

**CHELSEA HOUSING AUTHORITY**

**Financial Statements  
And Supplemental Data**

**December 31, 2006**



**MARTIN J. SCAFIDI, P.C.**  
*Certified Public Accountants*

**CHELSEA HOUSING AUTHORITY**  
**Financial Statements and Supplementary Information**  
**December 31, 2006**

**Table of Contents**

	<u>Page</u>
<b><u>Government-wide Financial Statement Section</u></b>	
Independent Auditors' Report on Financial Statements and Supplementary Data	1-2
Management's Discussion and Analysis	3-9
Financial Statements:	
Statement of Net Assets	10
Statement of Revenues, Expenses, and Changes in Net Assets	11
Statement of Cash Flows – Direct Method	12
Notes to the Financial Statements	13-19
Financial Statements Supplementary Data:	
Combining Balance Sheets – All Federal Funds	20
Combining Statements of Revenues, Expenditures, and Changes in Fund Balances – All Federal Funds	21
Combining Balance Sheets – All State and Local Funds	22
Combining Statements of Revenues, Expenditures, and Changes in Fund Balances – All State and Local Funds	23
Schedule of ROSS Grant Costs – Completed	24
Schedule of Capital Fund Program Costs – Uncompleted	25
<b><u>Single Audit Section</u></b>	
Independent Auditors' Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit performed in accordance With <i>Government Auditing Standards</i>	26
Independent Auditors' Report on Compliance with Requirements Applicable To Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133	27-28
Schedule of Federal Awards Expenditures	29
Notes to Schedule of Federal Awards Expenditures	30
Schedule of Findings and Questioned Costs	31



MARTIN J. SCAFIDI, P.C.  
*Certified Public Accountants*

**Independent Auditors' Report on Financial Statements and Supplemental Data**

Board of Commissioners  
Chelsea Housing Authority  
Chelsea, Massachusetts

We have audited the accompanying statement of net assets of the Chelsea Housing Authority ("the Authority") as of December 31, 2006, and the related statements of activities and cash flows for year then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

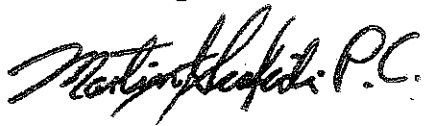
We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Chelsea Housing Authority as of December 31, 2006, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States.

The Management's Discussion and Analysis included is not a required part of the financial statements but is 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 an opinion on the basic financial statements of the Chelsea Housing Authority taken as a whole. The accompanying supplementary Financial Data Schedules requested by HUD are presented for the purposes of additional analysis and are not a required part of the basic financial statements of the Authority. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations*, 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, is fairly stated in all material respects in relation to the financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our reports dated August 15, 2007 on our consideration of the Authority's compliance and internal controls over financial reporting and on the Authority's compliance with certain provisions of laws, regulations, contracts, and grants. These reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

A handwritten signature in black ink that reads "Martin J. Scafidi, P.C." The signature is written in a cursive, flowing style.

Martin J. Scafidi, P.C.  
Peabody, Massachusetts  
August 15, 2007

**CHELSEA HOUSING AUTHORITY**  
**Management's Discussion and Analysis**  
**December 31, 2006**

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 fiscal year ended December 31, 2006. We encourage readers to consider the information presented here in conjunction with the Authority's financial statements which begin on page 10.

**Financial Highlights**

- The net assets of the Authority exceeded its liabilities at the close of the most recent fiscal year by \$22,925,045.
- The net assets of the Authority consisted of Invested in Capital Assets in the amount of \$21,137,980; Restricted Net Asset in the amount of \$42,397 and Unrestricted Net Assets in the amount of \$1,744,668.
- The Authority's cash and investments at December 31, 2006 was \$1,409,400 representing an increase of \$552,722 from December 31, 2005.
- The Authority had intergovernmental revenues of \$10,723,766; program revenues (charges for services) of \$3,359,640; and other revenues of \$154,875. The Authority incurred program expenses (exclusive of depreciation expense and prior period adjustments) of \$12,517,129 for the year ended December 31, 2006. The Authority had depreciation expense of \$1,729,452 and a prior period net credit of \$(378,413) for the year ended December 31, 2006.

**Overview of the Chelsea Housing Authority**

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

**Overview of the Financial Statements**

The Chelsea Housing Authority's financial statements consist of two parts -1) management discussion analysis that is intended to serve as an introduction to the Authority's basic financial statements, and 2) the Authority's basic financial statements that 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, 2006**  
**(Unaudited)**

**Overview of the Financial Statements (continued)**

The Authority is considered a special purpose government accounted for as enterprise fund under accounting principles generally accepted in the United States of America (GAAP). Its chartered purpose is to assist in providing housing of low and moderate-income families and elderly individuals. All of the activities, programs, and grants administered by the Authority are focused for that purpose.

As a special purpose government enterprise fund, the Authority is permitted to issue combined entity level and fund level financial statements. These statements report financial information for each of the Authority's funds and a 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.

**Statement of Net Assets**

- The Statement of Net Assets 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. The Statement of Net Assets is presented in a format where assets equal liabilities plus net assets. 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, regulations, etc.

**CHELSEA HOUSING AUTHORITY**  
**Management's Discussion and Analysis**  
**December 31, 2006**  
**(Unaudited)**

**Overview of the Financial Statements (continued)**

**Statement of Revenues, Expenses and Changes in Fund Net Assets**

- This statement is similar to an Income Statement. This Statement includes operating revenues, such as rental income, operating expenses, such as administrative, utilities, maintenance and depreciation. Non-Operating revenue and expenses, such as grant revenue, investment income and interest expense and capital contributions and operating transfers.
- The focus of this 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, loans etc. and the items and amounts for which cash was used such as payments to vendors and contractors, payments to employees, repayment of loans etc. The statement is divided into four major sections, operating activities, non-capital financing activities, capital and related financing activities and investing activities. The statement functions down to the net increase or decrease in the Authority's cash accounts for the reporting period.

