

**SHELBY COUNTY HOUSING AUTHORITY**

**FINANCIAL STATEMENTS  
&  
SUPPLEMENTAL INFORMATION**

**YEAR ENDED JUNE 30, 2010**

**SHELBY COUNTY HOUSING AUTHORITY  
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YEAR ENDED JUNE 30, 2010**

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**SHELBY COUNTY HOUSING AUTHORITY  
MANAGEMENT'S DISCUSSION & ANALYSIS  
JUNE 30, 2010**

**Management's Discussion and Analysis**

The Management's Discussion and Analysis (the "MD&A") is designed to (a) assist the reader in focusing on significant financial issues, (b) provide an overview of the Shelby County Housing Authority's, (the "Authority") financial activity, (c) identify changes in the Authority's financial position (its ability to address the next and subsequent years' challenges), and (d) identify issues or concerns. This will now be presented at the front of each year's financial statements.

Since the MD&A is designed to focus on the current year's activities, resulting changes and currently known facts, please read it in conjunction with the financial statements, which follow this section.

**Financial Highlights**

- Net assets at June 30, 2010, decreased to \$1,754,066. Since the Authority engages only in business-type activities, the decrease is all in the category of business-type net assets. Net assets were \$3,611,563 for 2009.
- The business-type activities operating revenue at June 30, 2010, increased to \$1,435,071. Total operating revenue was \$784,135 for 2009.
- The total operating expenses of all programs for June 30, 2010, increased to \$1,299,559. Total operating expenses were \$856,274 for 2009.
- Total capital grant contributions at June 30, 2010, decreased to \$162,756. Total capital grant contributions were \$301,106 for 2009.

**Overview of the Financial Statements**

The financial statements included in this annual report are those of a special-purpose government engaged in a business-type activity.

This MD&A is intended to serve as an introduction to the Authority's basic financial statements.

The following statements are included:

- Statement of Net Assets – reports current financial resources (short-term expendable resources) with capital assets and long-term obligations.
- Statement of Revenue, Expenses, and Changes in Fund Net Assets - reports operating and nonoperating revenue, by major source along with operating and nonoperating expenses and capital contributions.
- Statement of Cash Flows – reports cash flows from operating, investing, capital, non-capital activities.

**Programs**

Conventional Public Housing – Under the Conventional Public Housing Program, the Authority rents units that it owns to low-income households. The Conventional Public Housing Program is operated under an Annual Contributions Contract (ACC) with HUD, and HUD provides operating subsidy and capital grant funding to enable the Authority to provide the housing at a rent that is based upon 30% of household income (as defined in the HUD regulations).

Capital Fund Grants – The Authority’s capital funds are received from the federal government through a formula driven computation. These funds are used to upgrade our facilities at various developments to give our residents the decent and safe living environment they need. Each year’s grant funds must be entirely obligated within two years of inception of the grant, and entirely expended within four years.

Public Housing Capital Fund Stimulus (Formula) Recovery Act - To provide funds for the capital and management activities of Public Housing Agencies as authorized under section 9 of the United States Housing Act of 1937 (42 U.S.C. 1437g) (the “Act”), with the exception that funds cannot be used for operations or rental assistance. The funds will be used for capital and management activities, including modernization and development of public housing.

Housing Choice Voucher Program - Under the Housing Choice Voucher Program, the Authority contracts with independent landlords that own the property. The Authority subsidizes the family’s rent through a Housing Assistance Payment (HAP) made to the landlord. The program is administered under an Annual Contributions Contract (ACC) with HUD. HUD provides Annual Contributions funding to enable the Authority to structure a lease that sets the participant’s rent at 30% or up 40% of household income.

## FINANCIAL ANALYSIS

The following tables focus on the net assets and the change in net assets of the primary government as a whole.

**TABLE 1 – STATEMENT OF NET ASSETS**

	<u>2010</u>	<u>2009</u>	<u>Variance</u>	<u>% Change</u>
Current Assets	\$ 593,781	\$ 458,140	\$ 135,641	29.61%
Capital Assets, Net	1,177,275	3,373,760	(2,196,485)	-65.10%
Total Assets	<u>\$ 1,771,056</u>	<u>\$ 3,831,900</u>	<u>\$ (2,060,844)</u>	-53.78%
Current Liabilities	\$ 15,155	\$ 211,479	\$ (196,324)	-92.83%
Noncurrent Liabilities	1,835	8,858	(7,023)	-79.28%
Total Liabilities	<u>16,990</u>	<u>220,337</u>	<u>(203,347)</u>	-92.29%
Net Assets:				
Invested in Capital Assets	1,177,275	3,373,760	(2,196,485)	-65.10%
Restricted	194,702	-	194,702	
Unrestricted	382,089	237,803	144,286	60.67%
Total Net Assets	<u>1,754,066</u>	<u>3,611,563</u>	<u>(1,857,497)</u>	-51.43%
Total Liabilities & Net Assets	<u>\$ 1,771,056</u>	<u>\$ 3,831,900</u>	<u>\$ (2,060,844)</u>	-53.78%

## MAJOR FACTORS AFFECTING THE STATEMENT OF NET ASSETS

Current assets increased by \$135,641 due to an increase in both unrestricted and restricted cash. The majority of this is due to restricted cash on hand resulting from the creation of the Housing Choice Voucher (HCV) program during the year.

Capital assets decreased by \$2,196,485 primarily due to the impairment of the Horton Gardens Public Housing Project. The Authority determined the retention of the property is not in the best interests of the residents or the Authority because conditions in the area surrounding the project adversely affect the

health and safety of the tenants and the feasible operation of the project by the Authority. The Authority ultimately plans on disposing of the property, however; management believes the sale is unlikely to occur in the near term.

Current liabilities decreased by \$196,324 due to a reduction in accounts payable due to the timing of a significant vendor invoice related to the ongoing heating and air modernization project. There was also a reduction in tenants' security deposits as a result of the closing of Horton Gardens.

Noncurrent liabilities decreased by \$7,023 due to the reduction in the noncurrent portion of accrued compensated absences expense as employees utilized vacation time accrued in prior years.

**TABLE 2 – STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN FUND NET ASSETS**

The following schedule compares the revenue and expenses for the current and previous fiscal years. The Authority is engaged only in business-type activities.

