

CHELSEA HOUSING AUTHORITY

Chelsea, Massachusetts

FINANCIAL STATEMENTS

December 31, 2011

TABLE OF CONTENTS

	Page
Management's Discussion and Analysis	
Independent Auditors' Report	
Basic Financial Statements	
Balance Sheet	
December 31, 2011	1
Statement of Revenues, Expenses and Changes in Fund Net Assets	
For the Year Ended December 31, 2011	2
Statement of Cash Flows	
For the Year Ended December 31, 2011	3
Notes to Financial Statements	4-15
ADDITIONAL INFORMATION	
Schedule of Funding Progress.....	17
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.....	18-19
Report on Compliance with Requirements That Could Have a	
Direct and Material Effect on Each Major Program and on	
Internal Control over Compliance with OMB Circular A-133	20-22
Supplemental Financial Data Schedule.....	23-26
Schedule of Expenditures of Federal Awards	
For the Year Ended December 31, 2011	27
Schedule of Findings and Questioned Costs	
For the Years Ended December 31, 2011 and 2010.....	28-43

CHELSEA HOUSING AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2011

As management of the Chelsea Housing Authority (the Authority), we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the year ended December 31, 2011. We encourage readers to consider the information in conjunction with the Authority's basic financial statements.

FINANCIAL HIGHLIGHTS

- The assets of the Authority exceeded its liabilities at the close of the most recent fiscal year by \$29,169,676.
- The net assets of the Authority consisted of Invested in Capital Assets in the amount of \$28,004,645; Restricted Net Assets in the amount of \$892,201 and Unrestricted Net Assets in the amount of \$272,830.
- The Authority's cash and investments at December 31, 2011 was \$2,674,889 representing a decrease of \$208,079 from December 31, 2010.
- The Authority had intergovernmental and non-operating revenues of \$11,315,750; program revenues (charges for services) of \$3,714,618. The Authority had program expenses (exclusive of depreciation expense and prior period adjustments) of \$14,453,060.

OVERVIEW OF THE CHELSEA HOUSING AUTHORITY

The Authority was created in 1946 to provide and promote safe and sanitary housing for low-income persons residing in Chelsea, Massachusetts. The Authority is a municipal corporation located in Chelsea Massachusetts and was established under Chapter 121B of the State Statutes.

The Authority owns and manages 910 residential housing units that are leased to low income individuals as defined by the U.S. Department of Housing and Urban Development (HUD) and the Massachusetts Department of Housing and Community Development (DHCD). The Authority administers 604 vouchers under two housing assistance programs funded by HUD and DHCD. Under this program the Authority subsidizes rents for low income individuals who rent dwelling units in the private housing market.

The Authority receives federal grants also called subsidies to fund operations of rental units that are owned by the Authority and constructed with HUD grants and loans. The Authority is also eligible to receive grants or subsidies from DHCD to fund operating deficits of rental units that are owned by the Authority and constructed with Massachusetts grants or loans.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Authority's financial statements consist of two parts - 1) management discussion analysis, which is intended to serve as an introduction to the Authority's basic financial statements, and 2) the Authority's basic financial statements, which are comprised of two components: 1) Fund financial statements, and 2) notes to the financial statements. This report also contains the schedule of expenditures of federal awards as supplementary information in addition to the basic financial statements themselves.

CHELSEA HOUSING AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2011

As a single purpose enterprise fund government, the Authority is permitted to issue combined entity level and fund level financial statements. These statements report financial information for the combined total of all funds that represents the Authority wide financial position. The following is a brief description of each financial statement.

The government-wide financial statements are designed to provide readers with a broad overview of the Authority's finances, in a manner similar to a private-sector business.

Balance Sheet

- The balance sheet is prepared using the accrual basis of accounting and provides information relating to all financial and capital resources for the Authority as of the reporting date and related debts and other liabilities. This statement is presented in a format where assets equal liabilities plus "net assets", formerly known as equity. Assets and liabilities are presented in order of liquidity, and are classified as "Current" (convertible into cash within one year), and "Non-current."
- Net assets (formerly equity) represent the cumulative effect of revenue and expenses. It is also the difference between assets and liabilities. Net assets are reported in three broad categories:

Unrestricted Net Assets is designed to represent the net available liquid (non-capital) assets, net of liabilities, for the entire Authority

Net Assets Invested in Capital Assets, Net of Related Debt consists of all capital assets, reduced by the outstanding balances of any bonds, mortgages, notes or other borrowing that are attributable to the acquisition, construction, or improvement of those assets.

Restricted Net Assets consists of restricted assets when constraints are placed on the assets by creditors (such as debt covenants), grantors, contributors, laws and regulations.

Statement of Revenues, Expenses and Changes in Net Assets

- This statement is similar to an income statement. This statement includes operating revenues, such as rental income, and operating expenses, such as administrative, utilities, maintenance and depreciation. It also includes non-operating revenues and expenses, such as grant revenue, investment income and interest expense and capital contributions and operating transfers.
- The focus of the Statement of Revenues, Expenses and Changes in Fund Net Assets is the "Change in Net Assets," which is similar to net income or loss.

Statement of Cash Flows

This statement of cash flows shows the sources and amounts from which the Authority received cash, such as income from tenants, income from grants, and loans, and the uses and amounts for which cash was disbursed, such as payments to vendors and contractors, payments to employees, and repayment of loans. The statement is divided into four major sections: operating activities, non-capital financing activities, capital and related financing activities and investing activities. The total of these four sections reflects the net increase or decrease in the Authority's cash accounts for the reporting period.

CHELSEA HOUSING AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2011

THE AUTHORITY'S FUND

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Authority, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Business Type Funds – The Authority maintains a business type fund also called enterprise fund. The programs supporting this fund are as follows:

Low Rent Public Housing – This program accounts for all activities relating to the leasing and operation of apartments in buildings that were constructed and are owned by the Authority. These units are rented to low income families and low income elderly, disabled, and special needs individuals. The properties were constructed with grants and or loans provided by the U.S. Department of Housing and Urban Development (HUD). The Authority receives grants from HUD to subsidize operating deficits. Tenants are charged rents based on a percentage of their income.

Public Housing Capital Fund and Capital Fund Competitive Recovery Grant – HUD provides grant funds to authorities with Low Rent Public Housing units on a formula basis. The funds are predominantly used to make physical improvements to buildings and dwelling units owned by the Authority under the Low Rent Public Housing Program. A portion of these funds may also be used to support operations and to make improvements in the management and operation of the Authority.

Section 8 Housing Choice Voucher and the Family Self Sufficiency Program (FSS) – HUD provides grants to the Authority to subsidize rents paid by low income families and individuals who rent dwelling units from private landlords. Under this program, qualified applicants are issued vouchers which may be used by the applicant to obtain housing in the private rental market. The Authority will subsidize the landlord for the difference between the rent requested and the tenant's share of the rent not to exceed a predetermined payment standard.

FSS helps eligible individuals acquire the skills and experience needed to obtain work that pays a living wage, and also offers them an opportunity to save towards home-ownership. The Authority works with welfare agencies, schools, businesses, and other local partners to help FSS participants access services including but not limited to; child care, transportation, education and training, and home-ownership counseling.

Resident Opportunities and Self Sufficiency (ROSS) – ROSS links public housing residents with supportive services, resident empowerment activities, and assistance in becoming economically self-sufficient. Grants are received from HUD pursuant to a detailed application submitted by the Authority.

State and Local Programs – The Authority operates the following state and local programs:

State Consolidated and State Chapter 705 Housing – Under these programs, the Authority owns, operates and maintains rental housing acquired with grants from Massachusetts Department of Housing & Community Development (DHCD). Dwelling units are leased to low income tenants at rates based on their ability to pay. Operations are supported by DHCD via operating grants.

CHELSEA HOUSING AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2011

State Chapter 689 Housing – Under this program, the Authority owns operates and maintains rental housing acquired with grants from DHCD. The building is generally rented to a non-profit corporation who provides health and human resource needs to mentally disabled individuals.

Massachusetts Rental Voucher Program (MRVP) - DHCD provides grants to subsidize rents paid by low income families and individuals who rent dwelling units from private landlords. Qualified applicants are issued vouchers which may be used by the applicant to obtain housing in the private rental market. The Authority subsidizes the landlord for the difference between the rent requested and the tenant's share of the rent not to exceed a contract amount.

State Modernization Program – DHCD provides grant funds to authorities with State Consolidated units based on the Authority's application and determination of need. The funds are predominantly used to make physical improvements to buildings and dwelling units owned by the Authority under the State Consolidated Housing Program.

OVERVIEW OF THE AUTHORITY-WIDE FINANCIAL POSITION AND OPERATIONS

The Authority's overall financial position and operations for the past two years are summarized below based on the information included in the current and prior financial statements.

The Authority's total assets December 31, 2011 were \$31,472,961; a decrease of \$432,232 as compared to the amount for December 31, 2010.

The Authority's overall financial position and results of operations are presented at the end of this report:

COMPARATIVE BALANCE SHEETS

December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>	<u>Change</u>	<u>% Change</u>
Current Assets	\$ 3,482,762	\$ 3,237,365	\$ 245,397	8%
Capital Assets	28,004,645	28,529,584	(524,939)	-2%
Other Noncurrent Assets	<u>165,982</u>	<u>138,244</u>	<u>27,738</u>	20%
Total Assets	<u>\$ 31,653,389</u>	<u>\$ 31,905,193</u>	<u>\$ (251,804)</u>	-1%
Current Liabilities	\$ 1,252,030	\$ 1,217,184	\$ 34,846	3%
Noncurrent Liabilities	<u>1,069,685</u>	<u>799,436</u>	<u>270,249</u>	34%
Total Liabilities	<u>2,321,715</u>	<u>2,016,620</u>	<u>305,095</u>	15%
Invested in Capital Assets, net of related debt	28,004,645	28,529,584	(524,939)	-2%
Restricted Net Assets	892,201	571,533	320,668	56%
Unrestricted Net Assets	<u>434,828</u>	<u>787,456</u>	<u>(352,628)</u>	-45%
Total Net Assets	<u>29,331,674</u>	<u>29,888,573</u>	<u>(556,899)</u>	-2%
Total Liabilities and Net Assets	<u>\$ 31,653,389</u>	<u>\$ 31,905,193</u>	<u>\$ (251,804)</u>	-1%

CHELSEA HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2011

Narrative of Material Changes on the Balance Sheet

The increase in Other Noncurrent Assets is a result of increases in prepaid expenses and receivables.

