

**LAKE METROPOLITAN HOUSING AUTHORITY**

Financial Condition

As of

June 30, 2013

Together with Auditors' Report





# Dave Yost • Auditor of State

Board of Trustees  
Lake Metropolitan Housing Authority  
189 First Street  
Painesville, Ohio 44077

We have reviewed the *Independent Auditor's Report* of the Lake Metropolitan Housing Authority, Lake County, prepared by Kevin L. Penn, Inc., for the audit period July 1, 2012 through June 30, 2013. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Lake Metropolitan Housing Authority is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost  
Auditor of State

March 12, 2014

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**LAKE METROPOLITAN HOUSING AUTHORITY  
PAINESVILLE, OHIO**

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## **Independent Auditor's Report**

Board of Trustees  
Lake Metropolitan Housing Authority  
Painesville, Ohio

### ***Report on the Financial Statements***

I have audited the accompanying financial statements of the business-type activities of Lake Metropolitan Housing Authority, Lake County as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Lake Metropolitan Housing Authority's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

My responsibility is to opine on these financial statements based on my audit. I audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require me to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on my judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, I consider internal control relevant to the Lake Metropolitan Housing Authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Lake Metropolitan Housing Authority's internal control. Accordingly, I express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as my evaluation of the overall financial statement presentation.

I believe the audit evidence I obtained is sufficient and appropriate to support my audit opinions.

### ***Basis for Qualified Opinion***

I was not able to obtain proper documentation to support the Authority capital assets as listed in the accompanying financial statements. As discussed in Note 12 to the financial statements, management did not maintain an adequate detailed capital asset listing to ascertain that the capital assets listed on the financial statements are fairly stated. I was not able to satisfy myself that the capital assets as listed on the financial statements are fairly presented by applying other auditing procedures.

### ***Qualified Opinion***

In my opinion, except for the effect of such adjustments, if any, as might have been determined to be necessary had I been able to examine evidence regarding the capital assets, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Lake Metropolitan Housing Authority, Ohio, as of June 30, 2013, and the respective change in financial position and cash flows for the year then ended in conformity 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 this presentation to include *Management's discussion and analysis*, listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. I applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, to the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not opine or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to opine or provide any other assurance.

#### ***Supplementary***

My audit was conducted to opine on the Lake Metropolitan Housing Authority's basic financial statements taken as a whole. The Supplemental Financial Data Schedules present additional analysis and is not a required part of the basic financial statements.

The Supplemental Financial Data Schedules and Schedule of Federal Award Expenditures is management's responsibility, and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. I subjected these schedules to the auditing procedures I applied to the basic financial statements. I also applied certain additional procedures, including comparing and reconciling this 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 my opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, I have also issued my report dated November 2, 2013 on my consideration of the Lake Metropolitan Housing Authority's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of my internal control testing over financial reporting and compliance, and the results of that testing, and does not opine 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 Lake Metropolitan Housing Authority's internal control over financial reporting and compliance.

Kevin L. Penn, Inc.

November 2, 2013

# Lake Metropolitan Housing Authority

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2013

The Lake Metropolitan Housing Authority's (the Authority's) management's discussion and analysis is designed to (a) assist the reader in focusing on significant financial issues, (b) provide an overview of the Authority's financial activity, (c) identify changes in the Authority's financial position (its ability to address the next and subsequent fiscal year challenges), and (d) identify individual fund issues or concerns.

This Management Discussion and Analysis is new, and will now be presented at the front of each year's financial statements.

Since the Management's Discussion and Analysis (MD&A) is designed to focus on the current years activities, resulting changes and currently known facts, please read it in conjunction with the Authority's financial statements (beginning on page 11).

### FINANCIAL HIGHLIGHTS

- During FY 2013, the Authority's Net Position decreased by \$656,525 (or 8.3%). Since the Authority engages only in business-type activities, the decrease is all in the category of business-type Net Position. Net Position were \$7,906,825 and \$7,250,300 for FY 2012 and FY 2013 respectively.
- Total revenue decreased by \$1,086,767 (or 8.71%) during FY 2013. Most of the decrease was due to cuts in HUD funding for both Housing Assistance Payments (HAP) and operating subsidies. Total revenues were \$12,477,904 and \$11,391,137 for FY 2012 and FY 2013 respectively.
- The total expenses of the Authority increased by \$617,354 (or 5.4%). Most of the increase was due to increasing leased units in our Housing Choice Voucher Program. Most of this occurred before the Federal sequestration cuts were announced. Another large expense was related to the relocation of former tenants of a multi-unit apartment complex that is currently undergoing renovation by LMHA. Total expenses were \$11,430,308 and \$12,047,662 for FY 2012 and FY 2013 respectively.

### Authority Financial Statements

The Authority financial statements are designed to be corporate-like in that all business type activities are consolidated for the entire Authority. These 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 Authority. The Statement is presented in the format where Assets - Liabilities = 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".

The purpose of the Statement of Net Position (the "Unrestricted Net Position") is to report the net available liquid (non-capital) assets, net of liabilities, for the entire Authority. Net Position (formerly equity) are reported in three broad categories:

Net Position, Invested in Capital Assets, net of Related Debt: 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.

# Lake Metropolitan Housing Authority

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2013

**Restricted Net Position:** This component of Net Position consists of restricted assets, when constraints are placed on the asset by creditors (such as debt covenants), grantors, contributors, laws, regulations, etc.

**Unrestricted Net Position:** Consists of Net Position that do not meet the definition of "Net Position Invested in Capital Assets, Net of Related Debt", or "Restricted Net Position", although there may also be restrictions placed on the use of these funds.

The Authority financial statements also include a Statement of Revenues, Expenses and Changes in Fund Net Position (similar to an Income Statement). This Statement includes Operating Revenue, such as rental income, Operating Expenses, such as administrative, utilities, and maintenance, and depreciation, and Non-Operating Revenue and Expenses, such as capital grant revenue, investment income and interest expense.

The purpose of the Statement of Revenues, Expenses and Changes in Fund Net Position is to report the agencies operating performance for the fiscal year. The "Change in Net Position", which is similar to Net Income or Loss, is the result.

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

### **Fund Financial Statements**

The Authority consists of an exclusively Enterprise Fund. Enterprise funds utilize the full accrual basis of accounting. The Enterprise method of accounting is similar to accounting utilized by the private sector accounting.

Many of the programs maintained by the Authority are required by the Department of Housing and Urban Development. Others are segregated to enhance accountability and control.

### **The Authority's 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 PHA to provide the housing at a rent that is based upon 30% of household income. The Conventional Public Housing Program also includes the Capital Funds Program, which is the primary funding source for physical and management improvements to the Authority's properties.

**Housing Choice Voucher Program** – under the Housing Choice Voucher Program, the Authority administers contracts with independent landlords that own the property. The Authority subsidizes the family's rent through a Housing Assistance Payment made to the landlord.

The program is administered under and Annual Contributions Contract (ACC) with HUD. HUD provides Annual Contributions Funding to enable the Authority to structure a lease that sets the participants' rent at 30% of household income.

# Lake Metropolitan Housing Authority

## MANAGEMENT’S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2013

In June 2012, LMHA purchased an apartment complex in Willoughby, Ohio. It took nearly a year to relocate its former tenants and then complete the bidding process for the building contractor. The renovation of ParkView Place, formerly known as River Isle, began in April 2013 and will ultimately consist of forty units, divided into two programs for reporting purposes. Twenty-five future Public Housing units are currently reported as **Other Federal Programs**, and are funded by a HUD grant that was originally intended to build 25 single-family Public Housing units in Lake County. Once completed, these Public Housing units will be funded under the ACC, eligible to receive Operating Subsidy and Capital Funds. The remaining fifteen units are reported as **Business Activities**. These 15 units are being funded and operated from sources “other than public housing funds”, which include **State and Local** program funds.

