CONTENTS
FOR THE YEARS ENDED MARCH 31, 2015 AND 2014**

<u>Contents</u>	<u>Page</u>
Independent Auditor's Report	1-2
Financial Statements:	
Statements of Net Position	3
Statements of Revenues, Expenses, and Changes in Net Position	4
Statements of Cash Flows	5-6
Notes to Financial Statements	7-14
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	15-16
Schedule of Findings and Responses	17
Supplemental Information:	
Computation of Payment in Lieu of Taxes	18



INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners
Jersey City Housing Authority:

Report on the Financial Statements

We have audited the accompanying financial statements of Arlington Gardens ("the Project") as of and for the years ended March 31, 2015 and 2014, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, 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 an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and audit requirements as prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey. Those standards require that we plan and perform the audits 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 Project'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 Project'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.

INDEPENDENT AUDITOR'S REPORT (continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Arlington Gardens, as of March 31, 2015 and 2014, 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.

Other Matters

Required Supplementary Information

Management has omitted the management's discussion and analysis report that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by the missing information.

Other Information

In accordance with Government Auditing Standards, we have also issued our report dated July 31, 2015, on our consideration of the Project's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards and important in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Project's financial statements. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the 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 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 supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Fallon & Larsen LLP

July 31, 2015
Toms River, New Jersey

FINANCIAL STATEMENTS

**ARLINGTON GARDENS
STATEMENTS OF NET POSITION
AS OF MARCH 31, 2015 AND 2014**

ASSETS

	<u>2015</u>	<u>2014</u>
Current assets:		
Cash and cash equivalents	\$ 193,956	\$ 225,550
Accounts receivable - tenants	33,053	32,319
Prepaid expenses	<u>38,927</u>	<u>38,826</u>
Total current assets	<u>265,936</u>	<u>296,695</u>
Non-current assets:		
Restricted cash	238,081	302,111
Capital assets, net	<u>2,999,421</u>	<u>3,148,118</u>
Total non-current assets	<u>3,237,502</u>	<u>3,450,229</u>
Total assets	<u>3,503,438</u>	<u>3,746,924</u>

LIABILITIES

Current liabilities:		
Accounts payable	4,989	14,022
Accrued expenses	22,772	115,492
Accrued compensated absences, current portion	4,790	4,632
Mortgage payable, current portion	42,202	38,362
Accrued P.I.L.O.T.	14,252	5,689
Tenant security deposits	<u>59,013</u>	<u>50,529</u>
Total current liabilities	<u>148,018</u>	<u>228,726</u>
Non-current liabilities:		
Mortgages payable, excluding current portion	1,436,840	1,480,917
Accrued compensated absences, net of current portion	<u>43,108</u>	<u>41,682</u>
Total non-current liabilities	<u>1,479,948</u>	<u>1,522,599</u>
Total liabilities	<u>1,627,966</u>	<u>1,751,325</u>

NET POSITION

Net position:		
Net investment in capital assets	1,520,379	1,628,839
Restricted	238,081	302,111
Unrestricted	<u>117,012</u>	<u>64,649</u>
Total net position	<u>\$ 1,875,472</u>	<u>\$ 1,995,599</u>

See accompanying notes to financial statements.

ARLINGTON GARDENS
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED MARCH 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
Operating revenues:		
Rental income	\$ 696,092	\$ 667,383
HAP Subsidy	197,656	222,461
Other income	<u>5,497</u>	<u>5,405</u>
Total operating revenues	<u>899,245</u>	<u>895,249</u>
Operating expenses:		
Administrative expenses	136,726	285,660
Protective services	5,664	9,676
Maintenance and repairs	331,342	271,109
Payments in lieu of taxes	62,463	50,152
Utilities expenses	212,749	238,032
Insurance and general expenses	56,372	45,503
Extraordinary maintenance	-	19,725
Depreciation	<u>148,697</u>	<u>148,696</u>
Total operating expenses	<u>954,013</u>	<u>1,068,553</u>
Operating loss	<u>(54,768)</u>	<u>(173,304)</u>
Non-operating revenues (expenses):		
Interest expense	(65,655)	(79,674)
Interest income	<u>296</u>	<u>2,372</u>
Net non-operating revenues (expenses)	<u>(65,359)</u>	<u>(77,302)</u>
Net loss	(120,127)	(250,606)
Net position, beginning of year	<u>1,995,599</u>	<u>2,246,205</u>
Net position, end of year	<u>\$ 1,875,472</u>	<u>\$ 1,995,599</u>

See accompanying notes to financial statements.