	<u>2010</u>	<u>2009</u>	<u>Variance</u>	<u>%Change</u>
Operating Revenues				
Rental Income	\$ 128,729	\$ 166,149	\$ (37,420)	-22.52%
Federal Grants	1,234,948	442,415	792,533	179.14%
Other	71,394	175,571	(104,177)	-59.34%
Total Operating Revenues	<u>1,435,071</u>	<u>784,135</u>	<u>650,936</u>	83.01%
Operating Expenses				
Administration	349,022	302,925	46,097	15.22%
Tenant Services	106,532	706	105,826	14989.52%
Utilities	47,673	50,180	(2,507)	-5.00%
Maintenance	176,187	235,236	(59,049)	-25.10%
Protective Services	-	2,259	(2,259)	-100.00%
General	58,580	45,674	12,906	28.26%
Housing Assistance Payments	352,185	-	352,185	
Casualty Losses	-	23,694	(23,694)	-100.00%
Depreciation	209,380	195,600	13,780	7.04%
Total Operating Expenses	<u>1,299,559</u>	<u>856,274</u>	<u>443,285</u>	51.77%
Operating Income (loss)	<u>135,512</u>	<u>(72,139)</u>	<u>207,651</u>	-287.85%
Nonoperating revenues (expenses):				
Interest Revenue	920	1,905	(985)	-51.71%
Capital Contributions	162,756	301,106	(138,350)	-45.95%
Loss on Impairment of Capital Assets	(1,937,088)	-	(1,937,088)	
Total Nonoperating Activity	<u>(1,773,412)</u>	<u>303,011</u>	<u>(2,076,423)</u>	-685.26%
Change in Net Assets	(1,637,900)	230,872	(1,868,772)	-809.44%
Prior Period Adjustments	(219,597)	-	(219,597)	
Beginning Net Assets	<u>3,611,563</u>	<u>3,380,691</u>	<u>230,872</u>	6.83%
Ending Net Assets	<u>\$ 1,754,066</u>	<u>\$ 3,611,563</u>	<u>\$ (1,857,497)</u>	-51.43%

## **MAJOR FACTORS AFFECTING THE STATEMENT OF REVENUE, EXPENSES AND CHANGES IN FUND NET ASSETS**

The Authority had an operating gain of \$135,512 including non-cash depreciation expense of \$209,380 versus an operating loss of \$72,139 and depreciation expense of \$195,600 in prior year.

Total operating revenue increased by \$650,936 to \$1,435,071 as a result of the new HCV program.

Total operating expenses increased by \$443,255 to \$1,299,559 primarily due to Housing Assistance Payments in connection with the new HCV program. In addition, there was also an increase in relocation cost incurred to assist families that have been displaced as a result of the closing of Horton Gardens.

Capital contributions decreased by \$138,350 to \$162,756 due to multiple unit modification projects that were undertaken during the previous year compared to current year installation of high efficiency heat pumps at Kefauver Terrace.

The Authority recognized a loss on impairment of capital assets in the current year in the amount of \$1,937,088, which represents the excess of the carrying value of the assets associated with the Horton Gardens project over their appraised value of \$200,000.

## **CAPITAL ASSETS**

As of June 30, 2010, investment in capital assets for its business-type activities was \$1,177,275 net of accumulated depreciation. This investment in capital assets includes land, buildings, improvements, equipment and construction in progress.

Major capital asset purchases during the current fiscal year included the following:

- Six computers for the office
- Heating and air modernization project at Kefauver Terrace

Major capital asset disposals during the current fiscal year included the following:

- 1997 Ford F350

## **ECONOMIC FACTORS**

Significant economic factors affecting the Authority are as follows:

- Federal funding of the Department of Housing and Urban Development.
- Local labor supply and demand, which can affect salary and wage rates.
- Local inflation, recession and employment trends, which can affect resident incomes and therefore the amount of rental income.
- Inflationary pressure on utility rates, supplies and other costs.

## **FINANCIAL CONTACT**

This financial report is designed to provide a general overview of the finances for all those with an interest in the Authority's finances. Questions concerning any of the information provided in this report or request for additional information should be addressed to Mr. Ed Pearlman, Executive Director, Shelby County Housing Authority, 901-353-0590.

To the Board of Commissioners  
Shelby County Housing Authority

Independent Auditor's Report

We have audited the accompanying basic financial statements of the Shelby County Housing Authority (the "Authority"), as of and for the year ended June 30, 2010, as listed in the table of contents. These financial statements are the responsibility of the 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Authority as of June 30, 2010, and the respective changes in financial position and, where applicable, cash flows thereof 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 March 29, 2011, on our consideration of the 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.

The management's discussion and analysis on pages 1 through 4 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The accompanying supplemental information, which includes the Financial Data Schedule (FDS), is presented for purposes of additional analysis, and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

  
Henderson & Hill, LLC  
March 29, 2011



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To the Board of Commissioners  
Shelby County Housing Authority

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*

We have audited the basic financial statements of the Shelby County Housing Authority (the "Authority"), as of and for the year ended June 30, 2010, and have issued our report thereon dated March 29, 2011. 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 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 Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses, and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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 10-01 to be a material weakness.

Compliance and Other Matters

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

The Authority's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Authority's response and, accordingly, we express no opinion on it.

This report is intended for the information of the board of commissioners, management, others within the entity and the Office of Housing and Urban Development and is not intended to be and should not be used by anyone other than these specified parties.

  
Henderson & Hill, LLC  
March 29, 2011



# HENDERSON & HILL, LLC

CERTIFIED PUBLIC ACCOUNTANTS

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To the Board of Commissioners  
Shelby County Housing Authority

## Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133

### Compliance

We have audited the compliance of the Shelby County Housing Authority (the "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 June 30, 2010. The Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and 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 Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Authority's compliance with those requirements.

As described in items 10-02 and 10-03 in the accompanying schedule of findings and questioned costs, the Authority did not comply with requirements regarding Eligibility and Special Test that are applicable to its Housing Choice Voucher program. Compliance with such requirements is necessary, in our opinion, for the Authority to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the Authority complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2010.

### Internal Control over Compliance

The management of the Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the 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, 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 Authority's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses in internal control over compliance as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

*A deficiency in internal control over compliance* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect 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 a 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 did not consider any of the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs 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 that is less severe than a material weakness, 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 items 10-02 and 10-03 to be significant deficiencies.

The Authority's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Authority's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Commissioners, management, others within the organization, and the Office of Housing and Urban Development and is not intended to be and should not be used by anyone other than these specified parties.