The increase in noncurrent liabilities of \$270,247 as a result of an increase in the OPEB liability. The Authority each year is recording a portion of the total OPEB liability that it owes.

The decrease in capital assets of \$524,939 as the result of the depreciation expense of \$1,296,205 and the reclassification of capital items and prior year adjustments.

Restricted net assets increased by \$320,668 as a result of the Authority receiving more Housing Assistance Payment from HUD than Housing Assistance Payment expenses.

The decrease in unrestricted net assets as a result of the Authority operating a net loss adjusted for depreciated expenses and capital grants.

COMPARATIVE STATEMENT OF REVENUES AND EXPENSES

For the years ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>	<u>Change</u>	<u>% Change</u>
Revenue				
Non-operating Revenues	\$ 11,315,750	\$ 11,344,155	\$ (28,405)	0%
Operating Revenues	<u>3,714,618</u>	<u>3,645,997</u>	<u>68,621</u>	2%
Total Revenues	<u>15,030,368</u>	<u>14,990,152</u>	<u>40,216</u>	0%
Expenses				
Housing assistance payments	5,706,279	5,754,597	(48,318)	-1%
Utilities	3,053,775	3,186,882	(133,107)	-4%
Administration	2,744,966	2,565,774	179,192	7%
Repair and maintenance	2,212,935	1,734,931	478,004	28%
Depreciation expense	1,296,205	1,286,894	9,311	1%
Insurance expense	215,827	192,303	23,524	12%
Other general expenses	386,389	116,103	270,286	233%
Protective services	103,421	94,868	8,553	9%
Tenant services	<u>29,468</u>	<u>9,030</u>	<u>20,438</u>	226%
Total Expenses	<u>15,749,265</u>	<u>14,941,382</u>	<u>807,883</u>	5%
Change in Net Assets	(718,897)	48,770	(767,667)	-1574%
Net Assets - Beginning of Year	<u>29,888,573</u>	<u>29,839,803</u>	<u>48,770</u>	0%
Net Assets - End of Year	<u>\$ 29,169,676</u>	<u>\$ 29,888,573</u>	<u>\$ (718,897)</u>	-2%

CHELSEA HOUSING AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2011

Narrative of Material Changes on the Statement of Revenues, Expenses, and Change in Net Assets

The increase in administration expense is a result of unbudgeted increases in administrative salary expenses.

The increase in repairs and maintenance expense is a result of reclassification from capital expenses to operations expenses.

The increase in insurance expense is the result of higher premiums for all of the authorities' insurance policies.

Other general expenses increases is the result of increases in accrual for compensated absences, a reclassification of Payment in Lieu of Taxes (PILOT) to general expenses, and the accrual of a payable to HUD for the Capital Fund Recovery Competitive Grants.

CAPITAL ASSETS

As of December 31, 2011, the Authority's invested in capital assets, net of related debt were \$28,004,645 (net of accumulated depreciation). This investment in capital assets includes buildings, improvements, equipment, and computer software.

Major capital asset improvements that were completed for the year ended December 31, 2011 and funded by the Capital Fund Recovery Grant included window upgrades, dryer venting system upgrades, air-conditioner replacements, and brick waterproofing at a cost of \$1,112,663. Improvements funded by the Capital Fund Recovery Competitive Grant included re-roofing and exterior skin at the office site; and at the various developments work included HVAC upgrades, weather-stripping, faucet aerators, new roofs, entry doors, waterproofing, new trash compactor, garage door and elevator upgrades at a cost of \$558,863.

Major capital asset improvements that were completed for the year ended December 31, 2011 and funded by the Massachusetts Department of Housing and Community Development included heater/boiler replacement at a cost of \$219,263; site work consisted of walks, sidewalks and parking lot at a cost of \$152,000; emergency generator replacement at a cost of \$139,480.

LONG TERM DEBT

The Authority had no outstanding debt as of December 31, 2011 and 2010.

CHELSEA HOUSING AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2011

ECONOMIC FACTORS AFFECTING NEXT YEAR'S BUDGET

The following factors were considered in preparing the Authority's budget for the 2012 fiscal year:

- The State Department of Housing & Community Development (DHCD) is allowing an increase of 3% in the Authority's non-utility expenses from 2011 to 2012.
- Administrative Fee Subsidies for the Housing Choice Voucher Program are expected to decrease significantly because HUD is in the process of changing this program. Until HUD settles on an administrative fee format that will be consistently applied each year, the Authority will have difficulty budgeting for and administering this program.
- Increased costs of Employer Health Insurance, Employer Retirement Contributions, Workers Compensation, Utilities and Fire and Liability Insurance, continue to rise at unprecedented rates.

FUTURE EVENTS THAT WILL FINANCIALLY IMPACT THE AUTHORITY

Funding cuts during the next fiscal year by both the U.S. Department of Housing and Urban Development (HUD) and the State Department of Communities and Development (DHCD) along with sharp cost increases in employee benefits will have an impact on the Authority in the future.

REQUEST FOR INFORMATION

The financial report is designed to provide a general overview of the Authority's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Mr. Albert Ewing, Executive Director, Chelsea Housing Authority, 54 Locke Street, Chelsea, Massachusetts, 02150.

INDEPENDENT AUDITORS' REPORT

To The Board of Commissioners
Chelsea Housing Authority
Chelsea, Massachusetts

We have audited the accompanying basic financial statements of the Chelsea Housing Authority, Chelsea, MA as of and for the year ended December 31, 2011, as listed in the table of contents. These financial statements are the responsibility of the Chelsea 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 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.

Included in total capital assets of \$28,004,645 on the Chelsea Housing Authority's Balance Sheet are ordinary maintenance costs from prior years that have been incorrectly classified. Management acknowledges that these costs were incorrectly classified; however, as of the date of this report, a determination has not been made as to the amount of costs that are incorrectly classified. In the absence of such a determination, we are unable to ascertain the proper valuation of capital assets and therefor are unable to comment as to whether the capital assets, stated in the Balance Sheet at December 31, 2011, are fairly stated.

As disclosed in the Schedule of Findings and Questioned Costs as item 11-02, noncompliance with laws and regulations applicable to the Capital Fund Program could have a direct and material effect on the financial statements as it relates to the determination of amounts payable to the Department of Housing and Urban Development (HUD). As of the date of this report, a determination has not been made as to the effect of such noncompliance and therefor we are unable to comment as to whether HUD grant and contributions or accounts payable due to HUD, as stated in the Statement of Revenue, Expenses and Changes in Fund Net Assets or the Balance Sheet, respectively, at December 31, 2011, are fairly stated.

In our opinion, except for the effects of such adjustments, if any, as mentioned in the preceding paragraphs, the financial statements referred to above present fairly, in all material respects, the financial position of the Chelsea Housing Authority as of December 31, 2011, and the changes in financial position and cash flows, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have issued our report dated [Report Date] on our consideration of Chelsea Housing Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. 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 Management's Discussion and Analysis and the Schedule of Funding Progress be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by 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 as a whole. The Supplemental Financial Data Schedule and the Schedule of Expenditures of Federal Awards are presented for purposes of additional analysis and are 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. This 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.

A handwritten signature in cursive script that reads "Hardy & Co., PC".

Quincy, Massachusetts
[Report Date]

CHELSEA HOUSING AUTHORITY

BALANCE SHEET

December 31, 2011

ASSETS

Current Assets:

Cash and cash equivalents - Notes 4 & 5	\$ 1,931,830
Restricted cash and cash equivalents - Notes 4 & 5	577,077
Accounts receivable, net - Note 6	742,758
Prepaid expenses and other current assets	<u>231,097</u>

Total Current Assets 3,482,762

Noncurrent Assets:

Restricted cash and cash equivalents - Notes 4 & 5	165,982
Capital assets, net of accumulated depreciation - Note 7	<u>28,004,645</u>

Total Noncurrent Assets 28,170,627

Total Assets \$ 31,653,389

LIABILITIES AND NET ASSETS

Current Liabilities:

Accounts payable	\$ 463,165
Accounts payable, HUD	267,425
Accounts payable, other government	266,779
Accrued wages and current portion of compensated absences	82,597
Other current liabilities	631
Deferred revenue	162,166
Tenant security deposits	<u>9,267</u>

Total Current Liabilities 1,252,030

Noncurrent Liabilities:

Accrued compensated absences, net of current portion - Note 8	247,788
Other noncurrent liabilities - Note 8	165,982
OPEB liability - Notes 8 & 11	<u>655,915</u>

Total Noncurrent Liabilities 1,069,685

Total Liabilities 2,321,715

Net Assets:

Invested in capital assets, net of related debt	28,004,645
Restricted net assets - Note 3	892,201
Unrestricted net assets	<u>434,828</u>

Total Net Assets 29,331,674

Total Liabilities and Net Assets \$ 31,653,389

CHELSEA HOUSING AUTHORITY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

For the year ended December 31, 2011

OPERATING REVENUES

Tenant rental income	\$ 3,532,655
Other revenue	<u>181,963</u>
Total Operating Revenues	<u>3,714,618</u>

OPERATING EXPENSES

Housing assistance payments	5,706,279
Utilities	3,053,775
Administration	2,744,966
Repair and maintenance	2,212,935
Depreciation expense	1,296,205
Other general expenses	224,391
Insurance expense	215,827
Protective services	103,421
Tenant services	<u>29,468</u>
Total Operating Expenses	<u>15,587,267</u>

Operating Loss (11,872,649)

NONOPERATING REVENUES

HUD grants and contributions	8,302,591
Other government grants and contributions	2,260,159
Interest and investment revenue	<u>8,521</u>

Total Nonoperating Revenues 10,571,271

Loss before Capital Contributions and Transfers (1,301,378)

CAPITAL CONTRIBUTIONS & TRANSFERS

HUD capital grants and contributions	546,074
Other government capital grants and contributions	<u>198,405</u>
Total Capital Contributions and Transfers	<u>744,479</u>

Change in Net Assets (556,899)

Total Net Assets - Beginning of Year - As Restated - Note 13 29,888,573

Total Net Assets - End of Year \$ 29,331,674

CHELSEA HOUSING AUTHORITY

STATEMENT OF CASH FLOWS
For the year ended December 31, 2011

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from tenants	\$ 3,567,911
Other operating receipts	163,087
Payments to employees	(4,031,575)
Payments to suppliers	<u>(10,160,929)</u>
Net cash used in operating activities	<u>(10,461,506)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

