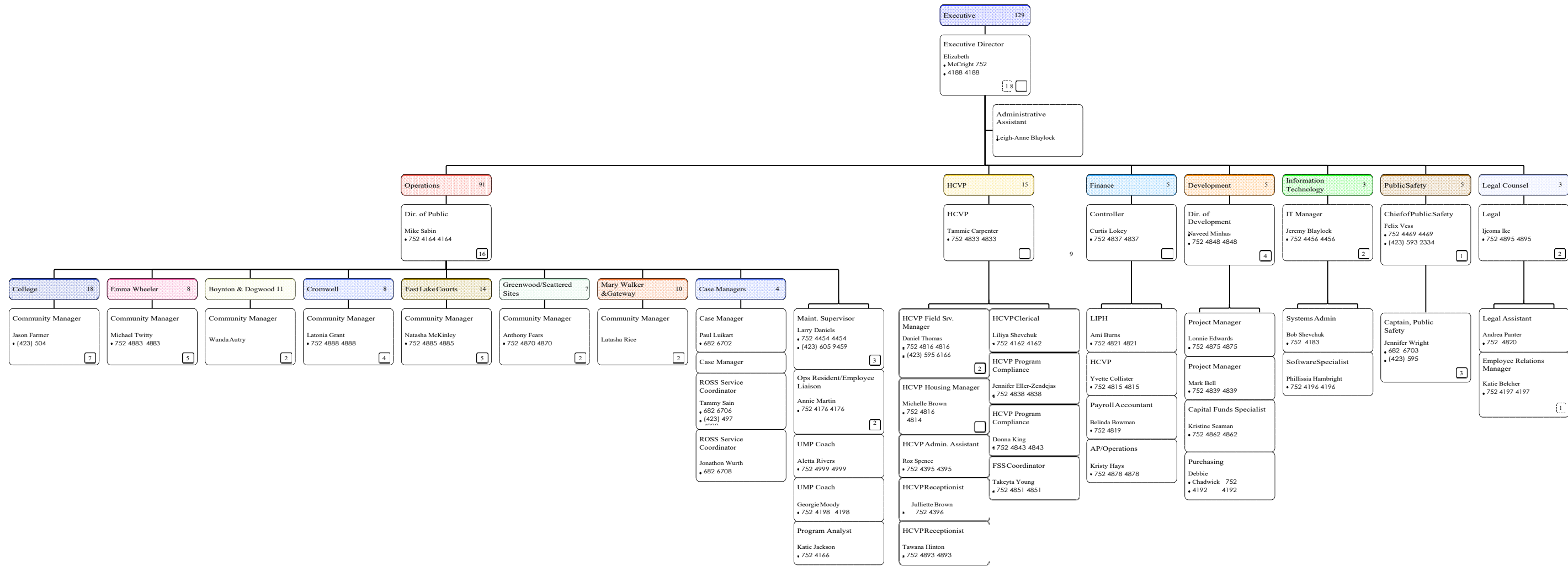


Chattanooga Housing Authority
Audit of Financial Statements
Year Ended December 31, 2020

**Chattanooga Housing Authority
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Year Ended December 31, 2020**

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Chattanooga Housing Authority Organizational Chart





Independent Auditor's Report

Chattanooga Housing Authority
To the Board of Commissioners

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Chattanooga Housing Authority (the "Authority") as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We did not audit the financial statements of the following blended component units:

- Cromwell Development I, LLC
- Chattanooga Housing Authority-Emerald Villages, LLC
- Greenwood Terrace, LLC

Collectively, these entities represent 99% of the assets, 100% of the net position and 88% of the operating revenue of the blended component units. Those statements, which were prepared in accordance with the Accounting Standards Codification as issued by the Financial Accounting Standards Board, were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the blended component units, is based solely on the reports of the other auditors. No material adjustments were necessary to convert the financial statements of the blended component units to the financial reporting framework used by the Authority. The financial statements of Cromwell Development I, LLC and Greenwood Terrace, LLC were not audited in accordance with Government Auditing Standards. 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.

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Independent Auditor's Report (Continued)

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Authority as of December 31, 2020, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages 5 through 13 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Independent Auditor's Report (Continued)

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations ("CFR") Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance") and is not a required part of the financial statements. In addition, the accompanying statements and certifications of actual capital fund grant costs, statement, and certification of actual family self-sufficiency grant costs, and statement and certification of actual resident opportunity and supportive services grant costs are also presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 20, 2021, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.



Lexington, Kentucky
July 20, 2021

CHATTANOOGA HOUSING AUTHORITY

BOARD OF COMMISSIONERS

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Management's Discussion and Analysis ("MD&A") For the Year Ended December 31, 2020

Our Mission: The mission of the Chattanooga Housing Authority parallels that of the Department of Housing and Urban Development: to create strong, sustainable, inclusive communities and quality affordable homes for all; to strengthen the housing market to bolster the economy and protect consumers; to meet the need for quality affordable rental homes; to utilize housing as a platform for improving quality of life and to build inclusive and sustainable communities free from discrimination.

This section of the Authority's annual financial report presents management's analysis of the CHA's financial performance during the Fiscal Year Ended December 31, 2020.

Financial Highlights and Conclusions:

In accordance with Governmental Accounting Standards Board Statement No. 34 ("GASB 34"), the Chattanooga Housing Authority ("CHA" or the "Authority") is pleased to provide this executive narrative. The financial statements for 2020 have been reviewed by key management staff to assess the financial health of the CHA. It is apparent in the future that the CHA must rely less on uncertain grant funding and develop alternative resources to maintain current service levels. Financial highlights of this past year are as follows:

- **Conversion Activities:** During 2020, CHA embarked on the conversion of two of its Public Housing senior high rises using HUD's Rental Assistance Demonstration program. The 153 units at Mary Walker and 136 units at Dogwood Manor were converted from Public Housing to project-based voucher assistance that will allow for more flexibility in ongoing operations.
- **Public Housing Program:** had a \$3,776,675 decrease in net position for the year ended December 31, 2020. To place this number in proper context, it is important to note that this loss includes \$3,032,888 of depreciation expense, a \$9 million equity transfer to move the assets of Mary Walker Towers and Dogwood Manor to Business Activities and an increase of \$5.8 million in HUD funding to cover the conversion activities. Exclusive of these items, the program had a net operating surplus of approximately \$1.7 million for Fiscal Year 2020.
- **Housing Choice Voucher Program:** recognized net income of \$724,734 due primarily to a \$631,479 of CARES funding received to assist with higher operating costs due to the COVID-19 pandemic. The balances of Housing Assistance Payments ("HAP") equity decreased from \$223,905 to \$0, while the administrative portion of operations finished the year with a balance of \$717,612, an increase of \$590,268. Program utilization for the year was considerably higher than last year as the Authority received \$2.1 million more in HCV HAP funding in relation to FY2019 levels.

Management's Discussion and Analysis ("MD&A") (Continued)

Financial Highlights and Conclusions (Continued)

- **Central Office Cost Center:** The net position for the COCC increased from \$3,774,591 in FY 2019 to \$5,751,221 in FY2020 due to the recording of developer fee income totaling \$2,004,900.
- **Grant Funding:** Grant funding received in 2020 was \$46,470,989, which represents an increase of \$9,281,821 (a 25% increase) from the \$37,189,168 recognized in 2019. This was due primarily to an increase in Capital Fund grant amounts in relation to 2019 levels (\$6,430,354) due to RAD conversion activities, CARES funding and higher Housing Assistance Payments program funding (\$2,907,118).
- **HAP Utilization:** Payments to landlords for the Housing Assistance Payments increased from \$21,157,557 in 2019 to \$23,570,813 which represents a \$2,413,256 (11.41%) increase from the prior year.
- **Business Activities:** experienced an increase in net position from \$10,458,675 in 2019 to \$23,394,170 during 2020. This \$12,935,495 increase was due to the activities discussed in the notes to the financial statements related to the RAD conversions at Mary Walker Tower and Dogwood Manor that will be funded by project-based vouchers going forward rather than Public Housing.
- **CARES Funding:** In response to the ongoing pandemic, HUD has awarded \$3,157,337 of CARES funding to CHA to date. For the year ended December 31, 2020, the Authority recognized \$1,117,012 of this funding which has further bolstered the cash position of the Authority and helped to offset the impact of lower occupancy and cash collections in 2020.
- **Cash & Investments:** position increased from \$39.8 million at the end of 2019 to \$47 million as of December 31, 2020. This \$7.2 million increase was primarily due to the increases of \$5.1 million in Business Activities as well as an increase of \$1.7 million in the Public Housing program. The change in cash position represents an 18% increase in the Authority's cash position in relation to 2019 levels.

Required Financial Statements

The basic financial statements of the CHA are designed to be corporate-like in that all business-type activities are consolidated for the entire CHA. The CHA consists exclusively of enterprise funds. Enterprise funds utilize the full accrual basis of accounting, making them more similar to the accounting methods utilized by the private sector. Many of the funds maintained by the CHA are required by the U.S. Department of Housing and Urban Development ("HUD"). Other funds are segregated to enhance accountability and control.

The basic financial statements include a Statement of Net Position, which is similar to a balance sheet. The Statement of Net Position reports all financial and capital resources for the CHA. The Statement is presented in the format where assets and deferred outflows of resources minus liabilities and deferred inflows of resources equal "Net Position," formerly known as equity. Assets and liabilities are presented in order of liquidity and are classified as "current" (convertible into cash within one year), and "non-current". Net Position is reported in three broad categories:

- **Net Investment in Capital Assets:** This component of Net Position consists of all capital assets, reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- **Restricted Net Position:** This component of Net Position consists of restricted assets, whereby constraints are placed on the assets by creditors (such as debt covenants), grantors, laws, and regulations.

Management's Discussion and Analysis ("MD&A") (Continued)

Required Financial Statements (Continued)

- **Unrestricted Net Position**: This component of Net Position consists of Net Position that does not meet the definition of the other two categories. Unrestricted Net Position represents the net available liquid (non-capital) assets, net of liabilities for the entire CHA.

The basic financial statements also include a Statement of Revenue, Expenses and Changes in Net Position, similar to an income statement. This statement includes operating revenues such as rental income, operating expenses such as administrative, utilities, maintenance and depreciation, and non-operating revenues/expenses such as grant revenue, investment income and interest expense.

Finally, a Statement of Cash Flows is included, which discloses net cash provided or used by, operating activities, non-capital financing activities, capital and related financing activities, and investing activities.

Major Programs

The focus of the CHA's financial statements should be on the major programs of the CHA. The following are considered major programs of the CHA:

- **Conventional Public Housing**: Under the Conventional Public Housing Program, the CHA rents units that it owns to eligible low-income families, the elderly, and persons with disabilities. The CHA uses income limits developed by HUD which set the limits at up to 80 percent of median income for the area. This program is operated under an Annual Contributions Contract ("ACC") with HUD, whereby HUD provides the CHA operating subsidy funding to assist in funding the operating and maintenance expenses and offer rent based upon 30 percent of adjusted gross household income. The Conventional Public Housing Program also includes the Capital Fund Program which remains the primary funding sources for modernization of, and physical and management improvements to, the CHA's properties. As of December 31, 2020, CHA had 2,310 units in its low-income public housing portfolio (exclusive of the 311 units at Cromwell and Scattered Sites which will still receiving operating subsidy through Calendar 2020).
- **Housing Choice Voucher Program**: Under the Housing Choice Voucher Program ("HCVP"), the CHA administers contracts with independent landlords to allow very low and extremely low-income families to reside in privately-owned rental housing. The CHA subsidizes the family's rent through a HAP paid to the landlord. This program is administered under an ACC with HUD, whereby HUD provides funding to enable the CHA to oversee a lease that sets the participant's rent at 30 percent of adjusted gross household income. As of December 31, 2020, CHA had 3,588 Housing Choice Vouchers.

