

CUYAHOGA METROPOLITAN HOUSING AUTHORITY

AUDIT REPORT

FOR THE YEAR ENDED DECEMBER 31, 2008



Mary Taylor, CPA
Auditor of State

Board of Commissioners
Cuyahoga Metropolitan Housing Authority
1441 West 25th Street
Cleveland, Ohio 44113

We have reviewed the *Independent Auditor's Report* of the Cuyahoga Metropolitan Housing Authority, Cuyahoga County, prepared by James G. Zupka, CPA, Inc., for the audit period January 1, 2008 through December 31, 2008. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Cuyahoga Metropolitan Housing Authority is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

September 8, 2009

This Page is Intentionally Left Blank.

CUYAHOGA METROPOLITAN HOUSING AUTHORITY
AUDIT REPORT
FOR THE YEAR ENDED DECEMBER 31, 2008

TABLE OF CONTENTS

	<u>PAGE</u>
Independent Auditor's Report	1-2
Management's Discussion and Analysis	3-12
Financial Statements:	
Statement of Net Assets	13
Statement of Revenues, Expenses, and Changes in Net Assets	14
Statements of Cash Flows	15-16
Notes to the Financial Statements	17-39
Schedule of Expenditures of Federal Awards	40
Notes to the Schedule of Expenditures of Federal Awards	41
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	42-43
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133	44-45
Schedule of Findings and Questioned Costs	46
Status of Prior Year Findings	47
Schedule of Other Reports	48-51

JAMES G. ZUPKA, C.P.A., INC.
Certified Public Accountants
5240 East 98th Street
Garfield Hts., Ohio 44125

Member American Institute of Certified Public Accountants

(216) 475 - 6136

Ohio Society of Certified Public Accountants

Board of Commissioners
Cuyahoga Metropolitan Housing Authority
Cleveland, Ohio

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the Cuyahoga Metropolitan Housing Authority (the "Authority"), as of and for the years ended December 31, 2008 and December 31, 2007, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Cuyahoga Metropolitan Housing Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Cuyahoga Metropolitan Housing Authority as of December 31, 2008 and December 31, 2007, and the respective changes in financial position, and cash flows, where applicable, thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

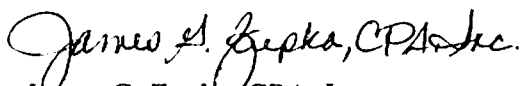
As discussed in Note 11 to the financial statements, the Authority has been audited by outside regulatory agencies and has also been audited in accordance with the provisions of the Single Audit Act Amendment of 1996. Certain unresolved compliance findings and questioned costs exist as a result of audits conducted for 2007 and prior years, the outcome of which is not presently determinable. Accordingly, no provision for any loss that might result from the resolution of these matters has been made in the accompanying financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 29, 2009, on our consideration of the Cuyahoga Metropolitan Housing Authority's internal control over financial reporting and on 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. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 12 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Cuyahoga Metropolitan Housing Authority's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Such supplemental schedules have been subjected to auditing procedures applied in our audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The Authority has not presented the Financial Data Schedules (FDS) required by the U.S. Department of Housing and Urban Development (the Department) for additional analysis, although not required to be part of the basic financial statements. The FDS are not available due to revisions in the reporting system that the Department is now undertaking.



James G. Zupka, CPA, Inc.
Certified Public Accountants

July 29, 2009

**CUYAHOGA METROPOLITAN HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007
(Unaudited)**

The Cuyahoga Metropolitan Housing Authority (“CMHA” or the “Authority”) owns and manages property and administers rent subsidy programs to provide eligible low-income persons good, safe and affordable housing. CMHA is a political subdivision of the State of Ohio, created under sections 3735.27 to 3735.50 of the Ohio Revised Code and serves the County of Cuyahoga primarily through two federally assisted programs administered by the U.S. Department of Housing and Urban Development (“HUD”): Conventional Low Income Public Housing and Housing Choice Voucher programs.

The following discussion and analysis provides an overview of the Authority’s financial activities and should be read in conjunction with the Authority’s financial statements which begin on page 13. If you have any questions, please contact – Lou Anne Chung, Chief Financial Officer, 1242 East 49th Street, Cleveland, Ohio 44114-3851 or telephone 216-432-5455 Ext. 3164.

Overview of the Financial Statements

The financial statements are presented in accordance with accounting principles generally accepted in the United States of America, including Governmental Accounting Standards Board (“GASB”) Statement No. 34 (as amended by GASB Statement No. 37). The Authority follows the “business-type activities” reporting requirements of GASB Statement No. 34 that provide a comprehensive authority-wide look at the Authority’s financial activities. The statements are:

- Statements of Net Assets
- Statements of Revenues, Expenses and Changes in Net Assets
- Statements of Cash Flows

The financial statements are prepared on the accrual basis and present all assets and liabilities of the Authority, both financial and capital, and short and long term. They also present all revenues and expenses of the Authority during the year, regardless of when cash was received or paid. Collectively, the statements provide information regarding the Authority’s financial condition as of December 31, 2008 and 2007 and the results of its operations and cash flows for the years then ended.

2008 Financial Highlights

- The Authority’s net assets decreased by \$31.4 million (or 14.9 percent) during 2008. Net assets were \$179.1 million and \$210.5 million at December 31, 2008 and 2007, respectively.
- Total operating and non-operating revenues decreased by \$25.5 million (10.9 percent) during 2008, and were \$208.2 million and \$233.7 million for 2008 and 2007, respectively.
- The total expenses of all Authority programs increased by \$1.6 million (.6 percent). Total expenses were \$239.6 million and \$238.0 million for 2008 and 2007, respectively.

**CUYAHOGA METROPOLITAN HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007
(Unaudited)**

- The Authority's unrestricted net assets increased by \$8.3 million (or 31.9 percent) during 2008, and were \$34.3 million and \$26.0 million for 2008 and 2007, respectively.

The Authority's Funds

The Authority's financial statements include all programs that are considered to be within its administrative control. The Authority generally maintains separate accounting records for each grant program or annual contribution contract, as required by HUD. A list of the more significant programs is as follows:

Conventional Low-Income Public Housing—Under the Conventional Low Income Public Housing Program, the Authority rents units that it owns to low-income households. The Conventional Low Income Public Housing Program is operated under an Annual Contributions Contract with HUD, and HUD provides operating subsidy and capital grant funding to enable CMHA to provide the housing at a rent that is based upon 30 percent of household income. The Conventional Low Income Public Housing Program also includes the Capital Fund Program, which is the primary funding source for physical and management improvements to the Authority's properties.

Housing Choice Voucher Program—Under the Housing Choice Voucher Program, the Authority administers contracts with independent landlords that own the property. The Authority subsidizes the family's rent through a Housing Assistance Payment made to the landlord. The program is administered under an Annual Contributions Contract with HUD. HUD provides Annual Contributions Funding to enable the Authority to structure a lease that sets the participants' rent at 30 percent of household income.

Other Programs—In addition to the significant programs above, the Authority also maintains the following programs which have assets, liabilities, revenues, or expenses of at least 5 percent or more of the Authority's total assets, liabilities, revenues, or expenses in either 2008 or 2007:

Economic Development and Supportive Services Program—various grant programs funded by HUD that encourages economic self-sufficiency among the Authority's resident population

Urban Revitalization Program Grants—a grant program funded by HUD for the redevelopment of the Authority's properties

Hope VI Planning Grant—a grant program funded by HUD for large scale redevelopment of the Authority's properties

Section 8 New Construction and Moderate Rehabilitation Program—a grant program for the operation of low-income housing developments where the Authority or private developers contract directly with HUD to develop low-income housing.

**CUYAHOGA METROPOLITAN HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007
(Unaudited)**

AUTHORITY-WIDE FINANCIAL STATEMENT

Statement of Net Assets

The Statement of Net Assets includes all assets and liabilities of the Authority using the accrual basis of accounting, which is similar to the accounting used by most private-sector institutions. The following table reflects the condensed information from the Authority's Statement of Net Assets compared to the prior two years.

Table 1 - Condensed Statements of Net Assets
(in millions)

	December 31		
	2008	2007	2006
<u>Assets</u>			
Current and other assets	\$ 72.8	\$ 96.9	\$ 96.7
Capital assets	201.2	211.9	202.1
Total Assets	274.0	308.8	298.8
<u>Liabilities</u>			
Accounts payable and other current liabilities	39.3	33.5	36.2
Long-term liabilities	55.6	64.8	47.8
Total Liabilities	94.9	98.3	84.0
<u>Net Assets</u>			
Invested in capital assets—net of related debt	151.1	161.2	182.1
Restricted	6.9	23.3	3.6
Unrestricted	21.1	26.0	29.1
Total Net Assets	\$ 179.1	\$ 210.5	\$ 214.8

For more detailed information see page 13 for the Statements of Net Assets.

Major Factors Affecting the Statement of Net Assets

December 31, 2008 compared to December 31, 2007

Current and other assets decreased by \$34.8 million. Current assets decreased \$24.1 million and current liabilities increased by \$5.8 million. The Authority's current ratio was 1.9 to 1 in 2008. As such, there are sufficient current assets to (primarily cash, investments and receivables from HUD) to extinguish current liabilities.

Capital assets decreased to \$201.2 million in 2008 from \$211.9 in 2007. The \$10.7 decrease is attributed primarily to depreciation expense of \$29.0 million offset by capital asset additions of \$18.6 million. For additional detail see "Capital Asset and Debt Administration".

**CUYAHOGA METROPOLITAN HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007
(Unaudited)**

Long term liabilities decreased \$9.2 million in 2008. The decrease is primarily the result of the normal pay down on long-term debt and capital lease obligations.

December 31, 2007 compared to December 31, 2006

Current and other assets increased by \$10.0 million. Current assets increased \$.2 million and current liabilities decreased by \$2.8 million. The Authority's current ratio was 2.9 to 1 in 2007. As such, there are sufficient current assets (primarily cash, investments and receivables from HUD) to extinguish current liabilities.

Capital assets increased to \$211.9 million in 2007 from \$202.1 million in 2006. The \$9.8 million increase is attributed primarily to current year capital asset additions of \$37.4 million offset by depreciation and amortization of \$27.3 million. For additional detail see "Capital Assets and Debt Administration."

Long-term liabilities increased \$17.0 million in 2007. The increase is primarily a result of the addition of \$18.0 million notes payable net of normal pay down on long-term debt and capital lease liabilities of \$1.0 million.