**Authority Funds**

A *fund* is a self-balancing 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 – All of the Authority's funds are business type funds. These are also called enterprise funds. The Authority has two major funds. There are no non-major funds.

Low and Moderate Rent Public Housing – This fund 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) or the Commonwealth of Massachusetts (DHCD). The Authority receives grants from HUD and DHCD to subsidize operating deficits. Tenants are charged rents based on a percentage of their income. The Authority receives numerous grants from HUD and DHCD that support the properties and activities of the tenants that are served by the program. The major grant programs that support the funds are:

- HUD Operating Fund – a program funded by HUD intended to subsidize the operating deficit of the Authority as determined by the Performance Funding System.

**CHELSEA HOUSING AUTHORITY**  
**Management's Discussion and Analysis**  
**December 31, 2006**  
**(Unaudited)**

**Authority Funds (continued)**

- HUD Capital Fund Grants – a grant program funded by HUD for improvements to properties owned by the Authority.
- State Modernization Grants – a grant program funded by DHCD for improvement to properties owned by the Authority.

Low Rent Leased Housing – This fund is used to account for leasing activities of properties that are not owned by the Authority. The Authority administers contracts with independent property owners that own property. The Authority subsidizes the family's rent through a Housing Assistance Payment made to the landlord. The funds for these payments are provided by program grants provided by HUD and DHCD. The Authority also receives an administrative fee that is part of the grant, and supports the administration of the programs.

**Capital Assets**

As of December 31, 2006 the Authority's investment in capital assets for its governmental activities was \$21,137,980 (net of accumulated depreciation and related debt). This investment in capital assets includes buildings, building improvements, office and maintenance equipment, and computer software.

Capital expenditures of \$1,003,414 were made for the improvement of the Authority's rental units through HUD Capital Fund and DHCD Modernization grants.

**An Overview of the Authority-Wide Financial Position and Operations**

The U.S. Department of Housing and Urban Development named the Chelsea Housing Authority as a "High Performer," HUD's highest possible rating, for the sixth straight year, based on HUD's annual comprehensive review for 2006. Its financial, management and physical reviews all scored in the 90 percentile (over 90% of the possible points) in a time of fiscal restraint and diminishing resources.

HUD's performance assessment system covers all aspects of housing authority operations, including financial, the physical condition of the units, management operations, and resident satisfaction and relations.

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

The Authority's total assets at December 31, 2006 were \$24,238,197; an increase of \$342,322 as compared to the amount for December 31, 2005.



**CHELSEA HOUSING AUTHORITY**  
**Management's Discussion and Analysis**  
**December 31, 2006**  
**(Unaudited)**

**An Overview of the Authority-Wide Financial Position and Operations (continued)**

The Authority's overall financial position and results of operations are presented below:

Chelsea Housing Authority  
Statement of Net Assets  
December 31, 2006

	2006	2005	Increase (Decrease)	Total Percentage Change
Current Assets	3,100,217	2,055,820	1,044,397	50.80%
Capital Assets, Net of Depreciation	21,137,981	21,840,055	(702,074)	(3.21%)
<b>Total Assets</b>	<b>24,238,198</b>	<b>23,895,875</b>	<b>342,323</b>	<b>1.43%</b>
Current Liabilities	1,154,902	538,978	615,924	114.28%
Non-Current Liabilities	158,251	155,159	3,092	1.99%
<b>Total Liabilities</b>	<b>1,313,153</b>	<b>694,137</b>	<b>619,016</b>	<b>89.18%</b>
<b>Net Assets</b>				
Invested in Capital Assets, Net of Debt	21,137,981	21,840,055	(702,074)	(3.21%)
Restricted	42,397	36,830	5,567	15.12%
Unrestricted	1,744,667	1,324,853	419,814	31.69%
<b>Total Net Assets</b>	<b>22,925,045</b>	<b>23,201,738</b>	<b>(276,693)</b>	<b>(1.19%)</b>

**CHELSEA HOUSING AUTHORITY**  
**Management's Discussion and Analysis**  
**December 31, 2006**  
**(Unaudited)**

**An Overview of the Authority-Wide Financial Position and Operations (continued)**

Chelsea Housing Authority  
Statement of Revenues, Expenses and Changes in Net Assets  
December 31, 2006

	2006	2005	Increase (Decrease)	Total Percentage Change
<b>Operating Revenues</b>				
Grants and Subsidies	10,723,766	9,276,841	1,446,925	15.60%
Rental Income	3,359,640	3,372,229	(12,589)	(0.37%)
Other Income	144,805	269,783	(124,978)	(46.33%)
Investment Income	24,728	18,241	6,487	35.56%
<b>Total Operating Revenues</b>	<b>14,252,939</b>	<b>12,937,094</b>	<b>1,315,845</b>	<b>10.17%</b>
<b>Operating Expenses</b>				
Housing Assistance Payments	5,339,759	5,331,556	8,203	0.15%
Administration & General	2,304,160	2,453,086	(148,926)	(6.07%)
Tenant Services	74,870	27,403	47,467	173.22%
Utilities	3,029,831	2,594,125	435,706	16.80%
Maintenance	1,362,065	1,378,001	(15,936)	(1.16%)
Protective Services	93,828	61,876	31,952	51.64%
Insurance	254,544	266,881	(12,337)	(4.62%)
PILOT	52,452	50,409	2,043	4.05%
Bad Debt – Tenants	2,296	13,254	(10,958)	(82.68%)
Extraordinary Maintenance	3,322	34,125	(30,803)	(90.27%)
Depreciation	1,729,452	1,735,197	(5,745)	(0.33%)
<b>Total Operating Expenses</b>	<b>14,246,579</b>	<b>13,945,913</b>	<b>300,666</b>	<b>2.16%</b>
<b>Net Operating (Loss) Income</b>	<b>6,360</b>	<b>(1,008,818)</b>		

**Economic Factors Affecting Next Year's Budget**

The following factors were considered in preparing the Authority's budget for the 2007 fiscal year:

- Operating subsidies for the HUD Low Rent Program was increased in 2007 over 2006. However, it has seen continuous reduction over the prior three years.
- Costs of Utilities, Employer Health Insurance, Employer Retirement Contributions, continue to rise at unprecedented rates.

