

CUYAHOGA METROPOLITAN HOUSING AUTHORITY

AUDIT REPORT

FOR THE YEAR ENDED DECEMBER 31, 2010

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



Dave Yost • Auditor of State

Board of Commissioners
Cuyahoga Metropolitan Housing Authority
8120 Kinsman Road
Cleveland, Ohio 44104

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, 2010 through December 31, 2010. 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.

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Dave Yost
Auditor of State

September 15, 2011

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CUYAHOGA METROPOLITAN HOUSING AUTHORITY
AUDIT REPORT
FOR THE YEAR ENDED DECEMBER 31, 2010

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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, 2010 and December 31, 2009, 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, 2010 and December 31, 2009, 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.

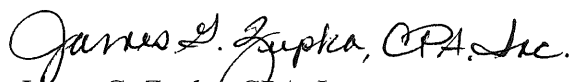
As discussed in Note 2M to the financial statements, the Authority changed its reporting of HUD operating grants in the Statement of Revenues, Expenses, and Changes in Net Assets in 2010.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 29, 2011, 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 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.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 12 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during the audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Cuyahoga Metropolitan Housing Authority, Ohio's financial statements as a whole. 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*, and is also not a required part of the financial statements. The Schedule of Expenditures of Federal Awards is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

The Authority has not presented the Financial Data Schedules (FDS) utilized by the Department of Housing and Urban Development 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 in the process of completing.


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

June 29, 2011

**CUYAHOGA METROPOLITAN HOUSING AUTHORITY
MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009
(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 – Michael A. Simmons, Chief Financial Officer, 8120 Kinsman Road, Cleveland, Ohio 44104 or telephone 216-271-2810.

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, 2010 and 2009, and the results of its operations and cash flows for the years then ended.

2010 Financial Highlights

- The Authority’s net assets increased by \$8.1 million (or 4.7 percent) during 2010. Net assets were \$179.9 million and \$171.8 million at December 31, 2010 and 2009, respectively.
- Total operating and non-operating revenues increased by \$23.9 million (10.6 percent) during 2010, and were \$248.7 million and \$224.8 million for 2010 and 2009, respectively.
- The total expenses of all Authority programs increased by \$8.5 million (3.7 percent). Total expenses were \$240.6 million and \$232.1 million for 2010 and 2009, respectively.

**CUYAHOGA METROPOLITAN HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009
(Unaudited)**

- The Authority's unrestricted net assets increased by \$4.1 million (or 15.9 percent) during 2010, and were \$29.9 million and \$25.8 million for 2010 and 2009, 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 2010 or 2009:

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, 2010 AND 2009
(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		
	2010	2009	2008
<u>Assets</u>			
Current and Other Assets	\$ 96.3	\$ 109.2	\$ 72.8
Capital Assets	212.8	197.2	201.2
Total Assets	309.1	306.4	274.0
<u>Liabilities</u>			
Accounts Payable and Other Current Liabilities	39.2	40.5	39.3
Long-term Liabilities	90.0	94.1	55.6
Total Liabilities	129.2	134.6	94.9
<u>Net Assets</u>			
Invested in Capital Assets—Net of Related Debt	140.5	138.1	151.1
Restricted	9.5	7.9	6.9
Unrestricted	29.9	25.8	21.1
Total Net Assets	\$ 179.9	\$ 171.8	\$ 179.1

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

Major Factors Affecting the Statement of Net Assets

December 31, 2010 compared to December 31, 2009

Current and other assets decreased by \$12.9 million. Current assets decreased \$12.8 million and current liabilities decreased by \$1.3 million. The Authority's current ratio decreased from 2.6 to 1 in 2009 from 2.4 to 1 in 2010. As such, there are sufficient current assets (primarily cash, investments and receivables from HUD) to extinguish current liabilities.

Capital assets increased to \$212.8 million in 2010 from \$197.2 in 2009. The \$15.6 increase is attributed primarily to capital asset additions of \$30.7 million offset by depreciation expense of \$15.1 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, 2010 AND 2009
(Unaudited)**

Long term liabilities decreased \$4.1 million in 2010. The decrease is primarily the result of the normal pay down on long-term debt and capital lease obligations.

December 31, 2009 compared to December 31, 2008

Current and other assets increased by \$36.4 million. Current assets increased \$51.9 million and current liabilities increased by \$1.2 million. The Authority's current ratio increased from 1.4 to 1 in 2008 to 2.6 to 1 in 2009. As such, there are sufficient current assets to (primarily cash, investments and receivables from HUD) to extinguish current liabilities.

Capital assets decreased to \$197.2 million in 2009 from \$201.2 in 2008. The \$4.0 decrease is attributed primarily to depreciation expense of \$28.4 million offset by capital asset additions of \$24.7 million. For additional detail see "Capital Asset and Debt Administration".

Long term liabilities increased \$38.5 million in 2009. The increase is primarily the result of the additional new debt in 2009 offset by the normal pay down on long-term debt and capital lease obligations.

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, 2010 and 2009:

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

	2010	2009
Unrestricted Net Assets—Beginning of Year	\$ 25.8	\$ 21.1
Total Change in Net Assets	8.1	(7.3)
Adjustments:		
Depreciation (1)	15.2	28.4
Adjustment for Retirement of Capital Assets	0.2	0.3
Adjusted Change in Net Assets	23.5	21.4
Changes in Unexpended Borrowing on Debt - Net	17.8	(24.7)
Additions to Long-term Debt Net of Payments on Long-term Debt	(4.6)	33.7
Capital Expenditures	(31.0)	(24.7)
(Increase) Decrease in Restricted Net Assets	(1.6)	(1.0)
Unrestricted Net Assets—End of Year	\$ 29.9	\$ 25.8

(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, 2010 AND 2009
(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. Condensed information from the Authority's statements of revenue, expenses and changes in net assets is as follows for the years ended December 31, 2010, 2009, and 2008:

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

	2010	2009	2008
<u>Operating Revenues</u>			
Dwelling Rent from Tenants	\$ 15.1	\$ 13.9	\$ 14.4
HUD Operating Subsidies and Grants	207.9	191.8	177.9
Other Revenues	3.3	3.0	0.6
Total Operating Revenues	226.3	208.7	192.9
<u>Operating Expenses</u>			
Housing Assistance Payments	97.1	97.1	98.6
Depreciation	15.1	28.4	29.0
Administrative	32.5	30.1	31.0
Building Maintenance	25.4	21.8	22.3
Utilities	21.4	20.2	20.4
Nonroutine Maintenance	27.1	15.2	15.8
Tenant Services	3.5	3.0	2.9
General	4.4	4.4	4.8
Protective Services	8.7	7.8	8.5
Other	0.4	0.3	3.2
Total Operating Expenses	235.6	228.3	236.5
Operating Loss	(9.3)	(19.6)	(43.6)
<u>Non-Operating Revenues (Expenses)</u>			
Capital Grants from HUD	21.0	14.8	12.4
Grants—Other	0.9	0.5	1.3
Interest Income	0.5	0.8	1.6
Interest Expense	(4.8)	(3.6)	(3.1)
(Loss) on Disposition	(0.2)	(0.2)	0.0
Total Non-Operating Revenues—Net	17.4	12.3	12.2
Change in Net Assets	8.1	(7.3)	(31.4)
Net Assets—Beginning of Year	171.8	179.1	210.5
Net Assets—End of Year	\$ 179.9	\$ 171.8	\$ 179.1