While operating results are a significant measure of the Authority's activities, the analysis of the changes in unrestricted net assets provides a clearer picture of the change in financial well-being. The following presents details on the change in unrestricted net assets during the years ended December 31, 2008 and 2007:

Table 2 - Changes in Unrestricted Net Assets
(in millions)

	2008	2007
Unrestricted Net Assets—Beginning of year	\$ 26.0	\$ 29.1
Total change in net assets	(31.4)	(4.3)
Adjustments:		
Depreciation (1)	29.0	27.3
Other Changes in unexpended borrowing on Capital Lease-net	2.6	11.6
Adjusted change in net assets	26.2	34.6
Additions to long term debt net of payments on long term debt	(3.1)	19.4
Capital expenditures	(18.5)	(37.4)
(Increase) decrease in restricted net assets	16.5	(19.7)
Unrestricted Net Assets—End of Year	\$ 21.1	\$ 26.0

(1) Depreciation is treated as an expense and reduces the net assets invested in capital assets, net of related debt, but does not have an impact on unrestricted net assets.

**CUYAHOGA METROPOLITAN HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007
(Unaudited)**

Statement of Revenues, Expenses and Changes in Net Assets

The Statement of Revenues, Expenses, and Changes in Net Assets presents the operating results of the Authority, as well as the non-operating revenues and expenses. HUD subsidies and grants, while budgeted for operations, are considered non-operating revenues according to accounting principles generally accepted in the United States of America. Condensed information from the Authority's statements of revenue, expenses and changes in net assets is as follows for the years ended December 31, 2008, 2007, and 2006:

Table 3 - Condensed Statements of Revenues, Expenses, and Changes in Net Assets

	(in millions)		
	2008	2007	2006
<u>Operating Revenues</u>			
Dwelling rent from tenants	\$ 14.4	\$ 14.5	\$ 13.8
Other revenues	0.6	3.6	2.9
Total Operating Revenues	<u>15.0</u>	<u>18.1</u>	<u>16.7</u>
<u>Operating Expenses</u>			
Housing assistance payments	98.6	89.3	88.0
Depreciation	29.0	27.2	25.8
Administrative	31.0	29.6	32.6
Building maintenance	22.3	22.1	21.7
Utilities	20.4	19.9	20.5
Nonroutine maintenance	15.8	25.6	26.7
Tenant services	2.9	3.3	3.3
General	4.8	5.7	4.5
Protective services	8.5	10.3	1.9
Other	3.2	2.4	2.0
Total Operating Expenses	<u>236.5</u>	<u>235.4</u>	<u>227.0</u>
Operating loss	<u>(221.5)</u>	<u>(217.3)</u>	<u>(210.3)</u>
<u>Non-Operating Revenues (Expenses)</u>			
Subsidies and grants from HUD	190.3	210.4	208.6
Grants—other	1.3	2.1	0.4
Interest income	1.6	3.1	1.8
Interest expense	(3.1)	(2.6)	(1.1)
Total Non-Operating Revenues—Net	<u>190.1</u>	<u>213.0</u>	<u>209.7</u>
Change in Net Assets	<u>(31.4)</u>	<u>(4.3)</u>	<u>(0.6)</u>
Net assets—Beginning of Year	<u>210.5</u>	<u>214.8</u>	<u>215.4</u>
Net Assets—End of Year	<u>\$ 179.1</u>	<u>\$ 210.5</u>	<u>\$ 214.8</u>

**CUYAHOGA METROPOLITAN HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007
(Unaudited)**

Major Factors Affecting the Statement of Revenues, Expenses and Changes in Net Assets

December 31, 2008 compared to December 31, 2007

Tenant and other revenue decreased 17.1 percent in 2008 with tenant revenue decreasing 0.6 percent and other revenue decreasing 21.0 percent. The decrease in other revenue is due to the payment to tenants of retro utility adjustments for prior years.

Operating expenses increased \$1.1 million or .5 percent with the major increase in housing assistance payments (\$9.3 million) being more than offset by the decrease in non-routine maintenance (\$9.8 million). All other categories increased \$1.6 million or 1 percent.

HUD subsidies and grants decreased \$20.1 million or 9.6 percent. Operating subsidies decreased \$24.3 million or 12.0 percent while capital grants increased \$4.2 million or 48.3 percent. The decrease in operating subsidy was primarily due to lower Housing Choice Voucher subsidy of \$12.4 million, lower Capital Fund operating subsidy of \$8.5 million, lower Low Income Public Housing subsidy of \$1.2 million, lower Urban Revitalization subsidy of \$1.2 million, lower new construction and mod/rehab subsidy of \$.7 million and lower Supportive Housing subsidy of \$.6 million as all other programs subsidy increased \$.3 million. Interest income decreased \$1.6 million as there was less interest earned on unexpended EPC funds. Interest expense increased \$.5 million as the Ohio Bond Financing and Severance debt were outstanding all year.

December 31, 2007 compared to December 31, 2006

Tenant and other revenue increased 8.4 percent in 2007 with tenant revenue increasing 5.0 percent and other revenue increasing 22.9 percent. The increased other revenue is due in part to refunds of utility overpayments from prior years.

Operating expenses increased \$8.4 million or 3.7 percent with the major increase in protective service costs as these costs are now charged at the estate level. Excluding protective service costs, operating expenses in 2007 were the same as in 2006.

HUD subsidies and grants increased .9 percent or \$1.8 million. Operating subsidies increased 2.4 percent or \$4.7 million while capital grants decreased 25.2 percent or \$2.9 million. The increase in operating subsidy was due to an increase in Low Income Public Housing subsidy of \$9.8 million offset by decreases in operating subsidy at Housing Choice voucher and MOD/Rehab of \$3.3 million, decreased subsidy for Urban Revitalization of \$.8 million and decreased subsidy for other programs of \$1.0 million. Interest income increased \$1.3 million due to interest earned on the unexpended EPC funds and interest earned on unexpended funds for the Ohio Bond Financing while interest expense increased \$1.5 million due to the outstanding debt for the EPC contract and the new debt for the Ohio Bond Financing debt.

**CUYAHOGA METROPOLITAN HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007
(Unaudited)**

Capital Assets and Debt Administration

Capital Assets

At December 31, 2008, the Authority had \$201.2 million invested in a variety of capital assets (as reflected in the following schedule), which represents a net decrease of \$10.7 million from December 31, 2007.

Table 4 - Capital Assets at Year-End (Net of Depreciation)

	(in millions)		
	December 31		
	2008	2007	2006
Land	\$ 28.3	\$ 27.6	\$ 27.3
Buildings	614.0	611.2	572.0
Equipment—administrative	7.0	10.5	10.2
Equipment—dwelling	15.8	11.3	10.9
Construction in progress	9.5	4.3	7.9
Total	<u>674.6</u>	<u>664.9</u>	<u>628.3</u>
Accumulated depreciation	(473.4)	(453.0)	(426.2)
Capital Assets—Net	<u><u>\$ 201.2</u></u>	<u><u>\$ 211.9</u></u>	<u><u>\$ 202.1</u></u>

The following reconciliation summarizes the 2008 and 2007 change in capital assets, which is presented in detail in Note 5 to the financial statements.

Table 5 - Changes in Capital Assets

	(in millions)	
	2008	2007
Capital Assets—Beginning of Year	\$ 211.9	\$ 202.1
Additions	18.6	37.4
Retirements—net	(0.3)	(0.3)
Depreciation expense	(29.0)	(27.3)
Capital Assets—End of Year	<u><u>\$ 201.2</u></u>	<u><u>\$ 211.9</u></u>

**CUYAHOGA METROPOLITAN HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007
(Unaudited)**

December 2008 compared to December 2007

Capital additions in 2008 were primarily for estate improvements through the Modernization Program and the construction of new units. These expenditures totaled \$15.7 million. In addition, equipment purchases totaled \$2.1 million.

Some of the major projects were:

- Work was completed on the \$33.6 million Energy Performance Contract
- Completion of six new units at Puritas Gardens
- Completion of Phase 1 demolition of 23 buildings at Garden Valley
- Replacement of all windows at Olde Cedar Estate and Union Square
- Construction of a new management office at Carver Park
- Purchase and renovation of more than 50 homes from the 1996 Hope VI Grant
- Construction began on 66 units at Lakeview Terrace to be completed in 2009
- Under the BOA Program, 160 long standing vacant units were renovated
- The major site and infrastructure package for Division and Loop areas at Lakeview Terrace was completed

In addition, major elevator modernizations were completed at King Kennedy North, Bellaire A Building, LaRonde Tower, Arthorp Tower, Scranton Tower, Addison High Rise, Beachcrest and Bohn Tower. Stairwells walk ways were replaced at Olde Cedar. Roof replacement and exterior masonry repairs were completed at Outhwaite Homes.

The Voluntary Compliance Agreement executed with HUD requires more than 500 dwelling units and common areas to be made compliant with UFAS regulations over the next seven years. In 2008 specifications for the modifications were completed.

Equipment purchases include vehicles for police and construction inspection, computers and appliances for the estates.

**CUYAHOGA METROPOLITAN HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007
(Unaudited)**

December 31, 2007 compared to December 31, 2006

Capital additions in 2007 were primarily for estate improvements through the Modernization Program and the construction of new units. These expenditures totaled \$35.9 million. In addition, equipment purchases totaled \$1.1 million and land purchases totaled \$.4 million.

Several major capital improvement projects were completed in 2007. The renovation of the historic Lakeview Community was successfully completed. The Riverside Park new development project was initiated and completed meeting all critical tax credit dead line dates for occupancy. A total of 90 units were completed and occupied by December 31, 2007 at a cost of \$14 million.

Phase 1 of the Valleyview redevelopment project was completed and occupied by December 31, 2007 with a total of 102 units of which 51 were low income public housing units at a cost of \$14 million.

The Garden Valley redevelopment plan was finalized and submitted to HUD. The plan included the demolition plan for phase 1, a relocation plan for the entire site and the plan for the successful relocation of all families in phase 1.

Work continued on the \$33.6 million Energy Performance Contract entered into in 2006 and at December 31, 2007, over 80 percent of the improvements were completed.

In addition to the major projects, roofs were replaced at Miles-Elmarge Highrise, Cedar extension Family (19 buildings), Olde Cedar Building D and Lakeview Terrace Family (7 buildings).

Splash parks were designed and completed at Outhwaite Homes, Olde Cedar, and Riverside Park.

Also designed and completed were the Louis Stokes Museum, the Sara J. Harper Library and the Lonnie Burton Learning Center.

Under the Basic Order Agreement Program (BOA), more than 60 long standing vacant units were renovated utilizing small vendors.

The purchase of the Severance Tower facility for \$3.3 million included land valued at \$.4million.

Equipment purchases included vehicles for police and construction inspection, computers and appliances for the estates.