**State and Local Program:** Under its Local program, Lake MHA manages investments of locally controlled funding accumulated in past years until decisions are reached regarding how to use the funds to further the purposes of Lake MHA.

### Statement of Net Position

The following table reflects the condensed Statement of Net Position compared to prior year. The Authority is engaged only in Business-Type Activities

**TABLE 1  
STATEMENT OF NET POSITION**

	FY 2013		FY 2012
Current and Other Assets	\$3,218,712		\$3,799,915
Capital Assets	<u>4,865,708</u>		<u>4,917,223</u>
Total Assets	<u>8,084,420</u>		<u>8,717,138</u>
Other Liabilities	629,624		620,226
Non-Current Liabilities	<u>204,496</u>		<u>190,087</u>
Total Liabilities	<u>834,120</u>		<u>810,313</u>
Net Position:			
Invested in Capital Assets, net of Related Debt	4,865,708		4,917,223
Restricted	318,880		1,279,286
Unrestricted	<u>2,065,712</u>		<u>1,710,316</u>
<b>Total Net Position</b>	<u>\$7,250,300</u>		<u>\$7,906,825</u>

For more detailed information see page 11 for the Statement of Net Position.

### Major Factors Affecting the Statement of Net Position

Total assets decreased by \$632,718 or 7.26% and total liabilities were increased by \$23,807 or 2.94%. Current assets are used to extinguish liabilities. The major factor that affected total Net Position was the implementation of new cash management procedures by HUD. Over the last year, HUD has reduced our agency held Housing Assistance Payments (HAP) reserves to as close to zero as possible. These are labeled as restricted Net Position in the above chart. For more detail see “Capital Assets and Debt Administration” below.

# Lake Metropolitan Housing Authority

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2013

Table 2 presents details on the change in Unrestricted Net Position and Table 3 the details on the change in Restricted Net Position.

**TABLE 2  
CHANGE OF UNRESTRICTED NET POSITION**

Unrestricted Net Position 6/30/12		\$1,710,316
Results of Operations	(656,525)	
Adjustments:		
Depreciation (1)	515,682	
Change in Restricted Net Position	960,406	
Adjusted Results from Operations		819,563
Capital Expenditures		(464,167)
Unrestricted Net Position 6/30/13		\$2,065,712

(1) Depreciation is treated as an expense and reduces the results of operations but does not have an impact on Unrestricted Net Position.

While the results of operations are a significant measure of the Authority's activities, the analysis of the changes in Unrestricted Net Position provides a clearer change in financial well-being.

**TABLE 3  
CHANGE OF RESTRICTED NET POSITION**

Restricted Net Position - 6/30/2012			\$ 1,279,286
Results from Operations:			
HAP Revenue less Expense	\$(996,409)		
Other Changes	4,335		
Fraud Revenue Collection	3,435		
FFS Forfeitures	<u>28,233</u>		
Adjusted Results from Operations			(960,406)
Restricted Net Position - 6/30/2013			\$ 318,880

The following table reflects the condensed Statement of Revenues, Expenses and Changes in Net Position compared to prior year. The Authority is engaged only in Business-Type Activities.

# Lake Metropolitan Housing Authority

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2013

The following table reflects the condensed Statement of Revenues, Expenses and Changes in Net Position compared to prior year.

**TABLE 4**  
**STATEMENT of REVENUES, EXPENSES and CHANGE IN NET POSITION**

	FY 2012	FY 2013
<b>Operating Revenue:</b>		
HUD Operating Subsidies and Grants	\$ 10,666,288	\$ 9,694,261
Tenant Revenue	598,834	643,748
Capital Grant	0	0
Other Government Grants	915,396	994,292
Investment Income	3,980	4,002
Other Revenue	<u>293,406</u>	<u>54,834</u>
<b>Total Operating Revenue</b>	<b>\$ 12,477,904</b>	<b>\$ 11,391,137</b>
<b>Operating Expenses:</b>		
Housing Assistance Payments	\$ 8,673,776	\$ 9,167,262
Administrative Expense	1,396,256	1,284,060
Tenant Services	-	233,067
Utilities	236,981	216,515
Maintenance	444,200	463,296
Protective Services	17,986	20,633
General Expenses	153,579	138,752
Extraordinary Maintenance	11,880	8,395
Depreciation Expense	<u>495,650</u>	<u>515,682</u>
<b>Total Operating Expenses</b>	<b>\$ 11,430,308</b>	<b>\$ 12,047,662</b>
<b>Net Increase (Decrease)</b>	<b><u>\$ 1,047,596</u></b>	<b><u>\$ (656,525)</u></b>

### MAJOR FACTORS AFFECTING THE STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET POSITION

There was a significant overall decrease in Net Position as opposed to last year's large increase. There were two major factors that contributed to the large reversal as compared to Fiscal Year 2012.

1. HUD's decision to control Housing Assistance Payment (HAP) reserves resulted in us receiving nearly one million dollars less than we spent in Landlord payments in our Housing Choice Voucher program this fiscal year.
2. Federal sequestration and the resulting budget cuts resulted in us receiving only 77% of approved operating funding for the Public Housing program, and 68.5% in our Housing Choice Voucher Program.

There were a couple positive items to report, and although they could not make up for the above mentioned items, the results could have actually been much worse.

# Lake Metropolitan Housing Authority

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2013

1. Our operating results were solid, as we reduced overall administrative expenses in the two major programs by over \$100,000 compared to last year.
2. We continue to apply for and have received additional federal funding for the ParkView Place project as the agencies start to recognize the overall value that project is bringing to the community.

Negative:

3. There was no Capital Grant revenue for the fiscal year as compared to over four hundred thousand dollars last year. We have planned to use our outstanding Capital Grant funds for roof repairs to both Jackson Tower and Washington Square of our public housing units. Neither of those projects has begun as of this report.

### CAPITAL ASSETS AND DEBT ADMINISTRATION

#### Capital Assets

As of 6/30/13 the Authority had \$4,865,708 in capital assets as reflected in the following schedule, which represents a net decrease of \$51,515 over last fiscal year end.

**TABLE 5  
CAPITAL ASSETS AT YEAR-END  
(NET OF DEPRECIATION)**

	2013		2012
Land and Land Rights	\$ 1,156,324		\$ 1,156,324
Building & Improvements	10,033,406		10,033,406
Equipment - Administrative	490,182		490,182
Equipment - Dwelling	63,017		63,017
Construction in Progress	506,307		42,140
Accumulated Depreciation	(7,383,528)		( 6,867,846)
<b>Total</b>	<b>\$ 4,865,708</b>		<b>\$ 4,917,223</b>

The following reconciliation summarizes the change in Capital Assets, which is presented in detail on page 22 of the notes.

**TABLE 6  
CHANGE IN CAPITAL ASSETS**

	Business Type Activities
Beginning Balance, July 1, 2012	\$4,917,223
Additions	464,167
Gain/(Loss) from Disposition	0
Depreciation	(515,682)
Ending Balance, June 30, 2013	\$4,865,708

The small decrease in Capital Assets is the net result of current fiscal year Construction-In-Progress costs for the ParkView Place project less depreciation expense. There were no other major asset additions.

# **Lake Metropolitan Housing Authority**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2013**

### **Debt Outstanding**

As of 6/30/13 the Authority had no debt outstanding.