**CUYAHOGA METROPOLITAN HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009
(Unaudited)**

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

December 31, 2010 compared to December 31, 2009

Operating revenues increased \$17.6 million or 8.4 percent in 2010. The primary increase is a result of HUD's proration of 103 percent of Operating Subsidy eligibility for 2010 versus 88.42 percent in 2009. Tenant revenue increased 8.6 percent in 2010

Operating expenses increased \$7.3 million or 3.2 percent with major increases in non-routine maintenance (\$11.9 million), building maintenance (\$3.6 million), tenant services (\$.5 million) and protective services (\$.9 million). These increases were offset by decreased depreciation expense (\$13.3 million) as components of many of the older assets became fully depreciated. These assets have not been written off because they are still in use as they were subsequently renovated and improved. The costs of those renovations and improvements were also capitalized and are still being depreciated.

HUD subsidies and grants increased \$6.2 million or 41.9 percent. The increase in subsidy was primarily due to higher Capital Fund 2009 American Reinvestment and Recovery Act subsidy of \$6.1 million. Interest income decreased \$.3 million as there was less interest earned on unexpended EPC funds and lower interest rates being offered by the banking industry. Interest expense increased \$1.2 million as the new debt for the Campus Project, Ohio Bond Financing and Severance and Quarrytown debt were outstanding.

December 31, 2009 compared to December 31, 2008

Tenant and other revenue increased 12.7 percent in 2009 with tenant revenue decreasing 3 percent and other revenue increasing 400.0 percent. The increase in other revenue is due to the payment to tenants of retro utility adjustments in 2008 was not required in 2009.

Operating expenses decreased \$8.2 million or 3 percent with major decreases in housing assistance payments (\$1.5 million), non-routine maintenance (\$.6 million). All other categories combined for a net decrease of \$6.1 million or 5 percent.

HUD subsidies and grants increased \$16.3 million or 9 percent. The increase in subsidy was primarily due to higher Housing Choice Voucher subsidy of \$18.1 million, lower Capital Fund subsidy of \$2.1 million, higher Capital Fund 2009 American Reinvestment and Recovery Act subsidy of \$6.4 million, lower Multifamily Property Disposition subsidy of \$2.6 million, lower Low Income Public Housing subsidy of \$ 1.3 million, lower Urban Revitalization subsidy of \$1.8 million as all other programs subsidy decreased \$.4 million. Interest income decreased \$.8 million as there was less interest earned on unexpended EPC funds. Interest expense increased \$.5 million as the new debt for the Campus Project, Ohio Bond Financing and Severance debt were outstanding.

**CUYAHOGA METROPOLITAN HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009
(Unaudited)**

Capital Assets and Debt Administration

Capital Assets

At December 31, 2010, the Authority had \$212.8 million invested in a variety of capital assets (as reflected in the following schedule), which represents a net increase of \$15.6 million from December 31, 2009.

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

	(in millions)		
	December 31		
	2010	2009	2008
Land	\$ 28.3	\$ 28.5	\$ 28.3
Buildings	647.7	632.5	614.0
Equipment—Administrative	6.0	5.9	7.0
Equipment—Operating	16.2	15.7	15.5
Construction in Progress	23.5	9.9	9.5
Total	<u>721.7</u>	<u>692.5</u>	<u>674.3</u>
Accumulated Depreciation	<u>(508.9)</u>	<u>(495.3)</u>	<u>(473.1)</u>
Capital Assets—Net	<u><u>\$ 212.8</u></u>	<u><u>\$ 197.2</u></u>	<u><u>\$ 201.2</u></u>

The following reconciliation summarizes the 2010 and 2009 change in capital assets, which is presented in detail in Note 5 to the financial statements.

Table 5 - Changes in Capital Assets

	(in millions)	
	2010	2009
Beginning Balance	\$ 197.2	\$ 201.2
Additions	31.0	24.7
Retirements—Net	(0.2)	(0.3)
Depreciation Expense	(15.2)	(28.4)
Capital Assets—End of Year	<u><u>\$ 212.8</u></u>	<u><u>\$ 197.2</u></u>

**CUYAHOGA METROPOLITAN HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009
(Unaudited)**

December 2010 compared to December 2009

Capital additions in 2010 were primarily for estate improvements through the Modernization Program and the construction of new units. These expenditures totaled \$29.3 million. In addition, equipment purchases totaled \$1.7 million.

Some of the major projects were:

- Electrical conversions at Woodhill Homes Estate
- Roof replacements at Springbrook, Wade Park, Scranton Castle and West Boulevard high rise buildings
- Roof replacements on family buildings at Olde Cedar (10) and Outhwaite Homes (17)
- Constructed 81 units in Phase 1 at Garden Valley, now known as Heritage View Homes and major construction at CMHA's administrative campus with a completion date of June 2011
- Installed new boilers at Fairway high rise and replaced emergency generators at Union Square and Miles Elmerge
- Upgraded the elevator, replacement of boiler and emergency generator at Severance Tower
- Window replacement at Beachcrest high rise building
- Under the BOA Program, over 100 long standing vacant units were renovated

In addition, other major projects initiated in 2010 included the comprehensive modernization of the historic Woodhill Homes Community Center, demolition of a large residential building and construction of a new 36 unit, three story apartment building at Outhwaite Homes, and commenced phase II and III of new construction at Garden Valley, now known as Heritage View 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 2010, 99 units at various family and elderly sites were completed, this included site and common area renovations as well.

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, 2010 AND 2009
(Unaudited)**

December 2009 compared to December 2008

Capital additions in 2009 were primarily for estate improvements through the Modernization Program and the construction of new units. These expenditures totaled \$21.1 million. In addition, equipment purchases totaled \$.2 million.

Some of the major projects were:

- Work was completed on the interior and exterior renovations of a new apartment building at West 101st street
- Carried out the renovations of 47 units at Miracle Village at Outhwaite Homes
- Initiated Phase 1 of construction at Garden Valley and CMHA's administrative campus
- Installed new windows and doors at Olde Cedar, Oakwood Gardens and Bellaire Townhomes
- Installed new vinyl siding on all units at Puritas Gardens
- Completed renovation of roofs, windows, driveways, and other repairs on Hope VI replacement homes
- Construction was completed on 66 units at Lakeview Terrace
- Under the BOA Program, 139 long standing vacant units were renovated

In addition, major elevator modernizations and upgrades were completed at King Kennedy North, Springbrook, Wade, Union Square, Miles Elmerge and Lakeview hi-rises. Stairwells walk ways were replaced at Olde Cedar. Roof replacements were completed at Olde Cedar, Outhwaite Homes, Carver Park Estates, Springbrook hi-rise and Lakeview Terrace, 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 2009, 101 units at various family and elderly sites were completed, this included site and common area renovations as well.

