

**CINCINNATI METROPOLITAN
HOUSING AUTHORITY
HAMILTON COUNTY, OHIO**

AUDIT REPORT

**FOR THE FISCAL YEAR ENDED
JUNE 30, 2011**

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



Dave Yost • Auditor of State

Board of Commissioners
Cincinnati Metropolitan Housing Authority
16 West Central Parkway
Cincinnati, Ohio 45202

We have reviewed the *Independent Auditor's Report* of the Cincinnati Metropolitan Housing Authority, Hamilton County, prepared by James G. Zupka, CPA, Inc., for the audit period July 1, 2010 through June 30, 2011. 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 Cincinnati Metropolitan Housing Authority is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

April 30, 2012

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CINCINNATI METROPOLITAN HOUSING AUTHORITY
AUDIT REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Cincinnati Metropolitan Housing Authority
Cincinnati, Ohio

Regional Inspector General of Audit
Department of Housing and Urban
Development

We have audited the accompanying financial statements of the Cincinnati Metropolitan Housing Authority, Hamilton County, Ohio, as of and for the year ended June 30, 2011, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Cincinnati Metropolitan Housing Authority, Ohio'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 Cincinnati Metropolitan Housing Authority, Ohio, as of June 30, 2011, and the respective changes in financial position, and cash flows, where applicable, thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 17, 2012, on our consideration of the Cincinnati Metropolitan Housing Authority, Ohio'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 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Cincinnati 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. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 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 U.S. Department of Housing and Urban Development for additional analysis, although not required to be part of the basic financial statements. The audited FDS are not completed as of the date of this report. A separate report will be issued on the audited FDS at a later date.


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

January 17, 2012

**CINCINNATI METROPOLITAN HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2011**

This discussion and analysis provides the reader with a narrative overview and financial analysis of Cincinnati Metropolitan Housing Authority's (CMHA) financial activities and performance for the year ended June 30, 2011. This section should be read in conjunction with the audited financial statements and accompanying notes.

Financial Highlights

- CMHA's total assets and liabilities were \$325.6 million \$33.4 million, respectively; therefore, net assets were \$292.2 million as of June 30, 2011.
- Total revenues, including capital contributions and total expenses, were \$148.6 million and \$122.5 million, respectively, resulting in a \$26.1 million change in net assets for fiscal year 2011.
- Fiscal year 2011 resulted in a net increase in cash and cash equivalents of \$7.7 million, an increase in investments of \$7.9 million, and an increase of \$11.4 million in capital assets, which includes construction-in-progress.

Overview of the Financial Statements

Management's Discussion and Analysis - The Management's Discussion and Analysis is intended to serve as an introduction to the Authority-wide financial statements. The Authority-wide financial statements and Notes to the Financial Statements included in the Audit Report were prepared in accordance with GAAP applicable to governmental entities in the United States of America for Proprietary Fund types and in compliance with the regulations set forth in GASB Statement No. 34.

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

Notes to Financial Statements - The Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the Authority-wide financial statements.

CINCINNATI METROPOLITAN HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2011
(Continued)

Overview of the Financial Statements

CMHA has many programs that are consolidated into a single enterprise fund. The major programs consist of the following:

Conventional Public Housing - Under the Conventional or Low Rent Housing Program, CMHA rents units that it owns to low income households. The Conventional Public Housing Program is operated under an Annual Contributions Contract (ACC) with the U.S. Department of Housing and Urban Development (HUD), and HUD provides Operating Subsidy and Capital Grant funding to enable CMHA to provide the housing at a rent that is based upon approximately 30 percent of household income.

Capital Fund Program - The Conventional Public Housing Program also includes the Capital Fund Program, which is the primary funding source for physical and management improvements to CMHA's properties. The formula funding methodology used is based upon the number of units, including the bedroom sizes and the age of the buildings/units.

American Recovery and Reinvestment Act (ARRA) - On March 17, 2009, CMHA received a \$19 million formula-based award of ARRA stimulus funds in the Capital Fund Program. These funds are intended to facilitate the physical improvements to public housing in CMHA's plan initially planned to be funded through the Capital Fund Program. CMHA was required to and did obligate 100 percent of the funds by March 17, 2010. At fiscal year end June 30, 2011, CMHA had expended \$18.3 million. All of the ARRA funds must be expended no later than March 17, 2012.

Neighborhood Stabilization Program 2 (NSP2) - During fiscal year 2010, CMHA, as part of a consortium with Hamilton County, the City of Cincinnati, and the Local Initiative Support Consortium was awarded funds through the competitive NSP2. CMHA was awarded \$10.4 million for its activities under the NSP2 Program, of the \$24 million award to the consortium. The primary use of the funding is to purchase foreclosed and abandoned property and replace them with a new development of senior housing in Mt. Healthy. All activities under this grant must be completed by February 11, 2013.

HOPE VI Grant - The HOPE VI grants are programs funded by HUD for redevelopment of CMHA's properties. It is a mixed financing and mixed-use development with homeownership opportunities for public housing residents.

Housing Choice Voucher Program - Under the Housing Choice Voucher Program, CMHA administers contracts with independent landlords who own the properties. CMHA subsidizes a participants' rent through a Housing Assistance Payment made to the landlord. The program is administered under an Annual Contributions Contract (ACC) with HUD. HUD provides Annual Contributions Funding to enable CMHA to structure a lease that sets a participants' rent at approximately 30 percent of household income.

CINCINNATI METROPOLITAN HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2011
(Continued)

Overview of CMHA's Financial Position and Operations

Net Assets

CMHA's total assets increased by \$22.8 million during fiscal year 2011. The combination of cash, cash equivalents, and investments increased by \$7.7 million over fiscal year 2010. The increase in cash and equivalents resulted from an increase in subsidy in the Low Income Public Housing Program and the Housing Choice Voucher Program.

Total liabilities decreased in fiscal year 2011 by \$3.4 million. This was attributed to the payment of long term debt and the timing of the disbursement of payables.

The change in invested capital assets net of related debt reflects expenditures covered through the ARRA stimulus grant.

Statement of Net Assets (in Millions)			
(Condensed)			
	2011	2010	Change
<u>ASSETS</u>			
Current Assets	\$ 53.8	\$ 50.0	\$ 3.8
Other Assets	46.1	38.4	7.7
Capital Assets	225.7	214.4	11.3
TOTAL ASSETS	325.6	302.8	22.8
 <u>LIABILITIES AND NET ASSETS</u>			
<u>Liabilities</u>			
Current Liabilities	7.3	9.1	(1.8)
Long-Term Liabilities	26.1	27.7	(1.6)
Total Liabilities	33.4	36.8	(3.4)
 <u>Net Assets</u>			
Invested in Capital Assets, Net of Related Debt	200.2	185.3	14.9
Restricted Net Assets	12.1	12.3	(0.2)
Unrestricted Net Assets	79.9	68.4	11.5
Total Net Assets	292.2	266.0	26.2
TOTAL LIABILITIES AND NET ASSETS	\$ 325.6	\$ 302.8	\$ 22.8

Revenues, Expenses, and Changes in Net Assets

CMHA's operating revenue for fiscal year 2011 increased by \$16.9 million due primarily to increased subsidy for the Low Income Public Housing Program, the Housing Choice Voucher Program, plus capital funds drawn through the ARRA stimulus grants. Operating expenses were \$4.8 million greater than last year primarily due to increases in capital improvements, per unit utility costs, and operations maintenance. The changes in operating revenues and expenses resulted in a positive net change in assets of \$26.2 million on a consolidated basis.