**CUYAHOGA METROPOLITAN HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007
(Unaudited)**

Debt Outstanding

As of December 31, 2008, the Authority had \$53.6 million in long-term debt and capital lease obligations compared to \$62.9 million at December 31, 2007, for a \$9.3 million decrease. The following summarizes these obligations:

Table 6 - Outstanding Debt at Year-End

(in millions)

	December 31		
	2008	2007	2006
Energy program—capital lease	\$ 33.9	\$ 36.3	\$ 36.3
Ohio Bond Financing	15.0	15.7	0.0
Bond anticipation note	5.6	5.3	5.2
Severance financing	3.9	4.0	0.0
Ambleside refinancing	4.8	5.1	5.4
Total	<u>63.2</u>	<u>66.4</u>	<u>46.9</u>
Less current portion	(9.6)	(3.5)	(1.0)
Long-term portion	<u>\$ 53.6</u>	<u>\$ 62.9</u>	<u>\$ 45.9</u>

Economic Factors

Significant economic factors affecting the Authority are as follows:

- Federal funding is at the discretion of the U.S. Department of Housing and Urban Development operating subsidy for the Conventional Low Income Housing program was funded at 83.4 percent
- Local labor supply and demand, which can affect salary and wage rates of the Authority
- Local inflationary, recessionary and employment trends, which can affect resident incomes and therefore the amount of rental income
- Inflationary pressure on utility rates, supplies and other costs, which affects the costs of the programs
- Employee health insurance costs continue to rise.

CUYAHOGA METROPOLITAN HOUSING AUTHORITY
STATEMENT OF NET ASSETS
AS OF DECEMBER 31, 2008 AND 2007

<u>ASSETS</u>	<u>2008</u>	<u>2007</u>	<u>LIABILITIES</u>	<u>2008</u>	<u>2007</u>
<u>Current Assets</u>			<u>Current Liabilities</u>		
Cash and cash equivalents	\$ 23,643,768	\$ 21,647,416	Accounts payable—vendors	\$ 10,477,368	\$ 13,170,047
Cash and Investments - Restricted	10,778,650	33,463,141	Accounts payable—HUD	4,742,999	3,137,851
Accounts Receivable Tenants - Net of Allowance for doubtful accounts of \$523,781 and \$1,266,484	179,297	645,258	Accrued expenses	12,451,576	11,520,791
Accounts Receivable - HUD	16,731,335	17,210,862	Security and other deposits	2,032,673	2,102,834
Accounts Receivable - Other Governments	345,786	1,146,441	Current portion of long-term debt	6,578,725	1,152,433
Accounts Receivable - Other	1,523,193	1,365,269	Current portion of capital leases	3,055,239	2,343,849
Inventory	451,632	516,741	Total Current Liabilities	39,338,580	33,427,805
Prepaid Expenses and Other Current Assets	1,590,481	1,766,050	<u>Non-Current Liabilities</u>		
Total Current Assets	55,244,142	77,761,178	Long-term debt—net of current portion	22,684,883	28,903,608
<u>Non-Current Assets</u>			Capital leases—net of current portion	30,886,921	33,972,160
Capital assets:			Workers' compensation liability	2,020,000	1,946,000
Land	28,285,524	27,573,400	Total Non-Current Liabilities	55,591,804	64,821,768
Property and Equipment - Net	172,919,866	184,299,452	TOTAL LIABILITIES	94,930,384	98,249,573
Total Capital Assets	201,205,390	211,872,852	<u>NET ASSETS</u>		
Investments - Restricted	16,064,282	17,671,521	Invested in capital assets—net of related debt	151,126,646	161,219,264
Debt issuance costs, net of amortization of \$197,665 and \$160,189	575,314	612,790	Restricted	6,858,393	23,363,915
Investment in Joint Ventures	967,880	855,200	Unrestricted	21,141,585	25,940,789
Total Non-Current Assets	218,812,866	231,012,363	TOTAL NET ASSETS	\$179,126,624	\$210,523,968
TOTAL ASSETS	\$274,057,008	\$ 308,773,541			

See notes to the financial statements.

CUYAHOGA METROPOLITAN HOUSING AUTHORITY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
<u>Operating Revenues</u>		
Dwelling rent from tenants	\$ 14,375,152	\$ 14,461,273
Other revenues	626,214	3,596,553
Total Operating Revenues	<u>15,001,366</u>	<u>18,057,826</u>
<u>Operating Expenses</u>		
Housing assistance payments	98,612,734	89,274,767
Depreciation	28,954,970	27,265,170
Administrative	30,999,625	29,551,091
Building maintenance	22,297,392	22,124,766
Utilities	20,394,145	19,871,382
Nonroutine maintenance	15,816,333	25,577,710
Tenant services	2,847,895	3,321,584
General	4,822,083	5,676,256
Protective services	8,472,268	10,332,327
Other	3,233,202	2,393,853
Total Operating Expenses	<u>236,450,647</u>	<u>235,388,906</u>
Operating Loss	<u>(221,449,281)</u>	<u>(217,331,080)</u>
<u>Nonoperating Revenues (Expenses)</u>		
HUD operating subsidies and grants	177,475,900	201,789,148
HUD capital grants	12,798,173	8,629,407
Grants—other	1,305,812	2,097,959
Interest income	1,550,566	3,131,148
Interest expense	(3,078,514)	(2,552,699)
Total Nonoperating Revenues - Net	<u>190,051,937</u>	<u>213,094,963</u>
Change in Net Assets	(31,397,344)	(4,236,117)
Net Assets—Beginning of year	<u>210,523,968</u>	<u>214,760,085</u>
Net Assets - End of year	<u>\$ 179,126,624</u>	<u>\$ 210,523,968</u>

See notes to the financial statements.

**CUYAHOGA METROPOLITAN HOUSING AUTHORITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007**

	<u>2008</u>	<u>2007</u>
<u>Cash Flows From Operating Activities</u>		
Cash received from tenant rents	\$ 14,741,113	\$ 14,559,664
Cash payments to suppliers for goods and services	(61,017,586)	(76,244,577)
Cash paid for salaries and benefits	(46,236,303)	(44,836,632)
Housing assistance payments	(98,612,734)	(89,274,767)
Other receipts	142,725	3,229,226
Other payments	(3,267,700)	(2,116,031)
Net Cash Used in Operating Activities	<u>(194,250,485)</u>	<u>(194,683,117)</u>
<u>Cash Flows From Noncapital Financing</u>		
HUD operating subsidies and grants	177,922,820	205,779,887
Other grants	2,106,467	1,080,669
Cash Provided by Noncapital Financing Activities	<u>180,029,287</u>	<u>206,860,556</u>
<u>Cash Flows From Capital and Related Financing Activities</u>		
HUD capital grants	14,435,928	4,854,693
Property and equipment additions	(18,552,152)	(37,352,720)
Proceeds from issuance of bond anticipation notes and Equipment Lease Agreement	5,600,000	19,231,665
Repayment of debt and capital lease obligations	(8,766,282)	(994,408)
Interest paid on debt and capital lease obligations	(2,995,584)	(1,435,670)
Proceeds from sale of capital assets	764,240	292,311
Net Cash Used in Capital and Related Financing Activities	<u>(9,513,850)</u>	<u>(15,404,129)</u>
<u>Cash Flows From Investing Activities</u>		
Purchases of investments	(1,513,697)	(18,781,643)
Proceeds from maturity of investments	3,065,239	6,457,052
Interest income	1,552,349	3,128,565
Net Cash Provided by (Used in) Investing Activities	<u>3,103,891</u>	<u>(9,196,026)</u>
Increase (Decrease) in Cash and Cash Equivalents	<u>(20,631,157)</u>	<u>(12,422,716)</u>
Cash and Cash Equivalents - Beginning of Year	<u>53,576,037</u>	<u>65,998,753</u>
Cash and Cash Equivalents - End of Year*	<u>\$ 32,944,880</u>	<u>\$ 53,576,037</u>

* The amount includes \$23,643,768 and \$21,647,416 unrestricted cash and cash equivalents. and \$9,301,112 and \$31,928,621 of restricted cash in 2008 and 2007, respectively.

(Continued)

See notes to the financial statements.

CUYAHOGA METROPOLITAN HOUSING AUTHORITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007
(Continued)

	2008	2007
<u>Reconciliation of Operating Loss to Net Cash Used in Operating Activities</u>		
Operating loss	\$ (221,449,281)	\$ (217,331,080)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	28,954,970	27,265,170
Provision for uncollectible accounts	668,353	262,135
Amortization of bond issue costs	37,476	24,888
Loss (Gain) on sale of capital assets	(499,596)	21,453
Changes in operating assets and liabilities:		
(Increase) decrease in assets:		
Accounts receivable tenants	(202,392)	(163,744)
Accounts receivable—other	(159,706)	(388,780)
Inventory	65,109	127,590
Prepaid expenses and other assets	175,569	273,768
Increase (decrease) in liabilities:		
Accounts payable	(2,692,681)	(5,155,089)
Accrued expenses and other	847,855	127,638
Security and other deposits	(70,161)	159,934
Workers' compensation	74,000	93,000
Net Cash Used in Operating Activities	\$ (194,250,485)	\$ (194,683,117)

See notes to the financial statements.

(Concluded)

CUYAHOGA METROPOLITAN HOUSING AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

1. DEFINITION OF THE ENTITY

The Cuyahoga Metropolitan Housing Authority (the “Authority”) is a political subdivision organized under the laws of the State of Ohio. The Authority is responsible for operating certain low-rent housing programs in the County of Cuyahoga 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’s financial statements include all programs that are considered to be within its administrative control. The Authority generally maintains separate accounting records for each grant program or annual contribution contract, as required by HUD. A list of the various programs, including HUD Annual Contributions Contract Number (“ACC”), if applicable, is as follows:

Conventional Low-Rent Housing Program (ACC C-5003) (“Conventional Program”)—The Authority develops, modernizes and manages low-rent housing projects. This program accounts for housing operations primarily funded under ACC C-5003, which also includes the Capital Fund Program (“CFP”), Comprehensive Grant Program (“CGP”), Replacement Housing Fund and Urban Revitalization Development Grant (“URD”, “HOPE VI”).

Homeownership Program (ACC C-5003)—Ownership equity is realized by the family tenant through monthly payments into an earned home payments account and through regular maintenance of the home. A family achieves ownership when the equity increases to a point where it is equal to a predetermined amount based upon the unamortized purchase price of the home. A family may also purchase the home by obtaining financing or otherwise paying the amount by which the purchase price exceeds the family’s equity.

Housing Choice Voucher and Moderate Rehabilitation Programs (ACC C-5015)—The Authority contracts with private landlords and subsidizes the rent for dwelling units. Payments are made to the landlord on behalf of the tenant for the difference between the contract rent amount and the amount that the tenant is required to pay under HUD established guidelines that consider factors such as family composition and income.

Section 8 New Construction Housing Assistance Payment Programs (Ambleside Contract C-77-242, Severance Contract C-78-089 and Quarrytown Contract C-77-330)—These programs account for the operation of low-income housing developments where the Authority or private developers contract directly with HUD to develop low-income housing. The Authority manages all developments and handles all HUD funding and reporting. The Authority owns the Ambleside development. The Annual Contribution Contracts for Severance Housing Corporation (“Severance”) and the Cuyahoga County Housing Corporation (“Quarrytown”) are between HUD and the Authority. In these cases, the Authority leases the housing projects from a private developer (see Note 7).