**CHELSEA HOUSING AUTHORITY**  
**Management's Discussion and Analysis**  
**December 31, 2006**  
**(Unaudited)**

**Economic Factors Affecting Next Year's Budget (continued)**

- Massachusetts Department of Housing Community Development's budget guidelines for fiscal 2007, beginning 7/1/07, were issued with no increase to the bottom line non-utility expense level. This means Local Housing Authorities expense caps, imposed by DHCD, will remain the same as in fiscal 2002, which began July 1, 2001. This represents a five-year freeze.

**Future Events That Will Financially Impact the Authority**

Funding legislations 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, particularly utilities cost increases, will have an impact on the Chelsea Housing 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 Executive Director, Chelsea Housing Authority, 54 Locke Street, Chelsea, MA 02150 or call (617)-884-5617.

**CHELSEA HOUSING AUTHORITY**  
**Statement of Net Assets - Proprietary Fund Type**  
**December 31, 2006**

Assets

**Current Assets:**

Cash - unrestricted	\$ 1,409,400
Cash - restricted	7,455
Due from other governments	1,494,045
Tenant receivables, net of allowance	16,223
Miscellaneous receivables	62,220
Prepaid expenses	110,873
<b>Total current assets</b>	<b>3,100,216</b>

**Fixed Assets:**

Land	3,542,447
Buildings and improvements	48,745,750
Furniture and fixtures	661,735
Construction in progress	2,315,440
	55,265,372
Less accumulated depreciation	(34,127,391)
	21,137,981
<b>Total assets</b>	<b>\$ 24,238,197</b>

Liabilities and Net Assets

**Current Liabilities:**

Accrued compensated absences	\$ 52,750
Accounts payable	695,957
Security deposits held	7,455
Due to other governments	-
Deferred revenues	121,694
Accrued expenses and other liabilities	277,046
<b>Total current liabilities</b>	<b>1,154,902</b>

**Long-term Liabilities:**

Accrued compensated absences	158,250
<b>Total liabilities</b>	<b>1,313,152</b>

**Net Assets:**

Invested in capital assets (net of related debt)	21,137,980
Restricted	42,397
Unrestricted	1,744,668
<b>Total net assets</b>	<b>22,925,045</b>
<b>Total liabilities and net assets</b>	<b>\$ 24,238,197</b>

*See notes to financial statements.*

**CHELSEA HOUSING AUTHORITY**  
**Statement of Revenues, Expenses, and Changes in Net**  
**Assets - Proprietary Fund Type**  
**For the year ended December 31, 2006**

<b>Operating Revenues:</b>	
Intergovernmental	\$ 10,723,766
Tenant rental revenues	3,359,640
Other revenue	154,875
<b>Total operating revenues</b>	14,238,281
 <b>Operating Expenses:</b>	
Housing assistance payments	5,339,759
Administrative:	
Salaries	956,734
Benefits	507,052
Other	798,866
Tenant Services	74,871
Utilities:	
Water	957,985
Electricity	1,341,795
Gas	730,051
Maintenance:	
Salaries	707,950
Supplies	114,389
Benefits	377,400
Contractors	162,326
Protective services	93,828
Insurance	254,545
Payments in lieu of taxes	52,452
Depreciation	1,729,452
Other	47,126
<b>Total operating expenses</b>	14,246,581
<b>Operating income</b>	(8,300)
 <b>Non-operating income/expenses:</b>	
Interest income	14,663
<b>Change in Net Assets</b>	6,363
Net Assets, beginning, as previously reported	23,297,095
HUD Prior Period Adjustments	(378,413)
<b>Net Assets, ending</b>	\$ 22,925,045

*See notes to financial statements*

**CHELSEA HOUSING AUTHORITY**  
**Statement of Cash Flows - Direct Method - Proprietary Fund Types**  
**Year Ended December 31, 2006**

<b>Cash Flows from Operating Activities:</b>	
Receipts from tenants	\$ 3,337,049
Other receipts	133,502
Payments to suppliers	(5,810,532)
Payments to employees	<u>(989,468)</u>
<b>Net cash used in operating activities</b>	<u>(3,329,449)</u>
<b>Cash Flows from Noncapital Financing Activities:</b>	
Intergovernmental receipts	10,218,137
Housing assistance payments	<u>(5,339,759)</u>
<b>Net cash provided by noncapital financing activities</b>	<u>4,878,378</u>
<b>Cash Flows from Capital and Related Financing Activities:</b>	
Acquisition of capital assets	<u>(1,003,415)</u>
<b>Net cash used in capital and related financing activities</b>	<u>(1,003,415)</u>
<b>Cash Flow from Investing Activities:</b>	
Interest income	<u>14,663</u>
<b>Net cash provided by investing activities</b>	<u>14,663</u>
<b>Net Increase in Cash</b>	560,177
<b>Cash, Beginning of Year</b>	<u>856,678</u>
<b>Cash, End of Year</b>	<u><u>\$ 1,416,855</u></u>

*See notes to financial statements.*

**CHELSEA HOUSING AUTHORITY**  
**Notes to the Financial Statements**  
**December 31, 2006**

**Note 1 - Organization and Summary of Significant Accounting Policies**

**Organization and Reporting Entity**

The Chelsea Housing Authority (“the Authority”) was created in 1946 and operates under the provisions of Chapter 121B of the Massachusetts General Laws, as amended. The Authority operates and administers low-rent housing programs primarily for the benefit of residents of Chelsea, Massachusetts which are funded by the U.S. Department of Housing and Urban Development (“HUD”) and Commonwealth of Massachusetts’ Department of Housing and Community Development (“DCHD.”) The Authority is governed by an appointed five-member Board of Commissioners, who each serve five-year terms, as follows:

Henry Cordero, Chairman  
Stephen Roche  
Robert McWatters  
Patrick Flynn  
Maria Rivera

The Board of Commissioners hires and employs the Executive Director, Michael E. McLaughlin, who is responsible for the daily administration of the Authority.