CINCINNATI METROPOLITAN HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2011
(Continued)

Statement of Revenues, Expenses, and Change in Net Assets
for the Year Ended June 30, 2011 (Millions)

(Condensed)			
	<u>2011</u>	<u>2010</u>	<u>Change</u>
<u>Operating Revenues</u>			
Operating/Other Revenues	\$ 12.1	\$ 12.2	\$ (0.1)
Governmental Revenues	<u>134.2</u>	<u>117.2</u>	<u>17.0</u>
Total Operating Revenues	<u>146.3</u>	<u>129.4</u>	<u>16.9</u>
<u>Operating Expenses</u>			
Operating Expenses	111.8	107.3	4.5
Depreciation Expense	<u>8.5</u>	<u>8.2</u>	<u>0.3</u>
Total Operating Expenses	<u>120.3</u>	<u>115.5</u>	<u>4.8</u>
Net Operating Income	<u>26.0</u>	<u>13.9</u>	<u>12.1</u>
Total Non-Operating Revenue/Expenses	<u>0.2</u>	<u>1.3</u>	<u>(1.1)</u>
Change in Net Assets	<u>26.2</u>	<u>15.2</u>	<u>11.0</u>
Net Assets, Beginning of Year	<u>266.0</u>	<u>250.8</u>	<u>15.2</u>
Net Assets, End of Year	<u>\$ 292.2</u>	<u>\$ 266.0</u>	<u>\$ 26.2</u>

Capital Assets and Debt Administration

As of June 30, 2011, CMHA's capital assets balance was \$225,745,516 (net of accumulated depreciation). This represents an increase of \$11.4 million over fiscal year 2010.

Major capital assets increased \$21.2 million during the fiscal year. The increase was due to new construction and construction-in-progress as it relates to CMHA's Capital Fund and Hope VI programs. The increase is also related to purchases made through the ARRA stimulus grant. See Note 7 for more information regarding capital assets.

CMHA's long-term portion of debt as of June 30, 2011, was \$23.8 million. The long-term debt decreased \$1.7 million over fiscal year 2010. This reduction in long-term debt was due, in a large part, to payments on existing debt and refraining from incurring additional long-term debt.

See Note 12 for more information regarding outstanding debt.

Annual Budget Information

Annual budgets for individual programs, including grants, are prepared by CMHA management and approved by the Board of Commissioners. The budgets are primarily used as a management tool and have no legal stature. The budgets are prepared in accordance with the fiscal and programmatic goals established by CMHA.

**CINCINNATI METROPOLITAN HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2011
(Continued)**

Budgetary Considerations for Fiscal Year 2011

The greatest budgetary challenges faced by CMHA involve the ongoing reduction of operating funds due to the pro-ration factors used in the funding calculations by HUD. The following economic factors were considered in preparing CMHA's budget for fiscal year 2012:

- Higher occupancy and utilization, as well as lower tenant rental contributions in association with the economic downturn.
- Planning for recapture of reserves for Low Income Public Housing.
- Extending the energy savings contract to 2021.
- Change in funding methods, levels, and pro-ration factors for Housing Choice Voucher, Low Income Public Housing, Capital Fund, and Replacement Housing Factor programs.
- Anticipated cost increases within the Housing Choice Voucher Program and reductions in revenue were projected.

Contacting CMHA

Questions concerning any of the information provided in this report or requests for additional information should be addressed to Ted Bergh, Interim Executive Director, Cincinnati Metropolitan Housing Authority, 16 West Central Parkway, Cincinnati, Ohio 45202.

CINCINNATI METROPOLITAN HOUSING AUTHORITY
STATEMENT OF NET ASSETS
JUNE 30, 2011

ASSETS

Current Assets

Cash and Cash Equivalents - Unrestricted	\$ 29,237,777
Cash and Cash Equivalents - Restricted	10,984,458
Investments at Fair Value - Unrestricted	1,025,405
Investments at Fair Value - Restricted	3,090,319
Accounts Receivable, Net of Allowance for Doubtful Accounts	1,712,084
Due from Other Governments	6,665,741
Inventory, Net of Allowance of Obsolescence	341,282
Prepaid Expenses	693,485
Total Current Assets	53,750,551

Capital Assets

Non-Depreciable Capital Assets	64,447,194
Depreciable Capital Assets, Net	161,298,322
Total Capital Assets	225,745,516

Other Assets

Notes and Mortgages Receivable	32,111,685
Interest Receivable	13,826,337
Insurance Deposits	175,223
Total Other Assets	46,113,245

TOTAL ASSETS	\$ 325,609,312
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See accompanying notes to the financial statements.

CINCINNATI METROPOLITAN HOUSING AUTHORITY
STATEMENT OF NET ASSETS
JUNE 30, 2011
(CONTINUED)

LIABILITIES AND NET ASSETS

Current Liabilities

Accounts Payable	\$ 1,331,528
Accrued Wages and Taxes Payable	734,170
Accrued Compensated Absences	225,580
Other Accrued Liabilities	983,735
Due to Other Governments	958,364
Notes and Bonds Payable - Current Portion	1,698,232
Prepaid Rents	349,271
Payable from Restricted Assets:	
Resident Security Deposits	979,859

Total Current Liabilities	7,260,739
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Noncurrent Liabilities

Notes Payable, Net of Current Portion	23,784,378
Workers' Compensation Contingency	278,646
Accrued Compensated Absences	1,277,610
Payable from Restricted Assets:	
Family Self-Sufficiency Escrows	830,932

Total Noncurrent Liabilities	26,171,566
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Total Liabilities	33,432,305
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Net Assets

Investment in Capital Assets, Net of Related Debt	200,262,905
Restricted Net Assets	12,054,964
Unrestricted Net Assets	79,859,138

Total Net Assets	292,177,007
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TOTAL LIABILITIES AND NET ASSETS	\$ 325,609,312
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See accompanying notes to the financial statements.