CUYAHOGA METROPOLITAN HOUSING AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007
(CONTINUED)

1. DEFINITION OF THE ENTITY (Continued)

Woody Woods and Noah Properties—In September 1996, HUD sold 10 properties on which it had foreclosed to the Authority for \$1 each. In addition, HUD awarded grants of approximately \$20 million for the demolition or rehabilitation of existing properties and new construction of housing. With the exception of Woody Woods and Blainewood (part of the Noah properties), all of the properties were demolished (including the other Noah properties) and the land is currently available for redevelopment. The Woody Woods property currently contains facilities serving both Housing Choice Voucher Program and Non-Housing Choice Voucher Program residents. The Blainewood property has been vacant since it was purchased from HUD in 1996.

Western Reserve Revitalization and Management Company—The Authority has established Western Reserve Revitalization and Management Company (“Western Reserve”) as a wholly-owned subsidiary. Western Reserve was established for the purpose of owning an investment as the general partner, together with The Cleveland Housing Network, in the Cleveland New Construction Limited Partnership (“CNC III”). CNC III was established for the purpose of developing single-family homes and townhouses as part of a scattered-site lease-purchase project. CNC III is not considered a component unit of the Authority as defined by Governmental Accounting Standards Board (“GASB”) Statement No. 14, *The Financial Reporting Entity*, and GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, an amendment of GASB Statement 14. Accordingly, the assets, liabilities, and results of operations of CNC III are not included in the accompanying financial statements.

Local Fund—In 1998, a \$100,000 contribution of capital was made by Title V to a new local fund. This fund is to be used for expenditures necessary for the accomplishment of the Authority’s mission but which do not fall under HUD oversight. All expenditures from the local fund must be approved by the Executive Director and the budget is approved by the Board of Commissioners.

Title V/Affordable Housing—Assets in the Title V program represent the proceeds and investment income realized from the sale of World War II Title V housing projects that were given to the Authority by the U.S. government at the end of the Title V program and other funds transferred to the program by the Authority. In 1994, the Authority transferred \$2,538,638 into Title V from the Ambleside program. This amount represented the excess proceeds on the bond refinancing of the Ambleside property. These assets are subject to the terms of a Memorandum of Understanding between HUD and the Authority. All activity within this program must comply with the laws of the State of Ohio and the Administrative Orders issued by the Board of Commissioners of the Authority.

The Affordable Housing program was established to provide safe and sanitary housing accommodations within Cuyahoga County, particularly within the City of Cleveland, to low-income families through the construction of housing in conformity with federal “turnkey rules” promulgated by HUD.

CUYAHOGA METROPOLITAN HOUSING AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007
(CONTINUED)

1. DEFINITION OF THE ENTITY (Continued)

Other Grants—During 2008 and 2007, the Authority received federal, state and local funding under the Resident Opportunities and Supportive Services Program, Foster Care Grant, City of Cleveland HOME funds, PAL Youth Enrichment Program, George Gund Foundation, The Cleveland Foundation, Youth Health Program, Supportive Housing Program, 21st Century Grant, Disaster Housing Assistant Grant, Disaster Voucher Program, and private donations. Expenditures for these programs and grants must be made in accordance with the rules and regulations established by the grantors.

CMHA Charities Fund, Inc.—The Authority has established CMHA Charities Fund, Inc., a 501(c)(3) corporation. This charity is to raise funds through donations and fund raising events to be used to provide charitable and educational support for the Authority's residents. The assets, liabilities and results of operations are included in the accompanying financial statements.

Excluded Entities—Certain entities that conduct activities for the benefit of the Authority or its residents are excluded from the financial statements. These entities are:

Nonprofit Corporations—In accordance with housing subsidy contracts, the Authority has designated several Section 8 nonprofit corporations (Severance Housing Corporation, Cuyahoga Housing Corporation, Cuyahoga-Puritas Housing Corporation, Rosalind-Amesbury Housing Assistance Corporation, Cleveland-Rock Glen Housing Assistance Corporation, and Chester Village Housing Incorporated) to serve as instrumentalities of the Authority to assist in the development and financing of housing projects. The Board of the Authority appoints the Board of Trustees of the Severance Housing Corporation, Cuyahoga-Puritas Housing Corporation, Rosalind-Amesbury Housing Assistance Corporation, Cleveland-Rock Glen Housing Assistance Corporation, and Chester Village Housing Incorporated, the members of which are all the same. The Authority's Board of Commissioners must approve all actions of the instrumentalities and, upon their dissolution, all assets and residual receipts are to be distributed to the Authority. These Section 8 nonprofit corporations have no employees, perform no day-to-day functions, and the officers thereof serve in a non-paid status. There are no assets or liabilities in these corporations and there were no revenues earned or expenses incurred during 2008 and 2007.

CUYAHOGA METROPOLITAN HOUSING AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007
(CONTINUED)

1. DEFINITION OF THE ENTITY (Continued)

Excluded Entities (Continued)

Joint Venture—The Authority is a member of the Housing Authority Risk Retention Group (“HARRG”) and the Housing Authority Property Insurance, Inc. (“HAPI”). HARRG and HAPI are nonprofit, tax exempt mutual insurance companies that are wholly owned by their public housing authority members. HARRG operates under the Federal Liability Risk Retention Act. It provides liability insurance coverages solely to public housing authorities and public housing and redevelopment agencies throughout the United States. HAPI is a captive insurance company formed pursuant to the Vermont Captive Insurance Companies Act. It provides property insurance to public housing authorities and public housing and redevelopment authorities throughout the United States. The Board of Directors is elected by HARRG’s approximately 716 members. The number of votes granted to each member is based upon premiums paid and is limited to a maximum of 10 percent of the total votes available. Due to the lack of significant oversight responsibility and accountability of the Authority’s Board of Commissioners for actions, operations, and fiscal matters of HARRG and HAPI, the degree of financial interdependency is considered insufficient to warrant inclusion of these organizations within the Authority’s reporting entity. HARRG and HAPI issue stand-alone financial reports that include financial statements and required supplementary information.

Interested parties may obtain a copy by making a written request to Housing Authority Insurance, c/o Mark Wilson, P.O. Box 189, Cheshire, CT 06410 or by calling 203-272-8220.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Authority has prepared its financial statements in conformity with accounting principles generally accepted in the United States of America. The Authority follows the business-type activities reporting requirements of GASB Statement No. 34, *Basic Financial Statements and Management’s Discussion and Analysis for State and Local Governments*. In accordance with GASB Statement No. 34, the accompanying basic financial statements are reported on an Authority-wide basis.

Statement No. 34 requires the following, which collectively make up the Authority’s basic financial statements:

Basic Financial Statements:

- Statement of Net Assets
- Statement of Revenues, Expenses, and Changes in Net Assets
- Statement of Cash Flows
- Notes to the Financial Statements

CUYAHOGA METROPOLITAN HOUSING AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007
(CONTINUED)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, the Authority has elected not to apply the provisions of the Statements and Interpretations of the Financial Accounting Standards Board issued after November 30, 1989. The Authority will continue to apply all applicable pronouncements of the GASB.

The significant accounting policies under which the financial statements have been prepared are as follows:

A. Cash and Cash Equivalents—Cash and cash equivalents include investments with original maturities of three months or less. Cash and cash equivalents are stated at fair value.

B. Investments—Investments are stated at fair value.

C. Capital Assets—Capital assets (items with an individual cost greater than \$1,500, or appliances less than \$1,500, and a useful life exceeding two years), including land, property and equipment, are recorded at cost. Property and equipment are depreciated using the straight line method over the estimated useful lives of the assets, which are as follows:

Property	15-40 years
Equipment	3-7 years

D. Debt Obligations—Debt obligations (and the related debt service requirements) of the Ambleside program, bond anticipation note, and a capital lease for the purchase of heating and energy efficiency equipment are the responsibility of the Authority, and are classified as liabilities in the accompanying financial statements.

E. Compensated Absences—Vacation time may be accrued and carried over from year to year up to a maximum of 240 hours. Earned vacation time is due and payable to employees upon termination of employment.

For union employees only, a portion of accrued sick time is payable upon retirement. Upon retirement, a union employee can convert up to 120 days of accumulated but unused sick time into a cash payment at the rate of one day for every two days accumulated.

F. Debt Amortization Funds—Debt amortization funds consist of restricted cash and investments held by fiscal agents. These funds are used to retire current installments of debt and to pay interest accrued thereon. Investments of debt amortization funds are carried at fair value.

CUYAHOGA METROPOLITAN HOUSING AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007
(CONTINUED)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- G. Revenue Recognition—Subsidies and grants received from HUD and other grantors are generally recognized during the periods to which the grants relate. Tenant rental revenues are recognized during the period of occupancy. Receipts from CGP, CFP, URD (HOPE VI), and other reimbursement based grants are recognized when the related expenses are incurred. Expenses are recognized as incurred.
- H. Debt Issuance Costs and Original Issue Discounts—Bond premiums, original issuance discounts and bond issuance costs are amortized over the life of the underlying debt using the effective interest method.
- I. Indirect Costs—Certain indirect costs are charged to programs under a cost allocation plan. These indirect costs are accumulated in and allocated from the Conventional Low-Rent Housing Program.
- J. Inventory—Inventory is valued using an average costing method. Expense is recorded based upon consumption.
- K. Use of Estimates—The preparation of financial statements in conformity with accounting principals generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, revenues and expenses, at and during the reporting period. Actual results could differ from those estimates.
- L. Budgetary Accounting and Control—The Authority’s annual budget is prepared on the accrual basis of accounting and approved by the Board of Commissioners. The budget includes anticipated amounts for current year revenues and expenses as well as new capital projects.
- The Authority maintains budgetary control by not permitting total operating expenses and expenditures for individual programs to exceed their respective budget amounts without the appropriate approvals.
- M. Reclassifications—Certain amounts reported in the previous year have been reclassified to conform to the current year presentation.

CUYAHOGA METROPOLITAN HOUSING AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007
(CONTINUED)

3. DEPOSITS AND INVESTMENTS

Legal Requirement—The deposit and investment of the Authority’s monies are governed by the provisions of the Ohio Revised Code and regulations established by the U.S. Department of Housing and Urban Development. The Authority is permitted to invest its monies in certificates of deposit, savings accounts, money market accounts, state and local government investment pools, direct obligations of the federal government, obligations of federal government agencies and securities of federal government agencies. These investments must mature within three years of their purchase. The Authority may also enter into repurchase agreements with any eligible depository or any eligible dealer for a period not exceeding 30 days.

Under Ohio law, public depositories must give security for all public funds on deposit. These institutions may either specifically collateralize individual accounts in excess of amounts insured by the Federal Deposit Insurance Corporation (“FDIC”), or may pledge a pool of government securities valued at least 105 percent of the total value of public monies on deposit at the institution. Repurchase agreements must be secured by the specific qualifying securities upon which the repurchase agreements are based. These securities must mature or be redeemable within five years of the date of the related repurchase agreement. The market value of the securities subject to a repurchase agreement must exceed the value of the principal by 2 percent and be marked to market daily. State law does not require security for public deposits and investments to be maintained in the Authority’s name.