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

Debt Outstanding

As of December 31, 2010, the Authority had \$92.2 million in long-term debt and capital lease obligations compared to \$96.9 million at December 31, 2009, for a \$4.7 million decrease. The following summarizes these obligations:

**CUYAHOGA METROPOLITAN HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009
(Unaudited)**

Table 6 - Outstanding Debt at Year-End
(in millions)

	December 31		
	2010	2009	2008
Energy Program—Capital Lease	\$ 27.9	\$ 30.9	\$ 33.9
Ohio Bond Financing	14.0	14.5	15.0
Bond Anticipation Note , Series 2008	0.0	0.0	5.6
Bond Anticipation Note , Series 2009	3.1	3.1	0.0
General Revenue Bonds	3.1	3.1	0.0
Build America Bonds	12.9	12.9	0.0
Modernization Express Loan A	12.7	13.0	0.0
Modernization Express Loan B	7.6	7.8	0.0
Severance Financing	3.6	3.8	3.9
Quarrytown Mortgage Note	3.3	3.4	0.0
Ambleside Refinancing	4.0	4.4	4.8
Total	\$ 92.2	\$ 96.9	\$ 63.2

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 103 percent. Future years funding levels are not expected to be as high. Reductions to the Capital Fund program are projected to be reduced by 18% for 2011.
- 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.

Contact the Authority

Questions concerning this report or requests for additional information should be directed to Michael A. Simmons, Chief Financial Officer, 8120 Kinsman Road, Cleveland, Ohio 44104.



CUYAHOGA METROPOLITAN HOUSING AUTHORITY
STATEMENT OF NET ASSETS
AS OF DECEMBER 31, 2010 AND 2009

	2010	2009		2010	2009
<u>ASSETS</u>			<u>LIABILITIES</u>		
<u>Current Assets</u>			<u>Current Liabilities</u>		
Cash and Cash Equivalents	\$ 34,904,569	\$ 34,443,757	Accounts Payable—Vendors	\$ 14,984,476	\$ 10,428,099
Cash - Restricted	34,607,307	46,075,206	Accounts Payable—HUD	4,814,524	5,036,825
Investments - Restricted	0	4,784,007	Accrued Expenses	13,134,861	18,321,758
Accounts Receivable Tenants - Net of Allowance for doubtful accounts of \$452,460 and \$374,202	373,445	206,767	Security and Other Deposits	1,965,223	2,050,594
Accounts Receivable - HUD	21,450,594	18,986,107	Current Portion of Long-Term Debt	1,804,549	1,638,748
Accounts Receivable - Other Governments	337,427	202,461	Current Portion of Capital Leases	2,523,891	2,991,068
Accounts Receivable - Other	791,902	567,907	Total Current Liabilities	39,227,524	40,467,092
Inventory	273,524	404,353	<u>Non-Current Liabilities</u>		
Prepaid Expenses and Other Current Assets	1,466,154	1,415,090	Long-Term Debt—Net of Current Portion	62,559,798	64,380,672
Total Current Assets	94,204,922	107,085,655	Capital Leases—Net of Current Portion	25,371,961	27,895,853
<u>Non-Current Assets</u>			Workers' Compensation Liability	1,980,000	1,878,000
Capital Assets:			Total Non-Current Liabilities	89,911,759	94,154,525
Assets Not Depreciated	51,848,722	38,352,866	TOTAL LIABILITIES	129,139,283	134,621,617
Property and Equipment - Net	160,982,467	158,894,228	<u>NET ASSETS</u>		
Total Capital Assets	212,831,189	197,247,094	Invested in Capital Assets—Net of Related Debt	140,572,587	138,157,083
Debt Issuance Costs, Net of Amortization of \$353,698 and \$262,119	1,103,398	1,189,562	Restricted	9,520,487	7,940,355
Investment in Joint Ventures	967,880	967,880	Unrestricted	29,875,032	25,771,136
Total Non-Current Assets	214,902,467	199,404,536	TOTAL NET ASSETS	\$ 179,968,106	\$ 171,868,574
TOTAL ASSETS	\$309,107,389	\$ 306,490,191			

See notes to the financial statements.

CUYAHOGA METROPOLITAN HOUSING AUTHORITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
<u>Operating Revenues</u>		
Tenant Revenue	\$ 15,195,040	\$ 13,941,931
HUD Operating Subsidies and Grants	207,914,264	191,790,479
Other Revenues	3,287,302	3,009,922
Total Operating Revenues	<u>226,396,606</u>	<u>208,742,332</u>
<u>Operating Expenses</u>		
Housing Assistance Payments	97,080,872	97,099,478
Depreciation	15,166,001	28,404,546
Administrative	32,490,925	30,171,749
Building Maintenance	25,422,053	21,813,455
Utilities	21,414,485	20,230,394
Nonroutine Maintenance	27,128,465	15,219,791
Tenant Services	3,474,142	2,937,300
General	4,448,860	4,367,856
Protective Services	8,698,302	7,770,980
Other	361,788	323,511
Total Operating Expenses	<u>235,685,893</u>	<u>228,339,060</u>
Operating Loss	<u>(9,289,287)</u>	<u>(19,596,728)</u>
<u>Nonoperating Revenues (Expenses)</u>		
HUD Capital Grants	21,021,022	14,816,344
Grants—Other	874,377	577,384
Interest Income	455,886	772,444
Interest Expense	(4,789,316)	(3,578,870)
(Loss) on Disposition of Capital Assets	(173,150)	(248,624)
Total Nonoperating Revenues - Net	<u>17,388,819</u>	<u>12,338,678</u>
Change in Net Assets	8,099,532	(7,258,050)
Net Assets—Beginning of Year	<u>171,868,574</u>	<u>179,126,624</u>
Net Assets - End of Year	<u>\$ 179,968,106</u>	<u>\$ 171,868,574</u>

See notes to the financial statements.