CINCINNATI METROPOLITAN HOUSING AUTHORITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2011

<u>Operating Revenues</u>	
Rental Revenue	\$ 10,079,385
Governmental Revenue	110,708,470
Other Revenue	2,020,859
Total Operating Revenues	<u>122,808,714</u>
 <u>Operating Expenses</u>	
Administrative	21,476,931
Tenant Services	723,546
Utilities	8,505,803
Ordinary Maintenance and Operations	10,131,053
Protective Services	892,209
General Expenses	3,695,941
Housing Assistance Payments	66,393,729
Depreciation	8,545,410
Total Operating Expenses	<u>120,364,622</u>
Operating Income	<u>2,444,092</u>
 <u>Nonoperating Revenues (Expenses)</u>	
Loss on Disposal of Capital Assets	(1,146,032)
Interest Revenue - Unrestricted	2,322,853
Interest Revenue - Restricted	22,729
Interest Expense	(961,354)
Total Nonoperating Revenues (Expenses)	<u>238,196</u>
Change in Net Assets Before Capital Grants Revenue	<u>2,682,288</u>
Capital Grants Revenue	<u>23,443,042</u>
Net Change in Net Assets	26,125,330
Net Assets - Beginning of Year, as Reported	<u>266,051,677</u>
Net Assets - End of Year	<u>\$ 292,177,007</u>

See accompanying notes to the financial statements.

CINCINNATI METROPOLITAN HOUSING AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2011

<u>Cash Flows from Operating Activities</u>	
Receipts from Residents and Other Deposits	\$ 10,060,255
Governmental Operating Revenues	109,594,923
Other Receipts	2,366,401
Administrative Expenses	(21,388,662)
Other Operating Expenses	(24,609,097)
Housing Assistance Payments	(66,393,729)
Net Cash Provided by Operating Activities	<u>9,630,091</u>
<u>Cash Flows from Capital and Related Financing Activities</u>	
Purchase of Capital Assets	(21,152,321)
Principal Paid on Capital Debt	(3,570,435)
Cash from Disposal of Assets	95,806
Interest Paid	(961,354)
Capital Grants	23,443,042
Net Cash Provided by Capital and Related Financing Activities	<u>(2,145,262)</u>
<u>Cash Flows from Investing Activities</u>	
Investment Proceeds	(7,933)
Investment Income	244,289
Net Cash Used in Accounting Activities	<u>236,356</u>
Net Increase in Cash and Cash Equivalents	<u>7,721,185</u>
Cash and Cash Equivalents - Beginning of Year	<u>32,501,050</u>
Cash and Cash Equivalents - End of Year	<u>\$ 40,222,235</u>
<u>Reconciliation of Net Operating Income to Net Cash Provided by Operating Activities</u>	
Operating Income	\$ 2,444,092
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:	
Depreciation	8,545,410
Increase in Tenant Receivables	(22,937)
Increase in Due To/From Other Governments	(1,848,199)
Decrease in Other Assets/Receivables	322,786
Decrease in Inventory	10,034
Increase in Prepaid Expenses	(45,244)
Increase in Intergovernmental Payable	400,556
Increase in Security Deposits	22,756
Decrease in Accounts Payable	(825,557)
Increase in Compensated Absences	16,539
Increase in Accrued Liabilities	146,600
Increase in Deferred Revenue	337,903
Increase in Other Liabilities	125,352
Net Cash Provided by Operating Activities	<u>\$ 9,630,091</u>

Interest income of \$2,101,293 represents non-cash transactions.

See accompanying notes to the financial statements.

**CINCINNATI METROPOLITAN HOUSING AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization

The Cincinnati Metropolitan Housing Authority (CMHA) is a public body corporate and politic created under the laws of the State of Ohio and was organized for the purposes of acquiring, developing, leasing, operating, and administering low-rent housing programs for qualified individuals.

B. Reporting Entity

The governing body of CMHA is a Board of Commissioners, which is composed of five members. The members are appointed as follows: Two (2) by the City Manager of Cincinnati, one (1) by the Hamilton County Commissioners, one (1) by the Court of Common Pleas, and one (1) by the Probate Court. The Board appoints an Executive Director to administer the business of CMHA. CMHA is not considered a component unit of the City of Cincinnati, as the Board independently oversees CMHA's operations.

The accompanying financial statements comply with the provisions of Governmental Accounting Standards Board ("GASB") Statement No. 14, *The Financial Reporting Entity*, and Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, in that financial statements include all organizations, activities, and functions for which CMHA is financially accountable. Financial accountability is defined by the component unit being fiscally dependent on CMHA. Based upon the application of these criteria, the reporting entity had no component units.

The financial statements of CMHA include Low-Rent Public Housing under Annual Contributions Contract C-984, Section 8 Housing Assistance Program under Annual Contributions Contract C-5034, Local Initiatives Programs, and the Hamilton County Affordable Housing Program.

CINCINNATI METROPOLITAN HOUSING AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011
(CONTINUED)

NOTE 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

C. Summary of HUD Programs

The accompanying financial statements include the activities of the housing programs subsidized by HUD. A summary of the most significant of these programs and the related contracts with HUD is provided below.

1. **Annual Contributions Contract – Low Rent Public Housing**

a. **Low Rent Public Housing**

This type of housing consists of apartments and single-family dwellings owned and operated by CMHA. Funding is provided by tenant rent payments and subsidies provided by HUD.

b. **Modernization and Development**

Substantially all additions to land, buildings, and equipment are accomplished through the HOPE VI Program, Capital Fund Program, and the American Recovery and Reinvestment Act. These programs add to, replace, or materially upgrade deteriorated portions of CMHA's housing units. Funding is provided through programs established by HUD.

2. **Annual Contributions Contract – Housing Assistance Payments Program**

Housing Choice Vouchers and Moderate Rehabilitation

These are housing programs wherein low-income tenants lease housing units directly from private landlords rather than through CMHA. HUD contracts with private landlords to make assistance payments for the difference between the approved contract rent and the actual rent paid by low-income tenants.

D. Basis of Presentation of Accounting

In accordance with uniform financial reporting standards for HUD housing programs, the financial statements are prepared in accordance with U.S. generally accepted accounting principles (GAAP).

CMHA uses the proprietary fund type to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities reported in other funds. Funds are classified into three categories: governmental, proprietary, and fiduciary. CMHA uses the proprietary category for its programs.

CINCINNATI METROPOLITAN HOUSING AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011
(CONTINUED)

NOTE 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

D. Basis of Presentation of Accounting (Continued)

Based on compelling reasons offered by HUD, CMHA reports under the proprietary fund type (enterprise fund), which uses the accrual basis of accounting. Proprietary funds are used to account for CMHA's ongoing activities, which are similar to those found in the private sector. The proprietary fund type which is used by CMHA is the Enterprise Fund.