HUD grants	8,161,745
Other government grants	<u>2,282,069</u>
Net cash provided by noncapital financing activities	<u>10,443,814</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Other government capital grants	3,266
HUD capital grants	569,092
Acquisitions of capital assets	<u>(771,266)</u>
Net cash used in capital and related financing activities	<u>(198,908)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest and dividends received	<u>8,521</u>
Net cash provided by investing activities	<u>8,521</u>

Net decrease in cash and cash equivalents (208,079)

Cash and cash equivalents at beginning of year 2,882,968

Cash and cash equivalents at end of year \$ 2,674,889

Reconciliation of operating loss to net cash used in operating activities:

Operating loss	\$ (11,872,649)
Adjustments:	
Depreciation	1,296,205
Change in assets and liabilities:	
Increase in accounts receivable, tenants	(14,618)
Decrease in accounts receivable, other	5,384
Increase in prepaid expenses and other current assets	(115,228)
Decrease in accounts payable	(198,585)
Increase in compensated absences and accrued wages	37,014
Increase in OPEB liability	210,744
Increase in accrued expenses and other current liabilities	148,304
Decrease in tenant security deposits	(48)
Increase in deferred operating revenue	<u>41,971</u>
Net cash used in operating activities	<u><u>\$ (10,461,506)</u></u>

CHELSEA HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2011

NOTE 1 – ORGANIZATION

The Chelsea Housing Authority (the Authority) was incorporated under the laws of the Commonwealth of Massachusetts. The Authority operates under a board of commissioner form of government to provide safe and decent housing to low and moderate income families and elderly individuals.

The Authority maintains its accounting records by program and operates the following programs:

Low Rent Public Housing – This program accounts for all activities relating to the leasing and operation of apartments in buildings that were constructed and are owned by the Authority. These units are rented to low income families and low income elderly, disabled, and special needs individuals. The properties were constructed with grants and or loans provided by the U.S. Department of Housing and Urban Development (HUD). The Authority receives grants from HUD to subsidize operating deficits. Tenants are charged rents based on a percentage of their income.

Public Housing Capital Fund and Capital Fund Competitive Recovery Grant – HUD provides grant funds to authorities with Low Rent Public Housing units on a formula basis. The funds are predominantly used to make physical improvements to buildings and dwelling units owned by the Authority under the Low Rent Public Housing Program. A portion of these funds may also be used to support operations and to make improvements in the management and operation of the Authority.

Section 8 Housing Choice Voucher and the Family Self Sufficiency Program (FSS) – HUD provides grants to the Authority to subsidize rents paid by low income families and individuals who rent dwelling units from private landlords. Under this program, qualified applicants are issued vouchers which may be used by the applicant to obtain housing in the private rental market. The Authority will subsidize the landlord for the difference between the rent requested and the tenant's share of the rent not to exceed a predetermined payment standard.

FSS helps eligible individuals acquire the skills and experience needed to obtain work that pays a living wage, and also offers them an opportunity to save towards home-ownership. The Authority works with welfare agencies, schools, businesses, and other local partners to help FSS participants access services including but not limited to; child care, transportation, education and training, and home-ownership counseling.

Resident Opportunities and Self Sufficiency (ROSS) – ROSS links public housing residents with supportive services, resident empowerment activities, and assistance in becoming economically self-sufficient. Grants are received from HUD pursuant to a detailed application submitted by the Authority.

State and Local Programs – The Authority operates the following state and local programs:

State Consolidated and State Chapter 705 Housing – Under these programs, the Authority owns, operates and maintains rental housing acquired with grants from Massachusetts Department of Housing & Community Development (DHCD). Dwelling units are leased to low income tenants at rates based on their ability to pay. Operations are supported by DHCD via operating grants.

CHELSEA HOUSING AUTHORITY

NOTES TO FINANCIAL STATEMENTS December 31, 2011

NOTE 1 – ORGANIZATION – (Continued)

State Chapter 689 Housing – Under this program, the Authority owns operates and maintains rental housing acquired with grants from DHCD. The building is generally rented to a non-profit corporation who provides health and human resource needs to mentally disabled individuals.

Massachusetts Rental Voucher Program (MRVP) - DHCD provides grants to subsidize rents paid by low income families and individuals who rent dwelling units from private landlords. Qualified applicants are issued vouchers which may be used by the applicant to obtain housing in the private rental market. The Authority subsidizes the landlord for the difference between the rent requested and the tenant's share of the rent not to exceed a contract amount.

State Modernization Program – DHCD provides grant funds to authorities with State Consolidated units based on the Authority's application and determination of need. The funds are predominantly used to make physical improvements to buildings and dwelling units owned by the Authority under the State Consolidated Housing Program.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity

The Authority's financial statements include the accounts of all of the Authority's operations. The criteria for including organizations as component units within the Authority's reporting entity, as set forth in Section 2100 of GASB's Codification of Governmental Accounting and Financial Reporting Standards, include whether:

- the organization is legally separate (can sue and be sued in their own name)
- the Authority holds the corporate powers of the organization
- the Authority appoints a voting majority of the organization's board
- the Authority is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the Authority
- there is fiscal dependency by the organization on the Authority

Based on the aforementioned criteria, the Authority has no component units.

B. Basis of Presentation and Accounting

The Authority is a special-purpose government entity engaged only in business-type activities and, as such, the financial statements are presented as a single enterprise fund.

CHELSEA HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2011

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

B. Basis of Presentation and Accounting – (Continued)

The Authority's financial statements are prepared in accordance with GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* ("GASB 34"). GASB 34 requires the basic financial statements to be prepared using the economic resources measurement focus and the accrual basis of accounting and requires the presentation of a Balance Sheet, a Statement of Revenues, Expenses, and Changes in Net Assets, and a Statement of Cash Flows. GASB 34 also requires the Authority to include Management's Discussion and Analysis as part of the Required Supplementary Information.

The Authority's primary source of nonexchange revenue relates to grants and subsidies. Grants and subsidies revenue is recognized at the time eligible program expenditures occur and/or the Authority has complied with the grant and subsidy requirements, in accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. Grants received in advance of expenditures are deferred until earned.

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Activities That Use Proprietary Fund Accounting*, the Authority applies all applicable GASB pronouncements as well as FASB Statements and Interpretations, APB Opinions, and ARB's issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The more significant accounting policies of the Authority are described in the following paragraphs.

New Accounting Standards Adopted

During 2011, the Authority adopted GASB Statement No. 61 - The Financial Reporting Entity: Omnibus – an amendment of GASB statements No. 14 and No. 34. The Statement modifies certain requirements for the assessment of potential component units in determining what should be included in the financial reporting entity and financial reporting entity display and disclosure requirements. There is no impact on the Authority's financial statements as a result of adopting this standard.

C. Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires the use of estimates that affect reported amounts of assets, liabilities, revenues and expenses and related disclosures. Actual amounts could differ from those estimates.

D. Cash and Cash Equivalents

Cash and cash equivalents consist of cash on deposit with financial institutions and other debt securities that are readily convertible into cash and purchased with original maturities of three months or less. Also included in cash equivalents are non negotiable certificates of deposits, recorded at cost in accordance with GASB 31.

CHELSEA HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2011

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

E. Accounts Receivable

Accounts receivable from tenants are carried at the original amount billed less an estimate made for doubtful accounts based on a review of all outstanding amounts on a monthly basis. Management determines the allowance for doubtful accounts by using historical experience applied to an aging of accounts receivable. Accounts receivable from tenants are written off with board approval when deemed uncollectible. Recoveries of accounts receivable previously written off are recorded when received. Allowances for other non tenant receivables are reviewed annually. See Note 6 for details of accounts receivable and allowances at year end.

F. Capital Assets

Capital assets include property, furniture, equipment and machinery with initial, individual costs that equal or exceed \$1,000 and estimated useful lives of more than one year. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed. Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Buildings	40 years
Land and Building Improvements	15 years
Furniture, Equipment and Machinery	3-10 years

G. Compensated Absences

The Authority's policy allows full time employees to earn up to 25 days of vacation leave per year, commensurate on experience. Employees may carry forward unused vacation leave at a maximum of 30 days. Employees may also earn up to 15 days of sick leave per year, which may be accumulated to future periods on an unlimited basis. Upon retirement, employees will be compensated for half of their unused sick leave, up to a maximum of 50 days. Total accrued compensated absences at December 31, 2011 aggregated \$330,385.

The Authority's former Executive Director, under an employment contract, was entitled to 30 days of vacation leave and 15 days of sick leave per year. Unused sick and vacation leave were permitted to accrue on an unlimited basis and were payable in full, in the event of separation or termination of employment for any cause, at his regularly established pay rate. Management has determined that there is no liability for any unused sick and vacation leave at December 31, 2011.

CHELSEA HOUSING AUTHORITY

NOTES TO FINANCIAL STATEMENTS
December 31, 2011

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

H. Operating Revenues and Expenses

GASB 34 paragraph 102 requires governments to establish a policy that defines operating revenues and expenses. The Authority uses the criteria prescribed in GASB 9 paragraphs 17 and 18 for cash flows to determine operating revenues and expenses. Operating revenue includes rental income, management services provided and all other revenue relating to the provision of safe, decent and affordable housing services that do not result from transactions defined as capital and related financing, non-capital and related financing or investing activities. Operating expenses include wages, housing assistance payments, utilities, maintenance, depreciation of capital assets, administrative expenses and all other expenses relating to the provision of safe, decent and affordable housing services that do not result from transactions defined as capital and related financing, non-capital and related financing or investing activities.

NOTE 3 – RESTRICTED NET ASSETS

At December 31, 2011, the restricted net assets of \$892,201 represent net assets restricted by HUD related to the Housing Choice Voucher Program to be used for future HAP payments.

NOTE 4 – CASH AND INVESTMENT DEPOSITS

GASB standards require that cash and investment deposits with financial institutions be classified into one of the following four categories:

Category A – Insured

Category B – Collateralized, with securities held by the entity or by its agent in the entity's name.

Category C – Collateralized, with securities held by the pledging financial institution's trust department or agent in the entity's name.

Category D – Non-collateralized (Includes any bank balance collateralized with securities held by the pledging financial institution, or by its trust department or agent, but not in the entity's name.)