### **ECONOMIC FACTORS**

Lake Metropolitan Housing Authority is dependent on HUD subsidies to administer their programs and maintain their properties. Federal budget cuts have resulted in significantly reduced subsidies for all components of our two major programs, Housing Choice Voucher and Public Housing. We have continued to focus on operating efficiency and financial responsibility as we expect the uncertain federal funding climate to continue. Other factors such as escalating health care costs, and an improving overall economic environment will make it more difficult to attract and retain quality employees in the future. We continue to explore potential growth areas that do not require dependence on federal funding with a workforce that has been cut to the minimum while layers of compliance regulation remain unchanged.

### **Financial Contact**

Questions concerning this report or requests for additional information should be directed to Thomas P. Huth, Finance Manager of the Lake Metropolitan Housing Authority, 189 First Street, Painesville, Ohio, 44077.

LAKE METROPOLITAN HOUSING AUTHORITY  
STATEMENT OF NET POSITION  
JUNE 30, 2013

ASSETS

**Current Assets**

Cash and Cash Equivalents - Unrestricted (Note 1)	\$ 1,795,776
Cash and Cash Equivalents - Restricted (Note 3)	953,348
Investments - Unrestricted	400,000
Accounts Receivable - Fraud Recovery	16,175
Allowance for Doubtful Accounts	(16,175)
Accounts Receivable - HUD	893
Accounts Receivable - Other (Net)	37,950
Prepaid Expenses	30,745
Total Current Assets	<u>3,218,712</u>

**Non-Current Assets**

Capital Assets: (Note 4)	
Land	1,156,324
Building and Equipment	10,586,605
Construction in Progress	506,307
Less: Accumulated Depreciation	<u>(7,383,528)</u>
Total Non-Current Assets	<u>4,865,708</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 8,084,420</u></u>

LIABILITIES AND NET POSITION

**Current Liabilities**

Accounts Payable	\$ 60,505
Accrued Expenses	53,901
Intergovernmental Payables	56,902
Tenant Security Deposits	47,141
Accrued Compensated Absences	14,514
Unearned Revenue	396,661
Total Current Liabilities	<u>629,624</u>

**Non-Current Liabilities**

Noncurrent Liabilities - Other	146,439
Accrued Compensated Absences	<u>58,057</u>
Total Non-Current Liabilities	<u>204,496</u>
Total Liabilities	<u><u>\$ 834,120</u></u>

**NET POSITION**

Investment in Capital Assets, Net of Related Debt	\$ 4,865,708
Restricted	318,880
Unrestricted	<u>2,065,712</u>
Total Net Position	<u><u>\$ 7,250,300</u></u>

The accompanying notes are an integral part of the financial statements.

LAKE METROPOLITAN HOUSING AUTHORITY  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
FOR THE YEAR ENDED JUNE 30, 2013

**Operating Revenue:**

HUD Operating Subsidies and Grants	\$10,688,553
Tenant Revenue	643,748
Other Revenue	<u>54,834</u>
Total Operating Revenue	11,387,135

**Operating Expenses:**

Housing Assistance Payments	9,167,262
Administrative Expense	1,284,060
Tenant Services	233,067
Insurance	69,308
Utilities	216,265
Maintenance	471,941
Protective Services	20,633
Depreciation Expense	515,682
General Expenses	<u>69,444</u>
Total Operating Expenses	<u>12,047,662</u>

Operating Income (Loss)	(660,527)
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Non-Operating Revenues (Expenses)

Investment Income - Unrestricted	3,715
Investment Income - Restricted	<u>287</u>
Total Non-Operating Revenues (Expenses)	4,002

Change in Net Position	(656,525)
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Net Position - Beginning of Year	<u>7,906,825</u>
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Net Position - End of Year	<u><u>\$ 7,250,300</u></u>
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The accompanying notes are an integral part of the financial statements.

LAKE METROPOLITAN HOUSING AUTHORITY  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2013

Cash Flows From Operating Activities:	
Cash Received from HUD	\$10,688,553
Cash Received from Tenants	643,748
Cash Received from Other Income	54,834
Cash Payments for Housing assistance payments	(9,167,262)
Cash Payments for Administrative	(1,284,060)
Cash Payments for Other Operating Expenses	<u>(1,085,997)</u>
Net Cash Provided (Used) by Operating Activities	(150,184)
Cash Flows From Capital and Related Financing Activities:	
Fixed Assets Addition	<u>(464,167)</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	(464,167)
Cash Flows From Investing Activities:	
Investment Income	<u>4,002</u>
Net Cash Provided (Used) by Investing Activities	4,002
Increase (Decrease) in Cash and Cash Equivalents	(610,349)
Cash and Cash Equivalents - Beginning of Year	<u>3,759,473</u>
Cash and Cash Equivalents - End of Year	<u>\$ 3,149,124</u>
Reconciliation of Operating Income (Loss) to Net Cash Used in Operating Activities:	
Operating Income (Loss)	\$ (660,527)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Used in Operating Activities:	
Depreciation	515,682
(Increase) decrease in:	
Accounts Receivable	(28,506)
Prepaid Expenses	(640)
Increase (decrease) in:	
Accounts Payable	29,349
Compensated Absences	3,483
Deferred Revenue	(9,295)
Tenant Security Deposits	1,593
Accrued Expenses	<u>(1,323)</u>
Net cash used in operating activities	<u>\$ (150,184)</u>

The accompanying notes are an integral part of the financial statements.

**LAKE METROPOLITAN HOUSING AUTHORITY  
PAINESVILLE, OHIO**

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2013**

**NOTE 1 - Summary of Significant Accounting Policies:**

**Organization and Reporting Entity**

The Lake Metropolitan Housing Authority (the Authority) was created under the Ohio Revised Code Section 3735.27 to engage in the acquisition, development, leasing, and administration of a low-rent housing program. An Annual Contributions Contract (ACC) was signed by the Authority and the U.S. Department of Housing and Urban Development (HUD) under the provisions of the United States Housing Act of 1937 (42 U.S.C. 1437) Section 1.1. The Authority was also created in accordance with state law to eliminate housing conditions which are detrimental to the public peace, health, safety, morals, or welfare by purchasing, acquiring, constructing, maintaining, operating, improving, extending, and repairing housing facilities. The Authority depends on the subsidies from HUD to operate.

The nucleus of the financial reporting entity as defined by the Governmental Accounting Standards Board (GASB) Statement No. 14 is the "primary government". A fundamental characteristic of a primary government is that it is a fiscally independent entity. In evaluating how to define the financial reporting entity, management has considered all potential component units. A component unit is a legally separate entity for which the primary government is financially accountable. The criteria of financial accountability is the ability of the primary government to impose its will upon the potential component unit. These criteria were considered in determining the reporting entity. The Authority has no component units that are presented in the financial statements.

**Basis of Presentation**

The financial statements of the Authority have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Authority has elected to apply the provisions of Statements and Interpretations of the Financial Accounting Standards Board issued after November 30, 1989 that do not conflict with GASB pronouncements. The Authority will continue applying all applicable pronouncements issued by the Governmental Accounting Standards Board. The Authority has elected not to apply FASB statements and interpretations issued after November 30, 1989.

The Authority's basic financial statements consist of a statement of Net Position, a statement of revenues, expenses, and changes in Net Position, and a statement of cash flows.

**LAKE METROPOLITAN HOUSING AUTHORITY  
PAINESVILLE, OHIO**

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2013**

**NOTE 1 - Summary of Significant Accounting Policies: (continued)**

**Basis of Presentation (Continued)**

The Authority uses a single enterprise fund to maintain its financial records on an accrual basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts.

Enterprise fund reporting focuses on the determination of the change in Net Position, financial position, and cash flows. An enterprise fund may be used to account for any activity for which a fee is charged to external users for goods and services.