The Chelsea Housing Authority currently administers the following housing programs:

Federal Public Housing  
Federal Section 8 Rental Vouchers  
State Aided Housing Program 400  
Massachusetts Rental Voucher Program

**Basis of Presentation**

The Authority’s financial statements and accounting policies conform to accounting principles generally accepted in the United States of America (“GAAP.”) GAAP for governmental units is formatted by the Government Accounting Standards Board (“GASB”)

The accounts of the Authority are organized and operated as an enterprise fund. The Authority accounts for its transactions with a set of self-balancing accounts that include its assets, liabilities, net assets, revenues, and expenses. Enterprise funds are used to account for operations that provide a service to the public financed by charges to users of that service and activities where the periodic measurement of net income is deemed appropriated for capital maintenance, public policy, management control, accountability, or other purposes.

**CHELSEA HOUSING AUTHORITY**  
**Notes to the Financial Statements**  
**December 31, 2006**

**Note 1 - Organization and Summary of Significant Accounting Policies (continued)**

**Measurement Focus and Basis of Accounting**

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting refers to the timing of the measurement made, regardless of the measurement focus applied.

The Authority's enterprise fund is accounted for on an economic resources measurement focus using the accrual basis of accounting. Revenues are recorded when they are earned. Expenses are recorded at the time the fund liability is incurred.

The Authority applies all applicable GASB pronouncements as well as all applicable Financial Accounting Standards Board pronouncements that were issued on or before November 30, 1989.

**Budgetary Control**

The Authority adopts a consolidated annual budget for all programs. In addition, an annual operating budget is adopted for the Federal Public Housing Low Rent Program. The budget for the Low Rent Housing is adopted on the basis of accounting practices prescribed by HUD, which differ in some respects from accounting principles generally accepted in the United States of America. The HUD basis of accounting, as it pertains to budgeting, does not recognize depreciation of fixed assets, materials and supplies inventory, allowances for doubtful accounts, or compensated absences.

**Summary of Significant Accounting Policies**

*Use of Estimates* – The preparation of financial statements in accordance with governmental accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and the disclosures of contingencies at the balance sheet date and the amounts of revenues, expenditures, and expenses for the year. Actual results could differ from those estimates.

*Cash and Cash Equivalents* – The Authority considers all cash in banks, demand deposits, money market funds, and short-term highly liquid investments with original maturities of three months or less to be cash and cash equivalents.

*Accounts Receivable* – Tenant rent receivable consists of amounts due from tenants and HUD for rents and operating subsidies, and are presented net of an allowance for doubtful accounts of \$7,011.



**CHELSEA HOUSING AUTHORITY**  
**Notes to the Financial Statements**  
**December 31, 2006**

**Note 1 - Organization and Summary of Significant Accounting Policies (continued)**

**Summary of Significant Accounting Policies (continued)**

**Fixed Assets** – Fixed assets are recorded at historical cost if purchased or constructed, or, if donated, at their estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the assets' useful lives are expensed as incurred. Included in the historical cost of land are any acquisition, title insurance, and related legal fees. Included in the historical cost of buildings and equipment are any development costs, professional fees, construction costs, insurance, taxes, and other "soft costs" associated with constructing the asset. The cost of buildings and equipment also includes any interest expense incurred during the construction period.

**Depreciation** – Depreciation on fixed assets is charged as an expense over the following useful lives:

Land and site improvements	20-40 years
Buildings	40 years
Building improvements	15 years
Equipment and furniture and fixtures	3-10 years

Capital assets are shown net of accumulated depreciation on the statement of net assets.

**Compensated Absences** – The Authority's employees earn vacation and sick time benefits at varying rates depending on their years of services. The Authority's policy is to permit employees to accumulate earned but unused vacation and sick pay benefits and carry them forward from year-to-year. When an employee terminates their employment, they are paid for any unused vacation and sick benefits. The cost of the accumulated vacation and sick leave are reported in the period the benefits are earned by the employee.

**Deferred Revenues** – The Authority reports deferred revenues on its balance sheet. Deferred revenues arise when resources are received by the Authority before it recognizes the revenues, such as when a receivable is recorded prior to the recognition of the revenue. In subsequent periods, when the Authority has the right to recognize the revenues, the liability for deferred revenue is removed from the balance sheet and the revenue is recognized.

**Equity Classifications** – Equity is classified as net assets and displayed in three components:

- 1) **Invested in capital assets, net of related debt:** Consists of capital assets, net of accumulated depreciation, and reduced by the outstanding balance of any bonds, mortgage notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.

**CHELSEA HOUSING AUTHORITY**  
**Notes to the Financial Statements**  
**December 31, 2006**

**Note 1 - Organization and Summary of Significant Accounting Policies (continued)**

**Summary of Significant Accounting Policies (continued)**

***Equity Classification(continued) –***

- 2) **Restricted net assets:** consists of net assets with restrictions place on their use either by (a) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (b) law through constitutional provisions or enabling legislations.
- 3) **Unrestricted net assets:** All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of debt.”

***Operating and Nonoperating Revenues and Expenses*** – The Authority distinguishes operating revenues and expenses from nonoperating revenues and expenses. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary activity’s principal ongoing operations. Operating revenues include tenant rental revenues and intergovernmental operating grants, since they constitute the Authority’s ongoing operations. Operating expenses include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

***Totals (Memorandum Only) Columns*** – Total columns on the financial statements are captioned as “Memorandum only” because they do not represent consolidated financial information and are presented only to facilitate financial analysis. These columns do not present information that reflects the financial position, results of operations, or cash flows in accordance with accounting principles generally accepted in the United States of America. Not all interfund eliminations have been made in the aggregation of this date.

**Note 2 – Cash**

The Authority maintains separate cash and investment accounts for use by individual Federal and State programs as well as a revolving account in which funds are deposited prior to allocation to individual programs. All deposits are collateralized as described below.