**ARLINGTON GARDENS
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED MARCH 31, 2015 AND 2014**

	<u>2015</u>	<u>2014</u>
Cash Flows from Operating Activities:		
Cash received from tenants	\$ 708,000	\$ 671,554
Cash received from subsidy	206,219	222,461
Cash paid to suppliers	(593,908)	(692,886)
Cash paid to employees	<u>(310,339)</u>	<u>(241,309)</u>
Net cash flows provided (used) from operating activities	<u>9,972</u>	<u>(40,180)</u>
Cash Flows from Capital and Related Financing Activities:		
Principal paid on capital debt	(40,237)	(38,362)
Interest paid on capital debt	<u>(65,655)</u>	<u>(79,674)</u>
Net cash flows used from capital and related financing activities	<u>(105,892)</u>	<u>(118,036)</u>
Cash Flows from Investing Activities:		
Interest received on investments	<u>296</u>	<u>2,372</u>
Net cash flows provided by investing activities	<u>296</u>	<u>2,372</u>
Net decrease in cash	(95,624)	(155,844)
Cash and cash equivalents, beginning of year	<u>527,661</u>	<u>683,505</u>
Cash and cash equivalents, end of year	<u>\$ 432,037</u>	<u>\$ 527,661</u>

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

Cash and cash equivalents	\$ 193,956	\$ 225,550
Restricted cash and cash equivalents	<u>238,081</u>	<u>302,111</u>
	<u>\$ 432,037</u>	<u>\$ 527,661</u>

See accompanying notes to financial statements.

ARLINGTON GARDENS
STATEMENTS OF CASH FLOWS (continued)
FOR THE YEARS ENDED MARCH 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
Reconciliation of operating loss to net cash provided (used) by operating activities:		
Operating loss	\$ (54,768)	\$ (173,304)
Items which did not use cash:		
Depreciation	148,697	148,696
Collection loss	1,339	1,859
Working capital changes which provided (used) cash:		
Accounts receivable - tenants	(2,073)	(2,468)
Prepaid expenses	(101)	58
Accounts payable	(470)	14,022
Accrued P.I.L.O.T.	-	(14,832)
Accrued expenses	(92,720)	(30,872)
Accrued compensated absences	1,584	17,286
Tenant security deposits	<u>8,484</u>	<u>(625)</u>
Net cash provided (used) by operating activities	<u>\$ 9,972</u>	<u>\$ (40,180)</u>

See accompanying notes to financial statements.

**ARLINGTON GARDENS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED MARCH 31, 2015 AND 2014**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization

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

The Authority is governed by an appointed board of commissioners who serve several year terms. The governing board is essentially autonomous but responsible to the United States Department of Housing and Urban Development ("HUD") and the Division. An executive director is appointed by the Housing Authority's board to manage the day-to-day operations of the Authority.

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

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

Low Rent Public Housing Program

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

B. Reporting Entity

In accordance with Statement No. 61 of the Government Accounting Standards Board ("GASB"), the Authority's basic financial statements include those of the Project and any component units. Component units are legally separate, tax-exempt organizations whose majority of officials are appointed by the primary government or the organization is fiscally dependent on the primary government and there is a potential for those organizations either to provide specific financial benefits to, or impose specific financial burdens on, the primary government. An organization has a financial benefit or burden relationship with the primary government if any one of the following conditions exist:

1. The primary government (Authority) is legally entitled to or can otherwise access the organization's resources.
2. The primary government is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide financial support to, the organization.

**ARLINGTON GARDENS
NOTES TO FINANCIAL STATEMENTS (continued)
FOR THE YEARS ENDED MARCH 31, 2015 AND 2014**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Reporting Entity (continued)

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

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

C. Basis of Accounting

The Project's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations).