Henderson & Hill, LLC  
March 29, 2011

Shelby County Housing Authority  
Statement of Net Assets  
Enterprise Fund  
June 30, 2010

**ASSETS**

Current Assets:

Unrestricted cash and cash equivalents	\$ 305,519
Restricted cash and cash equivalents	198,352
Receivables, net	62,067
Inventories, net	9,386
Prepays and other assets	<u>18,457</u>
Total current assets	<u>593,781</u>

Noncurrent assets:

Capital assets:

Land	100,000
Building and equipment	1,296,471
Construction in progress	434,265
Less accumulated depreciation	<u>(653,461)</u>
Capital assets, net	<u>1,177,275</u>
Total noncurrent assets	<u>1,177,275</u>

Total assets

\$ 1,771,056

**LIABILITIES**

Current liabilities:

Accounts payable	\$ 147
Accrued liabilities	11,358
Tenant security deposits	<u>3,650</u>
Total current liabilities	<u>15,155</u>

Noncurrent liabilities:

Compensated absences, net of current portion	<u>1,835</u>
Total noncurrent liabilities	<u>1,835</u>

Total liabilities

16,990

**NET ASSETS**

Invested in capital assets, net of related debt	1,177,275
Restricted	194,702
Unrestricted	<u>382,089</u>
Total net assets	<u>1,754,066</u>

Total Liabilities & Net Assets

\$ 1,771,056

*The accompanying notes are an integral part of these financial statements.*

Shelby County Housing Authority  
Statement of Revenues, Expenses, and Changes in Fund Net Assets  
Enterprise Fund  
For Year Ended June 30, 2010

Operating revenues	
Rental income	\$ 128,729
Federal grants	1,234,948
Other	<u>71,394</u>
Total operating revenues	<u>1,435,071</u>
Operating expenses	
Administration	349,022
Tenant services	106,532
Utilities	47,673
Maintenance	176,187
General	58,580
Housing assistance payments	352,185
Depreciation	<u>209,380</u>
Total operating expenses	<u>1,299,559</u>
Operating Income (loss)	135,512
Nonoperating revenues (expenses):	
Interest revenue	<u>920</u>
Income (loss) before contributions and extraordinary item	136,432
Capital contributions	162,756
Loss on impairment of capital assets	<u>(1,937,088)</u>
Change in net assets	(1,637,900)
Total net assets - beginning of the year	<u>3,611,563</u>
Prior period adjustments	<u>(219,597)</u>
Total net assets - beginning of the year, as restated	<u>3,391,966</u>
Total net assets - end of the year	<u>\$ 1,754,066</u>

*The accompanying notes are an integral part of these financial statements.*

Shelby County Housing Authority  
Statement of Cash Flows  
Enterprise Fund  
For Year Ended June 30, 2010

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts from tenants	\$ 105,530
Federal grants	1,234,948
Other receipts	68,433
Payments to suppliers & Section 8 landlords	(929,570)
Payments to or on behalf of employees	<u>(346,395)</u>
Net cash provided (used) by operating activities	<u>132,946</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Purchase of capital assets	(169,580)
Capital contributions	<u>284,954</u>
Net cash provided (used) by capital financing activities	<u>115,374</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest revenue	<u>920</u>
Net cash provided (used) by investing activities	<u>920</u>
Net increase (decrease) in cash and cash equivalents	249,240
Balances - beginning of the year	<u>254,631</u>
Balances - end of the year	<u><u>\$ 503,871</u></u>
<b>Reconciliation of income (loss) to net cash provided (used) by operating activities</b>	
Operating income (loss)	\$ 135,512
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation expense	209,380
Change in assets and liabilities:	
Receivables, net	(12,210)
Inventories, net	3,238
Prepays and other assets	373
Accounts payable	(171,380)
Deferred revenue	(12,711)
Accrued liabilities	(292)
Compensated absences	(7,171)
Tenant security deposits	<u>(11,793)</u>
Net cash provided (used) by operating activities	<u><u>\$ 132,946</u></u>

*The accompanying notes are an integral part of these financial statements.*

SHELBY COUNTY HOUSING AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
FOR YEAR ENDED JUNE 30, 2010

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Shelby County Housing Authority (the "Authority") have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Authority has previously implemented GASB Statement 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Certain significant changes in the statements are as follows: The financial statements will include a Management's Discussion and Analysis (MD&A) section providing an analysis of the Authority's overall financial position and results of operations.

The Authority is a special-purpose government engaged only in business-type activities and therefore, presents only the financial statements required for enterprise funds, in accordance with GASB Statement 34, paragraph 138. For these governments, basic financial statements and required supplemental information consist of:

- Management Discussion and Analysis (MD&A)
- Enterprise fund financial statements consisting of –
  - \* Statement of Net Assets
  - \* Statement of Revenues, Expenses and Changes in Fund Net Assets
  - \* Statement of Cash Flows
- Notes to financial statements
- Required supplemental information other than MD&A

The Authority has multiple programs which are accounted for in one enterprise fund, which is presented as the "enterprise fund" in the basic financial statements. Significant Authority policies are described below.

**A. The Reporting Entity**

The Authority was established as a tax-exempt quasi-governmental entity under the United States Housing Act of 1937 for the purpose of providing affordable housing to low and moderate income families in Shelby County, Tennessee. The governing body of the Authority is composed of a 4 member appointed Board of Commissioners (the "Board"). The Mayor appoints the Board, who in turn hires the Executive Director. The Authority is governed by its charter and by-laws, state and local laws and federal regulations. The Board is responsible for the establishment and adoption of policy. The execution of such policy is the responsibility of the Authority's management. The Authority has no component units.

**B. Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The Authority's financial statements are accounted for on the flow of economic resources management focus using the accrual basis of accounting. The accounting objectives are a determination of net income, financial position, and changes in cash flow.

All assets and liabilities associated with a proprietary fund's activities are included on the Statement of Net Assets. Proprietary fund net assets are segregated into Invested in Capital Assets, Net of Related Debt, Restricted Net Assets and Unrestricted Net Assets. Revenues are recognized when they are earned and expenses are recognized when incurred. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary funds are rental charges to tenants and operating subsidy grants from HUD. Operating expenses for proprietary funds include the cost of administrative expenses, maintenance expenses, and depreciation on capital assets. All revenues and expenses not meeting this

SHELBY COUNTY HOUSING AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
FOR YEAR ENDED JUNE 30, 2010

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

definition are reported as non-operating revenues and expenses. The Authority applies restricted resources to fund restricted costs and unrestricted resources to fund unrestricted costs. All material inter-program accounts and transactions are eliminated in the preparation of the basic financial statements.

Pursuant to GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities 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 contradicts GASB pronouncements.

The Authority has previously adopted GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. In accordance with this statement, the Authority accounted for all grants that qualify as non-exchange transactions, recognizing receivables and revenues when all applicable eligibility requirements are met. In addition, capital contributions are recorded on the Statement of Revenues, Expenses and Changes in Fund Net Assets after income before contributions and before changes in net assets.