The Authority has adopted HUD's Investment Regulation PIH 1996-33 as its investment policy. HUD regulations require that all HUD deposits in financial institutions and investments be fully insured or collateralized, (category A, B or C) by U.S. Government obligations that have a market value of not less than the principal amount of the deposits. The policy also requires that investments not have a maturity period longer than three years.

CHELSEA HOUSING AUTHORITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

NOTE 4 – CASH AND INVESTMENT DEPOSITS – (Continued)

Custodial Credit Risk – Cash Deposits

In the case of cash deposits, this is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority does not have a formal policy for custodial credit risk, except ensuring that it follows the HUD regulations for federal deposits as detailed in a prior paragraph. At December 31, 2011, the Authority's cash deposits of \$2,674,889 were fully insured or collateralized.

The Authority notes that in accordance with GASB 40, the disclosures for all types of cash deposits with a financial institution, whether categorized as cash and cash equivalents or as investments are the same and have been reported and disclosed accordingly in the previous section of the note.

NOTE 5 – RESTRICTIONS ON CASH, CASH EQUIVALENTS AND INVESTMENTS

The Authority's current restricted cash and cash equivalents balance consists of funds restricted for future HAP payments as well as funds designated for tenant security deposits. Noncurrent restricted cash and cash equivalents consist of funds held in escrow for participants in the Authority's FSS and IDA programs. These amounts support either a corresponding liability or restricted net asset. At December 31, 2011, restricted cash was categorized as follows:

<u>Category of Restriction</u>	<u>Amount</u>
HAP Reserves	\$ 567,810
FSS Escrow	114,160
IDA Escrow	51,822
Tenant Security Deposits	<u>9,267</u>
Total	<u>\$ 743,059</u>

NOTE 6 – ACCOUNTS RECEIVABLE

The following is a detail listing of receivables for the Authority including the applicable allowances for uncollectible accounts at December 31, 2011.

<u>Category of Receivable</u>	<u>Amount</u>
HUD	\$ 500,491
Other Government	215,389
PHA Projects	3,842
Tenants	<u>36,766</u>
Gross Receivables	756,488
Allowance - Tenants	<u>(13,730)</u>
Net Receivables	<u>\$ 742,758</u>

CHELSEA HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2011

NOTE 7 – CAPITAL ASSETS

The following is a summary of changes in capital assets and related accumulated depreciation.

	<u>12/31/2010</u>	<u>Increases</u>	<u>Decreases</u>	<u>12/31/2011</u>
Capital assets not being depreciated				
Land	\$ 2,774,731	\$ -	\$ -	\$ 2,774,731
Construction in Progress	13,730,047	771,266	(496,162)	14,005,151
Total capital assets not being depreciated	16,504,778	771,266	(496,162)	16,779,882
Other Capital Assets				
Buildings	51,149,146	496,162	-	51,645,308
Furniture, equipment & machinery	798,041	-	-	798,041
Total other capital assets	51,947,187	496,162	-	52,443,349
Less accumulated depreciation				
Buildings	39,224,432	1,269,395	-	40,493,827
Furniture, equipment & machinery	697,949	26,810	-	724,759
Total accumulated depreciation	39,922,381	1,296,205	-	41,218,586
Capital Assets Net	\$ 28,529,584	\$ (28,777)	\$ (496,162)	\$ 28,004,645
Depreciation expense was charged to:				
Low Rent		\$ 571,668		
Housing Choice Voucher		\$ 302		
State/Local		\$ 724,235		

NOTE 8 – NONCURRENT LIABILITIES

Noncurrent liability activity for the year ended December 31, 2011 is as follows:

	<u>12/31/2010</u>	<u>Additions</u>	<u>Reductions</u>	<u>Amount due within one year</u>	<u>12/31/2011</u>
Compensated Absences	\$ 288,029	\$ 179,652	\$ (137,296)	\$ (82,597)	\$ 247,788
FSS Escrow	102,482	34,379	(22,701)	-	114,160
IDA Escrow	35,762	16,060	-	-	51,822
OPEB Liability	445,171	374,422	(163,678)	-	655,915
Total	\$ 871,444	\$ 604,513	\$ (323,675)	\$ (82,597)	\$ 1,069,685

NOTE 9 – REAL ESTATE TAXES

Property owned by the Authority is exempt from local real estate taxes. The Authority also has an agreement with the City of Chelsea exempting the Authority from any payments in lieu of taxes for all of its rental properties.

CHELSEA HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2011

NOTE 10 – CHELSEA CONTRIBUTORY RETIREMENT SYSTEM (CRS) and OTHER PLANS

A. Plan Description and Membership

The Authority provides pension benefits to certain employees through the CRS, a cost-sharing, multiple-employer public employee retirement system regulated by the Public Employee Retirement Administration Commission (PERAC). The plan is a defined benefit plan. Participation is mandatory for all full time employees of the Authority. The retirement plan is a pooled risk type of plan. Under this type of plan funding is determined based on all employees covered for all employing units. The funding liabilities are shared by each employing unit pro-rata based on the number of employees in the employing unit. Since the Authority's share of pension liability is not based on their employees, pension expense is determined by the total required payment to be made to the retirement plan for the year. The CRS issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained by writing to CRS, City Hall, 500 Broadway, Room 214, Chelsea, MA 02150 or by calling (617) 466-4230.

B. Significant Plan Provisions and Requirements

State law establishes benefit provisions and contribution requirements of the CRS. Employees who have at least 10 years of longevity and have attained 55 years of age are eligible to receive retirement benefits. Retired employees receive an allowance based upon the average of their three highest consecutive salary years of service multiplied by (1) the number of years and full months of creditable service at the time of retirement and (2) a percentage based on age at retirement in accordance with a schedule provided by state law. Assuming normal retirement at age 65, this percentage is 2.5%, which is reduced for individuals who retire prior to age 65 to reflect the longer payout period. Employees may elect early retirement after 20 years of service or at any time after attaining age 55 with 10 years of eligible service. Plan members who become permanently and totally disabled may be eligible to receive a disability retirement allowance. The amount of benefits to be received depends on several factors, including the member's age, compensation, veteran status, years of creditable service, and whether or not the disability is work-related. In addition, certain death benefits exist for beneficiaries of employees who die in active service.

C. Funding Policy

Depending on their employment date, active Plan members must contribute either 5%, 7%, 8%, or 9% of their gross regular compensation. Members hired after December 31, 1978 must contribute an additional 2% of regular compensation in excess of \$30,000. These deductions earn interest at a rate determined by PERAC that vests based upon years of service. Member employers are required to contribute the remaining amounts necessary to finance benefits, except for certain cost-of-living adjustments (COLAs) granted before July 1, 1998, which are reimbursed by the Commonwealth. The current and two preceding years' apportionment of the annual pension cost between the employers required the Authority to contribute approximately 4.5% of the total.

D. Annual Pension Cost

The Authority's required and actual contributions to CRS for the years ended December 31, 2011 and 2010 were \$712,780 and \$642,160, respectively. Employee contributions for the year ended December 31, 2011 were \$214,132.

CHELSEA HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2011

NOTE 10 – CHELSEA RETIREMENT SYSTEM (CRS) and OTHER PLANS – (Continued)

D. Annual Pension Cost – (Continued)

The Authority also provides to employees a separate deferred compensation plan in accordance with IRC §457. The plan is open to all employees. Employee contributions for the year ended December 31, 2011 were \$61,345. There were no employer contributions.

NOTE 11 – OTHER POST EMPLOYMENT BENEFITS

A. Plan Description

The Authority provides comprehensive medical insurance, both with and without Medicare coordination, and life insurance to its employees who meet certain eligibility requirements. Employees are eligible for postretirement benefits if he/she has reached the age of 55 as an active employee and completed 10 years of service.

All active employees who retire from the Authority and meet the eligibility criteria will receive these benefits. The duration of these benefits is for the employee's lifetime. Under this cost sharing plan, these benefits cover 20% of premiums for Medical for those who retire on or after 10/1/2009 (15% for those who retired after 7/1/1994 but before 10/1/2009, and 10% for all others) for both individuals and family members (percentages represent the employees' portion).

The face value of each life insurance policy is \$5,000. Life insurance benefits do not apply to family members, this benefit covers 20% of premiums for Medical for those who retire on or after 10/1/2009 (15% for those who retired after 7/1/1994 but before 10/1/2009, and 10% for all others) for individuals.

Currently, there are 32 active employees and 17 retired employees enrolled in the plan.

B. Funding Policy

The Authority is not required by law or contractual agreement to provide funding for the Plan other than the pay-as-you-go amount necessary to provide current benefits to retirees and eligible beneficiaries/dependents. For the year ended December 31, 2011, the Authority paid \$163,678 on behalf of the Plan.

C. Annual OPEB Cost and Net OPEB Obligation

The Authority's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount that was actuarially determined by using the Actuarial Cost Method (one of the actuarial cost methods in accordance with the parameters of GASB Statement No. 45). Under this method, the normal cost and actuarial accrued liability are both based on an accrual of projected benefits over the period for which benefits are accrued. The normal cost is the actuarial present value of one year's benefit accrual on this basis. The actuarial accrued liability is the actuarial present value of the projected benefit time the ratio of past service to total service. Under this method, the Actuarial Gains (losses) are calculated each year and amortized over the minimum and maximum periods allowed by law

CHELSEA HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2011

NOTE 11 – OTHER POST EMPLOYMENT BENEFITS – (Continued)

C. Annual OPEB Cost and Net OPEB Obligation – (Continued)

from the year of such gains or losses. All employees who are plan participants on a valuation date are included in the actuarial valuation. The following table shows the elements of the Authority's annual OPEB cost for the year, the amount actually paid on behalf of the plan, and changes in the Authority's net OPEB obligation to the Plan for the year ending December 31, 2011:

Annual Required Contribution (ARC)	\$ 374,422
Adjustment to ARC	-
Annual OPEB expense	374,422
Contributions made	<u>(163,678)</u>
Increase in net OPEB obligation	210,744
Net OPEB obligation - beginning of year	445,171
Net OPEB obligation - end of year	<u>\$ 655,915</u>

The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the year ending December 31, 2011 was as follows:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Contributions	Net OPEB Obligation
December 31, 2011	\$ 374,422	43.71%	\$ 210,744