All transactions are accounted for using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, and losses from assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

The Project's primary source of non-exchange revenue relates to grants and subsidies. In accordance with GASB 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 Project has complied with the grant and subsidy requirements.

In accordance with GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, was issued to incorporate FASB and AICPA guidance into GASB authoritative literature.

D. Cash and Cash Equivalents

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

**ARLINGTON GARDENS
NOTES TO FINANCIAL STATEMENTS (continued)
FOR THE YEARS ENDED MARCH 31, 2015 AND 2014**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Accounts Receivable

Rents are due from tenants on the first day of each month. As a result, tenants' accounts receivable balances primarily consist of rents past due and vacated tenants. Also included in accounts receivable are those amounts that tenants owe the Project as payment for committing fraud or misrepresentation. These charges usually consist of retroactive rent and other amounts that may be determined by a formal written agreement or by a court order. An allowance for doubtful accounts is established to provide for all accounts, which may not be collected in the future for any reason.

F. Prepaid Expenses

Certain payments to vendors reflect cost applicable to future accounting periods and are recorded as prepaid items.

G. Capital Assets, net

Capital assets, net are stated at cost. Expenditures for repairs and maintenance are charged directly to expense as they are incurred. Expenditures determined to represent additions or betterments are capitalized. Depreciation is calculated using the straight-line method based on the estimated useful lives of the following asset groups:

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

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

H. Operating Revenue and Expenses

The Project 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 Project classifies all other revenues as non-operating.

I. 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.

**ARLINGTON GARDENS
NOTES TO FINANCIAL STATEMENTS (continued)
FOR THE YEARS ENDED MARCH 31, 2015 AND 2014**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

I. Equity Classifications (continued)

Restricted net position - Consists of net position 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 do not meet the definition of "restricted" or "net investment in capital assets."

J. Income Taxes

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

K. Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2. CASH AND CASH EQUIVALENTS

At March 31, 2015 and 2014, the Project had funds on deposit in checking accounts.

All bank deposits are entirely insured or collateralized by a collateral pool maintained by public depositories as required by New Jersey law.

As of March 31, 2015 and 2014, the carrying amount of the Project's cash (including restricted cash) was \$432,037 and \$527,661, respectively, and the bank balances were \$787,149 and \$1,082,001, respectively.

Cash and cash equivalents consisted of the following:

<u>Cash Category</u>	<u>2015</u>	<u>2014</u>
Unrestricted	\$ 134,943	\$ 175,021
Tenant security deposits	59,013	50,529
Restricted	<u>238,081</u>	<u>302,111</u>
	<u>\$ 432,037</u>	<u>\$ 527,661</u>

**ARLINGTON GARDENS
NOTES TO FINANCIAL STATEMENTS (continued)
FOR THE YEARS ENDED MARCH 31, 2015 AND 2014**

NOTE 2. CASH AND CASH EQUIVALENTS (continued)

Of the bank balances, \$300,529 and \$300,529 were covered by federal depository insurance and the remaining \$486,620 and \$781,472 were collateralized with the pledging financial institutions as of March 31, 2015 and 2014, respectively.

Custodial credit risk is the risk that, in the event of a bank failure, the government's deposits may not be returned to it. The Project does not have a formal policy for custodial credit risk. As of March 31, 2015, the Project's bank balances were not exposed to custodial credit risk.

NOTE 3. ACCOUNTS RECEIVABLE, NET

Accounts receivable, net - tenants represents amounts due for tenant rents and at March 31, 2015 and 2014, it is shown net of an allowance for doubtful accounts of \$61,360 and \$60,021, respectively.

NOTE 4. RESTRICTED CASH AND RESTRICTED NET POSITION

The mortgage loan agreement requires that the Project fund various reserve accounts which are held in escrow with the Community Preservation Corp. These restricted reserves consisted of the following at March 31, 2015 and 2014:

<u>Cash Category</u>	<u>2015</u>	<u>2014</u>
Building reserve fund	\$ 219,677	\$ 197,578
Real estate tax and insurance escrow	<u>18,404</u>	<u>104,533</u>
	<u>\$ 238,081</u>	<u>\$ 302,111</u>

Building Reserve Fund - covers the future cost of major repairs and improvements and annual debt service. During the years ended March 31, 2015 and 2014, the Project contributed \$1,831 per month, for both years to this fund. Moneys in this fund may be drawn upon by the Project for capital improvements at the sole discretion of the mortgagee.