Non-major Programs

In addition to the major programs above, the CHA also administers a number of non-major programs. These funds include:

- **Resident Opportunity and Supportive Services Program**: This program provides public housing residents with supportive services, resident empowerment activities, and assistance in becoming economically self-sufficient.
- **Moderate Rehabilitation/Single Room Occupancy Program**: This program assists very low-income, single, homeless individuals in obtaining decent, safe, and sanitary housing in privately owned, rehabilitated buildings.

Management's Discussion and Analysis ("MD&A") (Continued)

Non-major Programs (Continued)

- Business Activities:** These represent programs supported by non-HUD resources developed from a variety of CHA - initiated activities including the existing entities of Greenwood Terrace LLC and Holtzclaw LLC, as well as the Cromwell Development I, LLC and Emerald Villages, LLC which began operations in December 2019 to totally rehabilitate these sites using Low Income Housing Tax Credits and conventional debt. Upon completion of these activities in early 2022, these sites will be managed by CHA and funded with Project Based Rental Assistance after their transition from Public Housing funding has been completed. As discussed previously, during 2020, the Authority converted Dogwood Manor and Mary Walker Tower to Business Activities as it continues to reposition its portfolio.

Financial Analysis of CHA

One question frequently asked about CHA's finances is "Did CHA's operations and financial position improve or deteriorate over the previous fiscal year?" The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position report information about CHA's activities and are summarized in the following sections. To begin the analysis, a summary of CHA's Statement of Net Position is presented in Table I:

As illustrated in the Statement of Net Position, total assets were up 21% increasing \$27,813,772 from \$131,156,852 in 2019 to \$158,970,624. Overall CHA's Net position increased 10% from \$92,979,842 to \$102,720,518 as detailed in Table II below.

CHATTANOOGA HOUSING AUTHORITY

Statement of Net Position

TABLE I

<u>Account descriptions</u>	<u>2020</u>	<u>2019</u>	<u>Total change</u>	<u>% change</u>
Current assets	\$ 48,955,329	\$ 40,393,707	\$ 8,561,622	21%
Capital assets	80,817,515	61,560,548	19,256,967	31%
Other noncurrent assets	29,197,780	29,202,597	(4,817)	0%
Total assets	158,970,624	131,156,852	27,813,772	21%
Deferred outflows of resources	-	-	-	0%
Current liabilities	9,417,657	3,512,781	5,904,876	168%
Noncurrent liabilities	46,832,449	34,664,229	12,168,220	35%
Total liabilities	56,250,106	38,177,010	18,073,096	47%
Deferred inflows of resources	-	-	-	0%
Net investment in capital assets	33,690,475	26,539,108	7,151,367	27%
Restricted net position	2,931,503	2,938,405	(6,902)	0%
Unrestricted net position	66,098,540	63,502,329	2,596,211	0%
Total net position	\$ 102,720,518	\$ 92,979,842	\$ 9,740,676	10%

Management's Discussion and Analysis ("MD&A") (Continued)

Financial Analysis of CHA (Continued)

Current assets increased 21% from \$40.4 million to \$49.0 million, which was primarily a function of CHA's increased cash position (\$7,283,083) as discussed previously while prepaid insurance amounts were \$537,857 higher due to timing of insurance payments in relation to FY19. Current liabilities increased by \$5,904,876 or 168%. This increase was primarily due a \$5,310,249 increase in accounts payable over 2019 levels, \$341,031 of unearned revenue due largely to CARES funding advances and an \$253,596 increase in other current liabilities due to higher amounts outstanding related to Emerald and Cromwell activities at year-end. Non-current liabilities increased \$12.2 million or 35% due primarily to an increase of \$12,026,709 of debt in relation to FY2019 levels.

While the Statement of Net Position shows the change in financial position, the Statement of Revenues, Expenses, and Changes in Net Position breaks down the CHA's revenues and expenses further. Table II, below provides a statement of these changes:

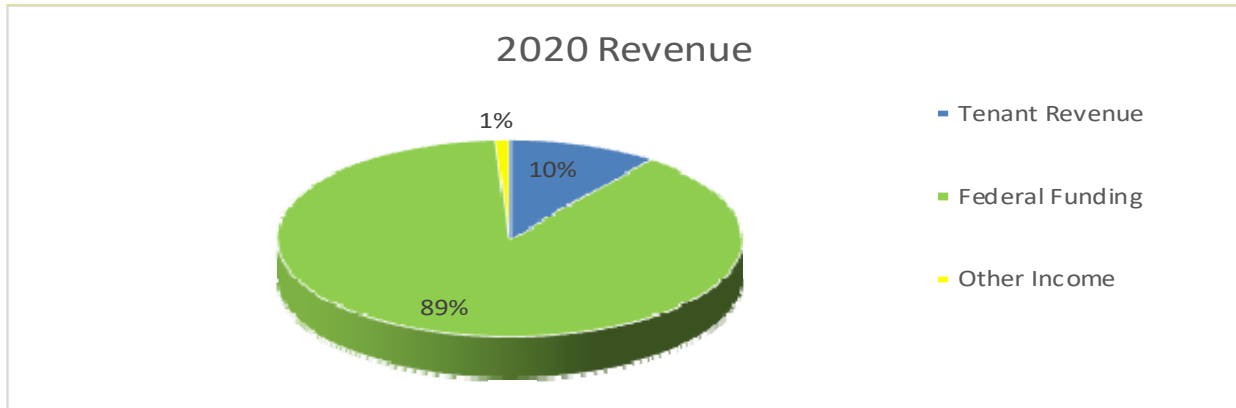
CHATTANOOGA HOUSING AUTHORITY
Statement of Revenues, Expenses and Changes in Net Position
TABLE II

<u>Account descriptions</u>	<u>2020</u>	<u>2019</u>	<u>Total change</u>	<u>% change</u>
Tenant revenue	\$ 5,459,226	\$ 5,756,431	\$ (297,205)	-5%
Federal funding	46,470,989	37,189,168	9,281,821	25%
Other income	534,224	1,285,447	(751,223)	-58%
Total revenue	52,464,439	44,231,046	8,233,393	19%
Administrative	6,390,575	6,216,368	174,207	3%
Asset management fee	7,343	7,129	214	3%
Tenant services	493,251	794,137	(300,886)	-38%
Utilities	4,138,593	4,539,107	(400,514)	-9%
Protective services	548,185	515,740	32,445	6%
Insurance expense	678,974	565,752	113,222	20%
Maintenance	4,114,379	4,879,678	(765,299)	-16%
General expense	504,969	564,540	(59,571)	-11%
Housing assistance payments	23,570,813	21,157,557	2,413,256	11%
Depreciation and amortization	5,166,961	4,954,651	212,310	4%
Total operating expenses	45,614,043	44,194,659	1,419,384	3%
Non-operating items				
Interest income	28,312	122,527	(94,215)	-77%
Interest expense	(356,749)	(462,669)	105,920	-23%
Casualty gain	35,010	(27,672)	62,682	-227%
Gain on disposal of capital assets	166,328	173,850	(7,522)	-4%
Total non-operating items	(127,099)	(193,964)	66,865	
Partner contributions	3,017,379	5,171,696	(2,154,317)	
Changes in net position	9,740,676	5,014,119	4,726,557	94%
Beginning net position	92,979,842	87,965,723	5,014,119	6%
Ending net position	\$ 102,720,518	\$ 92,979,842	\$ 9,740,676	10%

Management's Discussion and Analysis ("MD&A") (Continued)

Financial Analysis of CHA (Continued)

Revenues: Exclusive of nonoperating amounts, a review of the Statement of Revenues, Expenses, and Changes in Net Position shows that 89% of the CHA's revenues are derived from grants from the Department of Housing and Urban Development and other grant programs. The CHA receives revenue from tenants for dwelling rental charges, excess utilities, and miscellaneous charges of 10% of total revenue. Other Revenue comprises the remaining 1%. Compared to the fiscal year ended December 31, 2019, operating revenues had an overall increase of \$8,233,393 or 19% as discussed below:



Tenant Revenue: Total Tenant Revenue, net of bad debts, decreased \$297,205 from \$5,756,431 to \$5,459,226 due to higher vacancy rates at its public housing sites.

Program Grants/Subsidies: The CHA's Federal Funding experienced a 25% increase (\$9,283,279) in Federal Financial Assistance from \$37.2 million in 2019 to \$46.5 million in 2020 (as detailed in the table below). This increase was primarily attributable to higher funding recognized from HUD for the Capital Fund Grant Program due to RAD conversion activities compared to 2019 levels (\$6,430,354) as well as higher Section 8 Program funding of \$2,907,118.

Other Income: Other Income decreased \$751,223 (or 58%) due to lower amounts recognized as developer fees and capital contributions in FY20 decreased in FY20 in relation to FY2019 levels.

**CHATTANOOGA HOUSING AUTHORITY
Federal Financial Awards Comparison
For the Fiscal Years 2020 and 2019**

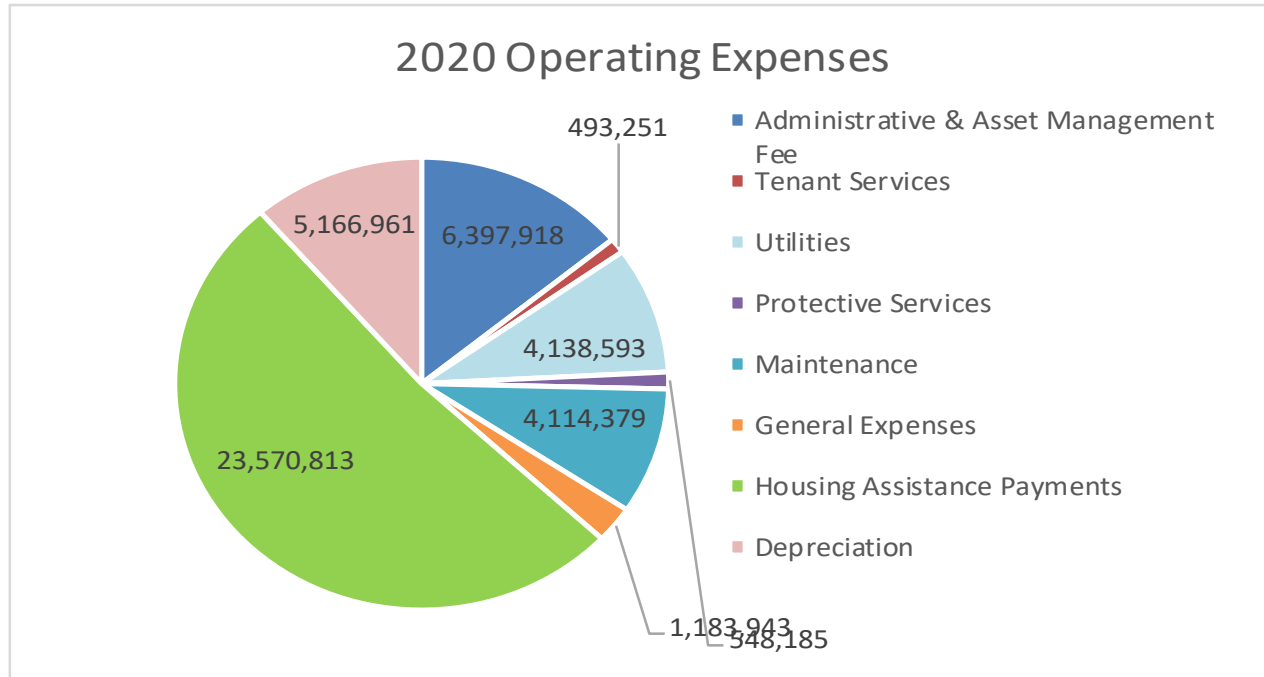
	<u>2020</u>	<u>2019</u>	<u>Increase/ decrease</u>
PUBLIC HOUSING			
Public and Indian Housing Program	\$ 10,930,829	\$ 11,059,422	\$ (128,593)
Capital Fund Program	8,745,922	2,315,568	6,430,354
Resident Opportunity and Supportive Services	119,095	69,350	49,745
PIH Family Self-Sufficiency Program	51,805	139,484	(87,679)
			-
HOUSING ASSISTANCE PAYMENTS			
Section 8 Housing Choice/Mainstream/FUP Programs	26,476,484	23,563,774	2,912,710
Mod Rehab/ SRO	34,520	40,112	(5,592)
Community Development Block Grant	<u>112,334</u>	<u>-</u>	<u>112,334</u>
TOTALS	<u><u>\$46,470,989</u></u>	<u><u>\$37,187,710</u></u>	<u><u>\$ 9,283,279</u></u>

Management's Discussion and Analysis ("MD&A") (Continued)

Financial Analysis of CHA (Continued)

Expenses

The CHA experienced an increase of \$1,419,384 in total operating expenses for the current year from \$44,194,659 to \$45,614,043 or 3%. Notable changes in expense levels by category for the current year are as follows:



Administration: Administration costs were \$174,207 higher than in 2019 as these costs increased from \$6,216,368 to \$6,390,575 or 3%. This increase consists primarily of higher salary and benefit costs, increased legal costs of and increased other administrative costs.