Generally accepted accounting principles for state and local governments requires that resources be classified for accounting and reporting purposes into the following three net asset categories:

- *Invested in capital assets, net of related debt* – Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.
- *Restricted* – Net assets whose use by the Authority is subject to externally imposed stipulations that can be fulfilled by actions of the Authority pursuant to those stipulations or that expire by the passage of time. Such assets include assets restricted for capital acquisitions, debt service and HUD mandated HAP equity.
- *Unrestricted* – Net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of management or the Board or may otherwise be limited by contractual agreements with outside parties.

**C. Cash, Cash Equivalents and Investments**

Cash and cash equivalents include cash on hand, demand deposits and money market accounts. For purposes of the statement of cash flows, the Authority considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents. The carrying amounts reported on the balance sheet approximate fair values because of the short maturities of those investments.

**D. Receivables**

Receivables include amounts from tenants for rental of housing units. All receivables are current and due within one year. Receivables are reported net of an allowance for uncollectible accounts. Allowances are reported when accounts are proven to be uncollectible. At June 30, 2010, the allowance account is \$9,187 based on the Authority's estimates.

**E. Restricted Assets and Liabilities**

Debt covenants, HUD regulations, and inter-local agreements restrict the use of certain assets. Restricted assets are offset by related liabilities in accordance with their liquidity.

SHELBY COUNTY HOUSING AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
FOR YEAR ENDED JUNE 30, 2010

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

**F. Inventories**

Inventories are accounted for under the consumption method and recorded at the lower of cost or market. Materials and supplies are recorded as inventories when purchased and as expenditures when used.

**G. Prepaids**

Prepaids represent payments made to vendors for services that will benefit beyond June 30, 2010.

**H. Capital Assets**

Capital assets include property, furniture, equipment and machinery. Capital assets with initial, individual costs that equal or exceed \$500 and estimated useful lives of over one year are recorded as capital assets. 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. Construction in progress consists of capital improvements funded by modernization grant programs. Capital assets are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings & Improvements	20-40
Improvements other than buildings	15
Furniture, equipment, and machinery	3-7

**I. Compensated Absences**

The Authority's policy allows each employee to accumulate up to 240 vacation hours and be paid for them upon separation. Unlimited sick leave can also be accrued but is only paid in the event of illness while employed. Time accrued beyond these amounts is forfeited unless exception is granted by the Board. The majority of employees utilize their annual accrual of vacation and sick leave during the year accrued. The Authority records compensated absences in the period they are earned and uses a systematic allocation process to allocate between short-term and long-term liability classification.

**J. Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**K. Recent Accounting Pronouncements**

The Authority's management has assessed the potential impact of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* and determined this is not applicable as the Authority provides no other postemployment benefits.

SHELBY COUNTY HOUSING AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
FOR YEAR ENDED JUNE 30, 2010

**NOTE 2 – CASH DEPOSITS AND INVESTMENTS**

Cash and investments may be invested in the following HUD-approved vehicles:

- Direct obligations of the federal government backed by the full faith and credit of the United States;
- Obligations of government agencies;
- Securities of government sponsored agencies;
- Demand and savings deposits; and,
- Time deposits and repurchase agreements.

At June 30, 2010, cash was in bank deposits or money market funds that were insured or collateralized with securities held by the Authority or by its agent in the Authority's name.

*Interest Rate Risk* – The Authority's formal investment policy does not specifically address the exposure to this risk.

*Credit Risk* - The Authority's formal investment policy does not specifically address credit risk. Credit risk is generally evaluated based on the credit ratings issued by nationally recognized statistical rating organizations.

*Custodial Credit Risk* – The Authority's policy is to limit credit risk by adherence to the list of HUD permitted investments, which are backed by the full faith and credit of or a guarantee of principal and interest by the U.S. Government.

*Concentration of Credit Risk* – The Authority's investment policy does not restrict the amount that the Authority may invest in any one issuer.

**NOTE 3 – CAPITAL ASSETS**

**A. Changes in Capital Assets**

Capital asset activity for the year ended June 30, 2010 was as follows:

	Beginning Balance	Prior Period Adjustments	Beginning Balance, as Restated	Additions	Decreases	Reclassifications	Ending Balance
Capital assets not being depreciated							
Land	\$ 100,000	\$ -	\$ 100,000	\$ -	\$ -	\$ -	\$ 100,000
Construction in process	320,794	-	320,794	162,756	-	(49,285)	434,265
Total capital assets not being depreciated	<u>420,794</u>	<u>-</u>	<u>420,794</u>	<u>162,756</u>	<u>-</u>	<u>(49,285)</u>	<u>534,265</u>
Capital assets being depreciated							
Buildings and improvements	6,981,053	-	6,981,053	-	(5,914,344)	49,285	1,115,994
Equipment	197,264	-	197,264	6,824	(23,611)	-	180,477
Total capital assets being depreciated	<u>7,178,317</u>	<u>-</u>	<u>7,178,317</u>	<u>6,824</u>	<u>(5,937,955)</u>	<u>49,285</u>	<u>1,296,471</u>
Less accumulated depreciation for:							
Buildings and improvements	(4,068,245)	(220,212)	(4,288,457)	(196,536)	3,977,256	-	(507,737)
Equipment	(157,106)	615	(156,491)	(12,844)	23,611	-	(145,724)
Total accumulated depreciation	<u>(4,225,351)</u>	<u>(219,597)</u>	<u>(4,444,948)</u>	<u>(209,380)</u>	<u>4,000,867</u>	<u>-</u>	<u>(653,461)</u>
Capital assets, net	<u>\$ 3,373,760</u>	<u>\$ (219,597)</u>	<u>\$ 3,154,163</u>	<u>\$ (39,800)</u>	<u>\$ (1,937,088)</u>	<u>\$ -</u>	<u>\$ 1,177,275</u>

SHELBY COUNTY HOUSING AUTHORITY  
 NOTES TO FINANCIAL STATEMENTS  
 FOR YEAR ENDED JUNE 30, 2010

**NOTE 3 – CAPITAL ASSETS (Continued)**

**B. Net Capital Assets**

The following is a summary of net capital assets as shown on the statement of net assets:

Land	\$ 100,000
Construction in progress	434,265
Buildings and improvements	1,115,994
Equipment	<u>180,477</u>
	1,830,736
Less: accumulated depreciation	<u>(653,461)</u>
Capital assets, net	<u><u>\$ 1,177,275</u></u>

**C. Capital Contributions**

The Authority receives capital grants from HUD. The Authority recognized \$162,756 in capital contributions for the fiscal year ended June 30, 2010.