D. Funding Status and Funding Progress

As of January 1, 2009, the most recent (initial) actuarial valuation date, the Plan was 0.0% funded. The actuarial accrued liability for benefits was \$4.21 million and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$4.21 million. The covered payroll (annual payroll of active employees covered by the Plan) was \$2.7 million, and the ratio of the UAAL to the covered payroll was 156%. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include regarding the funded status of the plan and the annual required contribution of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, shown as required supplementary information, presents the results of OPEB valuations as of January 1, 2009 and multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

CHELSEA HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2011

NOTE 11 – OTHER POST EMPLOYMENT BENEFITS – (Continued)

E. Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

<i>Valuation Date:</i>	January 1, 2009
<i>Discount Rate:</i>	4.0% per annum (assuming no prefunding)
<i>Mortality Rates:</i>	RP-2000 Combined Healthy Mortality Table
<i>Withdrawal Rates:</i>	Plan participants are expected to withdraw from the plan at a decreasing rate, based on years of service, from 15.0% at 1 year of service to 0% at 30 years of service.
<i>Retirement Rates:</i>	Plan participants are expected to retire at an increasing rate based on age and gender. Males are expected to retire at a rate of 2% for those aged 55 years, to 100% for those aged 70 years. Females are expected to retire at a rate of 5.5% for those aged 55 years, to 100% for those aged 70 years.
<i>General Inflation Assumption:</i>	3.5% per annum
<i>Annual Compensation Increases:</i>	4.5% per annum
<i>Actuarial Value of Assets:</i>	Market Value
<i>Amortization of UAAL:</i>	Amortized as level dollar amount over 30 years at transition.
<i>Remaining Amortization Period:</i>	29 years at January 1, 2010
<i>Health Care Cost Trend Rate:</i>	Covered medical expenses are assumed to increase at a decreasing rate, from 9% in 2010 to 5% in 2015.

CHELSEA HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2011

NOTE 12 – RISK MANAGEMENT

Litigation

The Authority is contingently liable with respect to lawsuits and other claims incidental to the ordinary course of its operations. Claims covered by the risk management program are reviewed and losses are accrued as required in the judgment of management. In the opinion of management, based on the advice of legal counsel, the ultimate disposition of lawsuits and claims will not have a material adverse effect on the financial position of the Authority.

Grants

Amounts received or receivable from the grantor agencies are subject to audit and adjustment by grantor agencies. If expenditures are disallowed as a result of these audits, the claims for reimbursement to the grantor agency would become a liability of the Authority. In the opinion of management, any such adjustments would not be significant.

NOTE 13 – CORRECTION OF AN ERROR

The restatement of net assets is the net effect of changes resulting from the correction of an error. Because such amounts are the errors from a prior period, they are not properly included as part of the results of operations of the current period. Instead, such adjustments are properly reported as a direct adjustment to Beginning Net Assets to restate that amount to which it would have been had the error not occurred. The prior period adjustments for the period ending December 31, 2011 of \$175,740 represents pension costs that management neglected to accrue in the prior year, resulting in an understatement of prior year expenses and an overstatement of beginning equity. The following is a summary of the adjustment to beginning equity:

Beginning Equity - 1/1/2011	\$ 30,064,313
Less: Prior year pension expense	<u>175,740</u>
Beginning Equity - Restated	<u>\$ 29,888,573</u>

NOTE 14 – SUBSEQUENT EVENTS

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

ADDITIONAL INFORMATION

CHELSEA HOUSING AUTHORITY

**SCHEDULE OF FUNDING PROGRESS
For the period ended December 31, 2011**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Projected Unit Credit (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a) / (b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b) - (a)] / (c)
1/1/2009	\$ -	\$ 4,212,332	\$ 4,212,332	0%	\$ 2,700,000	156.0%

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

To The Board of Commissioners
Chelsea Housing Authority
Chelsea, Massachusetts

We have audited the accompanying basic financial statements of the Chelsea Housing Authority as of and for the year ended December 31, 2011, and have issued our report thereon dated [Report Date]. 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 Chelsea Housing Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Chelsea Housing Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Chelsea Housing Authority's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as item 11-01 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Chelsea Housing Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying Schedule of Findings and Questioned Costs as items 11-01 and 11-02.

The Chelsea Housing Authority's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the Chelsea Housing Authority's responses and, accordingly, we express no opinion on the responses.

We also noted certain matters that we reported to the management of the Chelsea Housing Authority in a separate letter dated [Report Date].

This report is intended solely for the information and use of management, the board of commissioners, others within the Authority, the U.S. Department of Housing and Urban Development and other federal and state awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Hooley & Co., PC

Quincy, Massachusetts
[Report Date]

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

To The Board of Commissioners
Chelsea Housing Authority
Chelsea, Massachusetts

Compliance

We have audited the compliance of the Chelsea Housing Authority with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended December 31, 2011. The Chelsea Housing Authority's major federal programs are identified in the Summary of Audit Results on the 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 Chelsea Housing Authority's management. Our responsibility is to express an opinion on the Chelsea Housing Authority's compliance based on our audits.

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 Chelsea Housing Authority's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Chelsea Housing Authority's compliance with those requirements.

As described in items 11-03, 11-04, 11-05, 11-06, 11-07, 11-08 and 11-09 in the accompanying Schedule of Findings and Questioned Costs, the Chelsea Housing Authority did not comply with requirements regarding Activities Allowed or Un-allowed, Allowable Costs/Cost Principles, Procurement, Suspension and Debarment, and Reporting that are applicable to its major federal programs. Compliance with such requirements is necessary, in our opinion, for the Chelsea Housing Authority to comply with the requirements applicable to those programs.

In our opinion, because of the effects of the noncompliance described in the preceding paragraph, the Chelsea Housing Authority did not comply in all material respects, with the requirements referred to above that could have a direct and material effect on the Capital Fund Cluster. Also, in our opinion, except for the noncompliance described in the preceding paragraph, the Chelsea Housing Authority complied, in all material respects, with the requirements referred to above that are applicable to each of its other major federal programs for the year ended December 31, 2011. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements which are required to be reported in accordance with Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as item 11-09.

Internal Control Over Compliance

The management of the Chelsea Housing Authority 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 Chelsea Housing Authority's internal control over compliance with requirements that could have a direct and material effect on a major federal program as a basis for designing our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with 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 Chelsea Housing Authority's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or 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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 11-03, 11-04, 11-05, 11-06, 11-07 and 11-08 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 11-09 to be a significant deficiency.

The Chelsea Housing Authority's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the Chelsea Housing Authority's responses and, accordingly, we express no opinion on the responses.

We also noted certain matters that we reported to the management of the Chelsea Housing Authority in a separate letter dated [Report Date].

This report is intended solely for the information and use of management, the board of commissioners, others within the Authority, the U.S. Department of Housing and Urban Development and any other federal and state awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Hooley & Co., PC

Quincy, Massachusetts
[Report Date]

CHELSEA HOUSING AUTHORITY
SUPPLEMENTAL FINANCIAL DATA SCHEDULE
December 31, 2011

Line Item	Account Description	Project Totals	Resident Opportunity & Support Services	Housing Choice Voucher Program	Capital Fund Competitive Recovery Grant	State/Local	Subtotal	Eliminations	Total
111	Cash - Unrestricted	436,014	-	-	-	1,495,816	1,931,830	-	1,931,830
113	Cash - Other Restricted	-	-	681,970	-	51,822	733,792	-	733,792
114	Cash - Tenant Security Deposits	545	-	-	-	8,722	9,267	-	9,267
100	Total Cash	436,559	-	681,970	-	1,556,360	2,674,889	-	2,674,889
							-		-
121	Accounts Receivable - PHA Projects	-	-	3,842	-	-	3,842	-	3,842
122	Accounts Receivable - HUD Other Projects	466,307	19,036	15,148	-	-	500,491	-	500,491
124	Accounts Receivable - Other Government	-	-	-	-	215,389	215,389	-	215,389
126	Accounts Receivable - Tenants	3,427	-	-	-	15,967	19,394	-	19,394
126.1	Allowance for Doubtful Accounts -Tenants	(3,258)	-	-	-	(10,472)	(13,730)	-	(13,730)
128	Fraud Recovery	17,372	-	28,283	-	9,308	54,963	-	54,963
128.1	Allowance for Doubtful Accounts - Fraud	-	-	(28,283)	-	(9,308)	(37,591)	-	(37,591)
120	Total Receivables, Net of Allowances for Doubtful Accounts	483,848	19,036	18,990	-	220,884	742,758	-	742,758
							-		-
142	Prepaid Expenses and Other Assets	10,083	-	8,811	-	93,940	112,834	-	112,834
143	Inventories	-	-	-	-	118,263	118,263	-	118,263
144	Inter Program Due From	180,428	-	-	-	19,036	199,464	(199,464)	-
150	Total Current Assets	1,110,918	19,036	709,771	-	2,008,483	3,848,208	(199,464)	3,648,744
							-		-
161	Land	280,923	-	-	-	2,493,808	2,774,731	-	2,774,731
162	Buildings	28,473,861	-	-	-	23,171,447	51,645,308	-	51,645,308
164	Furniture, Equipment & Machinery - Administration	667,413	-	12,095	-	118,533	798,041	-	798,041
166	Accumulated Depreciation	(20,350,998)	-	(2,721)	-	(20,864,867)	(41,218,586)	-	(41,218,586)
167	Construction in Progress	2,270,906	-	-	-	11,734,245	14,005,151	-	14,005,151
160	Total Capital Assets, Net of Accumulated Depreciation	11,342,105	-	9,374	-	16,653,166	28,004,645	-	28,004,645
							-		-
180	Total Non-Current Assets	11,342,105	-	9,374	-	16,653,166	28,004,645	-	28,004,645
							-		-
190	Total Assets	12,453,023	19,036	719,145	-	18,661,649	31,852,853	(199,464)	31,653,389
							-		-
312	Accounts Payable <= 90 Days	-	-	-	-	2,158	2,158	-	2,158
322	Accrued Compensated Absences - Current Portion	35,762	-	11,013	-	35,822	82,597	-	82,597
331	Accounts Payable - HUD PHA Programs	267,425	-	-	-	-	267,425	-	267,425
333	Accounts Payable - Other Government	-	-	-	-	266,779	266,779	-	266,779
341	Tenant Security Deposits	545	-	-	-	8,722	9,267	-	9,267
342	Deferred Revenues	22,257	-	-	-	139,909	162,166	-	162,166
345	Other Current Liabilities	631	-	-	-	-	631	-	631