Tenant Services: Tenant Services costs include all costs incurred by the CHA to provide social services to the residents. In addition to the HUD ROSS grants, the recognized Resident Councils receive funding for board meetings, training costs, and other items. In addition, the individual recognized Resident Councils receive assistance on costs of meetings and other training activities provided. Due to the limitations with the pandemic, Tenant Services decreased by \$300,886 from \$794,137 in 2019 to \$493,251 in 2020 primarily due to lower relocation costs (in relation to 2019 levels (\$77k) and lower salary and benefit costs (\$362K) due to reduced activity levels in relation to 2019.

Utilities: The total utilities expense for the CHA decreased by \$400,514 from \$4,539,107 to \$4,138,593 due to lower utility usage (\$372k) at CHA properties.

Maintenance Costs: Maintenance costs were \$765k lower than in 2019 as these costs decreased from \$4,879,678 to \$4,114,379 or 15.68%. This decrease was primarily due to \$106k decrease in salary and benefit costs, \$272k decrease in materials expenses, and \$387k decrease in contract costs due to lower costs associated with placing units back online in relation to FY2019 due to activity restrictions related to the pandemic.

Housing Assistance Payments Program: HAP payments consist of rental payments to owners of private property for which the housing CHA has a HAP agreement with the tenant and the owner for the difference between the tenant's rent and the applicable payment standard. CHA utilization levels were improved during 2020 and as a result, HAP expense increased \$2,413,256 in 2020 over the prior year from \$21,157,557 to \$23,570,813 (11.41%).

Management's Discussion and Analysis ("MD&A") (Continued)

Financial Analysis of CHA (Continued)

Expenses (Continued)

Depreciation: Because the costs of all capitalized additions are spread over the estimated useful life of an asset, the estimated current year costs of capitalized items are recorded as depreciation. Due to lower levels of assets placed into service during 2020, depreciation expense was \$207,493 higher in relation to prior year levels as the expense level increased from \$4,954,651 to \$5,162,144 (4%).

Capital Assets

At the end of fiscal year 2020, the CHA had invested in Capital Assets of \$80,817,515, net of depreciation. For the year ended December 31, 2020, net capital assets increased by \$19.3 million (primarily from \$18.5 million of improvements at Emerald and Cromwell and \$5.4 million of Capital Fund program additions) that was offset by \$5 million of depreciation expense. Major changes during the year total \$19,256,967 as detailed below:

CHATTANOOGA HOUSING AUTHORITY

Statement of Capital Assets

TABLE III

<u>Account descriptions</u>	<u>2020</u>	<u>2019</u>	<u>Total change</u>	<u>% change</u>
Land	\$ 9,486,435	\$ 9,491,854	\$ (5,419)	-0.06%
Buildings	187,443,094	166,335,392	21,107,702	12.69%
Furniture & Equipment	2,390,019	1,943,759	446,260	22.96%
Construction in Process	11,653,437	8,818,682	2,834,755	32.14%
Accumulated Depreciation	<u>(130,155,470)</u>	<u>(125,029,139)</u>	<u>(5,126,331)</u>	<u>4.10%</u>
Total capital assets	<u>\$ 80,817,515</u>	<u>\$ 61,560,548</u>	<u>\$ 19,256,967</u>	<u>31.28%</u>

A summary of the changes in capital assets were as follows:

Balance at January 1, 2020	\$ 61,560,548
Current period additions - Capital grants	5,433,306
Current period additions - operations	439,933
Current period additions - debt proceeds and partner contributions	18,551,992
Current period dispositions - operations	(6,120)
Current period depreciation expense	(5,162,144)
Balance at December 31, 2020	<u>\$ 80,817,515</u>

Management's Discussion and Analysis ("MD&A") (Continued)

Financial Analysis of CHA (Continued)

Debt Administration

As of December 31, 2020, the CHA had \$47,127,040 of debt outstanding (including accrued interest) related to the operation of various federal and local programs. The following is a summary in the changes of total debt obligations for the year ended December 31, 2020:

Balance as of January 1, 2020	\$ 35,021,440
Debt issued	13,623,216
Debt payments	(1,281,774)
Amortization of bond premium	<u>(235,842)</u>
 Balance as of December 31, 2020	 <u>\$ 47,127,040</u>

Economic Factors and Events Affecting Operations:

Several factors may affect the financial position of the CHA in the subsequent fiscal year. These factors include:

- (1) The level of Federal funding for both the Low-Income Public Housing and the Housing Choice Voucher Programs continue to be at prorated levels that are significantly below formula eligibility amounts.
- (2) Local inflationary, recessionary and employment trends, which can affect resident incomes and therefore the amount of rental revenue paid; unemployment continues to remain over 6%.
- (3) Fuel prices are expected to be volatile and continued inflationary pressures are expected to increase supplies and other costs.

Financial Contact

This financial report is designed to provide our residents and participants, the citizens of Chattanooga, Tennessee, all federal and state regulatory bodies and any creditors with a general overview of the CHA's finances. If you have any questions regarding these financial statements or supplemental information, you may contact Curtis Lokey at 423.752.4837, at clokey@chahousing.org or via mail at 801 North Holtzclaw Ave, Chattanooga, TN 37404.

Chattanooga Housing Authority
Statement of Net Position
December 31, 2020

Assets

Current assets

Cash and cash equivalents, unrestricted	\$ 18,639,386
Cash and cash equivalents, restricted	28,385,875
Accounts receivable - HUD	715,807
Accounts receivable - miscellaneous	91,603
Accounts receivable - tenants, net	319,566
Accounts receivable - fraud recovery, net	29,978
Prepaid expenses	<u>773,114</u>

Total current assets 48,955,329

Capital assets

Land	9,486,435
Buildings	187,443,094
Furniture and equipment	2,390,019
Construction in progress	<u>11,653,437</u>

210,972,985

Less: accumulated depreciation (130,155,470)

Capital assets, net 80,817,515

Noncurrent assets

Notes receivable, net	29,172,936
Other assets	<u>24,844</u>

Total noncurrent assets 29,197,780

Total assets 158,970,624

Deferred outflows of resources

-

Total assets and deferred outflows of resources \$ 158,970,624

See accompanying notes.

Chattanooga Housing Authority
Statement of Net Position (Continued)
December 31, 2020

Liabilities

Current liabilities

Current portion of long-term debt	\$ 1,103,225
Accounts payable	6,472,818
Accounts payable - other government	169,252
Accounts payable - HUD	56,186
Accrued wages/payroll taxes payable	300,412
Current portion of accrued compensated absences	162,493
Accrued interest payable	50,735
Tenant security deposits	250,248
Unearned revenue	462,004
Other current liabilities	<u>390,284</u>

Total current liabilities 9,417,657

Long-term liabilities

Long-term debt, net of current portion	46,023,815
Accrued compensated absences, net of current portion	487,481
Other noncurrent liabilities	<u>321,153</u>

Total noncurrent liabilities 46,832,449

Total liabilities 56,250,106

Deferred inflows of resources

Total liabilities and deferred inflows of resources 56,250,106

Net position

Net investment in capital assets	33,690,475
Restricted by program requirements	2,931,503
Unrestricted net position	<u>66,098,540</u>

Total net position \$ 102,720,518

See accompanying notes.

Chattanooga Housing Authority
Statement of Revenues, Expenses, and Changes in Net Position
Year Ended December 31, 2020

Operating revenues	
Tenant revenue, net of bad debts of \$257,980	\$ 5,459,226
HUD PHA operating grants	41,037,683
Other government grants	200,000
Other revenue	231,588
Fraud recovery	<u>102,636</u>
Total operating revenues	47,031,133
Operating expenses	
Administrative	6,390,575
Asset management fee	7,343
Tenant services	493,251
Utilities	4,138,593
Protective services	548,185
Insurance expense	678,974
Maintenance	4,114,379
General expenses	504,969
Housing assistance payments	23,570,813
Depreciation and amortization	<u>5,166,961</u>
Total operating expenses	<u>45,614,043</u>
Net operating income	1,417,090
Nonoperating revenues (expenses)	
Interest income	28,312
Interest expense	(356,749)
Casualty gain	35,010
Gain on disposal of capital assets	<u>166,328</u>
Total nonoperating expense, net	<u>(127,099)</u>
Net gain before capital contributions	1,289,991
Partner contributions	3,017,379
Capital contributions	
Capital fund grant	<u>5,433,306</u>
Changes in net position	9,740,676
Net position, beginning of year	<u>92,979,842</u>
Net position, end of year	<u><u>\$ 102,720,518</u></u>

See accompanying notes.

Chattanooga Housing Authority
Statement of Cash Flows
Year Ended December 31, 2020

Operating activities	
Cash received from tenants	\$ 5,454,687
Cash received from HUD grants	40,925,950
Cash received from other governmental grants	200,000
Cash received from other sources	107,169
Cash payments to employees for services	(6,603,040)
Cash payments for the Housing Choice Voucher Program	(23,570,813)
Cash payments to other suppliers for goods and services	<u>(9,157,223)</u>
Net cash provided by operating activities	7,356,730
Investing activities	
Interest received	27,324
Partner capital contributions	3,017,379
Proceeds from redemption of investments	<u>89,824</u>
Net cash provided by investing activities	3,134,527
Capital and related financing activities	
Capital grant receipts	5,433,306
Purchase of capital assets	(20,842,991)
Proceeds from disposal of capital assets	161,107
Proceeds from new debt	13,623,216
Principal paid on debt	(1,281,774)
Interest paid on debt	<u>(336,048)</u>
Net cash used by capital and related financing activities	(3,243,184)
Non-capital financing activities	
Casualty gain	<u>35,010</u>
Cash provided by non-capital financing activities	<u>35,010</u>
Net increase in cash	7,283,083
Cash - beginning of year	<u>39,742,178</u>
Cash - end of year	<u><u>\$ 47,025,261</u></u>
Cash and cash equivalents, unrestricted	\$ 18,639,386
Cash and cash equivalents, restricted	<u>28,385,875</u>
	<u><u>\$ 47,025,261</u></u>

Noncash investing and financing activities

Capital assets includes \$3,782,930 in accounts payable for construction/development, \$23,811 of accrued interest and a reduction for amortization of bond premium of \$235,842.

See accompanying notes.

Chattanooga Housing Authority
Statement of Cash Flows (Continued)
Year Ended December 31, 2020

Operating activities	
Net operating income	\$ 1,417,090
Adjustments to reconcile net operating income to net cash provided by operating activities	
Depreciation expense	5,162,144
Amortization expense	4,817
Bad debt expense	257,980
Decrease (increase) in	
Accounts receivable - HUD	(457,894)
Accounts receivable - miscellaneous	(91,562)
Accounts receivable - tenants	(430,695)
Accounts receivable - fraud recovery	37,092
Prepaid expenses	(683,284)
Increase (decrease) in	
Accounts payable	1,527,319
Accounts payable - other government	5,370
Accounts payable - HUD	246
Accrued wages and payroll taxes payable	54,664
Tenant security deposits	475
Unearned revenue	341,031
Other current liabilities	27,563
Accrued compensates absences	168,260
Other noncurrent liabilities	16,114
	<hr/>
Net cash provided by operating activities	<u><u>\$ 7,356,730</u></u>

See accompanying notes.