**D. Loss on Impairment of Capital Assets**

In 2010, the Authority adopted a plan to dispose of the Horton Gardens public housing project. The Authority believes the sale of the related land and buildings is unlikely to occur in the near term. In connection with the plan of disposal, the Authority determined that the carrying value of the underlying assets exceeded their fair values. Consequently, the Authority recorded an impairment loss of approximately \$1,937,000, which represents the excess of the carrying values of the assets over their appraised value of \$200,000. The impairment loss is recorded as an extraordinary item, as this event is considered to be unusual in nature and infrequent in occurrence. Loss on Impairment of capital assets in the Statement of Revenue, Expenses and Changes in Fund Net Assets for the year ended June 30, 2010. The carrying values of the assets are included in Capital assets, net in the Statement of Net Assets and consist of the following at June 30, 2010:

Land	\$ 82,562
Buildings	<u>117,438</u>
Total	<u><u>\$ 200,000</u></u>

**NOTE 4 – NONCURRENT LIABILITIES**

Noncurrent Liabilities at June 30, 2010 consisted of the following:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Accr. Compensated Absences	\$ 13,287	\$ 12,578	\$ 19,749	\$ 6,116	\$ 4,281
Total Noncurrent Liabilities	<u>\$ 13,287</u>	<u>\$ 12,578</u>	<u>\$ 19,749</u>	<u>\$ 6,116</u>	<u>\$ 4,281</u>

SHELBY COUNTY HOUSING AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
FOR YEAR ENDED JUNE 30, 2010

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**NOTE 5 – PENSION PLAN (DEFINED CONTRIBUTION)**

The Authority provides pension benefits for its employees through a defined contribution plan, which is administered by *Housing Agency Retirement Trust*. The plan was adopted on November 1, 2008. Only the Board has the authority to approve any amendments to the plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. All employees are eligible for the plan after one year of service. The Authority contributes an amount equal to 2% of each employee's base salary to the plan. Employees are required to contribute 1% to the plan. During the past year, the Authority's contributions were \$3,739 and the employees contributions were \$1,870.

**NOTE 6 – RISK MANAGEMENT**

The Authority is exposed to various risks of losses related to torts; theft of, or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority has mitigated this risk by participating in a risk retention pool and obtaining insurance coverage from commercial insurance companies. Premiums paid for insurance coverage are recorded as expenses of the funds affected. Insurance coverage provided includes property and casualty, general liability, fidelity bond, and workers compensation. During the current or subsequent period there were no claims made or paid that were not covered by the Authority's insurance provider.

**NOTE 7 – CONCENTRATION OF RISK**

The Authority receives most of its funding from HUD. These funds and grants are subject to modification by HUD depending on availability of funding.

**NOTE 8 – COMMITMENTS AND CONTINGENCIES**

**Grants**

Amounts received or receivable from HUD are subject to audit and adjustment by grantor agencies. If expenses 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 9 – PRIOR PERIOD ADJUSTMENTS**

Invested in Capital Assets, Net of Related Debt has been decreased \$219,597 to adjust accumulated depreciation. This adjustment was to correct opening capital assets, net because of depreciation errors in prior years. This event had no effect on current year income.

**NOTE 10 – RESTRICTED NET ASSETS**

Restricted Net Assets consists of excess Housing Assistance Payment (HAP) funds available to the Authority under the Section 8 Housing Choice Vouchers program. These funds are to be used only for HAP expenditures for the program. These funds are also known as Restricted Net Assets since there is no offsetting liability. Total restricted net assets related to this excess were \$194,702 as of the end of the fiscal year.

SHELBY COUNTY HOUSING AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
FOR YEAR ENDED JUNE 30, 2010

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**NOTE 11 – 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 the 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 March 29, 2011 (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.

SHELBY COUNTY HOUSING AUTHORITY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR YEAR ENDED JUNE 30, 2010

Federal Grantor	CFDA Number	Contract Number	Beginning (Accrued) Deferred	Cash Receipts	Expenditures	Ending (Accrued) Deferred
<b>Federal Awards</b>						
<u>US Department of Housing and Urban Development (HUD):</u>						
Low Rent Public Housing Program	14.850	TN095-00000109D	\$ -	\$ 205,118	\$ 205,118	\$ -
Low Rent Public Housing	14.850	TN058-00000110D	-	199,648	199,648	-
<b>Total Low Rent Public Housing Program (14.850)</b>			-	<b>404,766</b>	<b>404,766</b>	-
Housing Choice Voucher Program	14.871		-	562,419	562,419	-
<b>Total Housing Choice Voucher Program (14.871)</b>			-	<b>562,419</b>	<b>562,419</b>	-
Capital Fund Program*	14.872	TN43P095501-06	-	43,084	43,084	-
Capital Fund Program*	14.872	TN43P095501-07	-	194,261	194,261	-
Capital Fund Program*	14.872	TN43P095501-08	-	-	49,148	(49,148)
<b>Total Capital Fund Program (14.872)</b>			-	<b>237,345</b>	<b>286,493</b>	<b>(49,148)</b>
<b>Capital Fund Stimulus (Formula) Recovery Act*</b>	14.885	TN43S095501-09	<b>(171,346)</b>	<b>315,372</b>	<b>144,026</b>	-
<b>TOTAL FEDERAL AWARDS</b>			<b>\$ (171,346)</b>	<b>\$ 1,519,902</b>	<b>\$ 1,397,704</b>	<b>\$ (49,148)</b>

\* Represents capital fund cluster for major program determination.

**Note A – Basis of Presentation**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Shelby County Housing Authority and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

SHELBY COUNTY HOUSING AUTHORITY  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 FOR YEAR ENDED JUNE 30, 2010

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**Section I - Summary of Auditor's Results**

**Financial Statements**

Type of auditor's report issued: Unqualified

Internal control over financial reporting:  
 Are any material weaknesses identified?   x   Yes        No

Are any significant deficiencies identified not considered to be material weaknesses?        Yes   x   None Reported

Is any noncompliance material to financial statements noted?        Yes   x   No

**Federal Awards**

Type of auditor's report issued on compliance for major programs: Qualified

Internal control over major programs:  
 Are any material weaknesses identified?        Yes   x   No

Are any significant deficiencies identified not considered to be material weaknesses?   x   Yes        None Reported

Are any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133, Section 510(a)?   x   Yes        No

Identification of major programs:  
 U.S. Department of Housing and Urban Development  
 CFDA #14.871 - Housing Choice Voucher Program  
 CFDA #14.872 - Capital Fund Program  
 CFDA #14.885 - Capital Fund Stimulus Program

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Is the auditee qualified as low-risk auditee?        Yes   x   No

**Section II - Financial Statement Findings**

See pages 22

**Section III - Federal Award Findings and Questioned Costs**

See pages 23 and 24

SHELBY COUNTY HOUSING AUTHORITY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR YEAR ENDED JUNE 30, 2010

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10-01 Financial Reporting

*Condition and Criteria:*

During our audit, we identified certain material misstatements to prior year audited and current year unaudited financial statements. In addition, we determined that the Board was not providing adequate governance and oversight over the Authority's financial reporting.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements of the financial statements on a timely basis. Statement on Auditing Standards (SAS) 115 states that the restatement of previously issued financial statements due to the correction of an error, identification by the auditor of a material misstatement of the financial statements under audit and ineffective oversight of the entity's financial reporting and internal control by those charged with governance are indications of material weaknesses.