CHELSEA HOUSING AUTHORITY
SUPPLEMENTAL FINANCIAL DATA SCHEDULE
December 31, 2011

Line Item	Account Description	Project Totals	Resident Opportunity & Support Services	Housing Choice Voucher Program	Capital Fund Competitive Recovery Grant	State/Local	Subtotal	Eliminations	Total
346	Accrued Liabilities - Other	4,394	-	-	-	456,613	461,007	-	461,007
347	Inter Program - Due To	-	19,036	-	-	180,428	199,464	(199,464)	-
310	Total Current Liabilities	331,014	19,036	11,013	-	1,090,431	1,451,494	(199,464)	1,252,030
							-	-	-
353	Non-current Liabilities - Other	-	-	114,160	-	51,822	165,982	-	165,982
354	Accrued Compensated Absences - Non Current	107,285	-	33,038	-	107,465	247,788	-	247,788
357	Accrued Pension and OPEB Liabilities	-	-	-	-	655,915	655,915	-	655,915
350	Total Non-Current Liabilities	107,285	-	147,198	-	815,202	1,069,685	-	1,069,685
							-	-	-
300	Total Liabilities	438,299	19,036	158,211	-	1,905,633	2,521,179	(199,464)	2,321,715
							-	-	-
508.1	Invested In Capital Assets, Net of Related Debt	11,342,105	-	9,374	-	16,653,166	28,004,645	-	28,004,645
511.1	Restricted Net Assets	-	-	836,784	-	55,417	892,201	-	892,201
512.1	Unrestricted Net Assets	672,619	-	(285,224)	-	47,433	434,828	-	434,828
513	Total Equity/Net Assets	12,014,724	-	560,934	-	16,756,016	29,331,674	-	29,331,674
							-	-	-
600	Total Liabilities and Equity/Net Assets	12,453,023	19,036	719,145	-	18,661,649	31,852,853	(199,464)	31,653,389
							-	-	-
70300	Net Tenant Rental Revenue	1,332,034	-	-	-	2,200,621	3,532,655	-	3,532,655
70500	Total Tenant Revenue	1,332,034	-	-	-	2,200,621	3,532,655	-	3,532,655
							-	-	-
70600	HUD PHA Operating Grants	2,394,286	19,036	5,889,269	-	-	8,302,591	-	8,302,591
70610	Capital Grants	281,099	-	-	264,975	-	546,074	-	546,074
70700	Total Fee Revenue	-	-	-	-	-	-	-	-
							-	-	-
70800	Other Government Grants	-	-	-	-	2,458,564	2,458,564	-	2,458,564
71100	Investment Income - Unrestricted	2,007	-	308	-	5,167	7,482	-	7,482
71400	Fraud Recovery	-	-	24,260	-	-	24,260	-	24,260
71500	Other Revenue	15,450	-	305,840	-	90,007	411,297	-	411,297
72000	Investment Income - Restricted	-	-	1,039	-	-	1,039	-	1,039
70000	Total Revenue	4,024,876	19,036	6,220,716	264,975	4,754,359	15,283,962	-	15,283,962
							-	-	-
91100	Administrative Salaries	789,114	-	428,588	-	465,003	1,682,705	-	1,682,705
91200	Auditing Fees	6,300	-	7,350	-	7,350	21,000	-	21,000
91500	Employee Benefit contributions - Administrative	250,540	-	184,168	-	274,542	709,250	-	709,250
91600	Office Expenses	77,322	-	44,782	-	85,494	207,598	-	207,598
91700	Legal Expense	16,750	-	3,967	-	18,950	39,667	-	39,667
91800	Travel	6,439	-	4,988	-	7,370	18,797	-	18,797
91900	Other	46,951	-	11,600	-	7,398	65,949	-	65,949

CHELSEA HOUSING AUTHORITY
SUPPLEMENTAL FINANCIAL DATA SCHEDULE
December 31, 2011

Line Item	Account Description	Project Totals	Resident Opportunity & Support Services	Housing Choice Voucher Program	Capital Fund Competitive Recovery Grant	State/Local	Subtotal	Eliminations	Total
91000	Total Operating - Administrative	1,193,416	-	685,443	-	866,107	2,744,966	-	2,744,966
							-		-
92100	Tenant Services - Salaries	-	19,036	-	-	-	19,036	-	19,036
92400	Tenant Services - Other	7,297	-	-	-	3,135	10,432	-	10,432
92500	Total Tenant Services	7,297	19,036	-	-	3,135	29,468	-	29,468
							-		-
93100	Water	598,441	-	-	-	839,131	1,437,572	-	1,437,572
93200	Electricity	213,773	-	-	-	869,801	1,083,574	-	1,083,574
93300	Gas	193,483	-	-	-	339,146	532,629	-	532,629
93000	Total Utilities	1,005,697	-	-	-	2,048,078	3,053,775	-	3,053,775
							-		-
94100	Ordinary Maintenance and Operations - Labor	515,961	-	-	-	415,322	931,283	-	931,283
94200	Ordinary Maintenance and Operations - Materials and Other	13,790	-	-	-	78,865	92,655	-	92,655
94300	Ordinary Maintenance and Operations Contracts	369,742	-	-	-	204,421	574,163	-	574,163
94500	Employee Benefit Contributions - Ordinary Maintenance	274,541	-	-	-	340,293	614,834	-	614,834
94000	Total Maintenance	1,174,034	-	-	-	1,038,901	2,212,935	-	2,212,935
							-		-
95100	Protective Services - Labor	65,113	-	-	-	-	65,113	-	65,113
95500	Employee Benefit Contributions - Protective Services	38,308	-	-	-	-	38,308	-	38,308
95000	Total Protective Services	103,421	-	-	-	-	103,421	-	103,421
							-		-
96110	Property Insurance	-	-	-	-	48,507	48,507	-	48,507
96130	Workmen's Compensation	30,835	-	8,600	-	32,030	71,465	-	71,465
96140	All Other Insurance	89,147	-	-	-	6,708	95,855	-	95,855
96100	Total insurance Premiums	119,982	-	8,600	-	87,245	215,827	-	215,827
							-		-
96200	Other General Expenses	97,616	-	20,786	-	46,616	165,018	-	165,018
96210	Compensated Absences	18,967	-	6,069	-	18,028	43,064	-	43,064
96400	Bad debt - Tenant Rents	3,774	-	-	-	12,535	16,309	-	16,309
96000	Total Other General Expenses	120,357	-	26,855	-	77,179	224,391	-	224,391
							-		-
96700	Total Interest Expense and Amortization Cost	-	-	-	-	-	-	-	-
							-		-
96900	Total Operating Expenses	3,724,204	19,036	720,898	-	4,120,645	8,584,783	-	8,584,783
							-		-
97000	Excess of Operating Revenue over Operating Expenses	300,672	-	5,499,818	264,975	633,714	6,699,179	-	6,699,179
							-		-
97300	Housing Assistance Payments	-	-	5,185,196	-	521,083	5,706,279	-	5,706,279

CHELSEA HOUSING AUTHORITY
SUPPLEMENTAL FINANCIAL DATA SCHEDULE
December 31, 2011

Line Item	Account Description	Project Totals	Resident Opportunity & Support Services	Housing Choice Voucher Program	Capital Fund Competitive Recovery Grant	State/Local	Subtotal	Eliminations	Total
97350	HAP Portability-In	-	-	253,594	-	-	253,594	-	253,594
97400	Depreciation Expense	571,668	-	302	-	724,235	1,296,205	-	1,296,205
90000	Total Expenses	4,295,872	19,036	6,159,990	-	5,365,963	15,840,861	-	15,840,861
							-		-
10010	Operating Transfer In	86,183	-	-	-	-	86,183	-	86,183
10020	Operating transfer Out	(86,183)	-	-	-	-	(86,183)	-	(86,183)
10100	Total Other financing Sources (Uses)	-	-	-	-	-	-	-	-
							-		-
10000	Excess (Deficiency) of Total Revenue Over (Under) Total Expenses	(270,996)	-	60,726	264,975	(611,604)	(556,899)	-	(556,899)
							-		-
11030	Beginning Equity	12,224,128	-	524,708	-	17,315,477	30,064,313	-	30,064,313
11040	Prior Period Adjustments, Equity Transfers and Correction of Errors	61,592	-	(24,500)	(264,975)	52,143	(175,740)	-	(175,740)
11170	Administrative Fee Equity	-	-	(275,850)	-	-	(275,850)	-	(275,850)
11180	Housing Assistance Payments Equity	-	-	836,784	-	-	836,784	-	836,784
11190	Unit Months Available	4,272	-	5,620	-	7,596	17,488	-	17,488
11210	Number of Unit Months Leased	4,231	-	5,581	-	7,506	17,318	-	17,318
11270	Excess Cash	609,402	-	-	-	-	609,402	-	609,402
11620	Building Purchases	546,074	-	-	-	-	546,074	-	546,074

CHELSEA HOUSING AUTHORITY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended December 31, 2011

	<u>Major Program</u>	<u>Direct Award</u>	<u>Pass Through Entity</u>	<u>CFDA Number</u>	<u>Federal Financial Assistance Received</u>	<u>Federal Financial Assistance Expenditures</u>
Department of Housing and Urban Development						
Low Rent Public Housing	Yes	Yes		14.850	\$ 1,776,017	\$ 1,776,017
Housing Choice Voucher Program	Yes	Yes		14.871	5,889,269	5,889,269
Capital Fund Cluster:						
Public Housing Capital Fund Program	Yes	Yes		14.872	899,368	899,368
Capital Fund Competitive Recovery Grant	Yes	Yes		14.884	264,975	264,975
Total Capital Fund Cluster					<u>1,164,343</u>	<u>1,164,343</u>
Total Major Programs					<u>8,829,629</u>	<u>8,829,629</u>
Department of Housing and Urban Development						
Resident Opportunity and Support Services	No	Yes		14.870	<u>19,036</u>	<u>19,036</u>
Total Non-Major Programs					<u>19,036</u>	<u>19,036</u>
Total All Programs					<u>\$ 8,848,665</u>	<u>\$ 8,848,665</u>

The Authority's schedule of expenditures of federal awards is accounted for on the flow of economic resources measurement focus using the accrual basis of accounting.