The Authority is prohibited from investing in any financial instrument, contract or obligation whose value or return is based upon or linked to another asset or index, or both, separate from the financial instrument, contract or obligation itself (commonly known as a “derivative”). The Authority is also prohibited from investing in reverse purchase agreements.

Deposits—Custodial credit risk is the risk that in the event of a bank failure, the Authority’s deposits may not be returned to it. The Authority does have a deposit policy that addresses custodial credit risk. At year-end, the carrying amount of the Authority’s deposits was \$32,944,880, and the bank balance was \$38,784,531, the difference representing outstanding checks and other in-transit items. Of the bank balance, \$2,345,724 was covered by federal depository insurance, \$34,831,416 was collateralized by securities pledged in the name of the Authority or by pooled collateral as permitted by the Ohio Revised Code, and \$1,607,391 in non public funds were not collateralized.

Investments—The Authority has a formal investment policy. Investments held by the Authority at December 31, 2008 are presented below, categorized by investment type and credit quality rating. Credit ratings provide information about the investments’ credit risk, which is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. All investments mature within one year.

CUYAHOGA METROPOLITAN HOUSING AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007
(CONTINUED)

3. DEPOSITS AND INVESTMENTS (Continued)

Interest Rate Risk – The Authority’s investment policy limits investments to 3 years, but does not limit investment maturities as a means of managing exposure to fair value losses arising from increasing interest rates. The Authority staggers maturity dates of investments to avoid losses from rising interest rates.

Concentration of Credit Risk – The Authority does not limit the amount of funds that may be on deposit with any one financial institution; however, all deposits exceeding the FDIC insurance limit are fully and continuously collateralized by securities pledged in the name of the Authority or by pooled collateral as permitted by the Ohio Revised Code.

<u>Description</u>	<u>Fair Value/ Carrying Value</u>	<u>Credit Quality Rating</u>
Federal National Mortgage Association Discount Notes	\$ 811,814	AAA
Federal Home Loan Bank Securities	253,818	AAA
Federal Home Loan Mortgage Corporation Securities	411,906	AAA
Subtotal	<u>1,477,538</u>	
Money Market Fund	<u>16,064,282</u>	Not Rated
Total Primary Government Investments	<u><u>\$ 17,541,820</u></u>	

A reconciliation of cash and investments as shown on the statement of net assets at December 31, 2008 and 2007 to the deposits and investments included in this note is as follows:

	<u>2008</u>	<u>2007</u>
Cash and Cash Equivalents	\$ 23,643,768	\$ 21,647,416
Cash and Investments - Restricted:		
Current Assets	10,778,650	33,463,141
Non-Current Assets	16,064,282	17,671,521
Total	<u><u>\$ 50,486,700</u></u>	<u><u>\$ 72,782,078</u></u>
Carrying Amount of Deposits	\$ 32,944,880	\$ 53,576,037
Carrying Amount of Investments	17,541,820	19,206,041
Total	<u><u>\$ 50,486,700</u></u>	<u><u>\$ 72,782,078</u></u>

CUYAHOGA METROPOLITAN HOUSING AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007
(CONTINUED)

4. RESTRICTED CASH AND INVESTMENTS

At December 31, 2008 and 2007, the Authority had the following cash and investments, the use of which was restricted under the terms of various grant programs, debt obligations, and other requirements:

	<u>2008</u>	<u>2007</u>
Conventional Program:		
Tenant security deposits	\$ 1,217,853	\$ 1,177,450
Industrial Commission of Ohio escrow fund	3,185,048	3,835,046
Siemens Energy Performance Contract	0	6,074,591
CMHA Charities Fund, Inc.	251,006	355,317
Western Reserve	1,872,855	551,193
Homeownership Program:		
Earned home payment account and nonroutine maintenance reserves	250,579	210,000
Housing Choice Voucher Restricted HAP	2,889,724	19,906,086
Ohio Bond Financing:		
Net Proceeds	11,858,751	14,151,343
Debt Service Reserve	1,268,274	1,248,836
Ambleside:		
Tenant security deposits	37,731	40,090
Nonroutine maintenance reserves	2,112,845	967,536
Debt amortization funds	824,412	1,303,806
Severance:		
Tenant security deposits	0	85,899
Nonroutine maintenance reserves	1,031,412	1,011,346
Quarrytown:		
Tenant security deposits	42,442	40,982
Nonroutine maintenance reserves	0	175,141
	<u>0</u>	<u>175,141</u>
Total	<u>\$ 26,842,932</u>	<u>\$ 51,134,662</u>

CUYAHOGA METROPOLITAN HOUSING AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007
(CONTINUED)

5. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2008 was as follows:

	January 1, 2008	Additions	Deletions	December 31, 2008
Capital assets not being depreciated:				
Land	\$ 27,573,400	\$ 759,172	\$ (47,048)	\$ 28,285,524
Construction in progress (net change)	4,289,375	5,224,794	-	9,514,169
Total capital assets not being depreciated	31,862,775	5,983,966	(47,048)	37,799,693
Capital assets being depreciated:				
Property and equipment	633,055,102	12,568,186	(8,790,568)	636,832,720
Less accumulated depreciation	453,045,025	28,954,970	(8,572,972)	473,427,023
Total Capital Assets Being Depreciated - Net	180,010,077	(16,386,784)	(217,596)	163,405,697
Capital Assets—Net	\$ 211,872,852	\$ (10,402,818)	\$ (264,644)	\$ 201,205,390

Capital asset activity for the year ended December 31, 2007 was as follows:

	January 1, 2007	Additions	Deletions	December 31, 2007
Capital assets not being depreciated:				
Land	\$ 27,300,633	\$ 356,767	\$ (84,000)	\$ 27,573,400
Construction in progress (net change)	7,871,378	0	(3,582,003)	4,289,375
Total capital assets not being depreciated	35,172,011	356,767	(3,666,003)	31,862,775
Capital assets being depreciated:				
Property and equipment	593,164,940	40,577,956	(687,794)	633,055,102
Less accumulated depreciation	426,237,887	27,265,170	(458,032)	453,045,025
Total Capital Assets Being Depreciated-Net	166,927,053	13,312,786	(229,762)	180,010,077
Capital Assets—Net	\$ 202,099,064	\$ 13,669,553	\$ (3,895,765)	\$ 211,872,852

The Authority maintains detailed records that track fixed assets by category. The following schedules list fixed asset balances for individual programs at December 31, 2008 and 2007:

CUYAHOGA METROPOLITAN HOUSING AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007
(CONTINUED)

5. CAPITAL ASSETS (Continued)

<u>Programs</u>	2008				
	<u>Land</u>	<u>Property</u>	<u>Equipment</u>	<u>Accumulated Depreciation</u>	<u>Net</u>
Conventional Low-Rent Housing Program	\$ 23,802,787	\$ 610,188,088	\$ 19,824,124	\$ (463,054,128)	\$ 190,760,871
Homeownership Program	92,130	1,294,406	70,642	(1,059,947)	397,231
Housing Choice Voucher and Moderate Rehabilitation Programs	0	277,203	1,285,068	(1,269,905)	292,366
Opportunity Square	3,696,000	0	0	0	3,696,000
Title V	278,000	558,000	28,894	(586,894)	278,000
Section 8 New Construction Housing Assistance Payment Programs:					
Ambleside	59,840	6,095,000	388,957	(5,036,599)	1,507,198
Severance	356,767	3,416,670	293,427	(585,955)	3,480,909
Quarrytown	0	472,646	314,645	(420,139)	367,152
Other	0	1,189,802	649,317	(1,413,456)	425,663
Total	\$ 28,285,524	\$ 623,491,815	\$ 22,855,074	\$ (473,427,023)	\$ 201,205,390

<u>Programs</u>	2007				
	<u>Land</u>	<u>Property</u>	<u>Equipment</u>	<u>Accumulated Depreciation</u>	<u>Net</u>
Conventional Low-Rent Housing Program	\$ 23,090,663	\$ 602,238,666	\$ 18,923,592	\$ (443,300,597)	\$ 200,952,324
Homeownership Program	92,130	1,294,406	16,946	(1,003,335)	400,147
Housing Choice Voucher and Moderate Rehabilitation Programs	0	282,365	1,273,387	(1,126,671)	429,081
Opportunity Square	3,696,000	0	0	0	3,696,000
Title V	278,000	558,000	28,894	(586,894)	278,000
Section 8 New Construction Housing Assistance Payment Programs:					
Ambleside	59,840	6,070,520	385,080	(4,852,747)	1,662,693
Severance	356,767	3,380,841	290,717	(443,693)	3,584,632
Quarrytown	0	456,633	327,388	(376,762)	407,259
Other	0	1,170,549	646,495	(1,354,328)	462,716
Total	\$ 27,573,400	\$ 615,451,980	\$ 21,892,499	\$ (453,045,027)	\$ 211,872,852

CUYAHOGA METROPOLITAN HOUSING AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007
(CONTINUED)

6. ACCRUED EXPENSES AND OTHER LIABILITIES

Accrued expenses at December 31, 2008 and 2007 consist of the following items:

	2008	2007
Payroll and Related Accruals	\$ 5,564,960	\$ 5,707,176
Workers' Compensation—Current Portion	1,000,000	1,000,000
Other Litigation Reserves	672,850	577,000
Other	5,213,766	4,236,615
Total	\$ 12,451,576	\$ 11,520,791

7. DEBT AND LEASE OBLIGATIONS

Ambleside Bonds—In December 1994, the Authority, through the Cleveland-Rock Glen Housing Assistance Corporation, issued \$8.3 million in Multifamily Housing Revenue and Revenue Refunding bonds (composed of \$2.4 million of serial bonds and a \$5.9 million term bond) to retire the mortgage obligation on the Ambleside Section 8 New Construction project and provide funds for the construction of housing for low income elderly, handicapped and disabled individuals.

The bonds are secured by a pledge of all revenues generated by the Ambleside project, including the housing assistance payments from HUD, and a mortgage on the Ambleside property. The serial bonds matured in December 2005. The term bond matures on June 1, 2018, and bears interest at a rate of 7 percent.

The following is a summary of Ambleside's future debt service requirements for bonds payable as of December 31, 2008, is as follows:

Year	Principal	Interest	Total
2009	\$ 380,000	\$ 340,725	\$ 720,725
2010	410,000	313,600	723,600
2011	435,000	284,375	719,375
2012	465,000	253,400	718,400
2013	495,000	220,325	715,325
2014-2018	2,775,000	511,750	3,286,750
Total Payments	4,960,000	1,924,175	6,884,175
Less—Unamortized Bond Discount	(194,389)	0	(194,389)
Total	\$ 4,765,611	\$ 1,924,175	\$ 6,689,786

CUYAHOGA METROPOLITAN HOUSING AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007
(CONTINUED)

7. DEBT AND LEASE OBLIGATIONS (Continued)

At the Authority's option, the bonds are subject to redemption after June 1, 2006, in whole or in part, at a specified premium plus accrued interest through the redemption date.