*Cause:*

During the year, the Authority converted to a new accounting software and encountered significant difficulties during implementation. The Authority also relocated to a new public housing office after the prior office was severely vandalized in which certain records were destroyed or misplaced. In regards to governance, the Board of Commissioners experienced significant turnover and did not meet regularly during the year.

*Effect:*

The Authority reported a prior period adjustment in the current year financial statements to correct depreciation errors in prior years and we identified certain material misstatement of expenses in the current year. Also, the Authority could not provide a Board approved 2010 operating budget and operated without proper Board oversight during the year.

*Auditor's Recommendation:*

We recommend the Authority continue to become more familiar with the accounting software and its capabilities to ensure financial transactions are properly recorded and necessary historical reports are available for review. Board meetings should occur at least quarterly and sufficient financial information should be provided to Board members to facilitate effective oversight over the Authority's financial reporting while ensuring all applicable policies and procedures are followed.

*Grantee Response:*

The Executive Director acknowledges the finding and is following the auditor's recommendation.

SHELBY COUNTY HOUSING AUTHORITY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR YEAR ENDED JUNE 30, 2010

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10-02 Eligibility – Housing Choice Voucher Program

*Condition and Criteria:*

The Authority could not produce all necessary, required information in certain tenant files selected for testing to determine eligibility and/or support proper determination of tenant rents.

OMB Circular A-133 Single Audit compliance requirements require that for tenant eligibility, tenant files include certain information and documentation. Per 24 CFP section 5.230, 5.603, & 960.259, tenants are required to provide necessary information, documentation, and releases for the Authority to verify income eligibility.

*Cause:*

The Authority could not provide certain required documentation from tenants necessary to perform eligibility determination and accurate tenant rent calculations. The Housing Choice Voucher Program was newly implemented in the current year and employees had limited experience with the compliance requirements of the program. In addition, the closure of the Horton Gardens public housing project and the occurrence of a natural disaster in the form of a flood that displaced hundreds of families in Shelby County, TN and the surrounding area created excessive demand for Section 8 rental assistance.

*Effect:*

Some of the Authority's tenants may be ineligible for the Section 8 Housing Choice Voucher Program and/or the Authority may not be charging the tenants the correct amount of rent.

*Auditor's Recommendation:*

The Authority should be more thorough when obtaining the required eligibility information from the tenants and should ensure tenants provide all necessary information and documentation before admittance into the Authority's Housing Choice Voucher Program.

*Grantee Response:*

The Executive Director acknowledges the finding and is following the auditor's recommendation.

SHELBY COUNTY HOUSING AUTHORITY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR YEAR ENDED JUNE 30, 2010

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10-03 Special Tests - Housing Choice Vouchers Program

*Condition and Criteria:* The Authority did not comply with HUD requirements to provide sufficient documentation to determine rent reasonableness or the proper enforcement of HQS inspection violations.

*Cause:* The Housing Choice Voucher Program was newly implemented in the current year and employees had limited experience with the compliance requirements of the program. In addition, the closure of the Horton Gardens public housing project and the occurrence of a natural disaster in the form of a flood that displaced hundreds of families in Shelby County, TN and the surrounding area created excessive demand for Section 8 rental assistance.

*Effect:* Sufficient documentation was not available to verify compliance with certain Special Test compliance requirements of the Housing Choice Voucher Program.

*Auditor's Recommendation:* The Authority should perform an internal review of all controls over compliance with Housing Choice Voucher program requirements, including quality control inspections of tenant files.

*Grantee Response:* The Executive Director acknowledges the finding and is following the auditor's recommendation.

To the Board of Commissioners  
Shelby County Housing Authority

Independent Accountant's Report on Applying Agreed-Upon Procedure

We have performed the procedure described in the second paragraph, which was agreed to by the Shelby County Housing Authority (the "Authority") and the U.S. Department of Housing and Urban Development, Real Estate Assessment Center (REAC), solely to assist them in determining whether the electronic submission of certain information agrees with related hard copy documents. The Authority is responsible for the accuracy and completeness of the electronic submission. This agreed upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedure is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedure described below either for the purpose for which this report has been requested or for any other purpose.

We compared the electronic submission of the items listed in the "UFRS Rule Information" column with the corresponding printed documents listed in the "Hard Copy Documents" column. The results of the performance of our agreed-upon procedure indicate agreement or non-agreement of electronically submitted information and hard copy documents as shown in the chart below.

We were engaged to perform an audit in accordance with OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, for the Authority as of and for the year ended June 30, 2010, and have issued our reports thereon dated March 29, 2011. The information in the "Hard Copy Documents" column was included within the scope, or was a by-product, of that audit. Further, our opinion on the fair presentation of the Authority's Financial Data Schedule (FDS) dated March 29, 2011, was expressed in relation to the basic financial statements of the Authority taken as a whole.

A copy of the reporting package required by OMB Circular A-133, which includes the auditor's reports, is available in its entirety from the Authority. We have not performed any additional auditing procedures since the date of the aforementioned audit reports. Further, we take no responsibility for the security of the information transmitted electronically to the U.S. Department of Housing and Urban Development, REAC.

This report is intended solely for the information and use of the Authority and the U.S. Department of Housing and Urban Development, REAC, and is not intended to be and should not be used by anyone other than these specified parties.