CUYAHOGA METROPOLITAN HOUSING AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
<u>Cash Flows From Operating Activities</u>		
HUD Operating Subsidies and Grants	\$ 200,432,818	\$ 199,217,264
Cash Received from Tenant Rents	15,028,362	13,914,461
Cash Payments to Suppliers for Goods and Services	(71,426,715)	(61,600,101)
Cash Paid for Salaries and Benefits	(45,364,190)	(44,069,548)
Housing Assistance Payments	(97,080,872)	(97,099,478)
Other Receipts	2,920,505	3,970,683
Net Cash Used in Operating Activities	<u>4,509,908</u>	<u>14,333,281</u>
<u>Cash Flows From Capital and Related Financing Activities</u>		
HUD Capital Grants	19,593,187	14,579,521
Property and Equipment Additions	(30,966,932)	(24,740,186)
Proceeds from Issuance of Debt (Net of Debt Issuance Costs)	0	42,748,158
Repayment of Debt and Capital Lease Obligations	(4,646,142)	(9,726,287)
Interest Paid on Debt and Capital Lease Obligations	(4,789,316)	(3,190,498)
Proceeds from Sale of Capital Assets	43,686	45,312
Net Cash Used in Capital and Related Financing Activities	<u>(20,765,517)</u>	<u>19,716,020</u>
<u>Cash Flows From Investing Activities</u>		
Proceeds from Maturity of Investments	4,784,007	12,757,813
Interest Income	464,515	766,969
Net Cash Provided by (Used in) Investing Activities	<u>5,248,522</u>	<u>13,524,782</u>
Increase (Decrease) in Cash and Cash Equivalents	(11,007,087)	47,574,083
Cash and Cash Equivalents - Beginning of Year	80,518,963	32,944,880
Cash and Cash Equivalents - End of Year*	<u>\$ 69,511,876</u>	<u>\$ 80,518,963</u>

* The amount includes \$ 34,904,569 and \$ 34,443,757 unrestricted cash and cash equivalents, and \$ 34,607,307 and \$ 46,075,206 of restricted cash in 2010 and 2009, respectively.

(Continued)

See notes to the financial statements.

CUYAHOGA METROPOLITAN HOUSING AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009
(CONTINUED)

	<u>2010</u>	<u>2009</u>
<u>Reconciliation of Operating Loss to Net Cash</u>		
<u>Used in Operating Activities</u>		
Operating Loss	\$ (9,289,287)	\$ (19,596,728)
Adjustments to Reconcile Operating Loss to Net Cash Used in Operating Activities:		
Depreciation	15,166,001	28,404,546
Provision for Uncollectible Accounts	78,259	(149,579)
Amortization of Bond Issue Costs	86,164	64,454
(Increase) Decrease in Assets:		
Accounts Receivable Tenants	(162,275)	122,109
Accounts Receivable - HUD Operating	(244,937)	0
Accounts Receivable—Other	(367,590)	960,761
Inventory	130,829	47,279
Prepaid Expenses and Other Assets	(51,064)	175,391
Increase (Decrease) in Liabilities:		
Accounts Payable	4,556,377	(49,269)
Intergovernmental	(7,319,171)	7,720,611
Accrued Expenses and Other	1,909,973	(3,242,215)
Security and Other Deposits	(85,371)	17,921
Workers' Compensation	102,000	(142,000)
Net Cash Used in Operating Activities	\$ 4,509,908	\$ 14,333,281

See notes to the financial statements.

(Concluded)

CUYAHOGA METROPOLITAN HOUSING AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

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 owns and manages all developments and handles all HUD funding and reporting.

CUYAHOGA METROPOLITAN HOUSING AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009
(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.

CUYAHOGA METROPOLITAN HOUSING AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009
(CONTINUED)

1. DEFINITION OF THE ENTITY (Continued)

Title V/Affordable Housing (Continued)

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.

Other Grants—During 2010 and 2009, 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, George Gund Foundation, The Cleveland Foundation, Youth Health Program, Supportive Housing Program, 21st Century Grant, Disaster Housing Assistant Grant, Disaster Voucher Program, YouthBuild 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 2010 and 2009.

CUYAHOGA METROPOLITAN HOUSING AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009
(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 776 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
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009
(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 to apply the provisions of Statements and Interpretations of the Financial Accounting Standards Board issued on or before November 30, 1989 that do not conflict with GASB pronouncements. The Authority will continue applying all applicable pronouncements issued by the Governmental Accounting Standards Board. The Authority has elected not to follow FASB guidance issued after November 30, 1989. The Authority's basic financial statements consist of a statement of net assets, a statement of revenues, expenses, and changes in net assets, and a statement of cash flows.

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) 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.

Sick time may be accrued and carried over from year to year up to a maximum of 120 days. Upon retirement, employees can convert accumulated but unused sick time into a cash payment at the rate of one day for every two days accumulated.

CUYAHOGA METROPOLITAN HOUSING AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009
(CONTINUED)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- 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.
- 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 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 straight-line 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 principles 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. Change in Reporting – In 2010, the Authority changed its method of reporting of HUD operating grants and subsidies. Prior to 2010, the Authority was reporting all HUD grants in the non-operating section of the Statement of Revenues, Expenses, and Changes in Net Assets. Starting in 2010, the operating grants and subsidies will be reported as operating revenues. Capital grants will continue to be reported as non-operating revenue. For comparative purposes, this change was made for the 2009 revenue.

CUYAHOGA METROPOLITAN HOUSING AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009
(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 \$57,464,882 (included in the carrying amount is \$20,200 in petty cash), and the bank balance was \$59,974,913, the difference representing outstanding checks and other in-transit items. Of the bank balance, \$8,433,107 was covered by Federal Depository Insurance, \$6,806,062 was collateralized by securities pledged in the name of the Authority or by pooled collateral as permitted by the Ohio Revised Code, and \$11,991,277 was uninsured debt proceeds being held in trust by the Trustee Bank.

Investments—The Authority has a formal investment policy. Investments held by the Authority at December 31, 2010 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
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009
(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>Total Fair Value/ Carrying Value</u>	<u>Credit Quality Rating</u>
Repurchase Agreement	\$ 1,704,683	AAA *
Money Market Funds	9,386,716	AAAm *
Money Market Funds	955,595	AA+ *
Total Primary Government Investments	\$ 12,046,994	

* Rating offered by Standard & Poor's

A reconciliation of cash and investments as shown on the statement of net assets at December 31, 2010 and 2009 to the deposits and investments included in this note is as follows:

	<u>2010</u>	<u>2009</u>
Cash and Cash Equivalents	\$ 34,904,569	\$ 34,443,757
Cash - Restricted	34,607,307	46,075,206
Investments - Restricted - Current	0	4,784,007
Total	\$ 69,511,876	\$ 85,302,970
Carrying Amount of Deposits	\$ 57,464,882	\$ 74,171,700
Carrying Amount of Investments	12,046,994	11,131,270
Total	\$ 69,511,876	\$ 85,302,970

CUYAHOGA METROPOLITAN HOUSING AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009
(CONTINUED)