Real Estate Tax Escrow - covers the cost of the property's PILOT payment with the City of Jersey City and annual premiums for insurance. During the years ended March 31, 2015 and 2014, the Project contributed \$2,404 and \$1,447, respectively, per month to this fund.

ARLINGTON GARDENS
NOTES TO FINANCIAL STATEMENTS (continued)
FOR THE YEARS ENDED MARCH 31, 2015 AND 2014

NOTE 5. CAPITAL ASSETS, NET

Capital assets, net consist primarily of expenditures to acquire, construct, place in operation and improve the facilities of the Project and are stated at cost, less accumulated depreciation. The following is a summary of the changes in capital assets for the fiscal years ended March 31, 2015 and 2014:

	<u>Balances at</u> <u>March 31, 2014</u>	<u>Additions</u>	<u>Dispositions</u>	<u>Balances at</u> <u>March 31, 2015</u>
<u>Non-depreciable capital assets:</u>				
Land	\$ 931,098	\$ -	\$ -	\$ 931,098
<u>Depreciable capital assets:</u>				
Buildings	5,108,310	-	-	5,108,310
Total	<u>5,108,310</u>	<u>-</u>	<u>-</u>	<u>5,108,310</u>
Total capital assets	<u>6,039,408</u>	<u>-</u>	<u>-</u>	<u>6,039,408</u>
Accumulated depreciation	<u>(2,891,290)</u>	<u>(148,697)</u>	<u>-</u>	<u>(3,039,987)</u>
Net capital assets	<u>\$ 3,148,118</u>	<u>\$ (148,697)</u>	<u>\$ -</u>	<u>\$ 2,999,421</u>
	<u>Balances at</u> <u>March 31, 2013</u>	<u>Additions</u>	<u>Dispositions</u>	<u>Balances at</u> <u>March 31, 2014</u>
<u>Non-depreciable capital assets:</u>				
Land	\$ 931,098	\$ -	\$ -	\$ 931,098
<u>Depreciable capital assets:</u>				
Buildings	5,108,310	-	-	5,108,310
Total	<u>5,108,310</u>	<u>-</u>	<u>-</u>	<u>5,108,310</u>
Total capital assets	<u>6,039,408</u>	<u>-</u>	<u>-</u>	<u>6,039,408</u>
Accumulated depreciation	<u>(2,742,594)</u>	<u>(148,696)</u>	<u>-</u>	<u>(2,891,290)</u>
Net capital assets	<u>\$ 3,296,814</u>	<u>\$ (148,696)</u>	<u>\$ -</u>	<u>\$ 3,148,118</u>

Depreciation expense for the fiscal years ended March 31, 2015 and 2014 amounted to \$148,697 and \$148,696, respectively.

NOTE 6. PAYMENT IN LIEU OF TAXES

The Project is required to pay to the City of Jersey City a payment in lieu of taxes as an annual charge for services ("P.I.L.O.T."). For the years ended March 31, 2015 and 2014, P.I.L.O.T. expense amounted to \$81,335 and 50,152, respectively.

**ARLINGTON GARDENS
NOTES TO FINANCIAL STATEMENTS (continued)
FOR THE YEARS ENDED MARCH 31, 2015 AND 2014**

NOTE 7. MORTGAGE PAYABLE

Mortgage payable consisted of the following at March 31, 2015:

	<u>2015</u>	<u>2014</u>
Mortgage loan payable to the Community Preservation Corp. in connection with the acquisition and rehabilitation of the Project. The loan with the original amount of \$1,750,000 carries an annual interest rate of 4.78%, requires monthly principal and interest payments of \$9,332, matures in March, 2036 and is secured by a first mortgage on the property.	1,479,042	1,519,279
Less: current portion	42,202	38,362
Mortgage payable, excluding current portion	\$ 1,436,840	\$ 1,480,917

