

HOUSING AUTHORITY OF THE CITY OF THOMSON

**FINANCIAL STATEMENTS
&
SUPPLEMENTAL INFORMATION
YEAR ENDED DECEMBER 31, 2013**

HOUSING AUTHORITY OF THE CITY OF THOMSON
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HOUSING AUTHORITY OF THE CITY OF THOMSON
MANAGEMENT'S DISCUSSION & ANALYSIS
DECEMBER 31, 2013

Management's Discussion and Analysis

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

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

Financial Highlights

- Net position at December 31, 2013, decreased to \$4,799,498. Since the Authority engages only in business-type activities, the decrease is all in the category of business-type net position. Net position was \$5,109,921 for 2012.
- The business-type activities operating revenue at December 31, 2013, decreased to \$1,244,981. Total operating revenue was \$1,527,525 for 2012.
- The total operating expenses of all programs for December 31, 2013, increased to \$1,556,676. Total operating expenses were \$1,519,317 for 2012.
- There were no capital grant contributions during 2013.

Overview of the Financial Statements

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

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

The following statements are included:

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

Programs

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

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

FINANCIAL ANALYSIS

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

TABLE 1 – STATEMENT OF NET POSITION

| | <u>2013</u> | <u>2012</u> | <u>Variance</u> | <u>% Change</u> |
|----------------------------------|---------------------|---------------------|---------------------|-----------------|
| Current Assets | \$ 1,431,261 | \$ 1,334,337 | \$ 96,924 | 7.26% |
| Capital Assets, Net | 3,565,583 | 3,887,374 | (321,791) | -8.28% |
| Total Assets | <u>\$ 4,996,844</u> | <u>\$ 5,221,711</u> | <u>\$ (224,867)</u> | -4.31% |
| Current Liabilities | \$ 162,443 | \$ 97,438 | \$ 65,005 | 66.71% |
| Noncurrent Liabilities | 34,903 | 14,352 | 20,551 | 143.19% |
| Total Liabilities | <u>197,346</u> | <u>111,790</u> | <u>85,556</u> | 76.53% |
| Net Position: | | | | |
| Net Investment in Capital Assets | 3,565,583 | 3,887,374 | (321,791) | -8.28% |
| Unrestricted | 1,233,915 | 1,222,547 | 11,368 | 0.93% |
| Total Net Position | <u>4,799,498</u> | <u>5,109,921</u> | <u>(310,423)</u> | -6.07% |

MAJOR FACTORS AFFECTING THE STATEMENT OF NET POSITION

Current assets increased by \$96,924 due primarily to an increase in accounts receivable from other governments, partially offset by a decrease in cash, as a result of the members of the East Georgia Housing Authority Partnership (EGHAP) consortium not reimbursing Thomson Housing Authority (THA) for their share of operating expenses paid for by THA.

Capital assets decreased by \$321,791 due to normal depreciation expense exceeding current year capital asset purchases.

Current liabilities increased by \$65,005 primarily due to the Authority not making timely payment of payroll taxes withheld and therefore accruing a significant liability.

Noncurrent liabilities increased by \$20,551 due to the Authority accruing a liability related to the residence association cash account in which the Authority acts as a custodian for the funds deposited.

TABLE 2 – STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION

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

| | <u>2013</u> | <u>2012</u> | <u>Variance</u> | <u>% Change</u> |
|--|---------------------|---------------------|---------------------|-----------------|
| Operating Revenues | | | | |
| Rental Income | \$ 432,864 | \$ 433,092 | \$ (228) | -0.05% |
| Federal Grants | 801,384 | 1,091,161 | (289,777) | -26.56% |
| Other | <u>10,733</u> | <u>3,272</u> | <u>7,461</u> | 228.03% |
| Total Operating Revenues | <u>1,244,981</u> | <u>1,527,525</u> | <u>(282,544)</u> | -18.50% |
| Operating Expenses | | | | |
| Administration | 331,583 | 325,307 | 6,276 | 1.93% |
| Tenant Services | 76,861 | 72,054 | 4,807 | 6.67% |
| Utilities | 204,562 | 170,881 | 33,681 | 19.71% |
| Maintenance | 470,329 | 485,607 | (15,278) | -3.15% |
| Protective Services | 54,264 | 19,954 | 34,310 | 171.95% |
| General | 90,851 | 72,337 | 18,514 | 25.59% |
| Depreciation | <u>328,226</u> | <u>373,177</u> | <u>(44,951)</u> | -12.05% |
| Total Operating Expenses | <u>1,556,676</u> | <u>1,519,317</u> | <u>37,359</u> | 2.46% |
| Operating Income (loss) | <u>(311,695)</u> | <u>8,208</u> | <u>(319,903)</u> | -3897.45% |
| Nonoperating revenues (expenses): | | | | |
| Interest Revenue | <u>1,272</u> | <u>6,535</u> | <u>(5,263)</u> | 100.00% |
| Total Nonoperating Activity | <u>1,272</u> | <u>6,535</u> | <u>(5,263)</u> | 100.00% |
| Change in Net Position | (310,423) | 14,743 | (325,166) | -2205.56% |
| Beginning Net Position | <u>5,109,921</u> | <u>5,095,178</u> | <u>14,743</u> | 0.29% |
| Ending Net Position | <u>\$ 4,799,498</u> | <u>\$ 5,109,921</u> | <u>\$ (310,423)</u> | -6.07% |