4. RESTRICTED CASH AND INVESTMENTS

At December 31, 2010 and 2009, 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>2010</u>	<u>2009</u>
Conventional Program:		
Tenant Security Deposits	\$ 1,225,677	\$ 1,166,654
Industrial Commission of Ohio Escrow Fund	3,120,000	3,058,000
General Revenue Bonds		
Net Proceeds	5,695,629	10,403,180
Capitalized Interest	0	779,160
Homeownership Program:		
Earned HOME Payment Account and Nonroutine Maintenance Reserves	279,583	295,006
Housing Choice Voucher Restricted HAP:		
Restricted HAP	6,595,962	3,196,456
FSS Escrow Deposits	322,387	454,658
Ohio Bond Financing:		
Net Proceeds	2,435,273	4,784,007
Debt Service Reserve	980,701	1,278,088
Capital Fund Revenue Loan A:		
Net Proceeds	2,723,024	11,700,426
Debt Service Reserve	1,173,693	1,172,520
Capital Fund Revenue Loan B:		
Net Proceeds	6,293,885	7,000,256
Debt Service Reserve	699,392	698,693
Ambleside:		
Tenant Security Deposits	34,889	38,312
Nonroutine Maintenance Reserves	562,975	2,532,415
Debt Amortization Funds	955,595	886,120
Severance:		
Tenant Security Deposits	36,525	29,970
Nonroutine Maintenance Reserves	350,195	724,511
Quarrytown:		
Tenant Security Deposits	43,602	42,628
Nonroutine Maintenance Reserves	595,631	600,853
Woody Woods:		
Tenant Security Deposits	22,560	17,300
Riverside Park:		
Replacement Reserve	460,129	0
Total	<u>\$ 34,607,307</u>	<u>\$ 50,859,213</u>

CUYAHOGA METROPOLITAN HOUSING AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009
(CONTINUED)

5. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2010 was as follows:

	January 1, 2010	Additions	Deletions	December 31, 2010
Capital Assets Not Being Depreciated:				
Land	\$ 28,502,014	\$ 0	\$ (216,000)	\$ 28,286,014
Construction in Progress (Net Change)	9,850,852	28,252,999	(14,541,143)	23,562,708
Total Capital Assets Not Being Depreciated	38,352,866	28,252,999	(14,757,143)	51,848,722
Capital Assets Being Depreciated:				
Buildings and Improvements	632,186,663	15,567,021	(463,292)	647,290,392
Furniture, Equipment, and Machinery - Dwelling	15,719,533	1,291,864	(830,630)	16,180,767
Furniture, Equipment, and Machinery - Admin	5,933,932	396,191	(274,335)	6,055,788
Leasehold Improvements	324,610	0	0	324,610
Subtotal Capital Assets Being Depreciated	654,164,738	17,255,076	(1,568,257)	669,851,557
Accumulated Depreciation:				
Buildings and Improvements	(477,582,177)	(13,699,943)	440,726	(490,841,394)
Furniture and Equipment	(17,454,983)	(1,441,213)	1,126,695	(17,769,501)
Leasehold Improvements	(233,350)	(24,845)	0	(258,195)
Subtotal Accumulated Depreciation	(495,270,510)	(15,166,001)	1,567,421	(508,869,090)
Depreciable Assets, Net	158,894,228	2,089,075	(836)	160,982,467
Total Capital Assets—Net	\$ 197,247,094	\$ 30,342,074	\$ (14,757,979)	\$ 212,831,189

Capital asset activity for the year ended December 31, 2009 was as follows:

	January 1, 2009	Additions	Deletions	December 31, 2009
Capital Assets Not Being Depreciated:				
Land	\$ 28,285,524	\$ 338,890	\$ (122,400)	\$ 28,502,014
Construction in Progress (Net Change)	9,515,614	335,238	0	9,850,852
Total Capital Assets Not Being Depreciated	37,801,138	674,128	(122,400)	38,352,866
Capital Assets Being Depreciated:				
Buildings and Improvements	613,977,649	22,324,556	(4,115,542)	632,186,663
Furniture, Equipment, and Machinery - Dwelling	15,550,036	1,359,994	(1,190,497)	15,719,533
Furniture, Equipment, and Machinery - Admin	6,978,880	56,898	(1,101,846)	5,933,932
Leasehold Improvements	0	324,610	0	324,610
Subtotal Capital Assets Being Depreciated	636,506,565	24,066,058	(6,407,885)	654,164,738
Accumulated Depreciation:				
Buildings and Improvements	(454,538,789)	(26,966,992)	3,923,604	(477,582,177)
Furniture and Equipment	(18,563,524)	(1,204,204)	2,312,745	(17,454,983)
Leasehold Improvements	0	(233,350)	0	(233,350)
Subtotal Accumulated Depreciation	(473,102,313)	(28,404,546)	6,236,349	(495,270,510)
Depreciable Assets, Net	163,404,252	(4,338,488)	(171,536)	158,894,228
Total Capital Assets, Net	\$ 201,205,390	\$ (3,664,360)	\$ (293,936)	\$ 197,247,094

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(CONTINUED)

5. CAPITAL ASSETS (Continued)

The Authority maintains detailed records that track fixed assets by category. The following schedules list fixed asset balances for individual programs at December 31, 2010 and 2009:

Programs	2010				
	Land	Property	Equipment	Accumulated Depreciation	Net
Conventional Low-Rent Housing Program	\$ 25,668,687	\$ 655,504,703	\$ 19,647,935	\$ (498,590,039)	\$ 202,231,286
Homeownership Program	86,730	804,658	72,604	(682,317)	281,675
Housing Choice Voucher and Moderate Rehabilitation Programs	0	277,203	1,258,876	(1,187,125)	348,954
Campus Project	1,848,000	0	0	0	1,848,000
Title V	62,000	558,000	18,704	(576,704)	62,000
Section 8 New Construction Housing Assistance Payment Programs:					
Ambleside	59,840	6,220,200	371,291	(5,362,393)	1,288,938
Severance	356,767	4,322,893	314,635	(889,592)	4,104,703
Quarrytown	203,990	2,268,708	331,658	(590,807)	2,213,549
Other	0	1,221,345	220,852	(990,113)	452,084
Total	\$ 28,286,014	\$ 671,177,710	\$ 22,236,555	\$ (508,869,090)	\$ 212,831,189

Programs	2009				
	Land	Property	Equipment	Accumulated Depreciation	Net
Conventional Low-Rent Housing Program	\$ 25,668,687	\$ 626,736,724	\$ 18,978,299	\$ (484,691,106)	\$ 186,692,604
Homeownership Program	86,730	1,245,806	70,131	(1,101,161)	301,506
Housing Choice Voucher and Moderate Rehabilitation Programs	0	307,092	1,061,219	(1,113,901)	254,410
Campus Project	1,848,000	0	0	0	1,848,000
Title V	278,000	558,000	28,894	(586,894)	278,000
Section 8 New Construction Housing Assistance Payment Programs:					
Ambleside	59,840	6,233,481	370,548	(5,194,844)	1,469,025
Severance	356,767	3,852,231	312,742	(717,897)	3,803,843
Quarrytown	203,990	2,238,989	309,609	(498,274)	2,254,314
Other	0	1,189,802	522,023	(1,366,433)	345,392
Total	\$ 28,502,014	\$ 642,362,125	\$ 21,653,465	\$ (495,270,510)	\$ 197,247,094

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NOTES TO THE FINANCIAL STATEMENTS
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6. ACCRUED EXPENSES AND OTHER LIABILITIES

Accrued expenses at December 31, 2010 and 2009 consist of the following items:

	<u>2010</u>	<u>2009</u>
Payroll and Related Accruals	\$ 6,983,285	\$ 5,144,363
Deferred Revenue	2,140,089	9,236,959
Workers' Compensation—Current Portion	1,140,000	1,180,000
Other Litigation Reserves	593,690	633,231
Interest Payable	1,214,113	1,105,842
Other	1,063,684	1,021,363
Total	<u><u>\$ 13,134,861</u></u>	<u><u>\$ 18,321,758</u></u>

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, 2010:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 435,000	\$ 284,375	\$ 719,375
2012	465,000	253,400	718,400
2013	495,000	220,325	715,325
2014	535,000	184,975	719,975
2015	580,000	146,825	726,825
2016-2018	1,660,000	179,950	1,839,950
Total Payments	<u>4,170,000</u>	<u>1,269,850</u>	<u>5,439,850</u>
Less—Unamortized Bond Discount	(162,923)	0	(162,923)
Total	<u><u>\$ 4,007,077</u></u>	<u><u>\$ 1,269,850</u></u>	<u><u>\$ 5,276,927</u></u>

CUYAHOGA METROPOLITAN HOUSING AUTHORITY
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7. DEBT AND LEASE OBLIGATIONS (Continued)

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.