Chattanooga Housing Authority
Notes to Financial Statements
Year Ended December 31, 2020

Note A - Nature of the Organization and Operations

The Chattanooga Housing Authority (the "Authority") provides subsidized housing and related housing services primarily to low-income individuals in Chattanooga, Tennessee. The Authority is a public body corporate and politic with a seven-member Board of Commissioners (the "Board"). The Mayor of Chattanooga proposes the members of the Board, for ultimate approval by the Chattanooga City Council. However, the Authority has complete administrative authority and it recruits and employs personnel. The Authority adopts a budget that is approved by the Board. Subsidies for operations are received primarily from the U.S. Department of Housing and Urban Development ("HUD"). The Authority is responsible for its debts and is entitled to surpluses. No separate agency receives a financial benefit nor imposes a financial burden on the Authority. The Authority has substantial legal authority to control its affairs without local government approval; therefore, all operations of the Authority are a separate reporting entity as reflected in this report.

The Authority has four component units that are reported as blended component units within these financial statements - Holtzclaw Development, LLC, Greenwood Terrace, LLC, Chattanooga Housing Authority-Emerald Villages LLC and Cromwell Development I, LLC. Holtzclaw Development LLC is a wholly owned component unit that serves as the holding company for the Authority's administration building and is financially responsible for the interest rate swap that is detailed in Note H. Greenwood Terrace LLC was established as the holding company for the Greenwood Terrace Apartments (the "Apartment"). Greenwood Terrace consists of 98 public housing units and is controlled by the Authority. The Authority is the managing member investor with 0.009% interest. The assets, liabilities and equity along with the operations are included in Greenwood Terrace. Chattanooga Housing Authority-Emerald Villages, LLC was established as the holding company for the tax credit development - Emerald Villages Apartments ("Emerald Villages"). Emerald Villages consists of 111 project based rental assistance ("PBRA") units and is controlled by the Authority. The Authority is the managing member investor with 0.009% interest. The assets, liabilities and equity along with the operations are included in Emerald Villages. Cromwell Development I, LLC was established as the holding company for the tax credit development -Cromwell Hills Apartments ("Cromwell Hills"). Cromwell Hills consists of 200 project-based vouchers (PBV) units and is controlled by the Authority. The Authority is the managing member investor with 0.009% interest. The assets, liabilities and equity along with the operations are included in Cromwell Hills. All inter-program transactions have been eliminated.

In addition, the Authority has .01% ownership interests in four tax credit developments which are not considered component units because the Authority does not have either control or financial responsibility for them: McCallie Homes Housing Partnership - Phase I, LLC, Alton Park Housing Partnership, LLC, The Villages Housing Partnership, LLC and Steiner Redevelopment, LLC. The Authority also has .005% ownership interest in an additional tax credit development, Johnson Terrace, LLC, which is also not considered a component unit because the Authority does not have either control or financial responsibility for it. These investments are trivial and are accounted for using the cost method.

Note B - Summary of Significant Accounting Policies

The accounting policies of the Authority conform to Generally Accepted Accounting Principles ("GAAP") as applicable to proprietary funds of governments. The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

Chattanooga Housing Authority
Notes to Financial Statements (Continued)
Year Ended December 31, 2020

Note B - Summary of Significant Accounting Policies (Continued)

The following is a summary of the most significant policies:

1. Basis of Presentation and Accounting: The accounting records of the Authority are maintained and reported in accordance with methods prescribed by HUD. The Authority must report using GAAP. The Authority is a special purpose government engaged only in business-type activities and therefore, presents only the financial statements required for the enterprise fund. In accordance with the GASB Statement No. 34 requirements for enterprise funds, activity is recorded using the accrual basis of accounting and the measurement focus is on the flow of economic resources. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. Capital asset purchases are capitalized, and long-term liabilities are accounted for in the enterprise fund. This requires the Authority to account for operations in a manner similar to private business or where the Board has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

The proprietary fund is composed of a number of programs. These programs (Public and Indian Housing, Public Housing Capital Fund, Section 8 Housing Choice Voucher, Resident Opportunity and Supportive Services ("ROSS"), PIH Family Self-Sufficiency Program and Section 8 Moderate Rehab) are designed to provide quality affordable housing opportunities and increase the self-sufficiency of those housed. The major programs are described as follows:

- *Public and Indian Housing* - During 2020, the Authority received operating subsidy funding for 12 projects consisting of 2,310 units of public housing under an Annual Contributions Contract ("ACC") with HUD. The program offers income based rental assistance (subsidy) for elderly, disabled and single families who qualify under the low-income guidelines. Revenues for the projects consist of rents and other fees collected from tenants and an operating subsidy received from HUD. Typically, residents pay 30% of their adjusted gross income in rents. The Authority's subsidy is received under an Annual Contributions Contract to offset the cost of operating the units. HUD also provides funds to maintain and improve the public housing projects under the *Public Housing Capital Fund* Program. Substantially all additions and improvements to land, structures and equipment of public housing are accomplished through these capital grant funds.
- *Section 8 Housing Choice Vouchers* - The Authority provides rental assistance payments to approximately 3,756 households who live in private rental housing. Funded by HUD pursuant to Section 8 of the U.S. Housing Act, this program allows participating families and individuals to choose their own housing with the use of a housing voucher. Generally, the participant pays between 30% and 40% of their monthly income towards rent and utilities and the Authority pays the remainder. The Authority targets this program to the elderly, disabled households and families that are homeless or at the risk of homelessness.

2. Use of Estimates: The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.
3. Cash Equivalents: The Authority considers all short-term investments with an original maturity of 90 days or less to be cash equivalents.

Cash and cash equivalents (unrestricted and restricted) were comprised of the following at December 31, 2020:

Checking accounts	\$ 38,881,843
Saving accounts/money market	8,140,418
Petty cash	3,000
	<hr/>
	<u>\$ 47,025,261</u>

Chattanooga Housing Authority
Notes to Financial Statements (Continued)
Year Ended December 31, 2020

Note B - Summary of Significant Accounting Policies (Continued)

4. Accounts Receivable and Allowance for Doubtful Accounts: Tenant accounts receivable are carried at the amount considered by management to be collectible. Other accounts receivable consists primarily of amounts due from HUD and State and Local governments for grant income.

The Authority uses the allowance for bad debts method of valuing doubtful accounts receivable, which is based on historical experience, coupled with a review of the current status of existing receivables. The allowance for doubtful accounts was \$155,538 for accounts receivable - tenants and \$1,659,048 for accounts receivable fraud recovery at December 31, 2020. Management believes all other accounts receivable as of December 31, 2020, were collectible and no additional allowance was considered necessary.

5. Prepaid Expenses: Payments made to vendors for goods or services that will benefit periods beyond December 31, 2020, are recorded as prepaid expenses.
6. Inter-program Receivables and Payables: Inter-program receivables and payables are all current and are the result of the use of the Public and Indian Housing Program as the common paymaster for shared costs of the Authority. Cash settlements are made periodically and all inter-program balances net to zero. These inter-program receivables and payables have been eliminated in the preparation of the financial statements.
7. Investments: Investments are recorded at fair value. Investment instruments consist only of items specifically approved for public housing agencies by HUD and State of Tennessee statutes. Investments are either insured or collateralized using the dedicated method. Under the dedicated method of collateralization, all deposits and investments over the federal depository insurance coverage are collateralized with securities held by the Authority or by the Authority's agent in the Authority's name. It is the Authority's policy that all funds on deposit are collateralized in accordance with both HUD requirements and requirements of the State of Tennessee. Additionally, the Authority considers its investment and deposit policies to be in accordance with the State of Tennessee's legal provisions related to the deposits as required by the *Codification of Governmental Accounting and Financial Reporting Standards*, Section C20.103. As of December 31, 2020, the Authority no longer holds any investments.
8. Inventories: The Authority maintains no inventory of expendable items. All supplies are expensed when purchased. Supplies on hand are minimal. The Authority's administration believes that the benefits of maintaining an inventory would be less in value than the cost of maintaining such a system.
9. Capital Assets: All purchased capital assets are recorded at cost when historical records are available. When no historical records are available, capital assets are recorded at estimated historical cost. Donated capital assets are recorded at their fair value at the time they are received. Donor imposed restrictions are deemed to expire as the asset depreciates. Land values were derived from development closeout documentation.

All normal expenditures of preparing an asset for use are capitalized when they meet or exceed the capitalization threshold. The cost of buildings and equipment is depreciated over the estimated useful lives of the related assets on a composite basis using the straight-line method. Depreciation commences on modernization and development additions in the year following completion. Small dollar value minor equipment items are expensed. Depreciation on assets has been expensed in the Statement of Revenues, Expenses, and Changes in Net Position. The useful lives of buildings, furniture and equipment for purposes of computing depreciation are as follows:

Buildings	15 - 30 years
Furniture, equipment, and machinery	3 - 7 years

Chattanooga Housing Authority
Notes to Financial Statements (Continued)
Year Ended December 31, 2020

Note B - Summary of Significant Accounting Policies (Continued)

9. Capital Assets (Continued): The Capitalization Policy for the Authority is: items purchased or betterments, not repairs, in excess of \$5,000 and a useful life of one (1) year will be capitalized. The cost of maintenance and repairs are charged to operations as incurred.

Under the provisions of GASB No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, long-lived assets are to be reviewed for impairment. If the sum of the expected future cash flows is less than the carrying value amount of the asset, an impairment loss should be recognized. No such impairment loss was incurred during the year ended December 31, 2020.

10. Derivatives and Hedging Activities: The Authority recognizes all derivatives on the Statement of Net Position at fair value and includes such items in other noncurrent liabilities. Derivatives that are not hedges must be adjusted to fair value through income. The Authority holds derivative financial instruments for the purpose of limiting its exposure to interest rate fluctuations through the use of interest rate swaps. Net amounts paid or received under interest rate swap arrangements are reflected as adjustments to interest income/expense. Derivatives are held only for the purpose of hedging or limiting such risks, not of speculation. See Note H for additional information.
11. Compensated Absences: The Authority's employees earn sick and vacation leave. Full-time, permanent employees are granted vacation and sick leave benefits in varying amounts to specified maximums depending on tenure with the Authority. Upon termination of employment, the Authority's employees do not receive any payment for their accrued but unused bank of sick leave; therefore, no amount has been accrued in the financial statements for sick leave. However, vacation leave is recorded as an expense and related liability in the period earned by employees. Vacation leave accrued but not yet paid as of December 31, 2020 is shown as a liability allocated between current and noncurrent as indicated in the Statement of Net Position.
12. Litigation Losses: The Authority recognizes estimated losses related to litigation in the period in which the occasion giving rise to the loss occurs but not before the loss is probable and reasonably estimable.
13. Restricted Assets: Certain assets may be classified as restricted assets on the Statement of Net Position because their use is restricted by contracts or agreements with outside third parties and lending institutions. Net position is reported as restricted when constraints placed on net position use are either: externally imposed by creditors (such as debt covenants), grantors, contributors, or laws or regulations of other governments, imposed by law through constitutional provisions or enabling legislation.
14. Operating Revenues and Expenses: Operating revenues and expenses consist of revenues earned and expenses incurred as a result of the principal operations of the Authority. Operating revenue results from exchange transactions associated with providing housing and related services, and federal operating subsidies and housing assistance payments that are directly related to the Authority's mission. Nonoperating revenue includes capital and noncapital federal grants, interest revenue, and other revenues not meeting the definition of operating. Operating expenses consist of all expenses incurred to provide housing services.
15. Annual Contribution Contracts: Annual Contribution Contracts provide that HUD shall have the authority to audit and examine the records of public housing authorities. Accordingly, final determination of the Authority's financing and contribution status for the Annual Contribution Contracts is the responsibility of HUD based upon financial reports submitted by the Authority.
16. Application of Restricted Resources: The Authority will first apply restricted resources when an expense incurred for purposes for which both restricted and unrestricted net position is available.