CHELSEA HOUSING AUTHORITY

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
December 31, 2011**

I. Summary of Audit Results

1. Type of report issued on the financial statements - Qualified
2. The report on internal control over financial reporting did disclose material weaknesses.
3. The report on internal control over financial reporting did not disclose any significant deficiencies.
4. The report on compliance did disclose instances of non-compliance material to the financial statements.
5. Type of report issued on compliance for major programs:

 Capital Fund Cluster – Adverse
 Low Rent Public Housing Program – Qualified
 Housing Choice Voucher Program – Qualified
6. The report on internal control over major programs did disclose material weaknesses.
7. The report on internal control over major programs did disclose significant deficiencies.
8. There are audit findings disclosed that are required to be reported in accordance with OMB Circular A-133, Section .510(a).
9. Major federal assistance programs are identified in the schedule of federal expenditures. The dollar threshold to distinguish type A and type B programs was \$300,000.
10. The following programs were tested as major programs in accordance with OMB A-133:

	<u>CFDA Number</u>
Low Rent Public Housing Program	14.850
Housing Choice Voucher Program	14.871
Capital Fund Cluster	Various

11. We have identified questioned costs by program, as follows:

Low Rent Public Housing	\$ 651,331
Housing Choice Voucher Program	521,843
Capital Fund Cluster	<u>364,693</u>
Total	<u>\$ 1,537,867</u>

12. The auditee did not qualify as a low-risk auditee.
13. The prior audit report did not disclose any findings or questioned costs.

CHELSEA HOUSING AUTHORITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS December 31, 2011

II. Findings related to the Financial Statements which are required to be reported in accordance with GAGAS

Finding 11-01 – Internal Controls over Financial Reporting and Compliance and Other Matters

Criteria

Regulations require that management design, maintain and monitor a system of internal control that reduces the risk that financial statements will be materially misstated to acceptable levels.

There are five components of internal control that collectively provide an entity with assurance that financial statements are fairly stated and they are:

- Control environment
- Risk assessment
- Information and communication
- Control activities
- Monitoring

Management and those charged with governance have a responsibility to understand the five components of internal control and design either formal or informal systems that address each component sufficiently relative to the size and complexity of the organization in such a way that reduces the risk that financial statements will be materially misstated or that laws and the risk of noncompliance with regulations relating to the administration of government programs and grants to a relatively low level.

Condition

We observed the following conditions while conducting our audit.

- Management did not correctly classify costs. Ordinary maintenance and other general expenses were routinely capitalized rather than recorded as expenses. As a result, capital assets may be overstated.
- Management did not properly estimate a liability for accrued compensated absences and did not have a mechanism for tracking the sick, vacation and personal time earned and used by the former executive director. As a result, the Authority cannot quantify amounts currently due or previously paid to the prior executive director for accrued sick, vacation and personal time.
- Management did not properly identify all sources of grant funds and did not properly record all grant activity. Prior to audit adjustments, management had misstated grant revenue and expenses as well as receivables from and payables to funding sources.
- Management did not properly account for pension expense in either the prior year or the current year. Prior to audit adjustments, the error resulted in an overstatement of beginning equity of \$175,740 and a corresponding overstatement of expenses.

CHELSEA HOUSING AUTHORITY

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
December 31, 2011**

II. Findings related to the Financial Statements which are required to be reported in accordance with GAGAS – (Continued)

Finding 11-01 – Internal Controls over Financial Reporting and Compliance and Other Matters – (Continued)

- Management does not have sufficient monitoring controls and has not produced or adhered to reasonable budgets. The payroll budget did not accurately reflect the compensation authorized in the contract of the former Executive Director and the budget was not always consistent with the actual compensation of other employees. Furthermore, the Authority budgeted an expense for payments in lieu of taxes (PILOT) to the City of Chelsea despite having an agreement with the City exempting them from the expense. Instead of charging actual PILOT expenses to the account, the Authority allocated a portion of the salaries and benefits of the Assistant Executive Director of Technology and Security but could not provide evidence that this was practice was allowed as part of the agreement with the City.

It is clear that the Authority's internal control structure did not perform sufficiently to identify and correct the above noted accounting and financial statement reporting problems.

Cause

Management and the governing board have not established a control environment, monitoring activities or control activities that reduce the risk that the financial statements will be materially misstated or that laws and the risk of noncompliance with regulations relating to the administration of government programs and grants to a relatively low level.

Effect

As a result of not fully implementing and monitoring its policies and procedures established for financial reporting, the Authority has created a control environment in which material misstatements may not be identified and corrected.

CHELSEA HOUSING AUTHORITY

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
December 31, 2011**

II. Findings related to the Financial Statements which are required to be reported in accordance with GAGAS – (Continued)

Finding 11-02 – Noncompliance with Laws and Regulations of the Capital Fund Program

Criteria

Allowed Capital Fund activities include the following: developing, financing, or modernizing public housing; vacancy reduction; deferred maintenance; replacement of obsolete utility systems and dwelling equipment; code compliance; management improvements; demolition and replacement; resident relocation; resident economic empowerment/economic self-sufficiency; security; and homeownership (42 USC 1437g(d)).

Condition

The Authority incorrectly charged ordinary maintenance and other general expenses, including the following; materials and supplies, general maintenance contractor costs, trash removal, pest control, bank fees, computer software, keys and lock repairs and other miscellaneous expenses, to Capital Fund budget line items 1408, 1430, 1450 and 1460. The Authority also charged ineligible expenditures to the Capital Fund in a prior year that should have been paid by the State programs.

Cause

The Authority is not fully aware of the requirements applicable to its Capital Fund programs.

Effect

Such noncompliance could have a direct and material effect on the financial statements as it relates to the determination of amounts payable back to the Department of Housing and Urban Development.

CHELSEA HOUSING AUTHORITY

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
December 31, 2011**

III. Findings and Questioned Costs for Federal Awards which shall include Audit Findings as defined in paragraph 510(a)

Finding 11-03 – Same as Finding 11-01 – Reporting

Federal Programs

All Major Federal Programs identified on Schedule of Findings and Questioned Costs

Criteria

See Finding 11-01.

Condition

See Finding 11-01.

Cause

See Finding 11-01.

Effect

See Finding 11-01.

Questioned Costs

None.

Recommendation

We recommend that management and the Board of Commissioners assess all five components of internal control and consider implementing a formal internal control policy. The Authority may also consider implementing a comprehensive fraud policy as part of setting a proper tone at the top.

Auditee's Response

The Authority's Board of Commissioners and Management will review and consider adopting a formal internal control policy and fraud policy.

CHELSEA HOUSING AUTHORITY

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
December 31, 2011**

III. Findings and Questioned Costs for Federal Awards which shall include Audit Findings as defined in paragraph 510(a) – (Continued)

Finding 11-04 – Activities Allowed or Unallowed: Improper Use of Capital Funds

Federal Programs

Capital Fund Cluster

Criteria

See Finding 11-02.

Condition

See Finding 11-02.

Cause

See Finding 11-02.

Effect

The Authority risks compromising the physical welfare of its Federal public housing developments by not properly utilizing the resources that are provided to it for the purpose of modernizing public housing development.

Questioned Costs

See Exhibit A on page 43.

Recommendation

Management must make itself fully informed of all requirements applicable to the administration of the Capital Fund Program and ensure that qualified personnel are assigned to monitor the activities of the program. If management determines that these individuals already exist at the Authority, management should provide regular training in the program and implement monitoring controls to ensure on-going compliance.

Auditee's Response

The Authority's staff has attended training on the Capital Fund Program and will have ongoing continued education in both the Capital Fund and all other programs. Management and the fee accountant have also implemented a new coding system for all Capital Fund expenditures.

CHELSEA HOUSING AUTHORITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS December 31, 2011

III. Findings and Questioned Costs for Federal Awards which shall include Audit Findings as defined in paragraph 510(a) – (Continued)

Finding 11-05 – Activities Allowed or Unallowed: Use of Restricted Net Assets for Purposes Other than Housing Assistance Payments (HAP)

Federal Programs

Housing Choice Voucher Program

Criteria

In January 2006 HUD issued PIH Notice 2006-03. Effective January 1, 2005, HUD has required that two net asset accounts be established, one to accumulate administrative revenue received in excess of administrative expenditures and the other to accumulate housing assistance payments (HAP) revenue received in excess of housing assistance payments expenditures. While HUD did not require that the underlying restricted assets be physically segregated, it was clear that the assets that represent excess HAP revenues were only to be used to pay current and future HAP payments.

Condition

As of December 31, 2011, the Authority had misused for purposes of funding administrative deficits in the Housing Choice Voucher Program a total of \$268,974 of funds which are restricted for housing assistance payments. At December 31, 2011, the restricted net assets of the Housing Choice Voucher Program were \$836,784; however, the Authority's cash and investment balance in the program at that time was \$567,810 (excluding funds held in escrow for participants in the FSS Program), indicating a misuse of \$268,974.

Cause

The Authority does not have controls sufficient to safeguard the restricted assets of the Housing Choice Voucher Program.

Effect

The Authority has compromised its resources designated to provide affordable housing to the residents of Chelsea.

Questioned Costs

See Exhibit A on page 43.

Recommendation

The Firm recommends that the Authority replace the funds as soon as possible.

CHELSEA HOUSING AUTHORITY

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
December 31, 2011**

III. Findings and Questioned Costs for Federal Awards which shall include Audit Findings as defined in paragraph 510(a) – (Continued)

Finding 11-05 – Activities Allowed or Unallowed: Use of Restricted Net Assets for Purposes Other than Housing Assistance Payments (HAP) – (Continued)

Auditee's Response

The Authority is making every effort to reduce costs in the Section 8 Program as well as all other programs and is utilizing monthly budget-to-actual comparatives to review operating results.

DRAFT

CHELSEA HOUSING AUTHORITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

December 31, 2011

III. Findings and Questioned Costs for Federal Awards which shall include Audit Findings as defined in paragraph 510(a) – (Continued)

Finding 11-06 – Allowable Costs/Cost Principles: Unreasonable Compensation for Personnel Services

Federal Programs

All Major Federal Programs identified on Schedule of Findings and Questioned Costs

Criteria

Compensation for employees engaged in work on Federal awards will be considered reasonable to the extent that it is consistent with that paid for similar work in other activities of other governmental units. (OMB Circular A-87)

Condition

The prior Board of Commissioners regularly approved salary increases for the former Executive Director that were not reasonable in comparison to those salaries of other employees of the City of Chelsea.

Cause

The Authority did not have controls in place to ensure that salaries were approved only to the extent allowed under OMB A-87.