The Enterprise Fund is used to account for the operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or where it is has been decided that periodic determination of revenue earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Pursuant to the election option made available by GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, CMHA has the option of following subsequent FASB guidance for its business-type and enterprise funds issued prior to December 1, 1989, to the extent that those standards do not conflict with or contradict guidance of the Government Accounting Standards Board. CMHA has elected not to apply those FASB statements and interpretations issued after November 30, 1989, to its Enterprise Fund.

E. Budgets

Budgets are prepared on an annual basis for each major operating program and are used as a management tool throughout the accounting cycle. The modernization and development budgets are adopted on a "project length" basis. Budgets are approved by the Board of Commissioners and submitted to HUD for approval, when applicable. Budgets are not, however, legally adopted nor required for financial statement presentation.

CINCINNATI METROPOLITAN HOUSING AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011
(CONTINUED)

NOTE 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

F. Revenue Recognition

Subsidies and grants received from HUD and other grantors are generally recognized during the periods to which they relate and all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted; matching requirements, in which CMHA must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to CMHA on a reimbursement basis. Tenant rental revenues are recognized during the period of occupancy. Other receipts are recognized when the related expenses are incurred. Expenses are recognized as incurred.

G. Cash Equivalents

For the purposes of the Statement of Cash Flows, cash and cash equivalents include all highly liquid debt instruments with original maturities of three months or less.

H. Restricted Cash and Cash Equivalents

Cash and cash equivalents have been classified as restricted on the Statement of Net Assets for Family Self-Sufficiency escrows, unused HAP income, residents' security deposits, funds escrowed within the Capital Fund Financing Program, and other HUD restricted funds that are to be used for HUD projects and development.

I. Receivables /Bad Debts

Bad debts are provided on the allowance method and are based on management's evaluation of the collectability of outstanding tenant receivable balances at year end.

J. Interprogram Receivables and Payables

During the course of normal operations, CMHA has numerous transactions between programs. Interprogram receivables/payables are all current and are the result of the use of the Central Office Cost Center bank account as the common paymaster for shared costs of CMHA. Cash settlements are made periodically and all interprogram balances net zero. Interprogram balances are eliminated for financial statement presentation.

CINCINNATI METROPOLITAN HOUSING AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011
(CONTINUED)

NOTE 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

K. Investments

Investments are recorded at fair value. Fair value generally represents quoted market prices for investments traded in the public marketplace. Investment income, including changes in the fair value of investments, is recorded as non-operating revenue in the operating statements. Investment income is recognized and recorded when earned and is allocated to programs based on monthly investment balances. Investment instruments pertaining to HUD programs consist only of items specifically approved by both HUD requirements and the requirements of the State of Ohio.

L. Inventories

Inventories (consisting of materials and supplies) are valued at cost using the first in, first out (FIFO) method. CMHA establishes an allowance for obsolete inventory, to account for adjustments to cost due to damage, deterioration, or obsolescence. CMHA relies upon its periodic (annual) inventory for financial reporting purposes. In accordance with the consumption method, inventory is expensed when items are actually placed in service.

M. Prepaid Items

Payments made to vendors for goods or services that will benefit future periods are recorded as prepaid items.

N. Restricted Assets

Certain assets may be classified as restricted assets on the Statement of Net Assets, because their use is restricted by contracts or agreements with outside third parties and lending institutions, or laws and regulations of other governments.

Net assets invested in capital assets – net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction, or improvement of those assets.

It is CMHA's policy to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

CINCINNATI METROPOLITAN HOUSING AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011
(CONTINUED)

NOTE 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

O. Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities on the date of the financial statements and reported amounts of revenues and expenditures during the reported period. Actual results could differ from those estimates.

P. Fair Value of Financial Instrument

CMHA's financial instruments at June 30, 2011, include cash, investments, accounts receivable, and accounts payable which closely approximate fair value.

Q. Capital Assets

Book Value

All purchased capital assets are valued at cost when historical records are available. When no historical records are available, capital assets are valued at estimated historical cost.

Land values were derived from development closeout documents.

Donated capital assets are recorded at their fair value at the time they are received.

Donor imposed restrictions are deemed to expire as the asset depreciates.

All normal expenditures of preparing an asset for use are capitalized when they meet or exceed the capitalization threshold.

Depreciation

Pursuant to the enterprise GAAP method, cost of the buildings and equipment is depreciated over the estimated useful lives of the related assets on a composite basis using the straight-line method.

Depreciation commences on modernization and development additions in the year following completion.

CINCINNATI METROPOLITAN HOUSING AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011
(CONTINUED)

NOTE 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Q. Capital Assets (Continued)

Depreciation (Continued)

The useful lives of buildings and equipment for purposes of computing depreciation are as follows:

Buildings	40 years
Building Modernization (changed in FY 2011)	40 years
Infrastructure	50 years
Site Improvements	20 years
Office and Other Equipment	5 years

Maintenance and Repairs Expenditures

Maintenance and repairs expenditures are charged to operations when occurred. Betterments in excess of \$5,000 are capitalized. When buildings and equipment are sold or otherwise disposed of, the asset account and related accumulated depreciation account are relieved and any gain or loss is included in operations.

R. Compensated Absences

In accordance with GASB Statement No. 16, *Accounting for Compensated Absences*, vacation and sick leave are accrued as liabilities when an employee's right to receive compensation is attributable to services already rendered and it is probable that the employee will be compensated through paid time off or some other means, such as cash payments at termination or retirement. Leave time that has been earned but is unavailable for use as paid time off or as some other form of compensation because the employee has not met the minimum service time requirement, is accrued to the extent that it is considered to be probable that the conditions for compensation will be met in the future.

Sick leave is accrued using the vesting method, whereby the liability is recorded on the basis of leave accumulated by employees who are eligible to receive termination payments as of year end. This is computed based on various percentages of sick time accumulated, as defined by their respective bargaining unit contracts, for employees who have completed ample service time with CMHA. These employees are expected to become eligible in the future to receive such payments.

CINCINNATI METROPOLITAN HOUSING AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011
(CONTINUED)

NOTE 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

S. **Equity Transfers**

Transfers presented on the accompanying combined statements represent the transfer of equity between programs for approved uses, such as the transfer of unrestricted funds, or the transfer of equity for closed programs/grants to their respective program, as required by HUD reporting guidelines.

T. **Annual Contribution Contracts**

Annual contribution contracts provide that HUD shall audit and examine the records of public housing authorities. Accordingly, final determination of CMHA's financing and contribution status for the annual contribution contracts is the responsibility of HUD based upon financial reports submitted by CMHA.

NOTE 2: **DEPOSITS AND INVESTMENTS**

The provisions of the Ohio Revised Code, CMHA's written investment policy, and HUD regulations govern the investment and deposit of CMHA monies. Only banks located in Ohio and domestic building and loan associations are eligible to hold public deposits. HUD requires authorities to invest excess HUD program funds in obligations of the United States or certificates of deposit of any other federally-insured instruments. CMHA is also generally permitted to invest its monies in certificates of deposit, savings accounts, money market accounts, the State Treasurer's investment pool (STAROhio), and obligations of certain political subdivisions of Ohio and the United States government and its agencies. These investments must mature within three years of their purchase. CMHA may also enter into repurchase agreements with any eligible depository of any eligible dealer for a period not exceeding thirty days.