Chattanooga Housing Authority
Notes to Financial Statements (Continued)
Year Ended December 31, 2020

Note B - Summary of Significant Accounting Policies (Continued)

17. Subsequent Events: Subsequent events for the Authority have been considered through the date of the Independent Auditor's Report, which represents the date that the financial statements were available to be issued.
18. Tenant Accounts Receivable Net of Bad Debt Expenses: The State of Tennessee Comptroller's Office requires that in accordance with the Governmental Accounting Standards Boards Statement No. 34, revenues in proprietary funds should be reported as net of all related allowances, which include amounts pertaining to uncollectible accounts. Therefore, the increase and decrease in the estimate of uncollectible accounts should be reported net of revenue instead of bad debt expense. The Authority's bad debt expense charged against revenue was \$257,980 for the year ended December 31, 2020.
19. Capital Contributions: Capital contributions represent amounts that investor members are required to make in certain entities (See Note U). The partner capital contributions totaled \$3,017,379 for the year ended December 31, 2020. Partner capital accounts (excluding the Authority's) represent approximately 99.99% (as required by the operating agreement) of the equity of Greenwood Terrace, Emerald Villages and Cromwell Hills.

Note C - Deposits, Investments and Fair Value

HUD requires public housing authorities to invest excess HUD program funds in obligations of the United States, certificates of deposit or any other federally insured instruments.

The Authority's unrestricted and restricted cash and cash equivalents consist of cash held in both interest and non-interest-bearing checking accounts totaling \$47,025,261.

In accordance with GASB Statement No. 40 "Deposits and Investment Risk Disclosures, "information related to cash, cash equivalents and investments is as follows:

- *Interest Rate Risk*: The Authority's policy does not address interest rate risk.
- *Credit Risk*: The Authority's policy does not address credit rate risk.
- *Custodial Credit Risk*: The custodial credit risk for deposits is the risk that in the event of a bank failure, the Authority's deposits may not be recovered. At December 31, 2020, all of the Authority's deposits were either covered by FDIC insurance up to \$250,000 or adequately collateralized with banks which participate in the State of Tennessee Collateral Pool for Public Deposits for interest-bearing and money-market accounts.

Note D - Prepaid Expenses

Prepaid expenses at December 31, 2020, consisted of \$552,688 in prepaid insurance premiums, \$150,000 in prepaid asset management fees and \$70,426 in tax credit fees.

Chattanooga Housing Authority
Notes to Financial Statements (Continued)
Year Ended December 31, 2020

Note E - Notes Receivable

Notes receivables consist of the following as of December 31, 2020:

McCallie Homes Housing Partnership, LLC (net of allowance of \$146,641)	\$ 4,933,447
Alton Park Housing Partnership, LLC (net of allowance of \$189,034)	8,185,382
The Villages of Alton Park, Inc. (net of allowance of \$3,067,885)	-
The Villages Housing Partnership, LLC (net of allowance of \$23,000)	6,336,100
Johnson Terrace, LLC (The Oaks at Camden) (no allowance)	3,376,578
Steiner Redevelopment, LLC (Maple Hills) (no allowance)	<u>6,341,429</u>
	<u><u>\$ 29,172,936</u></u>

On August 26, 2003, the Authority entered into various loan agreements with McCallie Homes Housing Partnership, LLC totaling \$5,540,088, as evidenced by notes receivable, for the construction of low-income dwellings in association with the HOPE VI Program and secured by deeds of trust. The terms of the notes are generally between thirty-five (35) and forty-five (45) years from the date of the note. An allowance of \$146,641 has been provided for the uncollectible principal portion of the notes receivable. Certain notes bear 0% interest; however, one loan for \$3,433,447 bears interest at the long-term Applicable Federal Rate in effect at the date of the note (4.95%). Interest earned during the year ended December 31, 2020 was \$312,847. However, an allowance totaling \$3,568,609 has been provided for the cumulative interest earned on this interest-bearing note. No payments of principal or interest are due until the payment date. The total outstanding balance on the notes, net of allowance, as of December 31, 2020, was \$4,933,447.

On December 16, 2003, the Authority entered into various loan agreements with Alton Park Housing Partnership, LLC totaling \$8,918,685 as evidenced by notes receivable, for the construction of low-income dwelling in association with the HOPE VI Program and secured by deeds of trust. The terms of the notes are generally between forty-nine (49) and fifty (50) years from the date of the note. An allowance of \$189,034 has been provided for the uncollectible principal portion of the notes receivable. Certain notes bear 0% interest; however, one loan for \$3,954,363 bears interest at the long-term Applicable Federal Rate in effect at the date of the note (4.43%). Interest earned during the year ended December 31, 2020 was \$285,697. However, an allowance totaling \$3,277,809 has been provided for the cumulative interest earned on this interest-bearing note. No payments of principal or interest are due until the payment date. The total outstanding balance on the notes, net of allowance, as of December 31, 2020, was \$8,185,382.

On October 26, 2004, the Authority entered into a loan agreement with The Villages at Alton Park, Inc., totaling \$3,067,885, as evidenced by a note receivable, for the construction of low-income homeownership dwellings in association with the HOPE VI Program and secured by a deed of trust. The term of the note is variable, tied to the termination/expiration date of the ground lease. The note bears 0% interest. No payment of principal is due until the payment date which is forty-nine (49) years from the date of the note. Management determined in a prior year to establish an allowance for the full loan amount and therefore, the total outstanding balance on the notes, net of allowance, as of December 31, 2020, was \$0.

Chattanooga Housing Authority
Notes to Financial Statements (Continued)
Year Ended December 31, 2020

Note E - Notes Receivable (Continued)

On May 12, 2005, the Authority entered into various loan agreements with The Villages Housing Partnership, LLC totaling \$6,384,100, as evidenced by notes receivable, for the construction of low-income dwellings in association with the HOPE VI Program and secured by deeds of trust. The terms of the notes are generally between forty-five (45) and fifty (50) years from the date of the note. An allowance of \$23,000 has been provided for the uncollectible principal portion of the notes receivable. The notes bear 0% interest; however, one loan for \$3,111,100 bears interest at the long-term Applicable Federal Rate, compounded annually, in effect at the date of the note (4.56%). Interest earned during the year ended December 31, 2020 was \$266,525. However, an allowance totaling \$2,982,101 has been provided for the cumulative interest earned on this interest-bearing note. No payments of principal or interest are due until the payment date. The total outstanding balance on the notes as of December 31, 2020, was \$6,336,100.

On June 6, 2007, the Authority entered into two loan agreements with Johnson Terrace LLC (The Oaks at Camden) totaling \$3,376,578, as evidenced by notes receivable, for the construction of low-income dwellings and secured by deeds of trust. The terms of the notes are between forty (40) and forty-three (43) years from the date of the note. One note bears 0% interest; however, the other loan for \$943,144 bears interest at the long-term Applicable Federal Rate in effect at the date of the note (4.94%). Interest earned during the year ended December 31, 2020 was \$83,212. However, an allowance totaling \$824,517 has been provided for the cumulative interest earned on this interest-bearing note. No payments of principal or interest are due until the maturity date. The total outstanding balance on the notes as of December 31, 2020, was \$3,376,578.

On August 30, 2011, the Authority entered into four loan agreements with Steiner Redevelopment LLC (Maple Hills) totaling up to \$6,346,668, as evidenced by notes receivable, for the construction of low-income dwellings and secured by deeds of trust. The terms of the notes are for thirty-five (35) years from the date of the note. These notes bear 0% interest. No payments were received on these loans during the year ended December 31, 2020. The total outstanding balance on the notes as of December 31, 2020, was \$6,341,429.

Management has provided an allowance for the uncollectible principal value of all notes receivable totaling \$3,426,560, a breakdown of which is shown on the previous page. Additionally, management has provided an allowance for the accrued interest on the various interest-bearing notes totaling \$10,653,036. Management evaluates annually the collectability of all note balances, including reviewing the value of the properties versus the face value of the notes receivable.

The Authority, as lessor, entered into land lease agreements with the Promisors of the Notes Receivable. The term of the leases shall be for forty (40) to fifty (50) years and rent is \$1 per year. The cost of the leased land is \$7,946,997, which is included in Land in the Statement of Net Position.

Chattanooga Housing Authority
Notes to Financial Statements (Continued)
Year Ended December 31, 2020

Note F - Capital Assets

A summary of the changes in capital assets for the year ended December 31, 2020 is as follows:

	Balance 1/1/2020	Additions	Disposals	Transfers	Balance 12/31/20
Land	\$ 9,491,854	\$ -	\$ (5,419)	\$ -	\$ 9,486,435
Buildings	166,335,392	18,509,148	-	2,598,554	187,443,094
Furniture, equipment and machinery	1,943,759	471,433	(25,173)		2,390,019
Construction in progress	8,818,682	5,433,309	-	(2,598,554)	11,653,437
Total capital assets	186,589,687	24,413,890	(30,592)	-	210,972,985
Accumulated depreciation	(125,029,139)	(5,162,144)	35,813	-	(130,155,470)
Net capital assets	\$ 61,560,548	\$ 19,251,746	\$ 5,221	\$ -	\$ 80,817,515
Balance at January 1, 2020			\$ 61,560,548		
Current period additions - capital grants			5,433,306		
Current period additions - operations			439,933		
Current period additions - debt proceeds and partner contributions			18,551,992		
Current period dispositions - operations			(6,120)		
Current period depreciation expense			(5,162,144)		
Balance at December 31, 2020			\$ 80,817,515		

Note G - Other Long-term Liabilities Other than Debt

The activities of compensated absences and other noncurrent liabilities consisted of the following at December 31, 2020:

	Balance at 1/1/2020	Additions	Adjustments/ payments	Balance at 12/31/2020	Current portion
Compensated absences	\$ 481,714	\$ 212,584	\$ (44,324)	\$ 649,974	\$ 162,493
FSS escrow deposit	\$ 166,498	\$ 67,577	\$ (49,297)	\$ 184,778	69,463
Liability of deficit swap position (Holtzclaw Development, LLC)	206,826	-	(988)	205,838	-
Total	\$ 373,324	\$ 67,577	\$ (50,285)	\$ 390,616	\$ 69,463

Chattanooga Housing Authority
Notes to Financial Statements (Continued)
Year Ended December 31, 2020

Note H - Notes Payable

As of December 31, 2020, the Authority had \$47,127,040 of debt outstanding related to various projects and programs. These debts are the obligations associated with the following:

Bank of America Leasing - Public Housing	\$ 6,195,169
First Tennessee - Holtzclaw Development, LLC	1,323,400
SunTrust Bank - Cromwell Development I, LLC	11,016,959
U.S. Bank National Association - Cromwell Development I, LLC	15,067,765
Bank OZK - Emerald Villages, LLC	5,905,671
U.S. Bank National Association - Emerald Villages, LLC	7,368,076
Tennessee Housing Development Agency	<u>250,000</u>
 Total debt outstanding at December 31, 2020	 <u><u>\$ 47,127,040</u></u>
 Current portion	 \$ 1,103,225
Long-term portion	<u>46,023,815</u>
	 <u><u>\$ 47,127,040</u></u>

BciCapital Leasing (Public Housing)

On August 21, 2019, the Authority entered into a capitalized lease with BciCapital to refinance the outstanding Energy Performance Contracting loan. The loan was for \$7,648,298 with an interest rate of 3.72%. At December 31, 2020, combined monthly payments including interest totaled \$113,038. Combined monthly payments vary each calendar year and range from \$90,464 to \$108,019 through December 2026 (maturity date) and are secured by pledged revenues. Retirements during the year totaled \$1,343,005, which includes \$1,086,174 made on the retired debt, and interest expense during the year was \$256,831. The outstanding balance at December 31, 2020, is \$6,195,169.