Procedure	UFRS Rule Information	Hard Copy Documents	Agrees	Does Not Agree
1	Balance Sheet and Revenue And Expense	Financial Data Schedule, all CFDA's	X	
2	Footnotes	Footnotes to audited basic financial statements	X	
3	Type of opinion on FDS	Auditor's supplemental Report on FDS	X	
4	Audit findings narrative	Schedule of Findings and Questioned Costs	X	
5	General Information	OMB Data Collection Form	X	
6	Financial Statement Report information	Schedule of Findings and Questioned Costs, Part 1 and OMB Data Collection Form	X	
7	Federal program report Information	Schedule of Findings and Questioned Costs, Part 1 and OMB Data Collection Form	X	
8	Federal agencies required to receive reporting package	OMB Data Collection Form	X	
9	Basic financial statements and auditor's reports required to be submitted electronically	Basic financial statements (inclusive of auditor reports)	X	

*Henderson & Hill, LLC*  
Henderson & Hill, LLC  
March 29, 2011

Shelby County Housing Authority  
Financial Data Schedule - Balance Sheet  
June 30, 2010

	Project Total	14,871 Housing Choice Vouchers	14,885 Formula Capital Fund Stimulus Grant	Subtotal	ELIM	Total
111 Cash - Unrestricted	\$ 288,861	\$ 16,658	\$ -	\$ 305,519	\$ -	\$ 305,519
112 Cash - Restricted - Modernization and Development						
113 Cash - Other Restricted		194,702		194,702		194,702
114 Cash - Tenant Security Deposits	3,650			3,650		3,650
115 Cash - Restricted for Payment of Current Liabilities						
100 Total Cash	292,511	211,360	-	503,871	-	503,871
121 Accounts Receivable - PHA Projects						
122 Accounts Receivable - HUD Other Projects	49,148			49,148		49,148
124 Accounts Receivable - Other Government						
125 Accounts Receivable - Miscellaneous	2,961			2,961		2,961
126 Accounts Receivable - Tenants	19,145			19,145		19,145
126.1 Allowance for Doubtful Accounts - Tenants	(9,187)			(9,187)		(9,187)
126.2 Allowance for Doubtful Accounts - Other						
127 Notes, Loans, & Mortgages Receivable - Current						
128 Fraud Recovery						
128.1 Allowance for Doubtful Accounts - Fraud						
129 Accrued Interest Receivable						
120 Total Receivables, Net of Allowances for Doubtful Accounts	62,067	-	-	62,067	-	62,067
131 Investments - Unrestricted						
132 Investments - Restricted						
135 Investments - Restricted for Payment of Current Liability						
142 Prepaid Expenses and Other Assets	18,457			18,457		18,457
143 Inventories	9,886			9,886		9,886
143.1 Allowance for Obsolete Inventories	(500)			(500)		(500)
144 Inter Program Due From	101,793			101,793	(101,793)	-
145 Assets Held for Sale						
150 Total Current Assets	484,214	211,360	-	695,574	(101,793)	593,781
161 Land	100,000			100,000		100,000
162 Buildings	887,654			887,654		887,654
163 Furniture, Equipment & Machinery - Dwellings						
164 Furniture, Equipment & Machinery - Administration	180,477			180,477		180,477
165 Leasehold Improvements	228,340			228,340		228,340
166 Accumulated Depreciation	(653,461)			(653,461)		(653,461)
167 Construction in Progress	434,265			434,265		434,265
168 Infrastructure						
160 Total Capital Assets, Net of Accumulated Depreciation	1,177,275	-	-	1,177,275	-	1,177,275
171 Notes, Loans and Mortgages Receivable - Non-Current						
172 Notes, Loans, & Mortgages Receivable - Non Current - Past Due						
173 Grants Receivable - Non Current						
174 Other Assets						
176 Investments in Joint Ventures						
180 Total Non-Current Assets	1,177,275	-	-	1,177,275	-	1,177,275
190 Total Assets	1,661,489	211,360	-	1,872,849	(101,793)	1,771,056
311 Bank Overdraft						
312 Accounts Payable <= 90 Days	147			147		147
313 Accounts Payable >90 Days Past Due						
321 Accrued Wage/Payroll Taxes Payable	7,075			7,075		7,075
322 Accrued Compensated Absences - Current Portion	4,281			4,281		4,281

Shelby County Housing Authority  
Financial Data Schedule - Balance Sheet  
June 30, 2010

324	Accrued Contingency Liability					
325	Accrued Interest Payable					
331	Accounts Payable - HUD PHA Programs					
332	Account Payable - PHA Projects					
333	Accounts Payable - Other Government					
341	Tenant Security Deposits	3,650		3,650		3,650
342	Deferred Revenues					
343	Current Portion of Long-term Debt - Capital Projects/Mortgage Revenue Bonds					
344	Current Portion of Long-term Debt - Operating Borrowings					
345	Other Current Liabilities					
346	Accrued Liabilities - Other	2		2		2
347	Inter Program - Due To		101,793	101,793	(101,793)	
348	Loan Liability - Current					
310	Total Current Liabilities	15,155	101,793	-	116,948	15,155
351	Long-term Debt, Net of Current - Capital Projects/Mortgage Revenue					
352	Long-term Debt, Net of Current - Operating Borrowings					
353	Non-current Liabilities - Other					
354	Accrued Compensated Absences - Non Current	1,835		1,835		1,835
355	Loan Liability - Non Current					
356	FASB 5 Liabilities					
357	Accrued Pension and OPEB Liabilities					
350	Total Non-Current Liabilities	1,835	-	1,835	-	1,835
300	Total Liabilities	16,990	101,793	-	118,783	16,990
508.1	Invested in Capital Assets, Net of Related Debt	1,177,275		1,177,275		1,177,275
509.2	Fund Balance Reserved					
511.2	Unreserved, Designated Fund Balance					
511.1	Restricted Net Assets		194,702	194,702		194,702
512.1	Unrestricted Net Assets	467,224	(85,135)	382,089		382,089
512.2	Unreserved, Undesignated Fund Balance					
513	Total Equity/Net Assets	1,644,499	109,567	-	1,754,066	1,754,066
600	Total Liabilities and Equity/Net Assets	\$ 1,661,489	\$ 211,360	\$ -	\$ 1,872,849	\$ 1,771,056

Shelby County Housing Authority  
 Financial Data Schedule - Income Statement  
 For Year Ended June 30, 2010