**Measurement Focus and Basis of Accounting**

The enterprise fund is accounted for on a flow of economic resources measurement focus and the accrual basis of accounting. All assets and all liabilities associated with the operation of the Authority are included on the statement of Net Position. The statement of changes in Net Position presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the Authority finances and meets the cash flow needs of its enterprise activity.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Authority's enterprise fund are charges to tenants for rent and operating subsidies from HUD. Operating expenses for the enterprise fund include the costs of facility maintenance, housing assistance payments, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**Description of programs**

The following are the various programs which are included in the single enterprise fund:

**A. Public Housing Program**

The public housing program is designed to provide low-cost housing within the County. Under this program, HUD provides funding via an annual contribution contract. These funds, combined with the rental income received from tenants, are available solely to meet the operating expenses of the program.

**B. Capital Fund Program**

The capital fund program provides funds annually, via a formula, to Public Housing Agencies for capital and management activities, including modernization and development of housing.

**LAKE METROPOLITAN HOUSING AUTHORITY  
PAINESVILLE, OHIO**

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2013**

**NOTE 1 - Summary of Significant Accounting Policies: (continued)**

**C. Housing Choice Voucher Program**

The Housing Choice Voucher Program was authorized by Section 8 of the National Housing Act and provides housing assistance payments to private, not-for-profit or public landlords to subsidize rentals for low income persons.

**D. Public Housing Development Program**

The Authority administers grant funds received from HUD for future development of housing. The grant funds received in prior years were used to purchase vacant lots. The current activity in this fund represents the upkeep cost of the lots.

**E. State and Local**

The State and Local fund is setup to separate Lake MHA management funds earned in prior years from the HUD funded programs. The only activities, during the fiscal year, in this fund are interest earned on this money.

**Use of Estimates**

The preparation of financial statements in accordance with generally accepted accounting principles 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 the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Cash and Cash Equivalents**

The Authority considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents. Effective July 1, 2003, the Authority made a change in the presentation of its cash flow statement. The Authority is now presenting cash and cash equivalents (including certificates of deposit) in the cash flow statement.

**LAKE METROPOLITAN HOUSING AUTHORITY  
PAINESVILLE, OHIO**

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2013**

**NOTE 1 - Summary of Significant Accounting Policies: (continued)**

**Capital Assets**

Capital assets are stated at cost. The capitalization policy of the Authority is to depreciate all non-expendable personal property having a useful life of more than one year and purchase price of \$5,000 or more per unit. Expenditures for repairs and maintenance are charged directly to expense as they are incurred. Expenditures determined to represent additions or betterments are capitalized. Depreciation is computed on the straight line method based on the following estimated useful lives:

Buildings and Improvements	15 to 40 years
Furniture, Fixtures and Equipment	3 to 10 years
Vehicles	5 years

Total depreciation expense for the 2013 fiscal year was \$515,682.

**Capitalization of Interest**

The Authority's policy is not to capitalize interest related to the construction or purchase of capital assets.

**Investments**

The provisions of the HUD Regulations restrict investments. Investments are valued at market value. Interest income earned in fiscal year ending June 30, 2013 totaled \$4,002.

**Compensated Absences**

The Authority accounts for compensated absences in accordance with GASB Statement No. 16. Sick leave and other compensated absences with similar characteristics are accrued as a liability based on the sick leave accumulated at the balance sheet date by those employees who currently are eligible to receive termination payments. To calculate the liability, these accumulations are reduced to the maximum amount allowed as a termination payment. All employees who meet the termination policy of the Authority for years of services are included in the calculation of the compensated absence accrual amount.

Vacation leave and other compensated absences with similar characteristics are accrued as a liability as the benefits are earned by the employees if both of the following conditions are met: (1) the employees' rights to receive compensation is attributable to services already rendered and is not contingent on a specific event that is outside the control of the employer and employee. (2) It is probable that the employer will compensate the employees for the benefits through paid time off or some other means, such as cash payments at termination or retirement.

**LAKE METROPOLITAN HOUSING AUTHORITY  
PAINESVILLE, OHIO**

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2013**

**NOTE 1 - Summary of Significant Accounting Policies: (continued)**

**Compensated Absences** (continued)

In the proprietary fund, the compensated absences are expensed when earned with the amount reported as a fund liability.

The following is a summary of changes in compensated absence for the fiscal year ending June 30, 2013:

<u>Balance at 6/30/12</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at 6/30/13</u>	<u>Due Within One Year</u>
\$ 69,088	\$ 58,009	\$ 54,526	\$ 72,571	\$ 14,514

**Prepaid Items**

Payments made to vendors for services that will benefit beyond year-end are recorded as prepaid items via the consumption method.

**Operating Revenues and Expenses**

Operating revenues are those revenue that are generated directly from the primary activity of the proprietary fund. For the Authority, these revenues are for Housing and Urban Development Grants and other revenues. Operating expenses are necessary costs to provide goods or services that are the primary activity of the fund. All revenues not related to operating activities have been reported as nonoperating revenues.

**Accounts Receivable**

Management considers all accounts receivable (excluding the fraud recovery receivable) to be collected in full.

**Accrued Interest Receivable**

Accrued interest receivable represents the amount of interest earned but not collected on certificates of deposits as of the balance sheet date. Interest is collected upon maturity.

**Interfund Receivables/Payables**

The Authority reports advances-in and advances-out for interfund loans. These items are not reflected as assets and liabilities in the accompanying financial statements.

**LAKE METROPOLITAN HOUSING AUTHORITY  
PAINESVILLE, OHIO**

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2013**

**NOTE 1 - Summary of Significant Accounting Policies: (continued)**

**Net Position**

Net Position represent the difference between assets and liabilities. Net Position invested in capital assets consist of capital assets net of accumulated depreciation. Net Position are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Authority or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The amount reported as restricted Net Position at fiscal year end represents the amounts restricted by HUD for future Housing Assistance Payments and amounts from Administration Fee which may be recaptured by HUD. When an expense is incurred for purposes which both restricted and unrestricted Net Position are available, the Authority first applies restricted Net Position. Net Position restricted by HUD was \$318,880.

**NOTE 2 – Deposits and Investments:**

The provisions of GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, requires the disclosures regarding credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. Adoption of GASB Statement No. 40 had no effect on Net Position and change in Net Position in the prior or current year.

**A. Deposits**

State statutes classify monies held by the Authority into three categories.

Active deposits are public deposits necessary to meet demands on the treasury. Such monies must be maintained either as cash in the Authority's Treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the Authority has identified as not required for use within the current two year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

At year-end, the carrying amount of the Authority's deposits was \$3,149,124 (including \$264 of petty cash) and the bank balance was \$3,422,769.

**LAKE METROPOLITAN HOUSING AUTHORITY  
PAINESVILLE, OHIO**

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2013**

**NOTE 2 – Deposits and Investments: (continued)**

**Custodial Credit Risk**

Custodial Credit Risk is the risk that, in the event of a bank failure, the Authority's deposits may not be returned. The Authority's policy is to place deposits with major local banks approved by the Board. The financial institution collateral pool that insure public deposits must maintain collateral in excess of 105 percent of deposits, as permitted by Chapter 135 of the Ohio Revised Code. As of year-end, deposits totaling \$750,000 was covered by Federal Depository and \$2,672,769 was covered by the collateral pool.

**B. Investments**

HUD, State Statute, and Board resolutions authorize the Authority to invest in obligations of the U. S. Treasury, agencies and instrumentalities, certificates of deposit, repurchase agreements, money market deposit accounts, municipal depository funds, super NOW accounts, sweep accounts, separate trading of registered interest and principal of securities, mutual funds, bonds and other obligations of this State, and the State Treasurer's investment pool. Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the Authority and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

The Authority has a formal investment policy. The objective of this policy shall be to maintain liquidity and protection of principal while earning investment interest. Safety of principal is the primary objective of the investment program. The Authority follows GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, and records all its investments at fair value. However, at June 30, 2013, the Authority investments were limited to certificates of deposits.