Future payments consist of:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 893,225	\$ 224,910	\$ 1,118,135
2022	961,148	190,531	1,151,679
2023	1,032,663	153,567	1,186,230
2024	1,107,942	113,875	1,221,817
2025	1,187,153	71,318	1,258,471
Thereafter	<u>1,013,038</u>	<u>25,745</u>	<u>1,038,783</u>
	<u><u>\$ 6,195,169</u></u>	<u><u>\$ 779,946</u></u>	<u><u>\$ 6,975,115</u></u>

Chattanooga Housing Authority
Notes to Financial Statements (Continued)
Year Ended December 31, 2020

First Tennessee Bank (Holtzclaw Development, LLC)

On April 28, 2006, Holtzclaw Development, LLC, a blended component unit, entered into a promissory note with First Tennessee Bank for \$3,100,000. The note bears interest at a variable rate of the 30-day LIBOR rate plus 1.25% (interest rate was 1.4% at December 31, 2020) with monthly principal payments of \$6,600 commencing in January 2007 and increasing to \$27,000 upon maturity in April 2026 (monthly principal payments were \$17,500 at December 31, 2020). The note is secured by a construction mortgage deed of trust and the assignment of rents and leases. Interest expense during the year was \$29,462. The outstanding balance at December 31, 2020, is \$1,323,400.

Holtzclaw Development, LLC, has entered into an interest rate swap agreement with an original notional amount of \$3,027,400 that limits the variable interest cash flow exposure on the loan for a period of around twenty years from the date issued, April 28, 2006. Under the interest rate swap agreement, Holtzclaw Development, LLC pays or receives on a monthly basis an amount based on the notional amount, \$1,306,700 at December 31, 2020, multiplied by the positive or negative difference, respectively, of .34%. As of December 31, 2020, the fair value of the interest rate swap obligation was a liability of \$205,838, a decrease of \$988 during the year. The fair value was determined based on comparable yields for like instruments. Since the swap used LIBOR as the basis to calculate the receive-variable rate, Holtzclaw Development, LLC is exposed to interest rate risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the interest rate swap. The fair value of the swap will generally decline with a decrease in interest rates and increase when interest rates increase. These changes in valuation do not affect Holtzclaw Development, LLC's cash flow.

Future principal payments consist of:

	<u>Principal</u>
2021	\$ 210,000
2022	225,600
2023	241,200
2024	259,200
2025	277,200
Thereafter	<u>110,200</u>
	<u>\$ 1,323,400</u>

Tennessee Housing Development Agency

On December 5, 2019, the Authority entered into a grant note agreement with Tennessee Housing Development Agency for \$500,000. The note bears interest at 0% interest. The grant funds are to be provided to Cromwell Development I, LLC to be used for the development of 200 units of rental housing for low-income households. The property shall be maintained as rental housing for low-income households for five year from the date the property is first available for occupancy. Principal on the note shall be forgiven at a rate of 20% annually. The first reduction of 20% of the principal sum shall occur on the date that is one year from the date the property is first available for occupancy as determined by the date the first certificate of occupancy is issued for the property by the City of Chattanooga, Tennessee. At December 31, 2020, \$250,000 had been drawn on the grant note.

Chattanooga Housing Authority
Notes to Financial Statements (Continued)
Year Ended December 31, 2020

Note H - Notes Payable (Continued)

SunTrust Bank (Cromwell Development I, LLC)

On December 5, 2019, Cromwell Development I, LLC ("Cromwell"), a blended component unit, entered into a construction mortgage with SunTrust Bank in the maximum amount of \$14,928,000 to finance improvements for a 200-unit low-income housing complex. The loan bears interest at a rate of LIBOR plus 2.5% and is secured by the property. Interest only payments are due monthly and all outstanding principal is due and payable at maturity, December 1, 2021, subject to an additional six-month extension option. Cromwell has a permanent loan commitment from SunTrust that would enable Cromwell to convert the construction loan to a permanent mortgage that will require monthly principal and interest payments with a fixed rate of 3.71% and a maturity date of December 1, 2037. During the year ended December 31, 2020, \$184,822 of interest was incurred and is included in construction in progress. As of December 31, 2020, the outstanding principal and accrued interest of the construction loan was \$11,016,959 and \$26,924, respectively.

U.S. National Bank Association (Cromwell Development I, LLC)

On December 5, 2019, the Authority issued Series 2019A tax exempt bonds totaling \$14,928,000 to provide funding to Cromwell to enable Cromwell to pay a portion of the cost of acquiring, constructing, and rehabilitating low and moderate income multifamily rental housing. The bond proceeds were provided to Cromwell through a bond loan note agreement between the Authority and Cromwell on December 5, 2019 in the maximum amount of \$14,928,000. The bond loan note was assigned to the bond trustee, U.S. Bank National Association, at the closing date of the bonds. The bonds and interest are limited obligations of the Authority. The bond loan note is collateralized by bond reserves. The note shall bear interest at a rate of 2.41%. Payments of interest are due monthly. No payments of principal are due until the termination date of December 1, 2021. The termination date may be extended for up to two additional 6-month periods. All outstanding principal and interest shall be due on the termination date. As of December 31, 2020, the outstanding principal is \$14,928,000. The bonds were issued at a premium, which is being amortized over the life of the loan. The unamortized premium as of December 31, 2020 is \$139,765. During the year ended December 31, 2020, interest of \$359,765 was incurred and capitalized into the cost of the rental property.

STI Institutional and Government, Inc (Cromwell Development I, LLC)

On December 5, 2019, Cromwell entered into a construction mortgage with the Authority in the maximum amount of \$1,522,000, financed with Series 2019B tax-exempt bonds. Effective December 5, 2019, the Authority sold the loan receivable to STI Institutional & Government, Inc. The mortgage is secured by the property and an assignment of lease and rents. The loan bears interest at a rate of LIBOR + 2.5%. Interest-only payments are due monthly and all outstanding principals shall be due at maturity, which is December 1, 2021, subject to an additional six-month extension option. As of December 31, 2020, no amounts have been drawn on the loan.

Chattanooga Housing Authority
Notes to Financial Statements (Continued)
Year Ended December 31, 2020

Note H - Notes Payable (Continued)

U.S. Bank National Association (Emerald Villages, LLC)

On December 1, 2019, the Authority issued Series 2019A tax exempt bonds totaling \$7,272,000 to provide funding to Emerald Villages to enable Emerald Villages to pay a portion of the cost of acquiring, constructing, and rehabilitating low and moderate income multifamily rental housing. The bond proceeds were provided to Emerald Villages through a bond loan note agreement between the Authority and Emerald Villages on December 1, 2019 in the maximum amount of \$7,272,000. The bond loan note was assigned to the bond trustee, U.S. Bank National Association, at the closing date of the bonds. The bonds and interest are limited obligations of the Authority. The bond loan note is collateralized by bond reserves. The note shall bear interest at a rate of 2.63%. Payments of interest are due monthly. No payments of principal are due until the termination date of January 1, 2022. The termination date may be extended for up to two additional 6-month periods. All outstanding principal and interest shall be due on the termination date. As of December 31, 2020, the outstanding principal is \$7,272,000. The bonds were issued at a premium, which is being amortized over the life of the loan. The unamortized premium as of December 31, 2020 is \$96,076. During the year ended December 31, 2020, interest of \$191,254 was incurred and capitalized into the cost of the rental property.

Bank OZK (Emerald Villages, LLC)

On December 27, 2019, Emerald Villages entered into a promissory note with the Authority in the maximum amount of \$2,222,000, financed with Series 2019B tax-exempt bonds. Effective December 27, 2019, the Authority assigned the loan receivable to Bank OZK. The mortgage is secured by the property and an assignment of lease and rents. The loan bears interest at a rate of LIBOR + 2.3% (4.05% at December 31, 2020). Interest-only payments are due monthly and all outstanding principals shall be due at maturity, which is January 1, 2023, subject to an additional six-month extension option. As of December 31, 2020, the outstanding principal and accrued interest of the construction loan is \$145,316 and \$420, respectively.

Bank OZK (Emerald Villages, LLC)

On December 27, 2019, Emerald Villages, LLC ("Emerald Villages"), a blended component unit, entered into a construction loan agreement with Bank OZK in the maximum amount of \$7,272,000. The loan bears interest at a rate of LIBOR plus 3.0% (4.7% at December 31, 2020). Interest only payments are due monthly and all outstanding principal is due and payable at maturity, January 1, 2022, subject to two additional six-month extension options and is secured by the property. Emerald Villages has a permanent loan commitment from SunTrust Bank that would enable Emerald Villages to convert the construction loan to a permanent mortgage that will require monthly principal and interest payments with a fixed rate of 3.93% and a maturity date of January 1, 2028. As of December 31, 2020, the outstanding principal and accrued interest of the construction loan was \$5,760,355 and \$23,391, respectively.

Chattanooga Housing Authority
Notes to Financial Statements (Continued)
Year Ended December 31, 2020

Note H - Notes Payable (Continued)

Below is a summary of the changes in Notes Payable of the primary government for the year ended December 31, 2020:

	Bank of America	First Tennessee	SunTrust - Cromwell LLC	U.S. Bank National Association - Cromwell LLC	Bank OZK - Emerald Villages, LLC	U.S. Bank National Association - Emerald Villages, LLC	Tennessee Housing Develop- ment Agency	Total
Beginning balances	\$ 7,281,343	\$ 1,519,000	\$ 1,969,277	\$ 15,207,530	\$ 1,580,137	\$ 7,464,153	\$ -	\$ 35,021,440
Debt issued	-	-	9,047,682	-	4,325,534	-	250,000	13,623,216
Principal payments	(1,086,174)	(195,600)	-	-	-	-	-	(1,281,774)
Bond premium amortization	-	-	-	(139,765)	-	(96,077)	-	(235,842)
Ending balance	<u>\$ 6,195,169</u>	<u>\$ 1,323,400</u>	<u>\$ 11,016,959</u>	<u>\$ 15,067,765</u>	<u>\$ 5,905,671</u>	<u>\$ 7,368,076</u>	<u>\$ 250,000</u>	<u>\$ 47,127,040</u>

Note I - Inter-program Eliminations

The following amounts have been eliminated in the preparation of the financial statements:

Developer fee receivable/payable	\$ 2,004,900
Inter-program notes	20,155,892
Right of use assets/deferred ground lease liability, net	<u>16,559,608</u>

Statement of net position totals	<u>\$ 38,720,400</u>
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Operating subsidy	\$ 447,374
Management fees	2,281,041
Bookkeeping fees	464,377
Asset management fees	216,490
Front-line fees	920,577
Investment income/expense	483,408
Recognition of deferred ground lease revenue/amortization of right of use assets	331,838
Developer fee income	2,004,900
Rental income/expense	<u>259,027</u>

Statement of revenue, expense and changes in net position totals	<u>\$ 7,409,032</u>
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Note J - Retirement Plan Obligations

The Authority sponsors a defined contribution plan for all employees having at least six months of service. Participants do not contribute to the Plan and become fully vested in employer contributions and investments earnings after five years of participation in the Plan. Total employer contributions to the Plan during the year were \$278,886. Total payroll during the year was \$6,423,030. Forfeited amounts can be used for administrative fees or disbursed by percentage to remaining employees.

Chattanooga Housing Authority
Notes to Financial Statements (Continued)
Year Ended December 31, 2020

Note J - Retirement Plan Obligations (Continued)

Additionally, the Authority sponsors a deferred compensation plan created in accordance with Internal Revenue Code ("IRC") Section 457. The deferred compensation plan permits all employees to defer a portion of their salary, subject to IRC limitations, until future years. Such amounts are not available to employees until termination, retirement, death, or unforeseeable emergency.

Assets in the Plan are recorded at market value but are administered by a private corporation under contract with the Authority. The Authority has no liability for losses under the Plan but does have the duty of due care that would be required of an ordinary prudent investor. Additional details on the plan can be obtained from USI Consulting Group, Karlo Rodriguez, 900 South Gay Street, Suite 1796, Knoxville, TN 37902, 865.523.8353.