Payments under the agreement are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 2,523,891	\$ 1,129,524	\$ 3,653,415
2012	2,631,316	1,022,100	3,653,416
2013	2,743,313	910,102	3,653,415
2014	2,860,076	793,340	3,653,416
2015	2,981,809	671,606	3,653,415
2016 - 2019	14,155,448	1,371,569	15,527,017
Total Capital Lease Payments	<u>\$ 27,895,853</u>	<u>\$ 5,898,241</u>	<u>\$ 33,794,094</u>

Bond Anticipation Note, Series 2008 and Note Series 2009 – On February 28, 2008, the Bond Anticipation Note, Series 2008 was issued for \$5,600,000, with a due date of August 27, 2009, and an interest rate of 4 percent. The note was issued to cover the cost of 25 acres of land on which the consolidated Administrative Campus is being built.

On September 18, 2009, the Series 2008 Note was fully redeemed and the Note Series 2009 was issued for \$3,000,000 for half the land. During the design process for the Campus, it was determined that only half the land would be needed for the project and the remaining half would be re-purposed or sold.

The Note Series 2009 matures September 1, 2012 and has an interest rate of 4.5 percent. The note was sold at a premium of \$117,570. Interest on the note is payable March 1 and September 1, commencing on March 1, 2010.

Future payments, including unamortized bond premiums under the agreement are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 0	\$ 135,000	\$ 135,000
2012	3,000,000	101,250	3,101,250
Unamortized Bond Premiums	66,236	0	66,236
	<u>\$ 3,066,236</u>	<u>\$ 236,250</u>	<u>\$ 3,302,486</u>

**CUYAHOGA METROPOLITAN HOUSING AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
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(CONTINUED)**

7. DEBT AND LEASE OBLIGATIONS (Continued)

First Mortgage Note-On October 22, 2007 the Authority borrowed \$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, 2010, \$3,643,798 in debt remained outstanding. An amortization of the loan after 2011 is not available.

Payments under the agreement are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 119,443	\$ 204,562	\$ 324,005
Amount Remaining	<u>3,524,355</u>	<u>0</u>	<u>3,524,355</u>
	<u>\$ 3,643,798</u>	<u>\$ 204,562</u>	<u>\$ 3,848,360</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, 2010, total debt and unamortized bond premium was \$13,985,585.

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(CONTINUED)

7. DEBT AND LEASE OBLIGATIONS (Continued)

Payments under the agreement are as follows:

	Principal	Interest	Total
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	600,000	584,750	1,184,750
2015	635,000	553,875	1,188,875
2016-2020	3,700,000	2,246,750	5,946,750
2021-2025	4,780,000	1,192,000	5,972,000
2026-2027	2,280,000	115,500	2,395,500
Total	13,645,000	6,605,752	20,250,752
Unamortized Bond Premium	340,585	0	340,585
Total	<u>\$ 13,985,585</u>	<u>\$ 6,605,752</u>	<u>\$ 20,591,337</u>

Series 2009A and 2009B Administrative Campus Financing – On September 18, 2009, the Authority issued Series 2009A Tax Exempt General Revenue Bonds in the amount of \$3,145,000 and Series B Build America Bonds in the amount of \$12,855,000. The net proceeds from the bonds will be used to build the consolidated Administrative Campus. The Series A Bonds have various maturity dates and coupon rates as follows:

- September 1, 2014 - \$485,000 at 2.75 percent
- September 1, 2015 - \$500,000 at 3 percent
- September 1, 2016 - \$510,000 at 3.38 percent
- September 1, 2017 - \$530,000 at 3.63 percent
- September 1, 2018 - \$550,000 at 3.75 percent
- September 1, 2019 - \$570,000 at 4.00 percent

The Build America Bonds, Series 2009B is a new type of bond created under The America Recovery and Reinvestment Act of 2009. This type of bond is taxable and allows government entities to offer bonds in the market at competitive rates, thereby widening the pool of potential buyers. The Build America Bonds mature as follows: September 1, 2029 - \$4,835,000 at 7.88 percent and September 1, 2039 - \$8,020,000 at 8.13 percent. Under the Build America Program, the Authority will be reimbursed by the Internal Revenue Service 35 percent of the interest paid, thus borrowing the actual interest rate the Authority will pay.

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7. DEBT AND LEASE OBLIGATIONS (Continued)

	Principal	Interest	Total
2011	\$ 0	\$ 1,141,211	\$ 1,141,211
2012	0	1,141,211	1,141,211
2013	0	1,141,211	1,141,211
2014	485,000	1,137,877	1,622,877
2015	500,000	1,124,124	1,624,124
2016-2020	2,160,000	5,353,870	7,513,870
2021-2025	0	4,679,318	4,679,318
2026-2030	4,835,000	3,709,684	8,544,684
2031-2040	8,020,000	3,208,504	11,228,504
Total Payments	16,000,000	22,637,010	38,637,010
Less Amortized Bond Discount	(62,384)	0	(62,384)
Total	<u>\$ 15,937,616</u>	<u>\$ 22,637,010</u>	<u>\$ 38,574,626</u>

First Mortgage Note – Quarrytown – On February 27, 2009, the Western Reserve Revitalization and Management Company, Inc., a wholly owned subsidiary of the Authority, borrowed \$3,500,000 on a first mortgage note from First Merit Bank to finance the purchase of the Quarrytown Towers property. Interest on the loan is calculated under the terms of the International Swap Dealers Association (SDA) agreement, whereby an effective fixed rate of 5.56 percent is achieved.

	Principal	Interest	Total
2011	\$ 107,518	\$ 184,267	\$ 291,785
2012	113,356	178,547	291,903
2013	3,096,810	14,827	3,111,637
Total	<u>\$ 3,317,684</u>	<u>\$ 377,641</u>	<u>\$ 3,695,325</u>

Capital Fund Financing 2009 – On November 18, 2009, the Authority issued Capital Fund backed debt in the form of two Fannie Mae loans (Loans A and B). The Authority’s debt for both loans is \$20,878,960.