Public depositories must give security for all public funds on deposit. HUD requires specific collateral on individual accounts in excess of amounts insured by the Federal Deposit Insurance Corporation (FDIC). The State of Ohio requires that any public depository in which CMHA places deposits must pledge as collateral eligible securities of aggregate market value equal to the excess of deposits not insured by the Federal Deposit Insurance Corporation (FDIC). The securities pledged as collateral are pledged to a pool for each individual financial institution in amounts equal to at least 105 percent of the carrying value of all public deposits held by each institution. Obligations that may be pledged as collateral are limited to obligations of the United States and its agencies and obligations of any state, county, municipal corporation, or other authority. Obligations furnished as security must be held by CMHA or with an unaffiliated bank or trust company for the account of CMHA.

CINCINNATI METROPOLITAN HOUSING AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011
(CONTINUED)

NOTE 2: **DEPOSITS AND INVESTMENTS** (Continued)

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 CMHA's name.

A. **Deposits**

At year end, the carrying amount of CMHA's deposits was \$40,222,235 (including \$11,130,920 of restricted funds and \$1,800 of petty cash) and the bank balance was \$42,153,526. Of the bank balance, \$452,262 is covered by federal depository insurance and \$41,701,264 is covered by collateral held by Fifth Third Bank party trustees, pursuant to Section 135.181 of the Ohio Revised Code, in collateral pools serving all public funds or deposit with specific depository institutions.

Custodial Credit Risk: Custodial credit risk is the risk that in the event of the bank failure, CMHA's deposits may not be returned to it. CMHA does not have a custodial credit risk policy that extends beyond what HUD regulations require. HUD regulations require that all deposits exceeding FDIC be fully and continuously collateralized by the financial institution.

B. **Investments**

CMHA's investments at June 30, 2011 are summarized below:

<u>Investment</u>	<u>Maturity Year</u>	<u>Amount</u>	<u>Credit Rating Moody's/S&P</u>
Fifth Third Inst. Gov't MMkt.		\$ 4,115,724	AAA
Total		\$ 4,115,724	

Custodial Credit Risk

Custodial credit risk of investments is the risk that, in the event of a failure of a counter-party, CMHA will not be able to recover the value of its investments or collateral securities in the possession of an outside party. CMHA employs the use of "safekeeping" accounts to hold and maintain custody of its investments as identified within this policy and as a means of mitigating this risk.

CINCINNATI METROPOLITAN HOUSING AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011
(CONTINUED)

NOTE 2: **DEPOSITS AND INVESTMENTS** (Continued)

B. **Investments** (Continued)

Interest Rate Risk

Interest rate risk is defined as the risk that CMHA will incur fair value losses arising from rising interest rates. Such risk is mitigated by the investment policy which limits investments to certain maximum maturities. As a rule, unless specified otherwise within the policy, investments are to have a maximum maturity of three years unless the investment is matched to a specific expenditure. The context of a specific investment purchase must be weighed in proportion to the remainder of the existing investment portfolio and the “prudent investor” rule to attempt to limit such risk.

The three credit risk categories for investments are defined as follows:

1. Insured or registered, or securities held by the government or its agent in the government’s name.
2. Uninsured and unregistered, with securities held by the counter-party’s trust department or agent in the government’s name.
3. Uninsured and unregistered, with securities held by the counter-party, or by its trust department or agent but not in the government’s name.

C. **Restricted Cash and Investments**

Restricted Equity Section 8 Programs	\$ 10,405,099
Security Deposit Cash Held in Escrow	979,859
Cash of the CFFP Program	1,649,865
Accounts Payable HUD - Section 8 Program	206,622
Family Self-Sufficiency Program Escrows	830,932
Other Restricted Cash	2,400
Total Restricted Cash and Investments at June 30, 2011	<u><u>\$ 14,074,777</u></u>

NOTE 3: **ACCOUNTS RECEIVABLE**

Tenants (Net of Allowance for Doubtful Accounts of \$42,401)	\$ 273,120
The Affiliates/Project Monitoring; Other Receivables	1,438,964
Total Accounts Receivable	<u><u>\$ 1,712,084</u></u>

CINCINNATI METROPOLITAN HOUSING AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011
(CONTINUED)

NOTE 4: INTERPROGRAM TRANSFERS

CMHA will make cash transfers between its various programs as outlined in the federal regulations and authorized and approved by CMHA's Board of Commissioners. Interprogram balances are eliminated for financial statement presentation.

NOTE 5: DUE FROM OTHER GOVERNMENTS

U.S. Department of Housing and Urban Development \$6,665,741

NOTE 6: NOTES/OTHER RECEIVABLES

Notes Receivable

The financing of the revitalization projects under the Hope VI Lincoln and Laurel Partnerships encompass 78 percent of the notes receivable. These represent soft HOPE VI notes with a balloon payment due in 40 years from note date. No portion of the notes receivable are to be paid within the next year. The following schedule summarizes the details pertaining to the notes receivable.

<u>Amount</u>	<u>Maker</u>	<u>Date of Note</u>	<u>Interest</u>	<u>Maturity Date</u>
	Lincoln Court Partnership	LCI - 3/20/01	AFR	40 Years
		LCII - 3/20/01		
		LCIII - 2/28/02		
\$ 10,984,643		LCIV - 08/26/03		
	Laurel Home Partnership	LHI - 10/24/02	AFR	40 Years
		LHII - 12/15/03		
		LHIV - 11/22/02		
		LHIV - 11/01/04		
14,048,513		LHV - 9/30/06		
885,000	Springdale Senior Ltd.	3/27/2007	AFR	50 Years
	Partnership	5/10/2006	AFR	75 Years
510,000	Ground Lease			
<u>26,428,156</u>				
5,683,529	Other Receivables			
<u>\$ 32,111,685</u>	Total Notes/Other Receivables			

Ground Lease

Regarding the above notes receivable, the Springdale Senior Limited Partnerships entered into a 75-year ground lease in the total amount of \$510,000.

Other Receivables

There is \$5,683,259 in other receivables primarily from the Springdale Senior Limited Partnership associated with the construction of Baldwin Grove.