Capital Lease—In 1997, the Authority entered into a tax exempt capital lease to acquire equipment to upgrade the heating and energy efficiency of several properties. The agreement expires in September 2010. At December 31, 2008 and 2007, the net book value of equipment under capital lease was \$2,135,207 and \$2,596,104, respectively.

Payments under the agreement are as follows:

2009	\$ 785,969
2010	589,476
	1,375,445
Less Amount Representing Interest	(72,012)
Principal Amount	\$1,303,433

Capital Lease—On October 10, 2006, the Authority entered into an equipment lease-purchase agreement to acquire equipment under an energy performance contract to upgrade the heating and energy efficiency of several properties. The total amount of the contract is \$33,610,000 which was all committed at December 31, 2008. Principal payments commenced April 10, 2008. Interest from inception to April 10, 2007 in the amount of \$707,818 was added to principal.

CUYAHOGA METROPOLITAN HOUSING AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007
(CONTINUED)

7. DEBT AND LEASE OBLIGATIONS (Continued)

Payments under the agreement are as follows:

	Principal	Interest	Total
2009	\$ 2,322,021	\$ 1,331,395	\$ 3,653,416
2010	2,420,853	1,232,563	3,653,416
2011	2,523,892	1,129,524	3,653,416
2012	2,631,316	1,022,100	3,653,416
2013	2,743,313	910,103	3,653,416
2014 - 2018	15,570,638	2,696,439	18,267,077
2019 - 2020	4,426,694	140,075	4,566,769
Total Capital Lease Payments	\$ 32,638,727	\$ 8,462,199	\$ 41,100,926

Bond Anticipation Note, Series 2005—In December 2005, the Authority entered into a Bond Anticipation Note for the purchase and initial project related expenses necessary to acquire approximately 25 acres of land to be used as the site of a consolidated administrative and operations facility. The Bond Anticipation Note was issued in anticipation of the issuance of permanent financing bonds, the proceeds of which will be used to pay off the Bond Anticipation Note and complete development of the property. The maturity date of the Note is December 1, 2006. On September 20, 2006, the Authority entered into a Bond Anticipation Note with a March 1, 2008 maturity date to replace this Bond Anticipation Note. On December 1, 2006, the original note was retired. The note had a balance of \$5,240,000 with a 4 percent interest rate. On February 28, 2008, the 2009 Bond Anticipation Note was issued for \$5,600,000 with a due date of August 27, 2009 and an interest rate of 4 percent. This note replaced the 2008 Bond Anticipation Note.

First Mortgage Note-On October 22, 2007 the Authority borrower \$4,000,000 on a first mortgage note from First Merit Bank to finance the purchase of the Severance Tower property. The interest rate is 6 percent through November 14, 2010. From November 15, 2010 through November 14, 2013, the annual interest rate shall be a fixed rate equal to one hundred and fifty basis points (1.5 percent) above the banks Three Year Cost of Funds Index in effect on November 15, 2010. From November 15, 2013 through November 14, 2016, the annual interest rate shall be a fixed rate equal to one hundred fifty basis points (1.5 percent) above the banks Three Year Cost of Funds Index in effect on November 14, 2013. From November 15, 2016 until the note is paid in full, the annual interest rate shall be a fixed rate equal to one hundred fifty basis points (1.5 percent) above the banks Three Year Cost of Funds Index in effect on November 15, 2016. Starting on December 15, 2007, the note requires monthly payments of principal and interest of \$28,850 through November 15, 2017 at which time the entire unpaid principal balance hereof and all accrued interest, if any, shall be due and payable in full. The required installments of principal and interest shall be adjusted with each change in interest rate. At December 31, 2008, \$3,885,495 in debt remained outstanding. An amortization of the loan after 2009 is not available.

CUYAHOGA METROPOLITAN HOUSING AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007
(CONTINUED)

7. DEBT AND LEASE OBLIGATIONS (Continued)

Payments under the agreement are as follows:

	Principal	Interest	Total
2009	\$ 112,958	\$ 233,240	\$ 346,198
Amount Remaining	<u>3,772,537</u>	<u>207,858</u>	<u>3,980,395</u>
Total	<u>\$3,885,495</u>	<u>\$ 441,098</u>	<u>\$ 4,326,593</u>

Ohio Bond Financing - On July 17, 2007, the Authority issued a Capital Fund backed bond with three other authorities. The Authority's debt from the bond issuance is \$15,315,000 and after providing for a debt service reserve and upfront costs, the Authority will have \$14,003,165 to spend on improvements to facilities. The bonds have a 20 year term with interest rates from 3.9 percent to 4.67 percent. A bond premium was also received and will be amortized over the life of the bonds on a straight line basis. Payments will be made in April and October starting in October of 2007 and will be made directly from HUD. At December 31, 2008, total debt and unamortized bond premium was \$15,012,503.

Payments under the agreement are as follows:

	Principal	Interest	Total
2009	\$ 480,000	\$ 703,800	\$ 1,183,800
2010	505,000	684,100	1,189,100
2011	525,000	662,188	1,187,188
2012	550,000	638,001	1,188,001
2013	575,000	612,688	1,187,688
2014 to 2018	3,340,000	2,598,500	5,938,500
2019 to 2023	4,315,000	1,646,625	5,961,625
2024 to 2027	4,340,000	447,750	4,787,750
Total	<u>14,630,000</u>	<u>7,993,652</u>	<u>22,623,652</u>
Unamortized bond premium	382,503	0	382,503
Total	<u>\$15,012,503</u>	<u>\$ 7,993,652</u>	<u>\$ 23,006,155</u>

CUYAHOGA METROPOLITAN HOUSING AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007
(CONTINUED)

7. DEBT AND LEASE OBLIGATIONS (Continued)

A roll-forward of the Authority's long-term debt and capital lease in 2008 follows:

	January 1, 2008	Increase	Decrease	December 31, 2008	Due Within One Year
Ambleside Bonds	\$ 5,106,429	\$ 0	\$ (340,818)	\$ 4,765,611	\$ 364,808
Bond Anticipation Note	5,240,000	5,600,000	(5,240,000)	5,600,000	5,600,000
Ohio Bond Financing	15,718,462	0	(705,959)	15,012,503	500,959
Mortgage Note	3,991,150	0	(105,655)	3,885,495	112,958
Capital Lease	36,316,009	0	(2,373,849)	33,942,160	3,055,239
Total	\$ 66,372,050	\$ 5,600,000	\$ (8,766,281)	\$ 63,205,769	\$ 9,633,964

Other Lease Obligations—The Authority has entered into a long-term operating lease agreement with a private developer for the Quarrytown building and administers the Section 8 New Construction Housing Assistance Payments Programs for this facility. The Authority manages this property and prepares all the necessary reports for HUD. The annual contributions contract for Quarrytown is between HUD and the Authority. For 2008 and 2007, the total expense recognized under this operating lease, including rent adjustments from prior years in 2008, was \$1,955,886 and \$835,429, respectively. In March 2009, the Authority purchased this facility.

The Authority entered into agreements to lease three separate facilities to house warehouse, office space and centralized maintenance operations. Total expense recognized under these operating leases was \$718,821 and \$740,850 in 2008 and 2007, respectively. The Authority also leases office equipment under various operating leases. Total expense recognized under these operating leases was \$454,174 in 2008 and \$514,779 in 2007.

Future minimum lease payments are as follows:

Year	Quarrytown	Warehouses	Office Equipment	Total
2009	\$ 65,425	\$ 437,823	\$ 176,226	\$ 679,474
2010	0	456,769	97,806	554,575
2011	0	488,002	77,388	565,390
2012	0	183,483	60,150	243,633
2013	0	0	32,504	32,504
Total	\$ 65,425	\$ 1,566,077	\$ 444,074	\$ 2,075,576

CUYAHOGA METROPOLITAN HOUSING AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007
(CONTINUED)

8. DEFINED BENEFIT PENSION PLAN

Ohio Public Employees Retirement System

All Authority full-time employees participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans, as describe below:

1. The Traditional Pension Plan (TP) – a cost-sharing, multiple-employer defined benefit pension plan.
2. The Member-Directed Plan (MD) – a benefit contribution plan in which the member invests both member and employer contributions (employer contributions vest over 5 years at 20 percent per year). Under the Member-Directed plan, members accumulate retirement assets equal to the value of the member and (vested) employer contributions plus any investment earnings.
3. The Combined Plan (CO) – a cost-sharing, multiple-employer defined benefit pension plan. Under the Combined plan, employer contributions are invested by the retirement system to provide a formula retirement benefit similar in nature to the Traditional Pension plan benefit. Member contributions, the investment of which is self-directed by the member, accumulate retirement assets in a manner similar to the Member-Directed plan.

OPERS provides retirement, disability, survivor, death benefits, and annual cost of living adjustments to members of both the Traditional Pension and the Combined plans. Members of the Member-Directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by State statute per Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-5601 or 1-800-222-7377 or by using the OPERS website at www.opers.org.

For the year ended December 31, 2008, the members of all three plans were required to contribute 10 percent of their annual covered salaries. The Ohio Revised Code provides statutory authority for member and employer contributions. For 2008, member and employer contribution rates were consistent across all three plans (TP, MD, and CO). The 2008 employer pension contribution rate for the Authority was 14 percent, with 7 percent of covered payroll being used to fund pension benefits. The Authority's required contributions to OPERS that were used to fund pension benefits for the years ended December 31, 2008, 2007, and 2006, were \$2,600,826, \$3,102,482, and \$3,491,103, respectively. The full amount has been contributed for 2008 and 2007. Contributions to the Member-Directed Plan for 2008 were \$49,071 made by the Authority and \$35,051 made by the plan members.

CUYAHOGA METROPOLITAN HOUSING AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007
(CONTINUED)

9. POST-EMPLOYMENT BENEFITS

Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides post-retirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and primary survivor recipients is available with both the Traditional and the Combined Plan; however, health care benefits are not statutorily guaranteed. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage. The health care coverage provided by the retirement system is considered an Other Post-Employment Benefit (OPEB) as described in GASB Statement No. 45. A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The 2008 employer rate was 14 percent of covered payroll. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14.00 percent of covered payroll for State and local employer units. Active members do not make contributions to the OPEB Plan.

OPERS Post-Employment Health Care Plan was established under, and is administered in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post-employment health care benefits. The 2008 portion of employer contributions allocated to health care was 7.00 percent. The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care benefits provided by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS' latest actuarial review performed as of December 31, 2007, include a rate of return on investments of 6.50 percent, an annual increase in active employee total payroll of 4 percent compounded annually (assuming no change in the number of active employees), and an additional increase in total payroll of between .50 percent and 6.30 percent based on additional annual pay increases. Health care premiums were assumed to increase at the projected wage inflation rate plus an additional factor ranging from .50 percent to 4 percent annually for the next 7 years. In subsequent years (8 and beyond), health care costs were assumed to increase at 4 percent (the projected wage inflation rate).