Cash and cash equivalents are classified in the following risk categories:

1. Fully insured by the Federal Deposit Insurance Corporation or the Massachusetts Deposit Insurance Fund, or registered and collateralized by securities held by the Authority or its agent in its name.
2. Collateralized with securities held by the pledging financial institution’s trust department or agent in the Authority’s name.
3. Uninsured and uncollateralized.

**CHELSEA HOUSING AUTHORITY**  
**Notes to the Financial Statements**  
**December 31, 2006**

**Note 2 – Cash (continued)**

As of December 31, 2006, the Authority's unrestricted and restricted cash, by collateralized investments, are as follows:

<b>Balances per bank:</b>	
Category 1	\$ 191,497
Category 2	1,278,431
Category 3	-
Exempt deposits in external investment pools	-
	1,469,928
Reconciling items	(53,073)
<b>Balances per financial statements</b>	<b>\$ 1,416,855</b>

**Note 3. Fixed Assets**

A summary of changes in fixed assets during the year ended December 31, 2006 is as follows:

	<u>January 1,</u> <u>2006</u>	<u>Additions</u>	<u>Adjustments/</u> <u>Transfers</u>	<u>December 31,</u> <u>2006</u>
<b>Proprietary-type funds:</b>				
Land and land improvements	\$ 2,138,723	\$ -	\$ -	\$ 2,138,723
Land improvements	1,403,724		-	1,403,724
Buildings	48,599,901	-	145,849	48,745,750
Furniture and equipment:				
Dwellings	297,340	-		297,340
Administration	364,395	-		364,395
Construction in progress	1,457,874	1,003,415	(145,849)	2,315,440
	54,261,957	1,003,415	-	55,265,372
Less accumulated depreciation	(32,421,903)	(1,705,488)	-	(34,127,391)
	<b>\$ 21,840,054</b>	<b>\$ (702,073)</b>	<b>\$ -</b>	<b>\$ 21,137,981</b>

**CHELSEA HOUSING AUTHORITY**  
**Notes to the Financial Statements**  
**December 31, 2006**

**Note 4. Line of Credit**

The Authority has an available line of credit agreement with a bank. Under the terms of the agreement, the Authority may borrow up to \$750,000. Interest is payable monthly at the bank's prime rate plus 1.00% (7.25% at December 31, 2006.) The line of credit is unsecured; however, the bank has the right of offset against any cash or other assets deposited with the bank. Any outstanding balance on the line of credit is due in full on July 1, 2007.

During the year ended December 31, 2006, the Authority borrowed approximately \$161,000 under this agreement. On December 31, 2006, the Authority had no outstanding borrowings under this agreement.

**Note 5 – Revenue Concentrations**

For the year ended December 31, 2006, the Authority received approximately 54% of its revenues from HUD in the form of Section 8 Voucher reimbursements, Housing Assistance Payments under the Federal Low Rent Housing Program, Capital Improvements Grants, and Resident Opportunity and Supportive Services grants. The Authority also received approximately 21% of its revenues from the DHCD in the form of operating expense subsidies under the State Aided Housing Program and Modernization Grants.

**Note 6 – Pension Plan**

The Authority follows the provisions of GASB Statement No. 27, *Accounting for Pensions for State and Local Government Employees* with respect to employees' retirement funds.

***Plan Description*** - All full-time employees of the Authority participate in the City of Chelsea, Massachusetts Retirement System ("the System,") which is a defined benefit, cost-sharing, multiple-employer Public Employee Retirement System administered by the City of Chelsea's Retirement Board. Chapter 32 of the Massachusetts General Laws assigns the System the authority to establish and amend benefit provisions of the plan, and grant cost-of-living increases. The System provides pension benefits, deferred allowances, and death and disability benefits to the plan members and beneficiaries. Members of the system may retire at age 55 with 10 years of service or at any age with 20 years of service. Both service requirements can be met with service with either the Authority or any other entity covered by the System. The System issues a publicly available report in accordance with guidelines established by the Public Employee Retirement Administrations Commission ("PERAC.") A copy of their report can be obtained by contacting the City of Chelsea Retirement System at (617) 889-8307.

**CHELSEA HOUSING AUTHORITY**  
**Notes to the Financial Statements**  
**December 31, 2006**

**Note 6 – Pension Plan (continued)**

*Funding Policy* – The contributions of plan members and the Authority are governed by Chapter 32 of the Massachusetts General Laws. The Authority's active plan members' contributions range from 5% to 11% of annual covered compensation, depending on the date of the members initial employment. The Authority is required to pay into the system its share of the remaining system-wide actuarially determined contribution plus administrative costs, as approved by PERAC, which are apportioned among the various member employers based on the active current payroll. The Commonwealth of Massachusetts reimburses the System for a portion of the benefit payments due to cost-of-living increases granted before July 1, 1998. Cost-of-living adjustments granted after June 30, 1998 must be approved by the City of Chelsea Retirement Board and are fund by the system. The Authority's contribution for the years ended December 31, 2006, 2005, and 2004 were \$582,706, \$552,873 and \$479,753 respectively, and were equal to its required contributions for each year.

**Note 7. Post-Retirement Health Care Benefits**

The Authority provides health care benefits to retirees and their dependants or survivors through the Authority's group health insurance plan. The cost of providing these benefits for approximately 24 covered retirees for the year ended December 31, 2006 was approximately \$107,000 and is included the Authority's financial statements.

**Note 8 – Risk Management, Commitments, and Contingencies**

The Authority is exposed various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, and natural disasters in the normal course of business for which the Authority covers commercial insurance. Management periodically reviews its insurance coverage and believes it has adequate insurance.

Certain claims, suits, and complaints arising in the normal course of business have been filed and are pending against the Authority. The Authority has not experienced a material loss from such matters in the past and Management believes that all such matters are either adequately insured, without merit, involve amounts which would not be material to the financial statements, or that a combination of those previous three conditions would apply.