CINCINNATI METROPOLITAN HOUSING AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011
(CONTINUED)

NOTE 7: CAPITAL ASSETS

	Balance June 30, 2010	Additions	Adjustments/ Reclass	Deletions	Balance June 30, 2011
<u>Capital Assets Not Being Depreciated</u>					
Land	\$ 26,998,556	\$ 0	\$ 470,774	\$ 0	\$ 27,469,330
Construction in Progress	136,865,353	20,959,615	(120,841,312)	(5,792)	36,977,864
Total Capital Assets Not Being Depreciated	163,863,909	20,959,615	(120,370,538)	(5,792)	64,447,194
<u>Capital Assets Being Depreciated</u>					
Buildings and Improvements	232,735,018	59,506	88,894,798	(1,230,434)	320,458,888
Furniture, Equipment, and Machinery	3,163,623	133,200	956,646	(158,023)	4,095,446
Infrastructure	0	0	30,519,094	0	30,519,094
Subtotal Capital Assets Being Depreciated	235,898,641	192,706	120,370,538	(1,388,457)	355,073,428
Accumulated Depreciation -					
Buildings and Improvements	(182,347,771)	(7,824,742)	0	0	(190,172,513)
Furniture and Equipment	(3,034,336)	(720,668)	0	152,411	(3,602,593)
Subtotal Accumulated Depreciation	(185,382,107)	(8,545,410)	0	152,411	(193,775,106)
Depreciable Assets, Net	50,516,534	(8,352,704)	120,370,538	(1,236,046)	161,298,322
Total Capital Assets, Net	\$ 214,380,443	\$ 12,606,911	\$ 0	\$ (1,241,838)	\$ 225,745,516

Infrastructure was placed in service in fiscal year 2011 and, in compliance with CMHA's policy, the depreciation will begin in fiscal year 2012.

NOTE 8: COMPENSATED ABSENCES PAYABLE

CMHA follows GASB Statement No.16, *Accounting for Compensated Absences* to account for compensated absences. Accrued vacation is paid upon termination. Exempt employees shall receive, at resignation from employment, for any reason except for termination, 5 percent of their accumulated sick leave balance per full completed year of service, up to a maximum of 50 percent.

For members of the AFSCME union, unused sick leave shall be forfeited upon the employee's separation for any reason except retirement, in which case the payout will be 50 percent up to a maximum of 600 hours.

For members of the IUOE union, sick leave shall be forfeited upon the employee's separation for any reason except retirement, in which case the level of payout will be a percentage of unused leave based on years of service with a maximum of 40 percent with 30 or more years of continuous service.

For members of the Building Trades union, sick leave shall be forfeited upon the employee's separation for any reason except for retirement, in which case the level of payout will be a percentage of unused leave based on years of service with a maximum of 30 percent with 30 or more years of continuous service.

CINCINNATI METROPOLITAN HOUSING AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011
(CONTINUED)

NOTE 8: COMPENSATED ABSENCES PAYABLE (Continued)

At June 30, 2011, total compensated absences liability is \$1,503,190, of which \$225,580 is current and \$1,277,610 is long-term.

Schedule of Change in Compensated Absences					
June 30, 2010					
Current Portion	Long-Term Portion	Total	Additions	Reductions	June 30, 2010
\$ 222,999	\$ 1,263,652	\$ 1,486,651	\$ 449,053	\$ 432,514	\$ 1,503,190

NOTE 9: OTHER ACCRUED LIABILITIES

Accrued Workers' Compensation - Current Portion	\$ 226,327
Contract Retainage	522,031
Accrued Liabilities	185,726
Other	49,651
Total Other Accrued Liabilities	\$ 983,735

NOTE 10: DUE TO OTHER GOVERNMENTS

U.S. Department of Housing and Urban Development	\$ 322,311
City of Cincinnati - Payment in Lieu of Taxes (PILOT)	636,053
Total Due to Other Governments	\$ 958,364

NOTE 11: NOTES PAYABLE – FANNIE MAE

These notes were acquired to assist in the process of development and are comparable to a line of credit. The proceeds are drawn from Fannie Mae by CMHA and are either used to purchase property while awaiting HUD approval for funding or are re-loaned to a partner during the construction of mixed finance developments. When loaned in conjunction with the construction of mixed finance developments, interest rates and terms with the developer are approximately equal to CMHA's interest rates with Fannie Mae.

The note expires on December 5, 2012, and carries a maximum amount of \$10,000,000. The entire amount is considered to be current. At June 30, 2011, CMHA has zero outstanding on the note with Fannie Mae.

CINCINNATI METROPOLITAN HOUSING AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011
(CONTINUED)

NOTE 12: NOTES PAYABLE

Authority Program	Principal Balance	Current Portion	Long-Term Portion	Payee	Interest Rate	Note Date
Hamilton County	\$ 1,000,000	\$ 100,000	\$ 900,000	HOME	2.00%	01/1996
Hamilton County	1,018,676	0	1,018,676	CDBG	2.00%	03/1998
Hamilton County	1,200,000	0	1,200,000	HOME	2.00%	11/1998
Hamilton County	900,000	0	900,000	HOME	2.00%	10/1999
Hamilton County	1,150,000	0	1,150,000	HOME	2.00%	06/2002
Hamilton County	1,106,007	31,745	1,074,262	Fifth Third Bank	4.95%	12/2001
Hamilton County	644,544	64,238	580,306	US Bank	5.25%	12/1998
Low Rent Public Housing	1,591,968	717,192	874,776	Siemens Financial	5.10%	08/2001
Capital Fund Financing	16,871,415	785,057	16,086,358	Fifth Third Bank	4.55%	11/2006
Total All Programs	\$ 25,482,610	\$ 1,698,232	\$ 23,784,378			

Hamilton County (HOME & CDBG) Loans (Items 1-5)

Hamilton County provided HOME and CDBG funds for the development of low-rent housing units in Hamilton County. These loans (and interest of 2 percent per annum) will be forgiven at the rate of 10 percent annually commencing in the sixteenth year, provided the units are preserved as low-income housing and there are no plans to convert the units to market rate.

Bank Loans (Items 6-7)

These loans were acquired to expand the affordable housing program using locally available funds. There is no capitalized interest.

Siemens Financial (Item 8)

This loan is in the form of a lease-purchase agreement between CMHA and Siemens Financial. Proceeds of the loan were used to purchase equipment which reduces energy cost. The savings from the conservation will exceed the cost of the loan.

Capital Fund Financing (Item 9)

This loan was acquired as part of a Capital Fund Financing Program to be used to fund capital improvements to existing public housing. This loan is repaid through the use of Capital Fund grants.