Effect

The payment of unreasonable salaries is a misuse of taxpayer dollars.

Questioned Costs

See Exhibit A on page 43.

Recommendation

The Authority should review all positions and salaries and ensure that those salaries are reasonable in comparison with similar positions at other public housing agencies. The Authority should also establish policies to ensure that all pay increases are approved by the Board of Commissioners and that those increases are reasonable in comparison with similar positions.

CHELSEA HOUSING AUTHORITY

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
December 31, 2011**

III. Findings and Questioned Costs for Federal Awards which shall include Audit Findings as defined in paragraph 510(a) – (Continued)

*Finding 11-06 – Allowable Costs/Cost Principles: Unreasonable Compensation for Personnel Services
– (Continued)*

Auditee's Response

The Authority will perform the HUD required salary comparability study for non-union positions. The Authority will continuously review on an ongoing basis all positions. All pay increases will be included in the operating budgets approved by the Board of Commissioners.

CHELSEA HOUSING AUTHORITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS December 31, 2011

III. Findings and Questioned Costs for Federal Awards which shall include Audit Findings as defined in paragraph 510(a) – (Continued)

Finding 11-07 – Allowable Costs/Cost Principles: Unreasonable Allocation of Expenses

Federal Programs

All Major Federal Programs identified on Schedule of Findings and Questioned Costs

Criteria

A cost is allocable to a particular cost objective if; the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received; all activities which benefit from the governmental unit's indirect cost, including unallowable activities and services donated to the governmental unit by third parties, will receive an appropriate allocation of indirect costs; any cost allocable to a particular Federal award or cost objective under the principles provided for in this Circular may not be charged to other Federal awards to overcome fund deficiencies, to avoid restrictions imposed by law or terms of the Federal awards, or for other reasons; where an accumulation of indirect costs will ultimately result in charges to a Federal award, a cost allocation plan will be required as described in Attachments C, D, and E of OMB Circular A-87. (OMB Circular A-87 Attachment A Part C)

Condition

Based on audit procedures performed to gain an understanding of the Authority's process for allocating expenses, we found that the allocation tables used to allocate certain overhead expenses, such as salaries, benefits, legal, travel, telephone, training and office supplies were not determined on a reasonable basis. In addition, expenses that are generally direct in nature, such as elevator maintenance, extermination and trash removal were allocated based on pre-determined percentages rather than directly charged based on actual usage of the goods or service.

Cause

It appeared that allocations of expenditures were based on budgetary and funding expediency rather than operational reality and sound business practices.

Effect

By improperly charging direct and indirect expenses to Federal programs, the Authority could misappropriate assets and compromise the financial position of those programs.

CHELSEA HOUSING AUTHORITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

December 31, 2011

III. Findings and Questioned Costs for Federal Awards which shall include Audit Findings as defined in paragraph 510(a) – (Continued)

Finding 11-07 – Allowable Costs/Cost Principles: Unreasonable Allocation of Expenses – (Continued)

Questioned Costs

See Exhibit A on page 43.

Recommendation

The Authority should conduct a thorough analysis of all expenses charged to Federal programs and verify whether or not the allocation of those expenses was reasonable. In addition the Authority needs to evaluate its allocation plan and ensure that all overhead allocations are determined on a reasonable basis, such as direct salaries. Direct expenses should be identified and accounted for by the programs incurring the expense. The Authority should also consider implementing a Central Office Cost Center approach to asset management, as outlined in the HUD Handbook 7475.1 REV.

Auditee's Response

We will discuss with HUD the use of a forensic accountant to review prior year expenses. The Authority is in the process of determining a reasonable allocation plan for all Authority programs with the new fee accountant. Direct expenses are being properly charged to programs incurring the expense.

CHELSEA HOUSING AUTHORITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

December 31, 2011

III. Findings and Questioned Costs for Federal Awards which shall include Audit Findings as defined in paragraph 510(a) – (Continued)

Finding 11-08 – Procurement, Suspension & Debarment

Federal Programs

All Major Federal Programs identified on Schedule of Findings and Questioned Costs

Criteria

Competition Requirements - Purchases Above the Micro Purchase Limit: The PHA must solicit price quotes from an adequate number of qualified sources (generally defined as not less than three). The PHA's Procurement Policy shall state any specific policy (e.g., requirement for three offers). (24 CFR 85.36(c)(1))

For small purchases in excess of \$5,000 but not exceeding \$25,000 no less than three offerors will be solicited to submit price quotations, which may be obtained orally, by telephone, or in writing, as allowed by M.G.L. Chapter 30 B. For purchases in excess of \$25,000, contracts will be awarded based on competitive sealed bidding if the following conditions are present: a complete, adequate, and realistic specification or purchase description is available; two or more responsible bidders are eligible to compete effectively for the work; the procurement lends itself to a firm fixed price contract; and the selection of the successful bidder can be made principally on the basis of price. Competitive proposals may be used if there is an adequate method of evaluating technical proposals and where the Chelsea Housing Authority determines that conditions are not appropriate for the use of sealed bids. An adequate number of qualified sources will be solicited. (Chelsea Housing Authority Procurement Policy)

Condition

As part of our audit, we tested a selection of vendor transactions to determine whether or not services had been properly procured in accordance with the Authority's procurement policy and the HUD Procurement Handbook (7460.8 rev-2). As a result, we found two instances in which the Authority could not provide evidence of competitive procurement for service providers. Total procurements for these service providers is outlined below:

Midway Pest Control Service	\$ 33,925
B&B Pest	\$ 31,310

Cause

While it appears that management was aware of the general procurement requirements of State and Federal programs, management overrode those requirements and the requirements of its own procurement policy.

CHELSEA HOUSING AUTHORITY

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
December 31, 2011**

III. Findings and Questioned Costs for Federal Awards which shall include Audit Findings as defined in paragraph 510(a) – (Continued)

Finding 11-08 – Procurement, Suspension & Debarment – (Continued)

Effect

As a result of not properly procuring the services identified above, the Authority could incur expenses in excess of those that may have been incurred had a formal procurement process been followed and a lowest reasonable price selected.

Questioned Costs

See Exhibit A on page 43.

Recommendation

We recommend that the Authority retroactively determine the reasonableness of expenditures charged to Federal programs and review its controls over procurement to ensure that it complies with Federal regulations and its own procurement policy.

Auditee's Response

A new procurement policy, which is in compliance with State and Federal regulations, has been adopted to ensure compliance. Future procurements will be in compliance with the policy. We will discuss with HUD the possibility of hiring a forensic accountant to review prior expenditures.

CHELSEA HOUSING AUTHORITY

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
December 31, 2011**

III. Findings and Questioned Costs for Federal Awards which shall include Audit Findings as defined in paragraph 510(a) – (Continued)

Finding 11-09 – Special Tests and Provisions: Depository Agreements

Federal Programs

Housing Choice Voucher Program and Low Rent Public Housing Program

Criteria

PHAs are required to enter into depository agreements with their financial institutions in the form required by HUD. The agreements serve as safe-guards for Federal funds and provide third-party rights to HUD (24 CFR § 982.156).

Condition

The Authority does not have signed depository agreements (HUD Form 51999) on file for depositories of Federal funds.

Cause

Management is not fully aware of requirements applicable to its Federal programs.

Effect

Management could compromise its cash assets by not properly safeguarding those assets within the requirements of HUD.

Questioned Costs

None.

Recommendation

The Authority must execute depository agreements for all depositories of Federal funds.

Auditee's Response

Depository agreements are now in place for all depositories.

CHELSEA HOUSING AUTHORITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

December 31, 2011

III. Findings and Questioned Costs for Federal Awards which shall include Audit Findings as defined in paragraph 510(a) – (Continued)

Exhibit A: Summary of Questioned Costs			
Audit Finding(s)	Federal Program	Questioned Costs	Description
11-04	Capital Fund Cluster	\$ 101,294	Materials and supplies
11-04	Capital Fund Cluster	76,874	General maintenance contractor costs
11-04	Capital Fund Cluster	74,051	Trash removal
11-04, 11-08	Capital Fund Cluster	30,226	Pest control
11-04	Capital Fund Cluster	10,745	Miscellaneous expenses
11-04	Capital Fund Cluster	9,750	Bank fees
11-04	Capital Fund Cluster	9,373	Computer software
11-04	Capital Fund Cluster	1,669	Lock repairs and keys
11-05	Housing Choice Voucher Program	268,974	Housing assistance payment reserve deficit at December 31, 2011.
11-06, 11-07	Low Rent Public Housing Program	235,051	Salary paid to Michael McLaughlin during 2011.
11-06, 11-07	Housing Choice Voucher Program	138,567	Salary paid to Michael McLaughlin during 2011.
11-06, 11-07	Capital Fund Cluster	24,482	Salary paid to Michael McLaughlin during 2011.
11-06, 11-07	Low Rent Public Housing Program	79,566	Benefit expenses incurred on the behalf of Michael McLaughlin during 2011.
11-06, 11-07	Housing Choice Voucher Program	46,539	Benefit expenses incurred on the behalf of Michael McLaughlin during 2011.
11-06, 11-07	Capital Fund Cluster	8,257	Benefit expenses incurred on the behalf of Michael McLaughlin during 2011.
11-07	Low Rent Public Housing Program	136,064	Unsupportable allocation of salaries
11-07	Housing Choice Voucher Program	11,937	Unsupportable allocation of salaries
11-07	Capital Fund Cluster	12,056	Unsupportable allocation of salaries
11-07	Low Rent Public Housing Program	53,910	Unsupportable allocation of benefits
11-07	Housing Choice Voucher Program	6,011	Unsupportable allocation of benefits
11-07	Capital Fund Cluster	5,916	Unsupportable allocation of benefits
11-07	Low Rent Public Housing Program	16,750	Legal expenses
11-07	Low Rent Public Housing Program	6,439	Travel expenses
11-07	Low Rent Public Housing Program	77,322	Sundry
11-07	Low Rent Public Housing Program	7,297	Training
11-07	Low Rent Public Housing Program	13,790	Materials and supplies
11-07	Low Rent Public Housing Program	25,142	Contract costs
11-07	Housing Choice Voucher Program	3,526	Legal expenses
11-07	Housing Choice Voucher Program	4,656	Travel expenses
11-07	Housing Choice Voucher Program	41,633	Sundry
	Total	\$ 1,537,867	