Note K - Restricted Cash

Restricted cash was comprised of the following as of December 31, 2020:

Unexpended sales proceeds and developer fees reserved for future development	\$ 2,440,327
Replacement and operating deficit reserves - Greenwood Terrace	1,557,742
Restricted for HUD payable	44,669
Cromwell and Emerald Villages bond reserve	23,417,554
Tenant security deposits	250,248
FSS participant escrow balances	184,778
Housing Choice Voucher HAP net position	<u>490,557</u>
	<u><u>\$ 28,385,875</u></u>

Note L - Contingencies

The Authority is subject to possible examinations made by federal regulators who determine compliance with terms, conditions, laws and regulations governing grants given to the entity in the current and prior years. These examinations may result in required refunds by the Authority to federal grantors and/or program beneficiaries. There were no examinations for the year ended December 31, 2020, that resulted in repayments required by the Authority.

There are currently lawsuits ongoing that have arisen in the normal course of the Authority's operations; however, there are no amounts which are deemed as contingent liabilities which should be disclosed or accrued in the financial statements. The Authority believes that an unfavorable outcome of these matters would not have a material adverse effect to the financial statements.

In March 2020, the World Health Organization declared the global novel coronavirus disease 2019 ("COVID-19") outbreak a pandemic. Further, the United States Centers for Disease Control and Prevention confirmed the spread of the disease throughout the United States. As of the date the financial statements are available to be issued, the Authority's operations have not been significantly impacted by the COVID-19 outbreak. However, the Authority's operations could be adversely affected as a result of COVID-19, but the impact is not known at this point as the scale and severity of the outbreak, and resulting economic impact, is still largely unknown.

Chattanooga Housing Authority
Notes to Financial Statements (Continued)
Year Ended December 31, 2020

Note M - Leasing Activities (as Lessor)

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

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

During June 2013, the Authority entered into a contract with Mental Health Cooperative, Inc. to lease approximately 7,554 sq. ft. in the main building at 801 N. Holtzclaw Ave. The initial lease term expired in 2018 but has been extended for 2 additional 3-year terms through May 31, 2024. The terms of the 2nd extension require a base monthly rent of \$7,655 in year one. Rent increases to \$7,806 per month in the second year and \$7,963 in the third year of the lease. Total rental income for the 3-year term June 1, 2021 through May 31, 2024 is \$281,084.

Note N - Annual Contributions by Federal Agencies

Pursuant to the Annual Contributions Contract, HUD contributes an operating subsidy approved in the operating budget under the Annual Contributions Contract. HUD operating subsidy contributions for the year ended December 31, 2020, were \$10,930,829.

The Section 8 Housing Choice Voucher program provides for housing assistance payments to private owners of residential units on behalf of eligible low or very low-income families. The program provides for such payments with respect to existing and moderately rehabilitated housing covering the difference between the maximum rental on a dwelling unit, the amount of rent contribution by a participating family and related administrative expense. The Authority is also eligible to receive reimbursement of preliminary expenses prior to lease up. HUD Section 8 Housing Choice Voucher program contributions for the year ended December 31, 2020, were \$26,476,484.

Note O - Economic Dependency

Both the PHA Owned Housing Program and the Section 8 Housing Choice Voucher Program are economically dependent on annual contributions and grants from HUD. Both programs operate at a loss prior to receiving the contribution and grants.

The Authority received approximately 89% of its operating and capital fund grant revenues from HUD. If the amount of revenues received from HUD falls below critical levels, the Authority's operating reserves could be adversely affected.

Chattanooga Housing Authority
Notes to Financial Statements (Continued)
Year Ended December 31, 2020

Note P - Risk Management

The Authority is exposed to all common perils associated with the ownership and rental of real estate properties. A risk management program has been established to minimize loss occurrence and to transfer risk through various levels of insurance. Property, casualty, employee dishonesty and public official's liability forms are used to cover the respective perils.

The Authority is exposed to various risks of loss related to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority carries commercial insurance, including workers' compensation and employee health and accident insurance, general liability, fire and extended coverage, fidelity bond, automobile, and Director and Officers liability. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. Additionally, there have been no significant reductions in insurance coverage from the prior year.

Note Q - Supplementary Information

The supplementary information has been included in order to show the financial statements of the Authority on the GAAP basis of accounting but in the format of the HUD Handbook 7476.3, *Audit Guide*. This is due to the fact that some supplementary information is reviewed by the HUD field office and provides greater detail concerning the operations of the Authority.

Note R - Income Taxes

The Authority is exempt from income taxes as it is a governmental entity and therefore is not subject to taxation. The Authority's blended component units have qualified with the Internal Revenue Service and the Tennessee Department of Revenue as a tax-exempt organization for income tax purposes and, accordingly, there is no provision in the financial statements for federal or state income taxes.

The Authority's component units recognize uncertain income tax positions using the "more-likely-than-not" approach as defined in the ASC. No liability for uncertain tax positions has been recorded in the accompanying financial statements.

Note S - Subsequent Events

The Authority authorized the refinancing of the BciCapital Public Housing Energy Performance Contract ("EPC") equipment lease-purchase agreement in order to reduce annual lease payments and facilitate the removal of Boynton Terrace Apartments. As part of HUD's Rental Assistance Demonstration ("RAD"), Boynton is being converted from Low-Income Public Housing to Project-Based Rental Assistance ("PRBA").

Note T - Recent Accounting Pronouncements

In May 2020, the GASB issued *Statement No. 95, Postponement of the Effective Dates of Certain Authoritative Guidance*. The provisions of this Statement are effective immediately. This Statement provides temporary relief to governments in light of the COVID-19 pandemic. That objective is accomplished by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018 and later.

Chattanooga Housing Authority
Notes to Financial Statements (Continued)
Year Ended December 31, 2020

Note T - Recent Accounting Pronouncements (Continued)

In March 2020, the GASB issued Statement No. 93, Replacement of Interbank Offered Rates. As a result of global reference rate reform, LIBOR is expected to cease to exist in its current form at the end of 2021, prompting governments to amend or replace financial instruments for the purpose of replacing LIBOR with other reference rates, by either changing the reference rate or adding or changing fallback provisions related to the reference rate. The objective of this Statement is to address those and other accounting and financial reporting implications that result from the replacement of LIBOR. The removal of LIBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2021. All other requirements of this Statement are effective for reporting periods beginning after June 15, 2020. Earlier application is encouraged.

The implementation of this standard has been delayed one year by the provisions of GASB Statement No. 95.

In June 2018, the GASB issued *Statement No. 89, Accounting for Interest Cost Incurred Before the End of a Construction Period*. The provisions of this Statement are effective for fiscal years beginning after December 15, 2019. This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5-22 of Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in historical cost of a capital asset reported in a business-type activity or enterprise fund.

This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles.

The implementation of this standard has been delayed one year by the provisions of GASB Statement No. 95.

In June 2017, the GASB issued *Statement No. 87, Leases*. The provisions of this Statement are effective for fiscal years beginning after December 15, 2019. This Statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

The implementation of this standard has been delayed by eighteen months by the provisions of GASB Statement No. 95.

Chattanooga Housing Authority
Notes to Financial Statements (Continued)
Year Ended December 31, 2020

Note U - Condensed Financial Statements

Chattanooga Housing Authority
Statement of Net Position
December 31, 2020

	Chattanooga Housing Authority	Greenwood Terrace, LLC	Holtzclaw Development LLC	Emerald Villages	Cromwell Hills	Eliminations	Total
Assets							
Current assets	\$ 20,056,606	\$ 1,391,414	\$ 426,736	\$ 9,016,931	\$ 20,068,542	\$ (2,004,900)	\$ 48,955,329
Capital assets, net	50,982,134	3,953,361	494,495	14,469,363	27,477,770	(16,559,608)	80,817,515
Noncurrent assets	49,328,832	24,840	-	-	-	(20,155,892)	29,197,780
Total assets	120,367,572	5,369,615	921,231	23,486,294	47,546,312	(38,720,400)	158,970,624
Deferred outflows of resources	-	-	-	-	-	-	-
Total assets and deferred outflows of resources	120,367,572	5,369,615	921,231	23,486,294	47,546,312	(38,720,400)	158,970,624
Liabilities							
Current liabilities	26,775,129	74,543	275,983	2,461,923	1,737,224	(21,907,145)	9,417,657
Noncurrent liabilities	(3,648,450)	4,455,473	1,557,877	18,701,945	40,489,191	(14,723,587)	46,832,449
Total liabilities	23,126,679	4,530,016	1,833,860	21,163,868	42,226,415	(36,630,732)	56,250,106
Deferred inflows of resources	-	-	-	-	-	-	-
Total liabilities and deferred inflows of resources	23,126,679	4,530,016	1,833,860	21,163,868	42,226,415	(36,630,732)	56,250,106
Net position							
Net investment in capital assets	40,665,612	2,017,108	(828,905)	995,616	(7,069,288)	(2,089,668)	33,690,475
Restricted by program requirements	2,931,503	-	-	-	-	-	2,931,503
Unrestricted net position (deficit)	53,643,778	(1,177,509)	(83,724)	1,326,810	12,389,185	-	66,098,540
Total net position	\$ 97,240,893	\$ 839,599	\$ (912,629)	\$ 2,322,426	\$ 5,319,897	\$ (2,089,668)	\$ 102,720,518

Chattanooga Housing Authority
Notes to Financial Statements (Continued)
Year Ended December 31, 2020

Note U - Condensed Financial Statements (Continued)

Chattanooga Housing Authority
Statement of Revenues, Expenses, and Changes in Net Position
Year Ended December 31, 2020

	Chattanooga Housing Authority	Greenwood Terrace, LLC	Holtzclaw Development LLC	Emerald Villages	Cromwell Hills	Eliminations	Total
Operating revenues							
Tenant revenue, net of bad debts of \$257,980	\$ 3,809,587	\$ 360,707	\$ 348,384	\$ 895,541	\$ 304,034	\$ (259,027)	\$ 5,459,226
HUD PHA operating grants	40,531,202	447,374	-	-	506,481	(447,374)	41,037,683
Other government grants	200,000	-	-	-	-	-	200,000
Management fees	2,281,041	-	-	-	-	(2,281,041)	-
Asset management fees	216,490	-	-	-	-	(216,490)	-
Bookkeeping fee	464,377	-	-	-	-	(464,377)	-
Other fees	920,577	-	-	-	-	(920,577)	-
Other revenue	2,452,705	28,030	-	56,118	31,473	(2,336,738)	231,588
Fraud recovery	102,636	-	-	-	-	-	102,636
Total operating revenues	50,978,615	836,111	348,384	951,659	841,988	(6,925,624)	47,031,133
Operating expenses							
Administrative	9,436,795	212,389	4,308	173,422	180,515	(3,616,854)	6,390,575
Asset management fee	216,490	7,343	-	-	-	(216,490)	7,343
Tenant service	643,378	2,450	-	-	22,551	(175,128)	493,251
Utilities	3,562,049	241,567	-	162,056	172,921	-	4,138,593
Protective services	1,121,872	-	-	-	6,727	(580,414)	548,185
Insurance expense	483,968	48,764	-	49,111	97,131	-	678,974
Maintenance	3,467,647	84,892	-	266,619	295,221	-	4,114,379
General expense	368,220	32,271	-	67,768	36,710	-	504,969
Housing assistance payments	23,570,813	-	-	-	-	-	23,570,813
Depreciation and amortization	4,586,295	156,518	224,712	179,051	352,223	(331,838)	5,166,961
Total operating expenses	47,457,527	786,194	229,020	898,027	1,163,999	(4,920,724)	45,614,043
Net operating (loss) income	3,521,088	49,917	119,364	53,632	(322,011)	(2,004,900)	1,417,090
Nonoperating revenues (expenses)							
Interest income	592,490	3,010	988	-	-	(568,176)	28,312
Interest expense	(257,203)	(258,488)	(99,467)	(76,554)	(148,445)	483,408	(356,749)
Casualty loss	35,010	-	-	-	-	-	35,010
Gain on disposal of capital assets	166,328	-	-	-	-	-	166,328
Total nonoperating expense, net	536,625	(255,478)	(98,479)	(76,554)	(148,445)	(84,768)	(127,099)
Net (loss) income before capital contributions	4,057,713	(205,561)	20,885	(22,922)	(470,456)	(2,089,668)	1,289,991
Partner contributions	-	-	-	300,243	2,717,136	-	3,017,379
Capital contributions	-	-	-	-	-	-	-
Capital fund grant	5,433,306	-	-	-	-	-	5,433,306
Changes in net position	9,491,019	(205,561)	20,885	277,321	2,246,680	(2,089,668)	9,740,676
Net position, beginning of year	87,749,874	1,045,160	(933,514)	2,045,105	3,073,217	-	92,979,842
Prior period adjustment	-	-	-	-	-	-	-
Net position, end of year	\$ 97,240,893	\$ 839,599	\$ (912,629)	\$ 2,322,426	\$ 5,319,897	\$ (2,089,668)	\$ 102,720,518