The following is a summary of CMHA's future annual debt service requirements for the notes payable listed above:

CINCINNATI METROPOLITAN HOUSING AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011
(CONTINUED)

NOTE 12: NOTES PAYABLE (Continued)

Maturity Date	Principal Amount	Interest Amount	Total
2012	\$ 1,698,232	\$ 890,751	\$ 2,588,983
2013	1,769,729	819,233	2,588,962
2014	1,295,531	754,289	2,049,820
2015	1,333,579	708,039	2,041,618
2016	1,471,327	660,291	2,131,618
2017-2021	8,436,063	2,509,264	10,945,327
2022-2026	8,569,710	1,041,407	9,611,117
2027-2031	859,239	68,826	928,065
2032-2033	49,200	817	50,017
Total	\$ 25,482,610	\$ 7,452,917	\$ 32,935,527

NOTE 13: CHANGES IN LONG-TERM LIABILITIES

	Balance June 30, 2010			Payments	Additions	Balance June 30, 2011		
	Current	Noncurrent	Total			Total	Current	Noncurrent
Notes Payable	\$ 3,571,867	\$ 25,481,178	\$ 29,053,045	\$ (3,570,435)	\$ 0	\$ 25,482,610	\$ 1,698,232	\$ 23,784,378
Workers' Comp Contingency	226,327	218,766	445,093	(275,134)	335,013	504,972	226,326	278,646
Compensated Absences	222,999	1,263,652	1,486,651	(432,514)	449,053	1,503,190	225,580	1,277,610
Family Self-Sufficiency Funds	0	765,459	765,459	(390,979)	456,452	830,932	0	830,932
Total	\$ 4,021,193	\$ 27,729,055	\$ 31,750,248	\$ (4,669,062)	\$ 1,240,518	\$ 28,321,704	\$ 2,150,138	\$ 26,171,566

NOTE 14: DEFINED BENEFIT PENSION PLAN

Ohio Public Employees Retirement System

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

- The Traditional Pension Plan (TP) - a cost-sharing, multiple-employer defined benefit pension plan;
- 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 investment earnings.

CINCINNATI METROPOLITAN HOUSING AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011
(CONTINUED)

NOTE 14: **DEFINED BENEFIT PENSION PLAN** (Continued)

Ohio Public Employees Retirement System (Continued)

- 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.

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

The Ohio Revised Code provides statutory authority for member and employer contributions. Plan members are required to contribute 10 percent of their annual covered salary to fund pension obligations. The employer pension contribution rate for CMHA was 14 percent of covered payroll. CMHA's required contributions to OPERS for the years ended June 30, 2011, 2010, and 2009, were \$1,873,697, \$1,823,209, and \$1,877,092, respectively. Of CMHA's required contributions for the years ended June 30, 2011, 2010, and 2009, contributions of \$67,164, \$62,118, and \$61,621, respectively, were made to the Combined Plan and contributions of \$81,198, \$62,045, and \$56,879, respectively, were made to the Member-Directed Plan. 100 percent of CMHA's required contribution was made for the years ended 2011, 2010, and 2009.

NOTE 15: **POST-EMPLOYMENT BENEFITS**

A. **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.

CINCINNATI METROPOLITAN HOUSING AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011
(CONTINUED)

NOTE 15: **POST-EMPLOYMENT BENEFITS** (Continued)

A. **Plan Description** (Continued)

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.

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, Ohio 43215-4642, or by calling 614-222-5601 or 1-800-222-7377.

B. **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 2011 and 2010, the Authority contributed at a rate of 14 percent of covered payroll. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14 percent of covered payroll for state and local employer units. Active members do not make contributions to the OPEB Plan.

CINCINNATI METROPOLITAN HOUSING AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011
(CONTINUED)

NOTE 15: **POST-EMPLOYMENT BENEFITS** (Continued)

B. **Funding Policy** (Continued)

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. For fiscal year ending June 30, 2011, the employer contribution allocated to the health care for members in the Traditional Plan was 5.0 percent from April 1, 2010 through December 31, 2010, and 4.0 percent from January 1, 2011 through June 30, 2011. 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 CMHA contributions for the years ended June 30, 2011, 2010, and 2009, which were used to fund post-employment benefits were \$602,260, \$694,556, and \$888,267, respectively.

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 1, 2008, which allowed additional funds to be allocated to the health care plan.

NOTE 16: **RISK MANAGEMENT**

CMHA is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters. CMHA maintains comprehensive insurance coverage with private carriers for real property, building contents, and vehicles. Vehicle policies include liability coverage for bodily injury and property damage. CMHA also maintains employee major medical coverage with private carriers. Employee dental coverage is provided through self-insurance.

Effective December 1, 1998, CMHA entered into a joint insurance pool, the Ohio Housing Authority Property and Casualty, Inc (OHAPCI), with other Ohio housing authorities. The pool covers property, general liability, law enforcement liability, automobile liability, crime liability, boiler and machinery, and public officials. The Pool is intended for the public purpose of enabling housing authorities to obtain insurance coverage, to provide methods for paying claims, and to provide for a formalized, jointly administered self-insurance fund for its members.

CINCINNATI METROPOLITAN HOUSING AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011
(CONTINUED)

NOTE 16: **RISK MANAGEMENT** (Continued)

Effective December 2005, OHAPCI joined the Public Entity Risk Consortium (PERC), a risk consortium composed of OHAPCI and four other public entity risk pools and public entities. The other five members are: 1) the Small Housing Authority Risk Pool (SHARP), comprised of 39 Ohio public housing authorities; 2) Buckeye Ohio Risk Management Association, Inc. (BORMA), comprised of the cities of Bowling Green, Defiance, Huron, Napoleon, Sandusky, and Willard, Ohio; 3) Midwest Pool Risk Management Agency, Inc. (MPRMA), comprised of the counties of Auglaize, Hancock, Mercer, Shelby, and Van Wert, Ohio; 4) Wayne County, Ohio and Tuscarawas County, Ohio; and 5) the City of Lorain, Ohio. Other members will be added as they are approved by the existing members.

OHAPCI is a corporation governed by a Board of Trustees, consisting of a representative appointed by each of the member housing authorities. The Board of Trustees elects the officers of the corporation, with each trustee having a single vote. The Board is responsible for its own financial matters and the corporation maintains its own book of account. Budgeting and financing of OHAPCI is subject to the approval of the Board. Currently, participating housing authorities are Cincinnati, Dayton, and Youngstown. The following is a summary of insurance coverage at year-end:

Primary Property	\$250 million/ occurrence
Automobile Liability	\$2 million
Earthquake	\$5 million
Flood	\$5 million
Casualty/General Liability	\$2 million/occurrence
Excess Crime	\$500,000/occurrence/\$2 million (aggregate)
Excess Liability	\$6 million
Boiler/Machinery	\$50 million
Pollution	\$1 million/\$2 million (aggregate)

During the past three years, settled claims for CMHA did not exceed the coverage provided by OHAPCI.

CMHA also has a self-insured dental and vision plan that covers all employees electing to participate. CMHA makes payments to the Plan Administrator for claims paid during the previous operating month.

NOTE 17: **COMMITMENTS**

CMHA is engaged in modernization programs funded by HUD. CMHA has entered into construction-type contracts with approximately \$4,338,755 remaining until completion.