Loan A in the amount of \$13,082,970, will provide \$11,700,426 net proceeds after debt service reserves and up-front costs. These proceeds will be used for Phase III of the Garden Valley mixed finance redevelopment after being loaned to the Garden Valley Housing Partnership I, LP. The maturity date for the loan is October 1, 2029, and it has an interest rate of 6.4 percent.

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7. DEBT AND LEASE OBLIGATIONS (Continued)

Capital Fund Financing 2009 (Continued)

Loan B in the amount of \$7,795,990 will provide \$7,000,256 net proceeds after debt service reserves and up-front costs. These proceeds will be used at various Authority properties to fund the implementation of Uniform Federal Accessibility Standards (UFAS) improvements. The maturity date for the loan is October 1, 2029, and it has an interest rate of 6.4 percent.

Payments will be made in April and October each year and began in April 2010. The payments will be made directly from HUD.

Combined payments for both loans under the agreement are as follows:

	Principal	Interest	Total
2011	\$ 574,320	\$ 1,296,817	\$ 1,871,137
2012	611,670	1,259,464	1,871,134
2013	651,460	1,219,680	1,871,140
2014	693,830	1,177,309	1,871,139
2015	738,960	1,132,182	1,871,142
2016-2020	4,481,340	4,874,325	9,355,665
2021-2025	6,141,000	3,214,665	9,355,665
2026-2029	6,513,770	970,780	7,484,550
Total	\$ 20,406,350	\$ 15,145,222	\$ 35,551,572

A summary of the Authority's long-term debt and capital lease in 2010 follows:

	January 1, 2010	Increase	Decrease	December 31, 2010	Due Within One Year
Ambleside Bonds	\$ 4,400,803	\$ 0	\$ (393,726)	\$ 4,007,077	\$ 417,567
Bond Anticipation Note -2009	3,105,978	0	(39,742)	3,066,236	39,742
Unamortized Bond Discount	(69,670)	0	7,286	(62,384)	0
General Revenue Bond	3,145,000	0	0	3,145,000	0
Build America Bonds	12,855,000	0	0	12,855,000	0
Ohio Bond Financing	14,511,544	0	(525,959)	13,985,585	545,959
Mortgage Note - Severance	3,772,536	0	(128,738)	3,643,798	119,443
First Mortgage Note-Quarrytown	3,419,270	0	(101,586)	3,317,684	107,518
Capital Lease	30,886,921	0	(2,991,068)	27,895,853	2,523,891
Modernization Express Loan A	13,082,970	0	(296,140)	12,786,830	359,870
Modernization Express Loan B	7,795,990	0	(176,470)	7,619,520	214,450
Total	\$ 96,906,342	\$ 0	\$ (4,646,143)	\$ 92,260,199	\$ 4,328,440

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7. DEBT AND LEASE OBLIGATIONS (Continued)

Other Lease Obligations—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 \$466,344 and \$441,533 in 2010 and 2009, respectively. The Authority also leases office equipment under various operating leases. Total expense recognized under these operating leases was \$543,168 in 2010 and \$466,055 in 2009.

Future minimum lease payments are as follows:

	Office Space	Office Equipment	Total
2011	\$ 359,734	\$ 204,301	\$ 564,035
2012	183,483	171,776	355,259
2013	0	78,955	78,955
2014	0	10,490	10,490

8. RETIREMENT AND OTHER BENEFIT PLANS

Ohio Public Employees Retirement System

All full-time Authority employees participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans, as described 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 five 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 investments 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 members, accumulate retirement assets in a manner similar to the Member-Directed Plan.

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8. RETIREMENT AND OTHER BENEFIT PLANS (Continued)

Ohio Public Employees Retirement System (Continued)

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, by calling (614) 222-5601 or 1-800-222-7377, or by using the OPERS website at www.opers.org.

The Ohio Revised Code provides statutory authority for member and employer contributions. For 2010, member and employer contribution rates were consistent across all three plans (TP, MD, and CO). Plan members are required to contribute 10 percent of their annual covered salary to fund pension obligations. The employer pension contribution rate for the Authority was 14 percent of covered payroll. The Authority's required contributions to the Traditional Plan for the years ended December 31, 2010, 2009, and 2008, were \$5,453,651, \$5,283,339, and \$5,044,016, respectively. The Authority's required contributions to the Combined Plan for the years ended December 31, 2010, 2009, and 2008, were \$146,797, \$110,487, and \$108,469, respectively. The Authority's required contributions to the Member-Directed Plan for the years ended December 31, 2010, 2009, and 2008, were \$85,038, \$61,858, and \$49,071, respectively. The full amount has been contributed for 2010, 2009, and 2008.

9. POST-EMPLOYMENT BENEFITS

Plan Description

The Ohio Public Employees Retirement System (OPERS) administers three separate pension plans; the Traditional Pension Plan - a cost-sharing, multiple-employer defined benefit pension plan; the Member-Directed Plan - a defined contribution plan; and the Combined Plan - a cost sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

OPERS maintains a cost-sharing, multiple-employer defined benefit post-employment health care plan, which includes a medical plan, prescription drug program, and Medicare Part B premium reimbursement, to qualifying members of both the Traditional Pension and the Combined plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage.

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9. POST-EMPLOYMENT BENEFITS (Continued)

Plan Description (Continued)

In order to qualify for post-employment health care coverage, age and service retirees under the Traditional Pension and Combined plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post-Employment Benefit (OPEB) as described in GASB Statement No. 45.

The Ohio Revised Code permits, but does not mandate, OPERS to provide OPEB benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

OPERS issues a stand-alone financial report. Interested parties may obtain a copy by writing OPERS, 277 East Town Street, Columbus, OH 43215-4642, or by calling 614-222-5601 or 1-800-222-7377.

Funding Policy

The Ohio Revised Code provides the statutory authority requiring public employers to fund post-retirement health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care benefits.

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2010, the Authority contributed at a rate of 14.00 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 portion of employer contributions allocated to health care for members in the Traditional Plan was 5.5 percent from January 1 through February 28, 2010, and 5.0 percent from March 1 through December 31, 2010, and the portion of employer contributions allocated to health care for members in the Combined Plan was 4.73 percent from January 1 through February 28, 2010, and 4.23 percent from March 1 through December 31, 2010. The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care coverage by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. Actual Authority contributions for the years ended December 31, 2010, 2009, and 2008, which were used to fund post-employment health care benefits were \$2,200,176, \$2,251,845, and \$2,576,243, respectively.

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9. POST-EMPLOYMENT BENEFITS (Continued)

Funding Policy (Continued)

On September 9, 2004, the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. Member and employer contribution rates increased as of January 1, 2006, January 1, 2007, and January 2, 2008, which allowed additional funds to be allocated to the health care plan.

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 776 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 753 public housing authority members. Through HAPI, the Authority carries building and contents coverage with a per occurrence loss limit of \$100,000,000 and with a \$10,000 deductible.