**Interest Rate Risk**

As a means of limiting its exposure to fair value of losses caused by rising interest rates, the Authority's investment policy requires those funds which are not operating reserve funds to be invested in investments with a maximum term of one year or the Authority's operating cycle. For investments of the Authority's operating reserve funds, the maximum term can be up to three years. The intent of the policy is to avoid the need to sell securities prior to maturity.

**Credit Risk**

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The Authority has no investment policy that would further limit its investment choices.

**Concentration of Credit Risk**

Generally, the Authority places no limit on the amount it may invest in any one insurer. However, the investment policy limits the investment of HUD - approved mutual funds to no more than 20 percent of the Authority's available investment funds. The Authority's deposits in financial institutions represents 100 percent of its deposits.

**LAKE METROPOLITAN HOUSING AUTHORITY  
PAINESVILLE, OHIO**

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2013**

**NOTE 2 – Deposits and Investments: (continued)**

*Foreign Currency Risk* - Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. As of year-end, the Authority had no exposure to foreign currency rate risk, as regulated by HUD.

*Custodial Credit Risk*

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Authority has no investment policy dealing with investment custodial risk beyond the requirements in ORC 135.14(M)(2) which states, "Payment for investments shall be made only upon the delivery of securities representing such investments to the treasurer, investing authority, or qualified trustee.

<u>Cash and Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (In Years &lt; 1)</u>
Carrying Amount of Deposits	\$3,148,860	\$3,148,860
Petty Cash	<u>264</u>	<u>264</u>
Totals	<u>\$3,149,124</u>	<u>\$3,149,124</u>

**NOTE 3 – Restricted Cash:**

Restricted cash balance as of June 30, 2013 of \$953,348 represents the following:

Unspent funding provided by HUD to make Housing Assistance Payments in the Housing Choice Voucher Program	\$ 318,880
Unspent Development Program funding provided by HUD	440,888
Family Self-Sufficiency Escrows	146,439
Tenant Security Deposits	<u>47,141</u>
Total	<u>\$ 953,348</u>

**LAKE METROPOLITAN HOUSING AUTHORITY  
PAINESVILLE, OHIO**

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2013**

**NOTE 4 – Capital Assets:**

A summary of capital assets at June 30, 2013, by class is as follows:

	<u>6/30/2012</u>	Reclasses	<u>Additions</u>	<u>Disposals</u>	<u>6/30/2013</u>
Capital Assets Not Being Depreciated					
Land	\$1,156,324	\$ 0	\$ 0	\$ 0	\$ 1,156,324
Construction in Progress	<u>42,140</u>	<u>          </u>	<u>464,167</u>	<u>0</u>	<u>506,307</u>
Total Capital Assets Not Being Depreciated	<u>1,198,464</u>	<u>          </u>	<u>464,167</u>	<u>0</u>	<u>1,662,631</u>
Capital Assets Being Depreciated					
Buildings and Improvements	10,033,406				10,033,406
Furniture, Equipment, and Machinery	<u>553,199</u>	<u>0</u>	<u>          </u>	<u>0</u>	<u>553,199</u>
Subtotal Capital Assets Being Depreciated	10,586,605	0	0	0	10,586,605
Accumulated Depreciation:					
Buildings and Improvements	( 6,650,781)	30,378	( 456,405)	0	(7,076,808)
Furniture, Equipment and Machinery	<u>( 217,065)</u>	<u>( 30,378)</u>	<u>( 59,277)</u>	<u>0</u>	<u>( 306,720)</u>
Total Accumulated Depreciation	<u>( 6,867,846)</u>	<u>0</u>	<u>( 515,682)</u>	<u>0</u>	<u>( 7,383,528)</u>
Depreciable Assets, Net	<u>3,718,759</u>	<u>0</u>	<u>( 515,682)</u>	<u>0</u>	<u>3,203,077</u>
Total Capital Assets, Net	<u>\$ 4,917,223</u>	<u>\$ 0</u>	<u>\$ ( 515,515)</u>	<u>\$ 0</u>	<u>\$ 4,865,708</u>

**NOTE 5: Defined Benefit Pension Plan:**

**Ohio Public Employees Retirement System**

The Authority participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan in which the member invests both member and employee contributions (employer contributions vest over five years at 20 percent per year). Under the member directed plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings. The combined plan is a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and a defined contribution plan. Under the combined plan, employer contributions are invested by the retirement system to provide a formula retirement benefit similar to the traditional plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the member directed plan.

OPERS provides retirement, disability, survivor and death benefits, and annual cost of living adjustments to members of both the traditional and combined plans. Members of the member-directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 E. Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6705 or 1-800222-7377.

**LAKE METROPOLITAN HOUSING AUTHORITY  
PAINESVILLE, OHIO**

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2013**

**NOTE 5: Defined Benefit Pension Plan:** (continued)

The Ohio Revised Code provides statutory authority for member and employer contributions. Effective January 1, 2009, the members of all three plans were required to contribute 10.0 percent of their annual covered salaries. The Authority's contribution rate for 2013 was 14.0 percent (of which 8.5 percent relates to pension contributions) of covered payroll.

The Authority's required contributions for pension obligations to the traditional and combined plans for the years ended June 30, 2013, 2012 and 2011 were \$121,367; \$132,707 and \$131,291 respectively; 100 percent has been contributed for 2013, 2012 and 2011.

**NOTE 6- Post Employment Benefits:**

**A. Plan Description**

The Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: the Traditional Pension Plan - a cost-sharing, multiple-employer defined benefit pension plan; the Member-Directed Plan - a defined contribution plan; and the Combined Plan - a cost sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

OPERS maintains a cost-sharing, multiple-employer defined benefit postemployment health care plan, which includes a medical plan, prescription drug program, and Medicare Part B premium reimbursement, to qualifying members of both the Traditional Pension and the Combined plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage.

In order to qualify for post-employment health care coverage, age and service retirees under the Traditional Pension and Combined plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post-Employment Benefit (OPEB) as described in GASB Statement No. 45. The Ohio Revised Code permits, but does not mandate, OPERS to provide OPEB benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

OPERS issues a stand-alone financial report. Interested parties may obtain a copy by writing OPERS, 277 East Town Street, Columbus, OH 43215-4642, or by calling 614-222-5601 or 800-222-7377.

**LAKE METROPOLITAN HOUSING AUTHORITY  
PAINESVILLE, OHIO**

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2013**

**B. Funding Policy**

The Ohio Revised Code provides the statutory authority requiring public employers to fund post-retirement health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of postretirement health care benefits.

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2013 and 2012, the Authority contributed at a rate of 14.00 percent of covered payroll. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14.00 percent of covered payroll for state and local employer units. Active members do not make contributions to the OPEB Plan.

OPERS' Post-Employment Health Care Plan was established under, and is administered in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post-employment health care benefits. For 2013 and 2012, the employer contribution allocated to the health care plan was 4.23 percent of covered payroll. The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care coverage by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. Actual Authority contributions for the year ended June 30, 2013, which were used to fund post-employment benefits were \$47,680.

On September 9, 2004, the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. Member and employer contribution rates increased as of January 1, 2006, January 1, 2007, and January 1, 2008, which allowed additional funds to be allocated to the health care plan.

**NOTE 7 - Risk Management:**

The Authority is exposed to various risks of loss related to torts; damage to and theft or destruction of assets; errors and omissions; injuries to employees and natural disasters. The Authority is covered for property damage, general liability, automobile liability, law enforcement liability, public officials liability, and other crime liabilities through membership in the State Housing Authority Risk Pool Association, Inc. (SHARP). SHARP is an insurance risk pool comprised of thirty-nine (39) Ohio housing authorities, of which Lake is one.