All investments are carried at market. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted to reflect 25 percent of unrealized market appreciation or depreciation on investment assets annually, not to exceed a 12 percent corridor.

CUYAHOGA METROPOLITAN HOUSING AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007
(CONTINUED)

9. POST-EMPLOYMENT BENEFITS (Continued)

Ohio Public Employees Retirement System (Continued)

As of December 31, 2008, the number of active contributing participants in the Traditional Pension and Combined plans totaled 363,503. The number of active contributing participants for both plans used in the December 31, 2007, actuarial valuation was 364,076. Actual Authority contributions for 2008 which were used to fund post-employment benefits were \$2,600,826. The actual contribution and the actuarially required contribution amounts are the same. The actuarial value of OPERS' net assets available for payment of benefits at December 31, 2007 (the latest information available) was \$12.0 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$30.7 billion and \$18.7 billion, respectively.

On September 9, 2004, the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to increasing health care costs. Member and employer contribution rates increased as of January 1, 2006, January 1, 2007, and January 1, 2008, which allowed additional funds to be allocated to the health care plan.

Under the HCPP, retirees eligible for health care coverage will receive a graded monthly allocation based on their years of service at retirement. The Plan incorporates a cafeteria approach, offering a broad range of health care options that allow the benefit recipients to use their monthly allocation to purchase health care coverage customized to meet their individual needs. If the monthly allocation exceeds the cost of the options selected, the excess is deposited into a Retiree Medical Account that can be used to fund future health care expenses.

10. INSURANCE COVERAGE AND RISK RETENTION

The Authority is exposed to various risks of loss during the normal course of its operations including, but not limited to, loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and injuries to employees.

As described in Note 1, the Authority is a member of HARRG, which is a comprehensive general liability insurance group operated as a joint venture by its 716 public housing authority members. Through HARRG, the Authority carries \$5,000,000 of general liability coverage, with a \$25,000 deductible, as well as \$1,000,000 of law enforcement liability, with a \$25,000 deductible, and \$2,000,000 of public officials' errors and omissions coverage, with a \$25,000 deductible.

The Authority is also a member of HAPI, which is a property insurance group operated as a joint venture by its 766 public housing authority members. Through HAPI, the Authority carries building and contents coverage aggregating \$1,118,606,762, with a per occurrence loss limit of \$100,000,000 and with a \$10,000 deductible.

CUYAHOGA METROPOLITAN HOUSING AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007
(CONTINUED)

10. INSURANCE COVERAGE AND RISK RETENTION (Continued)

The Authority's commercial automobile fleet and garage keeper's coverage includes liability insurance with a combined single limit of \$1,000,000 per accident with a \$1,000 deductible. The Authority is self-insured for the following risks:

Workers' Compensation Benefits—The Authority is self-insured for workers' compensation benefits provided to its employees. An excess liability policy provides coverage for individual claims that are greater than \$500,000 per individual occurrence and \$10,000,000 in the aggregate. The Authority has recorded a \$3,020,000 liability for self-insured workers' compensation claims in its Conventional Program and is fully funded at December 31, 2008.

Employee Termination and Other Third-Party Liability Matters—The Authority is self-insured for certain employee termination and miscellaneous third-party claims that are not covered by HARRG.

The changes in the Authority's liabilities for self-insured risks for the years ended December 31, 2008 and 2007 were as follows:

	Workers' Compensation Benefits	Employee Termination and Other
Balance—January 1, 2007	\$ 2,853,000	\$ 1,266,368
Incurred Claims—Net of Changes in Estimates	1,314,336	106,127
Payments	(1,221,336)	(795,495)
Balance—December 31, 2007	2,946,000	577,000
Incurred Claims—Net of Changes in Estimates	1,475,058	102,350
Payments	(1,401,058)	(6,500)
Balance—December 31, 2008	\$ 3,020,000	\$ 672,850

The liabilities above represent the Authority's best estimates based upon available information and include an amount for claims that have been incurred but not reported. Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends, including frequency and amount of payouts, and other economic factors.

The Authority strictly adheres to a Risk Control Work Plan policy that incorporates nine standards for risk management. The policy, passed by resolution of the Board of Commissioners and supported by HARRG, seeks to implement risk management activities that include the assignment of a full time risk control administrator, establishment of an active risk control committee, together with a formal self inspection and preventive maintenance program. Other standards include conducting on-site risk control training and education, the development of emergency action plans and property conservation programs, and the establishment of an accident and incident investigation program. During 2008 and 2007, there were no significant reductions in the Authority's insurance coverage.

CUYAHOGA METROPOLITAN HOUSING AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007
(CONTINUED)

10. INSURANCE COVERAGE AND RISK RETENTION (Continued)

The Authority paid \$742,340 and \$727,710 in premiums to HARRG and \$1,432,372 and \$1,470,816 in premiums to HAPI for the years ended December 31, 2008 and 2007, respectively. Settled claims have not exceeded the Authority's insurance coverage in any of the past three years.

11. CONTINGENCIES

The Authority is a defendant in several lawsuits, including construction claims. Where possible, estimates have been made and reflected in the financial statements for the effect, if any, of such contingencies. The ultimate outcome of these matters is not presently determinable.

12. DEFICITS IN INDIVIDUAL FUNDS

The Ambleside Fund has an overall net asset deficit of \$2,337,652 as of December 31, 2008 resulting from accumulated depreciation on the building and other fixed assets. Management believes that operating revenues will be adequate to cover its debt service and operating expenses in the future.

13. CONSTRUCTION COMMITMENTS

As of December 31, 2008, the Authority had the following significant construction commitments:

<u>Project Type</u>	<u>Amount</u>
Building Renovations	\$ 3,525,482
UFAS Renovations	2,871,339
Roofing	889,345
Side Improvements	881,031
Elevator Replacements	1,674,540
Total Construction Commitments	<u><u>\$ 9,841,737</u></u>

CUYAHOGA METROPOLITAN HOUSING AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007
(CONTINUED)

14. NEW ACCOUNTING STANDARDS

For fiscal year 2008, the Authority implemented GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* and GASB Statement No. 50, *Pension Disclosures*.

GASB Statement No. 49 provides guidance on how to calculate and report the costs and obligations associated with pollution cleanup efforts.

GASB Statement No. 50 more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits.

The implementation of GASB Statements No. 49 and No. 50 did not affect the presentation of the financial statements of the Authority.

For fiscal year 2007, the Authority implemented GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans other than Pension Plans* and GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*. GASB Statement No. 43 applies for other postemployment benefit (OPEB) trust funds included in the financial reports of plan sponsors or employers and provides requirements for reporting OPEB funds by administrators of multiple-employer OPEB plans, when the fund used to accumulate assets and pay benefits or premiums when due is not a trust fund. GASB Statement No. 48 establishes criteria that governments will use to ascertain whether certain transactions should be regarded as sales or a collateralized borrowings. The statement also includes disclosure requirements for future revenues that are pledged and sold.

The implementation of GASB Statements No. 43 and No. 48 did not affect the presentation of the financial statements of the Authority.

15. INVESTED IN CAPITAL ASSETS, NET OF RELATED DEBT

The calculation of Invested in Capital Assets, Net of Related Debt is impacted by proceeds reflected in the debt balance reported that is not yet spent, but rather is being held by the trustee bank at December 31, 2008. In addition, impacting that calculation are the debt service funds held by the trustee bank as required by the Trustee Indenture.

Capital Assets	\$201,205,390
Less Related Debt	(63,205,769)
Add Back in Unspent Debt Proceeds and Debt Services Funds Held by Trustee	<u>13,127,025</u>
Total Invested in Capital Assets, Net of Related Debt	<u><u>\$151,126,646</u></u>

CUYAHOGA METROPOLITAN HOUSING AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007
(CONTINUED)

16. RESTRICTED NET ASSETS

Below is a summary of restricted net assets at December 31, 2008:

Unspent funding provided by HUD to make HAP payments in the Section 8 Housing Choice Voucher Program	\$2,889,724
Nonroutine maintenance and debt service reserves in the Section 8 New Construction Program	<u>3,968,669</u>
Total Restricted Net Assets at December 31, 2008	<u><u>\$6,858,393</u></u>

17. SUBSEQUENT EVENTS

The American Recovery and Reinvestment Act of 2009 (ARRA) was passed by Congress and included an allocation to the U.S. Department of Housing and Urban Development (HUD) of \$4 billion in Capital Funds, of which \$3 is to be allocated through HUD's Capital Fund formula. The Authority was awarded \$35,068,004 under this formula. This amount represented the fifth largest award in the country.

The ARRA requires public housing agencies to obligate 100 percent of the funds within one year, expend at least 60 percent of funds within two years, and expend 100 percent of the funds within three years. The effective date of the ARRA funding is March 18, 2009.

The Authority has identified the following projects to be completed that will ensure compliance with the accelerated timelines:

- Garden Valley Redevelopment
- VCA/ADA upgrades
- Vacancy Reduction/Major Modernization
- Roof Replacements
- Outhwaite Redevelopment
- Woodhill Community Center

* * * * *

**CUYAHOGA METROPOLITAN HOUSING AUTHORITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2008**

Federal Grantor/Program/Title	CFDA Number	Federal Expenditures
<u>U.S. Department of Housing and Urban Development</u>		
<i>Direct Programs:</i>		
Conventional Low-Income Housing Programs - Subsidy	14.850	\$ 56,165,565
 <u>Section 8 Project Based Cluster</u>		
Section 8 New Construction and Moderate Rehabilitation Programs:		
New Construction:		
Ambleside	14.182	1,276,838
Severance	14.182	1,060,922
Quarrytown	14.182	825,215
<i>Total CFDA #14.182</i>		<u>3,162,975</u>
Moderate Rehabilitation	14.856	1,696,054
Total Section 8 Project-Based Cluster		<u>4,859,029</u>
 Housing Choice Voucher	 14.871	 <u>88,192,341</u>
 Capital Fund Program:		
Capital Fund Program - 2005	14.872	2,291,603
Capital Fund Program - 2006	14.872	9,689,680
Capital Fund Program - 2007	14.872	12,280,690
Capital Fund Program - 2008	14.872	4,654,363
<i>Total CFDA #14.872</i>		<u>28,916,336</u>
 Revitalization of Severly Distressed Housing	 14.866	 <u>8,709,593</u>
 Homeownership Program	 14.851	 <u>108,874</u>
 Supportive Housing Program	 14.235	 <u>539,290</u>
 Resident Opportunities and Supportive Services	 14.870	 <u>71,365</u>
 Multi-Family Property Disposition	 14.199	 <u>2,614,688</u>
 Opportunities for Youth - Youthbuild Program	 14.243	 <u>96,992</u>
Total U.S. Department of Housing and Urban Development		<u>190,274,073</u>
 <u>U.S. Department of Education</u>		
Disaster Housing Assistance Grant	97.109	77,178
Total U.S. Department of Education		<u>77,178</u>
 <u>U.S. Department of Homeland Security</u>		
<i>Direct Program:</i>		
21st Century Community Learning	97.109	106,030
 <i>Pass-Through from City of Cleveland:</i>		
HOME Program		1,253,158
Total U.S. Department of Homeland Security		<u>1,359,188</u>
 TOTAL EXPENDITURES OF FEDERAL AWARDS		 <u>\$ 191,710,439</u>

**CUYAHOGA METROPOLITAN HOUSING AUTHORITY
 NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED DECEMBER 31, 2008**

1. BASIS OF PRESENTATION

The accompanying Supplemental Schedule of Expenditures of Federal Awards (the "Schedule") presents the activity of all federal financial assistance programs of the Cuyahoga Metropolitan Housing Authority (the "Authority"). The Authority's reporting entity is defined in Note 1 to the Authority's financial statements. All federal financial assistance received directly from federal agencies as well as federal financial assistance passed through other government agencies is required to be included on the Schedule.