Chattanooga Housing Authority
Notes to Financial Statements (Continued)
Year Ended December 31, 2020

Note U - Condensed Financial Statements (Continued)

Chattanooga Housing Authority
Statement of Cash Flows
Year Ended December 31, 2020

	<u>Chattanooga Housing Authority</u>	<u>Greenwood Terrace, LLC</u>	<u>Holtzclaw Development LLC</u>	<u>Emerald Villages</u>	<u>Cromwell Hills</u>	<u>Total</u>
Net cash provided (used) by operating activities	\$ 6,877,238	\$ 160,490	\$ 209,406	\$ 160,420	\$ (50,824)	\$ 7,356,730
Net cash provided by investing activities	10,210,186	-	-	1,794,590	(8,870,249)	3,134,527
Net cash used by capital and related financing activities	(20,242,797)	-	(182,400)	4,825,777	12,356,236	(3,243,184)
Net cash used by non-capital financing activities	<u>35,010</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>35,010</u>
Net increase (decrease) in cash	(3,120,363)	160,490	27,006	6,780,787	3,435,163	7,283,083
Operating cash and cash equivalents						
Cash - beginning of year	<u>35,153,310</u>	<u>1,081,420</u>	<u>377,731</u>	<u>2,051,700</u>	<u>1,078,017</u>	<u>39,742,178</u>
Cash - end of year	<u>\$ 32,032,947</u>	<u>\$ 1,241,910</u>	<u>\$ 404,737</u>	<u>\$ 8,832,487</u>	<u>\$ 4,513,180</u>	<u>\$ 47,025,261</u>

Supplementary Information

Chattanooga Housing Authority
Statement and Certification of Actual Capital Fund Grant Costs
Year Ended December 31, 2020

Capital fund

	TN43P004501-16
1.) Funds approved	\$ 3,365,695
Funds expended	3,365,695
Excess/deficiency of funds approved	\$ -
Funds advanced	\$ 3,365,695
Funds expended	3,365,695
Excess/deficiency of funds advanced	\$ -
2.) The costs as shown on the Actual Modernization Cost Certificate submitted to HUD for approval are in agreement with the Housing Authority's records.	
3.) All Capital Fund Grant costs have been paid and all related liabilities have been discharged through payment.	
4.) The time in which such liens could be filed has expired.	
5.) This statement is included in the FY2020 report to facilitate grant closeout by HUD.	

Chattanooga Housing Authority
Statement and Certification of Actual Capital Fund Grant Costs (Continued)
Year Ended December 31, 2020

	TN43E004501-18
1.) Funds approved	\$ 250,000
Funds expended	250,000
Excess/deficiency of funds approved	\$ -
Funds advanced	\$ 250,000
Funds expended	250,000
Excess/deficiency of funds advanced	\$ -
2.) The costs as shown on the Actual Modernization Cost Certificate submitted to HUD for approval are in agreement with the Housing Authority's records.	
3.) All Capital Fund Grant costs have been paid and all related liabilities have been discharged through payment.	
4.) The time in which such liens could be filed has expired.	
5.) This statement is included in the FY2020 report to facilitate grant closeout by HUD.	

Chattanooga Housing Authority
Statement and Certification of Actual Family Self-Sufficiency Program Grant Costs
Year Ended December 31, 2020

	<u>FSS18TN2590</u>
1.) Funds approved	\$ 72,000
Funds expended	<u>72,000</u>
Excess/deficiency of funds approved	<u>\$ -</u>
Funds advanced	\$ 72,000
Funds expended	<u>72,000</u>
Excess/deficiency of funds advanced	<u>\$ -</u>
2.) The distribution of costs as shown on the Financial Status Report is in agreement with the Authority's record.	
3.) All costs related to the grant have been paid and all related liabilities have been discharged through payment.	
4.) This statement is included in the FY2020 report to facilitate grant closeout by HUD.	

Chattanooga Housing Authority
Statement and Certification of Actual Resident Opportunity and Supportive Services Grant Costs
Year Ended December 31, 2020

	<u>ROSS171022</u>
1.) Funds approved	\$ 417,336
Funds expended	<u>370,352</u>
Excess/deficiency of funds approved	<u>\$ 46,984</u>
Funds advanced	\$ 417,336
Funds expended	<u>370,352</u>
Excess/deficiency of funds advanced	<u>\$ 46,984</u>
2.) The distribution of costs as shown on the Financial Status Report is in agreement with the Authority's record.	
3.) All costs related to the grant have been paid and all related liabilities have been discharged through payment.	
4.) This statement is included in the FY2020 report to facilitate grant closeout by HUD.	

Chattanooga Housing Authority
Schedule of Expenditures of Federal Awards - State of Tennessee Format
Year Ended December 31, 2020

FEDERAL GRANTOR	CFDA number	Contract number	Beginning (accrued) deferred	Cash receipts	Expenditures	Ending (accrued) deferred
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT						
Public housing						
Public & Indian Housing Program	14.850	N/A	\$ -	10,445,296	\$ 10,445,296	\$ (62,826)
Public & Indian Housing Program CARES Act	14.PHC	N/A	-	485,533	\$ 485,533	-
Resident Opportunity and Supportive Services - Service Coordinators	14.870	N/A	(10,688)	129,783	119,095	-
Public Housing Capital Fund Program	14.872	N/A	(242,776)	8,984,198	8,745,922	(4,500)
Family Self-Sufficiency Program	14.896	N/A	(4,449)	57,271	51,805	1,017
Community Development Block Grant	14.218	NA	-	112,334	112,334	-
Section 8 programs						
Housing Voucher Cluster						
Section 8 Housing Choice Voucher Program	14.871	N/A	-	24,395,054	25,635,047	(608,514)
Section 8 Housing Choice Voucher Program CARES Act	14.HCC	N/A	-	631,479	631,479	-
Section 8 Mainstream Vouchers	14.879	N/A	-	106,178	106,178	-
Family Unification Program			-	103,780	103,780	-
Section 8 project-based cluster						
Section 8 Moderate Rehabilitation Single Room Occupancy	14.249	N/A	55,940	(6,218)	34,520	15,202
TOTAL FEDERAL FINANCIAL AWARDS			\$ (201,973)	\$ 45,444,688	\$ 46,470,989	\$ (659,621)

Threshold for Type A/B

\$ 1,394,130

Reconciliation of ending (accrued) deferred balance to the statement of net position

Accounts receivable - HUD

\$ (715,807)

Accounts payable - HUD

56,186

Ending (accrued) deferred balance on the Schedule of Expenditures of Federal Awards

\$ (659,621)

\$ -

Chattanooga Housing Authority
Notes to the Schedule of Expenditures of Federal Awards
Year Ended December 31, 2020

Note A - Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Authority and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations ("CFR") Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note B - Indirect Cost Rate

The Authority has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

Other Reports



Independent Auditor's 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*

Chattanooga Housing Authority
To the Board of Commissioners

We have audited, 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, the financial statements of the business-type activities of the Chattanooga Housing Authority (the "Authority") as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated July 20, 2021.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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Independent Auditor's 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* (Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from 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 financial statements. 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Lexington, Kentucky
July 20, 2021



Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control over Compliance in Accordance with the Uniform Guidance

Chattanooga Housing Authority
To the Board of Commissioners

Report on Compliance for Each Major Federal Program

We have audited Chattanooga Housing Authority's (the "Authority") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Authority's major federal programs for the year ended December 31, 2020. 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.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Authority's major federal programs based on our audit of the types of compliance requirements referred to above. 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 the audit requirements of Title 2 U.S. Code of Federal Regulations ("CFR") Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the Authority's compliance.

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Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control over Compliance in Accordance with the Uniform Guidance (Continued)

Opinion on Each Major Federal Program

In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2020.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as item 2020-001. Our opinion on each major federal program is not modified with respect to these matters.

The Authority's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Authority's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify certain deficiencies in internal control over compliance, described in the accompanying schedule of findings and questioned costs as item 2020-001, that we consider to be a significant deficiency.

The Authority's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Authority's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

**Independent Auditor's Report on Compliance for Each Major Federal Program and
Report on Internal Control over Compliance in Accordance with the Uniform Guidance (Continued)**

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

MCM CPAs & Advisors LLP

Lexington, Kentucky
July 20, 2021

**Chattanooga Housing Authority
 Schedule of Findings and Questioned Costs
 Year Ended December 31, 2020**

Section I - Summary of Independent Auditors' Results

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:
 Material weakness(es) identified? yes x no
 Significant deficiency(ies) identified not considered to
 be material weaknesses? yes x none reported

Noncompliance material to financial statements noted? yes x no

Federal Awards

Internal Control over major programs:
 Material weakness(es) identified? yes x no
 Significant deficiency(ies) identified not considered to
 be material weaknesses? x yes none reported

Type of auditors' report issued on compliance for
 major programs Unmodified

Any audit findings disclosed that are required to be reported
 in accordance with 2 CFR 200.516(a)? yes x no

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>	
14.850	Public & Indian Housing Program	\$ 10,930,829
14.872	Public Housing Capital Fund Program	\$ 8,745,922

Dollar threshold used to distinguish between Type A and Type B programs: \$ 1,394,130
 Auditee qualified as low-risk auditee? X yes no

Section II - Financial Statement Findings

None

**Chattanooga Housing Authority
Schedule of Findings and Questioned Costs (Continued)
Year Ended December 31, 2020**

Section III Finding - Major Federal Award Programs Audit

Finding No: 2020-001 - Wait list - Significant Deficiency/Noncompliance

Public & Indian Housing Program (CFDA No. 14.850)

Criteria: Public Housing Authorities must establish and follow written policies to ensure that potential low-income housing residents are housed in accordance with their position on the waiting list. These policies should include maintaining adequate documentation to allow an internal or external reviewer to determine if individuals were housed in the correct order.

Condition: The Chattanooga Housing Authority did not maintain its waiting list in a manner that demonstrates individuals were offered housing in accordance with their positions on the waiting list. We tested the waiting lists at three properties and at two properties we noted numerous instances where individuals were housed ahead of individuals who were ranked higher on the waiting list. The Authority's documentation did not include sufficient evidence to determine if those individuals were appropriately offered housing and additionally did not include explanations that detailed why they were not moved into a unit.

Cause: Onboard of new staff in a remote work environment presented challenges to fully training team members who are responsible for the wait list.

Effect: The Authority is unable to demonstrate that individuals were not inappropriately housed ahead of others who were higher on the waiting list.

Recommendation: The Authority should maintain detailed waiting list notes that consistently document efforts made to extend available housing opportunities to individuals on the waiting list. Additionally, this documentation should detail the date individuals were contacted, the individuals' response or lack thereof, and an explanation as to why they were not ultimately housed.

PHA Reply (Corrective Action Plan): The Authority will enhance waiting list procedures, training on proper use of waitlist software functionality and oversight monitoring to improve compliance in this area.

Contact Person: Mike Sabin, Director of Public Housing (423) 752-4164

Target Completion Date: December 31, 2021

**Chattanooga Housing Authority
Summary Schedule of Prior Audit Findings
Year Ended December 31, 2020**

No prior year findings.