Additionally, Workers' Compensation insurance is maintained through the State of Ohio Bureau of Workers' Compensation, in which rates are calculated retrospectively. The Authority is also fully insured through a premium payment plan with OMER-Esa for employee health care benefits. Settled claims have not exceeded the Authority's insurance in any of the past three years.

**LAKE METROPOLITAN HOUSING AUTHORITY  
PAINESVILLE, OHIO**

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2013**

**NOTE 8 - Contingent Liabilities:**

**Litigations and Claims**

In the normal course of operations the PHA may be subject to litigation and claims. At June 30, 2013 the PHA was involved in such a matter. While the outcome of this matter cannot presently be determined, management believes that the ultimate resolution will not have a material effect on the financial statements.

**NOTE 9 - Schedule of Expenditures of Federal Awards:**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Lake Metropolitan Housing Authority and is presented on the accrued basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations.

CFDA number 14.850 – Low Rent Public Housing consist of the following:

\$ 571,158	Public Housing Subsidy
<u>994,292</u>	Park View Place Development Grant
<u>\$1,565,450</u>	Total

**NOTE 10 – Economic Dependency:**

The Section 8 New Construction, the Low Rent Public Housing Program and the Housing Choice Voucher Program are economically dependent on annual contributions and grants from HUD. These programs operate at a loss prior to receiving the contributions and grants.

**NOTE 11- Construction and Other Commitments:**

The Authority had no material operating lease commitments or material capital or construction commitments at June 30, 2013.

**NOTE 12 – Capital Assets:**

The Authority has recorded \$3,876,737 in building and land improvements based on the County Auditor's assessed valuation, as a result 32% of the Authority's fixed assets are not recorded in accordance with accounting principles generally accepted in the United State of America. In addition, the depreciation schedule is not in sufficient detail to determine if the assets are still owned and in working condition or if they were disposed off in prior fiscal years.

Accounting principles generally accepted in the United State of America requires that accounting records be maintain to properly support the amounts listed on the financial statements.

**LAKE METROPOLITAN HOUSING AUTHORITY  
PAINESVILLE, OHIO**

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2013**

**NOTE 13 - Subsequent Events:**

Generally accepted accounting principles define subsequent events as events or transactions that occur after the statement of financial position date, but before the financial statements as issued or are available to be issued. Management has evaluated subsequent events through November 2, 2013, the date on which the financial statements were available to be issued, noting that the Authority is in the process of appealing several issues to the Court of Appeals. It is the opinion of legal council, that the appeals will be successful.

**NOTE 14 – Interprogram Receivables/Payables:**

Interprogram balance at June 30, 2013, consists of the following receivables and payables:

	<u>Due From</u>	<u>Due to</u>
Public Housing Program	\$ 115,833	\$ 21,591
Housing Choice Voucher Program	\$ 15,791	\$104,767
State and Local	\$ 5,800	
River Isle - Development		\$ 11,066

These interprogram Due From/Due To arise from housing assistance payments and the repayment of funds from the non-federal program to the proper federal program. These balances are eliminated for the Statement of Net Position on page 11.

Lake Metropolitan Housing Authority

Statement of Net Position

June 30, 2013

Financial Data Schedule Submitted to U.S. Department of HUD

Line item	Account Description	State &		Housing	Public	Business	Total
		Development	Local	Choice Voucher	Housing (Project)	Activities	
111	Cash - Unrestricted		\$ 901,191	\$ 510,091	\$ 384,494		\$ 1,795,776
113	Cash - Other Restricted	\$ 440,888		465,319			906,207
114	Cash - Tenant Security Deposits				47,141		47,141
100	Total Cash	440,888	901,191	975,410	431,635	-	2,749,124
122	Acct. Rec. - HUD Other Projects				893		893
124	Acct. Rec. - Other Government				17,298		17,298
125	Acct. Rec. - Misc.			3,078			3,078
126	Acct. Rec. - Tenants				18,574		18,574
126.1	Allowance Doubtful Accts. - Tenants				(1,000)		(1,000)
128	Fraud Recovery			16,175			16,175
128.1	Allowance Doubtful Accts.			(16,175)			(16,175)
120	Net Total Receivables			3,078	35,765		38,843
131	Investments-Unrestricted				400,000		400,000
142	Prepaid Expenses			330	30,415		30,745
144	Inter Program Due From		5,800	15,791	115,833		137,424
<b>150</b>	<b>Total Current Assets</b>	440,888	906,991	994,609	1,013,648	-	3,356,136
161	Land	336,741			692,731	126,852	1,156,324
162	Buildings	695,975		21,652	8,822,631	493,148	10,033,406
163	Furniture, Equip. & Mach. - Dwellings				63,017		63,017
164	Furniture, Equip. & Mach. - Admin.			81,668	408,514		490,182
166	Accumulated Depreciation	(18,849)		(42,593)	(7,308,729)	(13,356)	(7,383,527)
167	Construction in Progress	331,309				174,998	506,307
160	Net Fixed Assets	1,345,176	-	60,727	2,678,164	781,642	4,865,709
<b>190</b>	<b>TOTAL ASSETS</b>	<b>\$ 1,786,064</b>	<b>\$ 901,191</b>	<b>\$ 1,055,336</b>	<b>\$ 3,691,812</b>	<b>\$ 781,642</b>	<b>\$ 8,221,845</b>
312	A/P <= 90 days				\$ 60,505		\$ 60,505
321	Accrued Wage/Taxes Payable				41,234		41,234
322	Accrued Compensated Absences - Current Portion			\$ 6,818	7,696		14,514
333	Accounts Payable - Other Government				56,902		56,902
341	Tenant Security Deposits				47,141		47,141
342	Deferred Revenue	\$ 396,661					396,661
345	Other Current Liabilities				12,667		12,667
347	Inter Program - Due To	11,066		104,767	21,591		137,424
310	Total Current Liabilities	407,727	-	111,585	247,736	-	767,048
353	Non-current Liabilities - Other			146,439			146,439
354	Accrued Comp. Abs. - Noncurrent			27,271	30,786		58,057
	TOTAL Liabilities	407,727	-	285,295	278,522	-	971,544
508.1	Invested in Capital Assets Net	1,345,176		60,727	2,678,164	781,642	4,865,709
511.1	Restricted Net Position			318,880			318,880
512.1	Unrestricted Net Position	33,161	906,991	390,434	735,126		2,065,712
513	TOTAL Equity/Net Position	1,378,337	906,991	770,041	3,413,290	781,642	7,250,301
<b>600</b>	<b>TOTAL LIAB. &amp; EQUITY</b>	<b>\$ 1,786,064</b>	<b>\$ 906,991</b>	<b>\$ 1,055,336</b>	<b>\$ 3,691,812</b>	<b>\$ 781,642</b>	<b>\$ 8,221,845</b>

Lake Metropolitan Housing Authority  
Statement of Revenue and Expenses  
June 30, 2013