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

Year	Principal	Interest	Total
2016	42,202	69,782	111,984
2017	44,168	67,816	111,984
2018	46,326	65,658	111,984
2019	48,590	63,394	111,984
2020	51,075	60,909	111,984
2021-2025	297,896	262,024	559,920
2026-2030	370,953	188,967	559,920
2031-2035	474,898	85,022	559,920
2036-2037	102,934	2,858	105,792
	\$ 1,479,042	\$ 866,430	\$ 2,345,472

NOTE 8. RELATED PARTY TRANSACTIONS

The Project is owned and operated by Jersey City Housing Authority. JCHA allocates certain general and administrative expenses, including salaries, fringe benefits (pension, compensated absences and health insurance), maintenance, insurance and legal, to the Project. Costs are reimbursed periodically. As of March 31, 2015 and 2014, the organization did not owe JCHA for unreimbursed costs.

ARLINGTON GARDENS
NOTES TO FINANCIAL STATEMENTS (continued)
FOR THE YEARS ENDED MARCH 31, 2015 AND 2014

NOTE 9. RISK MANAGEMENT

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

NOTE 10. CONCENTRATION OF RISK

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

NOTE 11. SUBSEQUENT EVENTS

Events that occur after the financial statement date but before the financial statements were available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the financial statement date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the financial statement date require disclosure in the accompanying notes to the financial statements. Management evaluated the activity of the Partnership through July 31, 2015 (the date the financial statements were available to be issued) and concluded that no subsequent events have occurred that would require recognition in the financial statements or disclosure in the notes to the financial statements.



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

Board of Commissioners
Jersey City Housing Authority:

We have audited the financial statements of Arlington Gardens ("the Project") as of and for the year ended March 31, 2015, and have issued our report therein dated July 31, 2015. 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 Project is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Project'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 Project's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Project'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 Project'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 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 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 (continued)**

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Project'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 Project's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Fallon & Larsen LLP

July 31, 2015
Toms River, New Jersey

**ARLINGTON GARDENS
SCHEDULE OF FINDINGS AND RESPONSES
MARCH 31, 2015**

Financial Statement Findings

None.

Schedule of Prior Year Audit Findings

None.

SUPPLEMENTAL INFORMATION

**ARLINGTON GARDENS
SUPPLEMENTAL INFORMATION
FOR THE YEAR ENDED MARCH 31, 2015**

COMPUTATION OF PAYMENT IN LIEU OF TAXES

	<u>CY 2015</u>	<u>CY 2014</u>
<u>Affordable Units Calculation:</u>		
Number of units	<u>60</u>	<u>56</u>
Gross shelter rent:		
Dwelling rental revenue	\$ 893,748	\$ 889,844
Less: fair market rental units	<u>(278,755)</u>	<u>(322,046)</u>
Total gross rents	614,993	567,798
Less: utilities expenses attributable to affordable units	<u>(66,026)</u>	<u>(88,259)</u>
Total gross shelter rent	548,967	479,539
Affordable units PILOT rate percentage	<u>6.28 %</u>	<u>6.28 %</u>
Affordable units PILOT for the period	<u>\$ 34,475</u>	<u>\$ 30,115</u>

Market Rate Units Calculation:

Number of units	<u>27</u>	<u>33</u>
Assessed value of the property	\$ 1,200,000	\$ 1,200,000
Multiplied by pro-rata share of market rate units	<u>28.73 %</u>	<u>37.08 %</u>
Pro-rata share of assessed value	344,760	444,960
Applicable tax rate	<u>7.482 %</u>	<u>7.434 %</u>
Market rate units PILOT for the period	<u>\$ 25,795</u>	<u>\$ 33,078</u>

Fiscal Year PILOT Reconciliation:

PILOT CY 2014 for three quarters	\$ 47,395
PILOT CY 2015 for one quarter	<u>15,068</u>
Total PILOT expense calculated for the year ended March 31, 2015	62,463
Adjustment for increase in tax rates from prior years	<u>18,872</u>
Total PILOT expense for the year ended March 31, 2015	81,335
Amount (prepaid) / payable at April 1, 2014	5,689
Payments made during the period	<u>(72,772)</u>
Amount (prepaid) / payable at March 31, 2015	<u>\$ 14,252</u>