

Management Letter Comments

- During our audit, we noted certain matters involving internal control and other operational matters that are presented for your consideration. These comments and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve internal control or result in other operating efficiencies and are summarized as follows:

- **Leases**

During the audit, we noted that there were 2 new leases entered into between the Authority and the component units (Aldercrest Apartments LP and High Rise Rehabilitation Phase I LP). These leases were for land and buildings owned by the Authority that were being leased to the LPs for renovation of low income housing. The leases were structured to ensure that the LPs would obtain capital lease treatment for the buildings so that the tax credits could be maximized for the investing partners. However, the leases cannot qualify for capital or direct financing leases by the Authority because the Authority owned the property for a period of time. As such, these leases must be recorded as operating leases on the Authority's books. These transactions were not recorded properly during the year and adjusting entries were required to properly record the assets and deferred revenue.

Due to the intricacy of the guidance, these were difficult accounting areas. We recommend that management ensure that accounting for such significant transactions is considered before finalizing the agreements. Additionally, research should be performed to ensure that transactions are properly recorded.

- **Cross Fund transactions**

During the audit, we noted that several transactions where the principal amount for debt or receivables is recorded in one major fund, and the interest expense/ income or gain/loss is recorded in another major fund. GASB indicates that if the income needs to be recognized in another fund, it should be reflected as a transfer. KPMG proposed adjustments to record related transactions in the same fund and in the future to make permanent transfers of funds using transfers.