Financial Data Schedule Submitted to U.S. Department of HUD

Line item	Account Description	Development	State & Local	Housing Choice Voucher	Public Housing (Project)	Business Activities	Total
703	Net Tenant Rental Revenue				\$ 627,630	\$ -	\$ 627,630
704	Tenant Revenue - Other				16,118		16,118
705	Total Tenant Revenue				643,748	-	643,748
706	HUD PHA Operating Grants			\$ 9,033,398	660,863		9,694,261
708	Other Government Grants	\$ 540,184				454,108	994,292
711	Investment Income - Unrestricted		\$ 1,881	688	1,146		3,715
714	Fraud Recovery			6,870			6,870
715	Other Revenue	22,700	25,062	202			47,964
720	Investment Income - Restricted	287					287
700	TOTAL REVENUE	563,171	26,943	9,041,158	1,305,757	454,108	11,391,137
911	Admin Salaries			469,864	219,496		689,360
912	Audit			7,200	4,800		12,000
915	Employee Benefits			205,492	98,527		304,019
917	Legal Expense		435	6,057	11,551		18,043
918	Travel			12,358	12,804		25,162
919	Other	498	5,511	136,874	92,460	133	235,476
	Total Operating - Admin.	498	5,946	837,845	439,638	133	1,284,060
922	Relocation Costs	233,067					233,067
	Total Tenant Services	233,067					233,067
931	Water			797	43,166	956	44,919
932	Electricity			2,948	140,657	858	144,463
933	Gas			83	26,104	696	26,883
938	Other Utilities						-
930	Total Utilities	-	-	3,828	209,927	2,510	216,265
941	Ordinary Maint. & Operations - Labor				180,191		180,191
942	Ordinary Maint. & Operations - Materials & Other	4,610		3,201	71,842	205	75,248
943	Ordinary Maint. & Operations - Contracts	1,050			128,129	630	129,809
945	Employee Benefits Contributions - Ordinary Maint.				73,688		73,688
940	Total Maintenance	5,660	-	3,201	453,850	835	458,936

Lake Metropolitan Housing Authority  
Statement of Revenue and Expenses  
June 30, 2013

Financial Data Schedule Submitted to U.S. Department of HUD

Line item	Account Description	Development	State & Local	Housing Choice Voucher	Public Housing (Project)	Business Activities	Total
952	Protective Services - Other Contract Costs				20,633		20,633
950	Total Protective Services	-	-	-	20,633	-	20,633
961. 1	Property Insurance	2,852			56,562	1,711	58,273
961. 2	Insurance - Liab. Insurance			8,183			8,183
961	Total Insurance	2,852	-	8,183	56,562	1,711	66,456
962	Other General Expenses		820	6,604			7,424
962. 1	Compensated Absences				10,734		10,734
963	Payments in Lieu of Taxes				43,382		43,382
964	Bad Debt - Tenant Rents				7,904		7,904
960	Total Other General Expenses	-	820	6,604	62,020	-	69,444
	TOTAL OPERATING EXPENSES	242,077	6,766	859,661	1,242,630	5,189	2,114,246
970	Excess Operating Revenue over Expenses	321,094	20,177	8,181,497	63,127	448,919	8,713,720
971	Extraordinary Maintenance				8,395		8,395
973	Housing Assistance Payments			9,167,262			9,167,262
974	Depreciation Expense	17,399		12,853	473,101	12,329	515,682
900	TOTAL EXPENSES	259,476	6,766	10,039,776	1,724,126	17,518	11,788,186
1000	Excess (Deficiency) of Total Revenue Over (Under)						
	Total Expenses	\$ 303,695	\$ 20,177	\$ (998,618)	\$ (418,369)	\$ 436,590	\$ (656,525)

Lake Metropolitan Housing Authority  
 Additional Information Required by HUD  
 For the Year Ended June 30, 2013

Financial Data Schedule Submitted to U.S. Department of HUD

<b>Line item</b>	<b><u>Account Description</u></b>	<b><u>Housing Choice Voucher</u></b>	<b><u>Public Housing (Project)</u></b>
11170	Administrative Fee Equity	\$ 451,161	\$ -
11180	Housing Assistance Payment Equity	\$ 318,880	\$ -
11190	Unit Months Available	17,484	2,868
11210	Number of Unit Months Leased	16,970	2,865

Lake Metropolitan Housing Authority  
 Schedule of Expenditures of Federal Award  
 For the Year Ended June 30, 2013

Federal Grantor/Pass-Through Grantor/Program Title	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
<b>U.S. Department of Housing and Urban Development</b>		
Direct Program:		
Public Housing Capital Fund Program	14.872	\$ 89,705
Low Rent Public Housing	14.850	1,565,450
Housing Choice Voucher	14.871	<u>9,033,398</u>
Total Federal Financial Assistance		<u><u>\$10,688,553</u></u>

The accompanying notes are an integral part of the financial statements.



Certified Public Accountant  
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## **Report on Internal Control over Financial Reporting and on Compliance and Other Matters Required by Government Auditing Standards**

Board of Trustees  
Lake Metropolitan Housing Authority  
Painesville, Ohio

I have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of Lake Metropolitan Housing Authority, Lake County, Ohio as of and for the year ended June 30, 2013, and the related notes to the financial statements, and have issued my report thereon dated November 2, 2013, wherein I noted that proper documentation was not obtained to support the Authority's capital assets as listed in the accompanying financial statements. I qualified my report on the business-type activities because management did not maintain an adequate detailed capital asset listing to ascertain that the capital assets listed on the financial statements are fairly stated and exist. Accounting principles generally accepted in the United State of America requires that accounting records be maintain to properly support the amounts listed on the financial statements.

### ***Internal Control Over Financial Reporting***

As part of my financial statement audit, I considered the Lake Metropolitan Housing Authority's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support my opinion(s) on the financial statements, but not to the extent necessary to opine on the effectiveness of the Lake Metropolitan Housing Authority's internal control. Accordingly, I have not opined on it.

My consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. However, as described in the accompanying schedule of findings I identified a certain deficiency in internal control over financial reporting, that I consider a material weakness.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Authority's financial statements. I consider finding 2013-1 described in the accompanying schedule of findings to be material weakness.

### ***Compliance and Other Matters***

As part of reasonably assuring whether the Lake Metropolitan Housing Authority's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of my audit and accordingly, I do not express an opinion. The results of my tests disclosed no instances of noncompliance or other matters I must report under *Government Auditing Standards*.

I noted certain matters that I reported to management of Lake Metropolitan Housing Authority in a separate letter dated November 2, 2013.

### ***Entity's Response to Findings***

The Authority's responses to the findings identified in my audit are described in the accompanying schedule of findings. I did not audit the Authority's responses and, accordingly, I express no opinion on them.

### ***Purpose of this Report***

This report only describes the scope of my internal control and compliance testing and my testing results, and does not opine on the effectiveness of the Lake Metropolitan Housing Authority's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Lake Metropolitan Housing Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Kevin L. Penn, Inc.

November 2, 2013



Kevin L.  
Penn, Inc.

Certified Public Accountant  
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**Report on Compliance with Requirements Applicable to each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133**

Board of Trustees  
Lake Metropolitan Housing Authority  
Painesville, Ohio

***Report on Compliance for Each Major Federal Program***

I have audited the Lake Metropolitan Housing Authority compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect the Lake Metropolitan Housing Authority's major federal program for the year ended June 30, 2013. The *Summary of Audit Results* in the accompanying schedule of findings identifies the Lake Metropolitan Housing Authority's major federal program.

***Management's Responsibility***

The Lake Metropolitan Housing Authority's Management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to its federal program.

***Auditor's Responsibility***

My responsibility is to opine on the Lake Metropolitan Housing Authority's compliance for each of the Lake Metropolitan Housing Authority's major federal program based on my audit of the applicable compliance requirements referred to above. My compliance audit followed auditing standards generally accepted in the United States of America; the standards for financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These standards and OMB Circular A-133 require me to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect a major federal program occurred. An audit includes examining, on a test basis, evidence about the Lake Metropolitan Housing Authority's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances.

I believe my audit provides a reasonable basis for my compliance opinion on the Lake Metropolitan Housing Authority's major program. However, my audit does not provide a legal determination of the Lake Metropolitan Housing Authority's compliance.

### ***Basis for Qualified Opinion Low Rent Public Housing***

As described in finding 2013-1 in the accompanying schedule of findings, Lake Metropolitan Housing Authority did not comply with requirements regarding equipment and real property management that are applicable to its Low Rent Public Housing Program. Compliance with this requirement is necessary, in my opinion, for the Authority to comply with requirements applicable to this program.