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 with a \$10,000,000 limit in the aggregate. The Authority has recorded a \$3,120,000 liability for self-insured workers' compensation claims in its Conventional Program and is fully funded at December 31, 2010.

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, 2010 and 2009 were as follows:

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10. INSURANCE COVERAGE AND RISK RETENTION (Continued)

	Workers' Compensation Benefits	Employee Termination and Other
Balance—January 1, 2009	\$ 3,020,000	\$ 672,850
Incurred Claims—Net of Changes in Estimates Payments	1,142,908 (1,104,908)	148,231 (184,850)
Balance—December 31, 2009	3,058,000	636,231
Incurred Claims—Net of Changes in Estimates Payments	1,079,936 (1,017,936)	125,458 (167,999)
Balance—December 31, 2010	\$ 3,120,000	\$ 593,690

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 2010 and 2009, there were no significant reductions in the Authority's insurance coverage.

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.

**CUYAHOGA METROPOLITAN HOUSING AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009
(CONTINUED)**

12. CONSTRUCTION COMMITMENTS

As of December 31, 2010, the Authority had the following significant construction commitments:

<u>Project Type</u>	<u>Amount</u>
Garden Valley Development	\$ 24,190,767
Building Renovations	23,690,480
HVAC Improvements	5,369,772
Total Construction Commitments	\$ 53,251,019

13. 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, 2010. In addition, impacting that calculation are the debt service funds held by the trustee bank as required by the Trustee Indenture.

Capital Assets	\$ 212,831,189
Less Related Debt	(92,260,199)
Add Back in Unspent Debt Proceeds and Debt Services Funds Held by Trustee	20,001,597
Total Invested in Capital Assets, Net of Related Debt	\$ 140,572,587

14. RESTRICTED NET ASSETS

Below is a summary of restricted net assets at December 31, 2010:

Unspent funding provided by HUD to make HAP payments in the Section 8 Housing Choice Voucher Program	\$ 6,595,962
Nonroutine maintenance and debt service reserves	2,924,525
Total Restricted Net Assets at December 31, 2010	\$ 9,520,487

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**CUYAHOGA METROPOLITAN HOUSING AUTHORITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2010**

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 Program - Subsidy	14.850	\$ 65,424,825
<u>Section 8 Project Based Cluster</u>		
Section 8 New Construction and Moderate Rehabilitation Programs:		
New Construction	14.182	3,136,451
Moderate Rehabilitation	14.856	1,504,433
Total Section I Project Based Cluster		<u>4,640,884</u>
Housing Choice Voucher Program	14.871	<u>108,719,808</u>
Capital Fund Program Cluster:		
Capital Fund Program	14.872	28,300,407
Capital Fund Program Competitive - ARRA	14.884	8,096,552
Capital Fund Program Formula - ARRA	14.885	13,311,221
Total Capital Fund Program Cluster		<u>49,708,180</u>
Supportive Housing Program	14.235	<u>387,551</u>
Resident Opportunities and Supportive Services	14.870	<u>54,038</u>
Total U.S. Department of Housing and Urban Development		<u><u>228,935,286</u></u>
<u>U.S. Department of Justice</u>		
<i>Direct Program</i>		
Public Safety Partnership and Community Policing Grants	16.710	<u>141,809</u>
Total U.S. Department of Justice		<u>141,809</u>
<u>U.S. Department of Labor</u>		
<i>Direct Program</i>		
Youthbuild	17.274	<u>347,947</u>
Total U.S. Department of Labor		<u>347,947</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS		<u><u>\$ 229,425,042</u></u>

**CUYAHOGA METROPOLITAN HOUSING AUTHORITY
 NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED DECEMBER 31, 2010**

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>2010 Grant Expenditures</u>
Conventional Low-Rent	Progressive Action Council and Management Company	14.850	\$ 300,000

* * * * *

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

To the Board of Directors
Cuyahoga Metropolitan Housing Authority
Cleveland, Ohio

Regional Inspector General for Audit
Department of Housing and Urban
Development

We have audited the financial statements of the business-type activities of the Cuyahoga Metropolitan Housing Authority, Ohio, as of and for the year ended December 31, 2010, which collectively comprise the Cuyahoga Metropolitan Housing Authority, Ohio's basic financial statements and have issued our report thereon dated June 29, 2011, wherein we noted the Cuyahoga Metropolitan Housing Authority, Ohio, changed its method of reporting HUD operating grants in the financial statements. 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, Ohio'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, Ohio's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Cuyahoga Metropolitan Housing Authority, Ohio's internal control over financial reporting.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Cuyahoga Metropolitan Housing Authority, Ohio'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*.

This report is intended solely for the information and use of management, the Board of Directors, others within the entity, and federal awarding agencies 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

June 29, 2011

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**REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Directors
Cuyahoga Metropolitan Housing Authority
Cleveland, Ohio

Regional Inspector General of Audit
Department of Housing and Urban
Development

Compliance

We have audited the Cuyahoga Metropolitan Housing Authority, Ohio's compliance with the types of compliance requirements described in *the OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Cuyahoga Metropolitan Housing Authority, Ohio's major federal programs for the year ended December 31, 2010. The Cuyahoga Metropolitan Housing Authority, Ohio'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, Ohio's management. Our responsibility is to express an opinion on the Cuyahoga Metropolitan Housing Authority, Ohio'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, Ohio'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, Ohio's compliance with those requirements.

In our opinion, the Cuyahoga Metropolitan Housing Authority, Ohio, complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2010.

Internal Control Over Compliance

Management of the Cuyahoga Metropolitan Housing Authority, Ohio, is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Cuyahoga Metropolitan Housing Authority, Ohio's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Cuyahoga Metropolitan Housing Authority, Ohio's internal control over compliance.

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

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

This report is intended solely for the information and use of management, the Board of Directors, others within the entity, and federal awarding agencies, 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

June 29, 2011

**CUYAHOGA METROPOLITAN HOING AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2010**

1. SUMMARY OF AUDITOR'S RESULTS		
2010(i)	Type of Financial Statement Opinion	Unqualified
2010(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
2010(ii)	Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
2010(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS?)	No
2010(iv)	Were there any material internal control weaknesses reported for major federal programs?	No
2010(iv)	Were there any other significant deficiencies in internal control reported for major federal programs?	No
2010(v)	Type of Major Programs' Compliance Opinion	Unqualified
2010(vi)	Any there any reportable findings under .510?	No
2010(vii)	Major Programs (list): Low Income Housing Program - CFDA #14.850 Capital Fund Cluster: Public Housing Capital Fund Program - CFDA #14.872 Public Housing Capital Fund Competitive -ARRA - CFDA #14.884 Public Housing Capital Fund Stimulus Formula Grant - ARRA - CFDA #14.885	
2009(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$3,000,000 Type B: all others
2009 (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 HOUIING AUTHORITY
STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2010**

The audit report for the prior year ended December 31, 2009, contained no findings or citations.

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Dave Yost • 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
SEPTEMBER 27, 2011**