The information presented in the Schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Catalog of Federal Domestic Assistance ("CFDA") Numbers are presented for each federal grant.

Revenue and expenses are presented on an accrual basis of accounting with the exception of fixed assets and depreciation. For purposes of the Schedule, depreciation expense is not recorded and the cost of fixed asset additions is included as an expenditure.

2. SUBRECIPIENTS

Of the federal expenditures presented in the Schedule, the Authority provided federal awards to subrecipients as follows:

<u>Program Title</u>	<u>Subrecipient</u>	<u>Federal CFDA No.</u>	<u>2008 Grant Expenditures</u>
Conventional Low-Rent	Progressive Action Council	14.850	\$ 303,418
Multifamily Property Disposition	Western Reserve Revitalization	14.199	\$ 2,614,688

* * * * *

JAMES G. ZUPKA, C.P.A., INC.
Certified Public Accountants
5240 East 98th Street
Garfield Hts., Ohio 44125

Member American Institute of Certified Public Accountants

(216) 475 - 6136

Ohio Society of Certified Public Accountants

**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
Cuyahoga Metropolitan Housing Authority

We have audited the financial statements of the Cuyahoga Metropolitan Housing Authority as of and for the year ended December 31, 2008, which comprise the Cuyahoga Metropolitan Housing Authority's basic financial statements and have issued our report thereon dated July 29, 2009. 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

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

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Cuyahoga Metropolitan Housing Authority's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Cuyahoga Metropolitan Housing Authority's financial statements that is more than inconsequential will not be prevented or detected by the Cuyahoga Metropolitan Housing Authority's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Cuyahoga Metropolitan Housing Authority's internal control.


Our consideration of 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 that might be 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.

Compliance and Other Matters

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

We noted certain matters that we reported to the management of the Cuyahoga Metropolitan Housing Authority in a separate letter dated July 29, 2009.

This report is intended solely for the information and use of the audit committee, management, the Board of Commissioners, others within the entity, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.


James G. Zupka, CPA, Inc.
Certified Public Accountants

July 29, 2009

JAMES G. ZUPKA, C.P.A., INC.
Certified Public Accountants
5240 East 98th Street
Garfield Hts., Ohio 44125

Member American Institute of Certified Public Accountants

(216) 475 - 6136

Ohio Society of Certified Public Accountants

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

Board of Commissioners
Cuyahoga Metropolitan Housing Authority

Compliance

We have audited the compliance of the Cuyahoga Metropolitan Housing Authority with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to its major federal programs for the year ended December 31, 2008. The Cuyahoga Metropolitan Housing Authority's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Cuyahoga Metropolitan Housing Authority's management. Our responsibility is to express an opinion on the Cuyahoga Metropolitan Housing Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Cuyahoga Metropolitan Housing Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Cuyahoga Metropolitan Housing Authority's compliance with those requirements.

In our opinion, the Cuyahoga Metropolitan Housing Authority complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended December 31, 2008.

Internal Control Over Compliance


The management of the Cuyahoga Metropolitan Housing Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Cuyahoga Metropolitan Housing Authority's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 Cuyahoga Metropolitan Housing Authority's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

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

This report is intended solely for the information and use of the audit committee, management, the Board of Commissioners, others within the entity, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.


James G. Zupka, CPA, Inc.
Certified Public Accountants

July 29, 2009

**CUYAHOGA METROPOLITAN HOUSING AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2008**

1. SUMMARY OF AUDITOR'S RESULTS		
2008(i)	Type of Financial Statement Opinion	Unqualified
2008(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
2008(ii)	Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
2008(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
2008(iv)	Were there any material internal control weaknesses reported for major federal programs?	No
2008(iv)	Were there any other significant deficiencies in internal control reported for major federal programs?	No
2008(v)	Type of Major Programs' Compliance Opinion	Unqualified
2008(vi)	Are there any reportable findings under .510?	No
2008(vii)	Major Programs (list): Low-Rent Housing Program - CFDA #14.850 Capital Fund Program - CFDA #14.872 Urban Revitalization Grant - CFDA #14.866 Section 8 Project-Based Cluster: Section 8 New Construction - CFDA #14.182 Section 8 Moderate Rehabilitation - CFDA #14.856	
2008(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$3,000,000 Type B: all others
2008(ix)	Low Risk Auditee?	Yes
2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS		
None.		
3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS		
None.		

**CUYAHOGA METROPOLITAN HOUSING AUTHORITY
STATUS OF PRIOR YEAR FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2008**

Finding	Still Applicable	Comments
U.S. Department of HUD - Inspector General - Title V	No	See Schedule of Other Reports
Hope VI Program - April 2003-February 2004	No	See Schedule of Other Reports
Hope VI Program - February 2004-February 2005	Yes	See Schedule of Other Reports

**CUYAHOGA METROPOLITAN HOUSING AUTHORITY
SCHEDULE OF OTHER REPORTS
FOR THE YEAR ENDED DECEMBER 31, 2008**

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Inspector General's Audit of Title V

On March 31, 2000, the Department of Housing and Urban Development's ("HUD") Office of the Inspector General ("OIG") released its audit report of the Authority's Title V Fund.

The results of the audit indicated that the Authority did not follow HUD's requirements for the use of its Title V funds, Office of Management and Budget's Circular A-87, State of Ohio law, and the Authority's policies regarding the use of Title V funds during the period January 1, 1990 through July 31, 1998. The OIG report recommended that the Cleveland Area Office Director of Public Housing Hub ("HUB"), in conjunction with the Ohio State Office Director of Columbus Multifamily Hub, assure that the Authority address the seven recommendations noted in the report.

The recommendations fell in three categories: (1) implement controls, (2) take administrative action against the former Chief Executive Officer and Chief Operating Officer and (3) provide documentation to support \$10,735,243 drawn from Title V funds and reimburse the Title V account \$531,966 from non-federal funds for ineligible payments.

Status—The Authority has addressed six of the seven HUD recommendations. Specifically, the recommendation to implement controls has been completed and the recommendation to take corrective action against the prior administration has been pursued by HUD. For the Title V expenditures lacking proper support, the Authority has submitted documentation for \$8,196,730 of such expenditures to HUD. To date, HUD has accepted \$1,602,500 of the amount submitted. For the ineligible Title V expenditures, the Authority reimbursed the Title V account \$387,302 of non-federal funds in April 2003. In June 2003, HUD notified the Authority that the recommendation for reimbursement of ineligible payments is considered closed.

On June 23, 2003, based on notifications from HUD, the Authority transferred \$499,895 from non-Federal funds into the Title V account to continue towards resolving the remaining questioned costs. On August 7, 2003, HUD accepted the payment of \$499,895 and indicated the remaining unresolved balance was \$8,632,848 (\$10,735,243 - \$1,602,500 - \$499,895).

With regard to final closure on the balance of \$8,632,848, HUD issued a letter dated November 25, 2003 advising the Authority that OIG has temporarily suspended any repayment actions until such time as the Authority receives a final judgment on a related pending legal action by the Authority to recover alleged damages.

On September 26, 2008, the Cleveland HUD Office received an electronic notice from the HUD Office of Inspector General (HUD-OIG) stating that the proposed corrective action for recommendation 1A was accepted and that the remaining finding would be closed effective September 30, 2008.

**CUYAHOGA METROPOLITAN HOUSING AUTHORITY
SCHEDULE OF OTHER REPORTS
FOR THE YEAR ENDED DECEMBER 31, 2008
(CONTINUED)**

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Inspector General’s Audit of Title V (Continued)

Based on the documentation provided by the Authority and information contained in HUD’s files, both parties (CMHA and HUD Cleveland) successfully demonstrated fulfillment of the original intent of the Memorandum of Understanding (MOU) between CMHA and HUD by developing affordable housing units. Additionally, both parties successfully demonstrated that, due to limited availability of non-restricted non-Federal funds, the Authority could not reimburse its Title V account with such funds as they were and are committed to HOPE VI and mixed finance redevelopment efforts. Both parties successfully demonstrated to the HUD-OIG that the Authority redeveloped/constructed a number of affordable housing units between calendar years 2004 and 2006, which in turn met the conditions and intent of the MOU.

Review of the HOPE VI Program for the Period April 1, 2003 through February 22, 2004

HUD performed a review of the Hope VI program for the period from April 1, 2003 through February 22, 2004 and rendered its report in June 2004. The report detailed nine findings. The status of the findings is summarized below:

- Finding 2004-8—Independent Cost Estimates and Cost Analysis of Contractors’ Proposals

The provisions of the Authority’s Hope VI Grant Agreement, Revitalization Plan, Community and Supportive Service Plan and Hope VI application require compliance with the requirements described in the findings summarized above.

Status—The Authority has provided documentation and responses to HUD and to date, HUD has accepted supporting documentation for all questioned costs. The following table represents the status of each finding:

<u>Finding Number</u>	<u>Status</u>
2004-8	Closed

Review of the HOPE VI Program for the Period from February 2004 through February 2005

HUD performed a review of the Hope VI program for the period from February 2004 through February 2005 and rendered its report in October 2005. The report detailed six findings. The findings resulting from the review are summarized below:

- Finding 2005-6—There were 10 occurrences noted where the Housing Authority has not met the established date to complete a critical milestone (aka “Locked Checkpoint”). Incorporated Finding 2004-1.

Status—The Authority provided documentation and responses to HUD in 2005 and 2006 resulting in the below results:

<u>Finding Number</u>	<u>Status</u>
2005-6	Open



Mary Taylor, CPA
Auditor of State

CUYAHOGA METROPOLITAN HOUSING AUTHORITY

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
FEBRUARY 18, 2010