Amounts received or receivable by the Authority from grantor agencies, principally HUD or DHCD, are subject to audit by the grantor agencies. Any disallowed claims, including amounts already collected by the Authority, may be required to be repaid by the Authority and would constitute a liability of the applicable funds. Management has not experienced any disallowed claims in the past and believes amounts owed, if any, would not be material to the financial statements.

**CHELSEA HOUSING AUTHORITY**  
**Financial Data Schedule: Combining Statement of Assets, Liabilities, and Net Assets - All Funds**  
**December 31, 2006**

	Federal Low Rent	Federal Section 8	Federal CFP Grants	ROSS Grant	State and Local	Eliminations	(Memorandum Only) Total
<b>ASSETS</b>							
<b>Current Assets:</b>							
Cash - unrestricted	\$ 147,817	\$ 61,147	\$ 1,150	\$ -	\$ 1,199,286	\$ -	\$ 1,409,400
Cash - restricted	948	-	-	-	6,507	-	7,455
Due from other governments	-	-	383,092	-	1,110,953	-	1,494,045
Tenant receivables, net of allowance	4,464	-	-	-	11,759	-	16,223
Fraud recovery receivables	-	47,705	-	-	14,515	-	62,220
Prepaid expenses	31,206	7,292	-	-	72,375	-	110,873
Due from other funds	502,445	897,417	-	-	1,473,229	-	2,873,091
Total current assets	686,880	1,013,561	384,242	-	3,888,624	-	5,973,307
<b>Rental Property and Equipment:</b>							
Land	1,048,639	-	-	-	2,493,808	-	3,542,447
Buildings and Improvements	26,734,913	-	145,850	-	21,864,987	-	48,745,750
Furniture and fixtures	531,107	12,095	-	-	118,533	-	661,735
Construction in progress	-	-	-	-	2,315,440	-	2,315,440
Less accumulated depreciation	(17,605,900)	(1,210)	(14,534)	-	(16,505,747)	-	(34,127,391)
Total Assets	\$ 11,395,639	\$ 1,024,446	\$ 515,558	\$ -	\$ 14,175,645	\$ -	\$ 27,111,288
<b>LIABILITIES AND NET ASSETS</b>							
<b>Current Liabilities:</b>							
Accrued compensated absences	\$ 21,290	\$ 7,433	\$ -	\$ -	\$ 24,027	\$ -	\$ 52,750
Accounts payable	-	16,942	-	-	679,015	-	695,957
Security deposits held	948	-	-	-	6,507	-	7,455
Due to other governments	-	-	-	-	-	-	-
Deferred revenues	17,900	47,705	-	-	56,089	-	121,694
Accrued expenses and other liabilities	-	-	-	-	277,046	-	277,046
Due to other funds	-	37,492	384,243	-	2,451,355	-	2,873,090
Total current liabilities	40,138	109,572	384,243	-	3,494,039	-	4,027,992
<b>Long-term Liabilities:</b>							
Accrued compensated absences	63,870	22,300	-	-	72,080	-	158,250
Total liabilities	104,008	131,872	384,243	-	3,566,119	-	4,186,242
Investment in Fixed Assets	10,708,758	10,885	131,317	-	10,287,020	-	21,137,980
Restricted Net Assets	-	-	-	-	42,397	-	42,397
Unrestricted Net Assets	582,871	881,688	-	-	280,109	-	1,744,668
Total Liabilities and Fund Balance	\$ 11,395,637	\$ 1,024,445	\$ 515,560	\$ -	\$ 14,175,645	\$ -	\$ 27,111,287

**CHELSEA HOUSING AUTHORITY**  
**Financial Data Schedule: Combining Statement of Revenues, Expenses, and Changes in Net Assets - All Funds**  
For the year ended December 31, 2006

	Federal Low Rent	Federal Section 8	Federal CFP	ROSS Grant	State and Local	Eliminations	(Memorandum Only) Total
<b>Revenues:</b>							
Intergovernmental	\$ 1,051,423	\$ 5,838,958	\$ 767,485	\$ 40,073	\$ 3,025,827	\$ -	\$ 10,723,766
Tenant rental revenues	1,311,047	-	-	-	2,048,593	-	3,359,640
Other revenue	15,895	80,300	-	-	58,680	-	154,875
Total revenues	<u>2,378,365</u>	<u>5,919,258</u>	<u>767,485</u>	<u>40,073</u>	<u>5,133,100</u>	<u>-</u>	<u>14,238,281</u>
<b>Expenses:</b>							
Housing assistance payments	-	4,900,005	-	-	439,754	-	5,339,759
Administrative:							
Salaries	306,804	294,019	-	1,184	354,727	-	956,734
Benefits	155,942	156,059	-	-	195,051	-	507,052
Other	95,659	194,624	292,024	-	216,559	-	798,866
Tenant Services	35,259	-	-	38,889	723	-	74,871
Utilities:							
Water	377,250	-	-	-	580,735	-	957,985
Electricity	460,415	-	-	-	881,380	-	1,341,795
Gas	252,120	-	-	-	477,931	-	730,051
Maintenance:							
Salaries	269,606	-	-	-	438,344	-	707,950
Supplies	37,041	-	-	-	77,348	-	114,389
Benefits	136,034	-	-	-	241,366	-	377,400
Contractors	24,648	-	-	-	137,678	-	162,326
Protective services	93,828	-	-	-	-	-	93,828
Insurance	148,042	9,074	-	-	97,429	-	254,545
Payments in lieu of taxes	42,012	-	-	-	10,440	-	52,452
Depreciation	630,795	302	14,534	-	1,083,821	-	1,729,452
Other	1,870	41,507	-	-	3,749	-	47,126
Total Expenditures	<u>3,067,325</u>	<u>5,595,590</u>	<u>306,558</u>	<u>40,073</u>	<u>5,237,035</u>	<u>-</u>	<u>14,246,581</u>
Excess of revenues over expenditures	(688,960)	323,668	460,927	-	(103,935)	-	(8,300)
<b>Other Financing Sources:</b>							
Interest income	6,009	8,654	-	-	-	-	14,663
Operating Transfers In/(Out)	79,985	-	(79,985)	-	-	-	-
Excess of revenues and other sources over expenditures and other uses	(602,966)	332,322	380,942	-	(103,935)	-	6,363
<b>Net Assets, Beginning</b>	11,683,820	559,816	333,624	-	10,719,835	-	23,297,095
<b>HUD Prior Period Adjustments</b>	210,775	435	(583,249)	-	(6,374)	-	(378,413)
<b>Net Assets, Ending</b>	<u>\$ 11,291,629</u>	<u>\$ 892,573</u>	<u>\$ 131,317</u>	<u>\$ -</u>	<u>\$ 10,609,526</u>	<u>\$ -</u>	<u>\$ 22,925,045</u>