MAJOR FACTORS AFFECTING THE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION

The decrease in net position was \$310,423 primarily due to an operating loss.

The Authority had an operating loss of \$311,695 including non-cash depreciation expense of \$328,226 versus operating income of \$8,208 and depreciation expense of \$373,177 in the prior year.

Total operating revenue decreased by \$282,544 to \$1,244,981 due primarily to a decrease in federal grants as a result of the Authority not receiving operating capital contributions during the current year.

Total operating expenses increased by \$37,359 to \$1,556,676 primarily due to increases in utilities expense, general expenses and protective services expense that were partially offset by decreases in depreciation expense and maintenance expense.

There were no capital contributions during 2013 as the Authority had no ongoing modernization projects.

CAPITAL ASSETS

As of December 31, 2013, investment in capital assets for its business-type activities was \$3,565,583 net of accumulated depreciation. This investment in capital assets includes land, buildings, improvements, and equipment.

Major capital asset purchases during the year included:

- Ramp at 801 A Street
- Sewer Machine

There were no capital asset disposals during the current year.

ECONOMIC FACTORS

Significant economic factors affecting the Authority are as follows:

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

FINANCIAL CONTACT

This financial report is designed to provide a general overview of the finances for all those with an interest in the Authority's finances. Questions concerning any of the information provided in this report or request for additional information should be addressed to Ms. Kelly Evans, Executive Director, Housing Authority of the City of Thomson, 706-595-4878.



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Independent Auditor's Report

To the Board of Commissioners
Housing Authority of the City of Thomson

Report on the Financial Statements

We have audited the basic financial statements of the Housing Authority of the City of Thomson (the "Authority"), as of and for the year ended December 31, 2013, 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 these 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 these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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 entity'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 entity'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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Authority, as of December 31, 2013, and the respective changes in financial position and, where applicable, 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 1-4 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.

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the Authority's basic financial statements. The accompanying supplementary information including the financial data is presented for purposes of additional analysis as required by the U.S. Department of Housing and Urban Development and is not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements.

The financial data schedule and schedule of expenditures of federal awards are the responsibility of management and were derived from and relate 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 financial data schedule and schedule of expenditures of federal awards are 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 September 30, 2014 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Henderson & DeJohn, LLC

Birmingham, AL
September 30, 2014



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Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Independent Auditor's Report

To the Board of Commissioners
Housing Authority of the City of Thomson

We have audited, in accordance with the 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 basic financial statements of the Housing Authority of the City of Thomson (the "Authority"), as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated September 30, 2014.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or 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. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness listed as item 2013-001, 2013-002 and 2013-003.

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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, and which are described in the accompanying schedule of findings and questioned costs as items 2013-001, 2013-002 and 2013-003.

The Authority's Responses to Findings

The Authority's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Authority's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Henderson & DeJohn, LLC

Birmingham, AL
September 30, 2014



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Report on Compliance for Each Major Federal Program and on Internal Control over Compliance Required by OMB Circular A-133

Independent Auditor's Report

To the Board of Commissioners
Housing Authority of the City of Thomson

Report on Compliance for Each Major Federal Program

We have audited the Housing Authority of the City of Thomson's (the "Authority") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Authority's major federal programs for the year ended December 31, 2013. 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 the requirements of laws, regulations, contracts, and grants 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Authority's compliance.

Basis for Qualified Opinion on Low Rent Public Housing Program

As described in the accompanying schedule of findings and questioned costs, the Authority did not comply with requirements regarding CFDA 14.850 Low Rent Public Housing Program as described in finding number 2013-004 for Allowable Costs/Cost Principles and finding number 2013-005 for Eligibility. Compliance with such requirements is necessary, in our opinion, for the Authority to comply with the requirements applicable to that program.

Qualified Opinion on the Low Rent Public Housing Program

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, 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 the Low Rent Public Housing Program for the year ended December 31, 2013.

Other Matters

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

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 OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

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 were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2013-004 and 2013-005 to be material weaknesses.

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

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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Henderson & DeJohn, LLC

Birmingham, AL
September 30, 2014