	Project Total	14.871 Housing Choice Vouchers	14.885 Formula Capital Fund Stimulus Grant	Subtotal	ELIM	Total
70300 Net Tenant Rental Revenue	\$ 128,729	\$ -	\$ -	\$ 128,729	\$ -	\$ 128,729
70400 Tenant Revenue - Other						
70500 Total Tenant Revenue	128,729	-	-	128,729		128,729
70600 HUD PHA Operating Grants	672,529	562,419		1,234,948		1,234,948
70610 Capital Grants	18,730		144,026	162,756		162,756
70710 Management Fee						
70720 Asset Management Fee						
70730 Book Keeping Fee						
70740 Front Line Service Fee						
70750 Other Fees						
70700 Total Fee Revenue						
70800 Other Government Grants						
71100 Investment Income - Unrestricted	731			731		731
71200 Mortgage Interest Income						
71300 Proceeds from Disposition of Assets Held for Sale						
71310 Cost of Sale of Assets						
71400 Fraud Recovery						
71500 Other Revenue	71,394			71,394		71,394
71600 Gain or Loss on Sale of Capital Assets						
72000 Investment Income - Restricted		189		189		189
70000 Total Revenue	892,113	562,608	144,026	1,598,747		1,598,747
91100 Administrative Salaries	106,476	70,872		177,348		177,348
91200 Auditing Fees	7,175			7,175		7,175
91300 Management Fee						
91310 Book-keeping Fee						
91400 Advertising and Marketing	2,200			2,200		2,200
91500 Employee Benefit contributions - Administrative	45,781	24,348		70,129		70,129
91600 Office Expenses	53,129			53,129		53,129
91700 Legal Expense	2,074			2,074		2,074
91800 Travel	1,507			1,507		1,507
91810 Allocated Overhead						
91900 Other	35,397	63		35,460		35,460
91000 Total Operating - Administrative	253,739	95,283		349,022		349,022
92000 Asset Management Fee						
92100 Tenant Services - Salaries						
92200 Relocation Costs	106,532			106,532		106,532
92300 Employee Benefit Contributions - Tenant Services						
92400 Tenant Services - Other						
92500 Total Tenant Services	106,532			106,532		106,532
93100 Water	15,930			15,930		15,930
93200 Electricity	15,237			15,237		15,237
93300 Gas	5,678			5,678		5,678
93400 Fuel						
93500 Labor						
93600 Sewer	9,565			9,565		9,565
93700 Employee Benefit Contributions - Utilities						
93800 Other Utilities Expense	1,263			1,263		1,263
93000 Total Utilities	47,673			47,673		47,673

Shelby County Housing Authority  
Financial Data Schedule - Income Statement  
For Year Ended June 30, 2010

94100 Ordinary Maintenance and Operations - Labor	61,218			61,218	61,218
94200 Ordinary Maintenance and Operations - Materials and Other	7,402			7,402	7,402
94300 Ordinary Maintenance and Operations Contracts	91,417			91,417	91,417
94500 Employee Benefit Contributions - Ordinary Maintenance	16,150			16,150	16,150
94000 Total Maintenance	176,187			176,187	176,187
95100 Protective Services - Labor					
95200 Protective Services - Other Contract Costs					
95300 Protective Services - Other					
95500 Employee Benefit Contributions - Protective Services					
95000 Total Protective Services					
96110 Property Insurance	9,275			9,275	9,275
96120 Liability Insurance	4,170			4,170	4,170
96130 Workmen's Compensation	5,058			5,058	5,058
96140 All Other Insurance					
96100 Total Insurance Premiums	18,503			18,503	18,503
96200 Other General Expenses	25,342			25,342	25,342
96210 Compensated Absences	7,005	5,573		12,578	12,578
96300 Payments in Lieu of Taxes					
96400 Bad debt - Tenant Rents	2,157			2,157	2,157
96500 Bad debt - Mortgages					
96600 Bad debt - Other					
96800 Severance Expense					
96000 Total Other General Expenses	34,504	5,573		40,077	40,077
96710 Interest of Mortgage (or Bonds) Payable					
96720 Interest on Notes Payable (Short and Long Term)					
96730 Amortization of Bond Issue Costs					
96700 Total Interest Expense and Amortization Cost					
96900 Total Operating Expenses	637,138	100,856		737,994	737,994
97000 Excess of Operating Revenue over Operating Expenses	254,975	461,752	144,026	860,753	860,753
97100 Extraordinary Maintenance					
97200 Casualty Losses - Non-capitalized					
97300 Housing Assistance Payments		352,185		352,185	352,185
97350 HAP Portability-In					
97400 Depreciation Expense	209,380			209,380	209,380
97500 Fraud Losses					
97600 Capital Outlays - Governmental Funds					
97700 Debt Principal Payment - Governmental Funds					
97800 Dwelling Units Rent Expense					
90000 Total Expenses	846,518	453,041		1,299,559	1,299,559
10010 Operating Transfer In	161,231			161,231	161,231
10020 Operating transfer Out	(161,231)			(161,231)	(161,231)
10030 Operating Transfers from/to Primary Government					
10040 Operating Transfers from/to Component Unit					
10050 Proceeds from Notes, Loans and Bonds					
10060 Proceeds from Property Sales					
10070 Extraordinary Items, Net Gain/Loss	(1,937,088)			(1,937,088)	(1,937,088)
10080 Special Items (Net Gain/Loss)					
10091 Inter Project Excess Cash Transfer In					
10092 Inter Project Excess Cash Transfer Out					
10093 Transfers between Program and Project - In					

Shelby County Housing Authority  
Financial Data Schedule - Income Statement  
For Year Ended June 30, 2010

10094	Transfers between Project and Program - Out					
10100	Total Other financing Sources (Uses)	(1,937,088)	-	-	(1,937,088)	(1,937,088)
10000	Excess (Deficiency) of Total Revenue Over (Under) Total Expenses	(1,891,493)	109,567	144,026	(1,637,900)	(1,637,900)
11020	Required Annual Debt Principal Payments	-	-	-	-	-
11030	Beginning Equity	3,611,563	-	-	3,611,563	3,611,563
11040	Prior Period Adjustments, Equity Transfers and Correction of Errors	(75,571)	-	(144,026)	(219,597)	(219,597)
11050	Changes in Compensated Absence Balance					
11060	Changes in Contingent Liability Balance					
11070	Changes in Unrecognized Pension Transition Liability					
11080	Changes in Special Term/Severance Benefits Liability					
11090	Changes in Allowance for Doubtful Accounts - Dwelling Rents					
11100	Changes in Allowance for Doubtful Accounts - Other					
11170	Administrative Fee Equity		(85,135)		(85,135)	(85,135)
11180	Housing Assistance Payments Equity		194,702		194,702	194,702
11190	Unit Months Available	1,192	1,017		2,209	2,209
11210	Number of Unit Months Leased	1,028	676		1,704	1,704
11270	Excess Cash	396,999			396,999	396,999
11610	Land Purchases	-			-	-
11620	Building Purchases	162,756			162,756	162,756
11630	Furniture & Equipment - Dwelling Purchases	-			-	-
11640	Furniture & Equipment - Administrative Purchases	-			-	-
11650	Leasehold Improvements Purchases	-			-	-
11660	Infrastructure Purchases	-			-	-
13510	CFFP Debt Service Payments	-			-	-
13901	Replacement Housing Factor Funds	\$	\$	\$	\$	\$