**CHELSEA HOUSING AUTHORITY**  
**Financial Data Schedule: Combining Statement of Assets, Liabilities, and Net Assets - State and Local Funds**  
 December 31, 2006

	Revolving Fund	State Low Rent	State MRYP	State Mod.	Eliminations	(Memorandum Only) Total
<b>ASSETS</b>						
<b>Current Assets:</b>						
Cash - unrestricted	\$ 1,146,837	\$ 49,384	\$ 3,065	\$ -	\$ -	\$ 1,199,286
Cash - restricted	-	6,507	-	-	-	6,507
Due from other governments	12,380	812,560	13,139	272,874	-	1,110,953
Tenant receivables, net of allowance	-	11,759	-	-	-	11,759
Fraud recovery receivables	-	12,351	2,164	-	-	14,515
Prepaid expenses	-	72,275	100	-	-	72,375
Due from other funds	1,330,729	139,200	3,300	-	-	1,473,229
Total current assets	2,489,946	1,104,036	21,768	272,874	-	3,888,624
<b>Rental Property and Equipment:</b>						
Land	-	2,493,808	-	-	-	2,493,808
Buildings and improvements	-	21,864,987	-	-	-	21,864,987
Furniture and fixtures	-	116,116	2,417	-	-	118,533
Construction in progress	-	-	-	2,315,440	-	2,315,440
	-	24,474,911	2,417	2,315,440	-	26,792,768
Less accumulated depreciation	-	(16,503,330)	(2,417)	-	-	(16,505,747)
	-	7,971,581	-	2,315,440	-	10,287,021
Total Assets	\$ 2,489,946	\$ 9,075,617	\$ 21,768	\$ 2,588,314	\$ -	\$ 14,175,645
<b>LIABILITIES AND PARTNERS' EQUITY</b>						
<b>Current Liabilities:</b>						
Accrued compensated absences	\$ -	\$ 23,699	\$ 328	\$ -	\$ -	\$ 24,027
Accounts payable	670,539	-	-	8,476	-	679,015
Security deposits held	-	6,507	-	-	-	6,507
Due to other governments	-	-	-	-	-	-
Deferred revenues	-	53,701	2,164	224	-	56,089
Accrued expenses and other liabilities	277,046	-	-	-	-	277,046
Due to other funds	1,542,361	644,426	394	264,174	-	2,451,355
Total current liabilities	2,489,946	728,333	2,886	272,874	-	3,494,039
<b>Long-term Liabilities:</b>						
Accrued compensated absences	-	71,096	984	-	-	72,080
Total liabilities	2,489,946	799,429	3,870	272,874	-	3,566,119
<b>Investment in net fixed assets</b>						
Restricted net assets	-	7,971,580	-	2,315,440	-	10,287,020
Unrestricted net assets	-	42,397	-	-	-	42,397
	-	262,211	17,898	-	-	280,109
Total Liabilities and Net Assets	\$ 2,489,946	\$ 9,075,617	\$ 21,768	\$ 2,588,314	\$ -	\$ 14,175,645



**CHELSEA HOUSING AUTHORITY**  
**Financial Data Schedule: Combining Statement of Revenues, Expenses, and Changes**  
**in Net Assets - State and Local Funds**  
**For the year ended December 31, 2006**

	Revolving Fund	State Low Rent	State MRYP	State Mod.	Eliminations	(Memorandum Only) Total
<b>Revenues:</b>						
Intergovernmental	\$ -	\$ 1,520,294	\$ 466,876	\$ 1,038,657	\$ -	\$ 3,025,827
Tenant rental revenues	-	2,048,593	-	-	-	2,048,593
Other revenue	-	55,852	2,828	-	-	58,680
<b>Total revenues</b>	-	<b>3,624,739</b>	<b>469,704</b>	<b>1,038,657</b>	-	<b>5,133,100</b>
<b>Expenses:</b>						
Housing assistance payments	-	-	439,754	-	-	439,754
Administrative:						
Salaries	-	344,720	10,007	-	-	354,727
Benefits	-	189,645	5,406	-	-	195,051
Other	-	179,339	6,480	30,740	-	216,559
Tenant Services	-	723	-	-	-	723
Utilities:						
Water	-	580,735	-	-	-	580,735
Electricity	-	881,380	-	-	-	881,380
Gas	-	477,931	-	-	-	477,931
Maintenance:						
Salaries	-	438,344	-	-	-	438,344
Supplies	-	77,348	-	-	-	77,348
Benefits	-	241,366	-	-	-	241,366
Contractors	-	137,678	-	-	-	137,678
Protective services	-	-	-	-	-	-
Insurance	-	95,911	1,518	-	-	97,429
Payments in lieu of taxes	-	10,440	-	-	-	10,440
Depreciation	-	1,083,821	-	-	-	1,083,821
Other	-	3,749	-	-	-	3,749
<b>Total Expenditures</b>	-	<b>4,743,130</b>	<b>463,165</b>	<b>30,740</b>	-	<b>5,237,035</b>
Excess of revenues over expenditures	-	(1,118,391)	6,539	1,007,917	-	(103,935)
<b>Other Financing Sources/(Uses):</b>						
Interest income	-	-	-	-	-	-
Transfer In/(Out)	-	-	-	-	-	-
Excess of revenues and other sources over expenditures and other uses	-	(1,118,391)	6,539	1,007,917	-	(103,935)
<b>Net Assets, Beginning, previously reported</b>	-	<b>9,397,580</b>	<b>14,732</b>	<b>1,307,523</b>	-	<b>10,719,835</b>
<b>HUD Prior Period Adjustments</b>	-	<b>(3,001)</b>	<b>(3,373)</b>	-	-	<b>(6,374)</b>
<b>Net Assets, Ending</b>	\$ -	<b>\$ 8,276,188</b>	<b>\$ 17,898</b>	<b>\$ 2,315,440</b>	\$ -	<b>\$ 10,609,526</b>