CINCINNATI METROPOLITAN HOUSING AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011
(CONTINUED)

NOTE 18: CONTINGENCIES

CMHA is a defendant in several lawsuits arising from its normal course of business. Where possible, estimates have been made and reflected in the financial statements for the effect, if any, of such contingencies. Although the outcome of these lawsuits is not presently determinable, it is the opinion of CMHA's attorney that resolution of these matters will not have a materially adverse effect on the financial condition of CMHA.

Under the terms of Federal grants, periodic audits are required and certain costs may be questioned as not being appropriate expenses under the terms of the grants. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenses which may be disallowed by the grantor cannot be determined at this time, although CMHA expects such amounts, if any, to be immaterial.

NOTE 19: RESTRICTED NET ASSETS

Section 8 Housing Programs HAP Equity	\$ 10,405,099
CFFP Equity	1,649,865
Total Restricted Net Assets	<u><u>\$ 12,054,964</u></u>

NOTE 20: LEASING ACTIVITIES (AS LESSOR)

CMHA is the lessor of dwelling units mainly to low-income residents. The rents under the resident's income as adjusted for eligible deductions regulated by HUD, although the resident may opt for a flat rent. Leases may be cancelled by the lessee at any time. CMHA may cancel the lease only for cause.

Revenues associated with these leases are recorded in the financial statements and schedules as "rental revenue." Rental revenue per dwelling unit generally remains consistent from year to year, but is affected by general economic conditions, which impact personal income and local job availability.

NOTE 21: DISCLOSURE REGARDING LIMITED PARTNERSHIP

CMHA is a limited partner in the City West project located in Cincinnati. There are eight rental phases of the City West project, three of which have had foreclosure action brought against them, one of which has been resolved. The two phases currently in foreclosure litigation have also filed Chapter 11 bankruptcy. The lenders, investors, and owners are in discussions about the future of City West. The goal is to bring financial stability to City West and ensure a sustainable mixed income community for the City of Cincinnati.

**CINCINNATI METROPOLITAN HOUSING AUTHORITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2011**

Federal Grant or Program	Federal CFDA Number	Federal Expenditures
<u>U.S. Department of Housing and Urban Development</u>		
<i>Direct Programs:</i>		
<i>Section 8 Project Based Cluster:</i>		
Section 8 Moderate Rehabilitation - Low Income Housing Assistance Program	14.856	\$ 182,023
Section 8 Moderate Rehabilitation - Single Room Occupancy	14.249	114,211
<i>Total Section 8 Project Based Cluster</i>		<u>296,234</u>
<i>Capital Fund Program Cluster:</i>		
Public Housing Capital Fund Program	14.872	14,024,777
ARRA - Capital Fund Stimulus (Formula) Recovery Act Funded	14.885	11,481,311
<i>Total Capital Fund Program Cluster</i>		<u>25,506,088</u>
Section 8 Housing Choice Vouchers	14.871	72,846,657
Veterans Affairs Supportive Housing	14.871	467,805
<i>Total CFDA #14.871</i>		<u>73,314,462</u>
Low Rent Public Housing	14.850	32,871,931
Revitalization of Severely Distressed Public Housing	14.866	181,129
<i>Total Direct Programs</i>		<u>132,169,844</u>
<i>Passed Through from Hamilton County:</i>		
ARRA - Neighborhood Stabilization Program-Recovery Act Funded	14.256	1,981,668
Total U.S. Department of Housing and Urban Development		<u>134,151,512</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS		<u>\$ 134,151,512</u>

CINCINNATI METROPOLITAN HOUSING AUTHORITY
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2011

NOTE 1: **BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Cincinnati Metropolitan Housing Authority and is presented on the basis of accounting described in the notes to the financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts were presented in, or used in the preparation of, the financial statements.

JAMES G. ZUPKA, C.P.A., INC.

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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**

Board of Commissioners
Cincinnati Metropolitan Housing Authority
Cincinnati, Ohio

Regional Inspector General for Audit
Department of Housing and Urban
Development

We have audited the financial statements of the Cincinnati Metropolitan Housing Authority, Hamilton County, Ohio, as of and for the year ended June 30, 2011, and have issued our report thereon dated January 17, 2012. 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 Cincinnati 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 Cincinnati Metropolitan Housing Authority, Ohio's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Cincinnati Metropolitan Housing Authority, Ohio's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or 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 Cincinnati 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 the management, the Board of Commissioners, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



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

January 17, 2012

JAMES G. ZUPKA, C.P.A., INC.

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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 Commissioners
Cincinnati Metropolitan Housing Authority
Cincinnati, Ohio

Regional Inspector General of Audit
Department of Housing and Urban
Development

Compliance

We have audited the Cincinnati Metropolitan Housing Authority, Hamilton County, 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 Cincinnati Metropolitan Housing Authority, Ohio's major federal programs for the year ended June 30, 2011. Cincinnati 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 Cincinnati Metropolitan Housing Authority, Ohio's management. Our responsibility is to express an opinion on the Cincinnati 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 Cincinnati 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 Cincinnati Metropolitan Housing Authority, Ohio's compliance with those requirements.

In our opinion, the Cincinnati 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 June 30, 2011.

Internal Control Over Compliance

Management of the Cincinnati Metropolitan Housing Authority, Ohio, is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Cincinnati 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 Cincinnati 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 defined above.

This report is intended solely for the information and use of management, the Board of Commissioners, others within the entity, and federal awarding agencies and pass-through entities 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

January 17, 2012

**CINCINNATI METROPOLITAN HOUSING AUTHORITY
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 OMB CIRCULAR A-133 & §.505
 JUNE 30, 2011**

1. SUMMARY OF AUDITOR'S RESULTS

2011(i) Type of Financial Statement Opinion	Unqualified
2011(ii) Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
2011(ii) Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
2011(iii) Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
2011(iv) Were there any material internal control weaknesses reported for major federal programs?	No
2011(iv) Were there any other significant deficiencies in internal control reported for major federal programs	No
2011(v) Type of Major Programs' Compliance Opinion	Unqualified
2011(vi) Are there any reportable findings under §.510?	No
2011(vii) Major Programs (list): Low Rent Public Housing - CFDA #14.850 Capital Fund Program - CFDA #14.872 Capital Fund Stimulus (Formula) Recovery Act Funded - ARRA - CFDA #14.885	
2011(viii) Dollar Threshold: Type A\B Programs	Type A: \$3,000,000 Type B: All Others
2011(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.

**CINCINNATI METROPOLITAN HOUSING AUTHORITY
STATUS OF PRIOR AUDIT FINDINGS AND RECOMMENDATIONS
JUNE 30, 2011**

The prior audit report, as of June 30, 2010, included no citations or instances of noncompliance. There were no management letter recommendations issued with the audit report as of June 30, 2010.

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Dave Yost • Auditor of State

CINCINNATI METROPOLITAN HOUSING AUTHORITY

HAMILTON 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
MAY 10, 2012**