**CHELSEA HOUSING AUTHORITY**  
**Schedule of Resident Opportunities and Self Sufficiency Grant Program Costs - Completed**  
**Year Ended December 31, 2006**

	<u>MA 06-P016</u> <u>502-03</u>
Funds approved	\$ 249,350
Funds expended	<u>\$ 249,350</u>
Excess of funds approved	<u>\$ -</u>
Funds advanced	\$ 249,350
Funds expended	<u>\$ 249,350</u>
Excess of funds advanced	<u>\$ -</u>

Funds expended during the audit period totaled \$40,073 and accordingly, were audited.

The Final Financial Status Report dated, July 24, 2006 which was submitted to HUD for approval is in agreement with the Authority's records.

**CHELSEA HOUSING AUTHORITY**  
**Schedule of Capital Fund Program Costs - Uncompleted**  
**Year Ended December 31, 2006**

	<u>MA 06-P016 501-04</u>	<u>MA 06-P016 501-05</u>	<u>MA 06-P016 501-06</u>
Funds approved	\$ 909,710	\$ 872,123	\$ 771,457
Funds expended	<u>\$ 820,288</u>	<u>\$ 348,848</u>	<u>\$ 308,580</u>
Excess of funds approved	<u>\$ 89,422</u>	<u>\$ 523,275</u>	<u>\$ 462,877</u>
Funds advanced	\$ 820,288	\$ 348,848	\$ 308,580
Funds expended	<u>\$ 820,288</u>	<u>\$ 348,848</u>	<u>\$ 308,580</u>
Excess of funds advanced	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Funds expended during the audit period for grants numbered 501-04, 501-05, and 501-06 totaled \$338,335, \$ 0, and \$308,580 respectively, and accordingly, were audited.



MARTIN J. SCAFIDI, P.C.  
Certified Public Accountants

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

Board of Commissioners  
Chelsea Housing Authority  
Chelsea, Massachusetts

**Compliance with Requirements Applicable to Each Major Program**

We have audited the compliance of Chelsea 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 December 31, 2006. 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 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; 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 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.

In our opinion, the Chelsea Housing Authority complied, in all material respects, with the requirements referred to above that are applicable to all of its major federal programs for the year ended December 31, 2006.

**Internal Control over Compliance in Accordance with OMB Circular A-133**

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 its 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 its major federal programs in order to determine 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 OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Authority's management, the Authority's Board of Commissioners, HUD, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Martin J. Scafidi, P.C." The signature is written in a cursive, flowing style.

Martin J. Scafidi, P.C.  
Peabody, Massachusetts  
August 15, 2007



MARTIN J. SCAFIDI, P.C.  
*Certified Public Accountants*

**Independent Auditors' Report on Compliance and on Internal Control  
Over Financial Reporting Based on an Audit of Financial  
Statements in Accordance With *Government Auditing Standards***

Board of Commissioners  
Chelsea Housing Authority  
Chelsea, Massachusetts

We have audited the financial statements of Chelsea Housing Authority ("the Authority,") as of and for the year ended December 31, 2006, and have issued our report thereon dated August 15, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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 grants, 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 that are required to be reported under *Government Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Authority's management, the Board of Commissioners, HUD and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Martin J. Scafidi, P.C.  
Peabody, Massachusetts  
August 15, 2007

Main Office: 7 Essex Green Drive, Suite 66 • Peabody, MA 01960 • Tel: 978-538-1919 • Fax: 978-977-2706

**CHELSEA HOUSING AUTHORITY**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended December 31, 2006**

<u>Federal Grantor/ Program Title</u>	<u>Federal CFDA No.</u>	<u>Federal Expenditures</u>
<b>Department of Housing and Urban Development:</b>		
Low Rent Public Housing	14.850	\$ 1,051,423
ROSS	14.870	40,073
Section 8 Housing Choice Vouchers	14.871	5,595,590
Public Housing Capital Fund (CFP)	14.872	<u>306,558</u>
		<u>\$ 6,993,644</u>

*See accompanying notes to the Schedule of Expenditures of Federal Awards.*

**CHELSEA HOUSING AUTHORITY**  
**Notes to Schedule of Federal Awards Expenditures**  
**December 31, 2006**

***Basis of Presentation*** – The schedule of federal awards expenditures includes the federal grant activity of the Chelsea Housing Authority and is presented on the cash 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.



**CHELSEA HOUSING AUTHORITY**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended December 31, 2006**

**Summary of Audit Results**

The auditors' report on the financial statements is unqualified.

No reportable conditions in internal control were disclosed by the audit of the financial statements.

No instances of noncompliance with regulatory requirements, which are material to the financial statements, were disclosed during the audit.

No reportable conditions were disclosed during the audits of the major federal programs.

The auditors' report on compliance for the Authority's Public Housing Capital Fund (CFP) and Section 8 Housing Voucher programs expresses an unqualified opinion.

Audit findings relative to the Authority's major federal award programs are reported in this schedule.

The Authority has two major programs as follows:

Public Housing Capital Fund (CFP), CFDA Number 14.872  
Section 8 Housing Choice Vouchers, CFDA Number 14.871

The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.

The Authority was determined to be a low-risk auditee.

**Findings – Financial Statements Audit**

None

**Findings and Questioned Costs – Major Federal Award Program Audit**

None.

**Prior Year Findings – Financial Statements Audit**

None

**Prior Year Findings and Questioned Costs – Major Federal Award Program Audit**

None.