### ***Qualified Opinion on Low Rent Public Housing***

In my opinion, except for the noncompliance described in the *Basis for Qualified Opinion on Low Rent Public Housing* paragraph, the Lake Metropolitan Housing Authority complied, in all material respects, with the requirements referred to above that could directly and materially affect its *Low Rent Public Housing* for the year ended June 30, 2013.

### ***Unmodified Opinion on Each of the Other Major Federal Program***

In my opinion, Lake Metropolitan Housing Authority complied in all material respects with the requirements referred to above that could directly and materially affect its other major federal program identified in the summary of auditor's results section of the accompanying schedule of findings for the year ended June 30, 2013.

### ***Report on Internal Control Over Compliance***

The Lake Metropolitan Housing Authority's management is responsible for establishing and maintaining effective internal control over compliance with the applicable compliance requirements referred to above. In planning and performing my compliance audit, I considered the Lake Metropolitan Housing Authority's internal control over compliance with the applicable requirements that could directly and materially affect a major federal program, to determine my auditing procedures appropriate for opining on each major federal program's compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not to the extent needed to opine on the effectiveness of internal control over compliance. Accordingly, I have not opined on the effectiveness of the Lake Metropolitan Housing Authority's internal control over compliance.

My consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. Therefore, I cannot assure I have identified all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. However, as discussed below, I identified a certain deficiency in internal control over compliance that I consider to be a material weakness and other deficiencies I consider to be significant deficiencies.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program's applicable compliance requirement. *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 federal program's compliance requirement will not be prevented, or timely detected and corrected. I consider the deficiencies in internal control over compliance described in the accompanying schedule of findings as item 2013-1 to be a material weakness.

*A significant deficiency in internal control over compliance* is a deficiency or a combination of deficiencies in internal control over compliance with a federal program's applicable compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. I consider the deficiencies in internal control over compliance described in the accompanying schedule of findings as items 2013-2, 2013-3 and 2013-4 to be significant deficiencies.

The Authority's responses to my internal control compliance findings are described in the accompanying schedule of findings. I did not audit the Authority's responses and, accordingly, I express no opinion on them.

This report only describes the scope of my tests of internal control over compliance and the results of this testing based on OMB Circular A-133 requirements. Accordingly, this report is not suitable for any other purpose.

Kevin L. Penn, Inc.

November 2, 2013

**Lake Metropolitan Housing Authority**  
 Schedule of Findings  
 June 30, 2013

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Qualified

Internal control over financial reporting:  
 Material weakness(es) identified? Yes  
 Significant Deficiency(ies) identified  
 not considered to be material weaknesses? No

Noncompliance material to financial statements noted? No

Federal Awards

Internal control over compliance:  
 Material weakness(es) identified? Yes  
 Significant Deficiency(ies) identified  
 not considered to be material weaknesses? Yes

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

Any audit findings disclosed that are required  
 to be reported in accordance with  
 Circular A-133, Section .510(a)? Yes

Identification of major programs:  
 14.871 Housing Choice Vouchers  
 14.850 Low Rent Public Housing

Dollar threshold used to distinguish  
 between Type A and Type B programs: \$320,657 (Type A)

Auditee qualified as low-risk auditee? No

**Lake Metropolitan Housing Authority**  
Schedule of Findings  
June 30, 2013

Section II - Financial Statement Findings  
Section III - Federal Award Findings

2013-1

**U.S. Department of HUD**  
**Low Rent Public Housing (CFDA # 14.850)**

**Fixed Assets Valuation**

Condition:

The Authority has recorded \$3,876,737 in building and land improvements based on the County Auditor's assessed valuation, as a result 32% of the Authority's fixed assets are not recorded in accordance with accounting principles generally accepted in the United State of America. In addition, the depreciation schedule is not in sufficient detail to determine if the assets are still owned and in working condition or if they were disposed off in prior fiscal years. Furthermore, I was not able to satisfy myself that the capital assets as listed on the financial statements are fairly presented by applying other auditing procedures; however, the buildings and properties were properly maintained in accordance with the REAC physical inspection.

Due to the original recordkeeping maintained by the Authority, pertaining to the \$3,876,737 the condition noted above will be repeated until the net book value of the fixed asset is determined to be immaterial. As of June 30, 2013 the net book value is \$594,762.

Criteria:

The requirements for equipment are contained in the A-102 Common Rule (§\_\_\_\_.32), program legislation, Federal awarding agency regulations, and the terms and conditions of the award.

Local governments and subgrantees shall follow the A-102 Common Rule for equipment acquired under Federal awards received directly from a Federal awarding agency. Basically the A-102 Common Rule require that equipment be used in the program for which it was acquired or, when appropriate, other Federal programs. Property and equipment records shall be maintained, an appropriate control system shall be used to safeguard property and equipment, and property and equipment shall be adequately maintained.

In addition reported costs for building and land improvements should be based on the historical cost.

Effect:

Was unable to determine whether certain capital assets were fairly presented as of June 30, 2013.

Cause:

Inadequate accounting records were maintained for certain fixed assets purchased prior to 2002.

**Lake Metropolitan Housing Authority**  
Schedule of Findings  
June 30, 2013

2013-1

**U.S. Department of HUD**  
**Low Rent Public Housing (CFDA # 14.850)**

**Fixed Assets Valuation** (continued)

Recommendation:

The Authority should continue the process of locating additional documentation, in order to support the building and land improvements referred to above. In addition, future reported costs for building and land improvements should be based on the historical cost.

Planned Corrective Action:

These corrections have been implemented by LMHA management in prior audit periods and are still in force.

All potential avenues of corrective action have been exhausted at this point in time. Every possible source of original recordings has been determined either destroyed by former LMHA employees or not maintained by prior auditors. A reasonable effort to match the asset class with a measurable source (County Auditor's records) has not been deemed sufficient to remove the finding. The amount in question will fall below materiality levels within the next year or two, at which point the finding will be removed.

Anticipated Completion Date:

N/A

Responsible Contact Person:

Director of Finance

Section III - Federal Award Findings

2013-2

**U.S. Department of HUD**  
**Housing Choice Voucher Program (CFDA # 14.871)**

**Tenant Files – Housing Choice Voucher Program**

Condition:

During the testing of tenant files, the following weaknesses in the Authority's procedures and controls were noted:

**Lake Metropolitan Housing Authority**  
Schedule of Findings  
June 30, 2013

Section III - Federal Award Findings

2013-2

**U.S. Department of HUD**  
**Housing Choice Voucher Program (CFDA # 14.871)**

**Tenant Files – Housing Choice Voucher Program** (continued)

Move-Ins:

1. In two (2) out of the thirty-five (35) files tested, the Voucher (Form HUD-52646) had expired prior to receiving the Request for Tenancy Approval and performing an inspection.
2. In one (1) out of the thirty-five (35) files tested, the letter, requesting an extension of time for the Voucher (Form HUD-52646) was not maintained in the tenant's file.

Criteria:

Tenant files should be maintained in accordance with HUD guidelines and the Administrative Plan.

Effect:

Potential questioned costs of \$10,267.00.

Cause:

Oversight by management and staff turnover.

Recommendation:

The Authority should maintained the tenant files, pertaining to the Housing Choice Voucher program in accordance with guidelines established by the U.S. Department of Housing and Urban Development and the Administrative Plan. By performed these procedures, the risk of potential overcharges and files being processed inadequately, will be significant reduced.

Planned Corrective Action:

The Authority will maintain the tenant files pertaining to the Housing Choice Voucher program in accordance with guidelines established by the U.S. Department of Housing and Urban Development and the Administrative Plan. By performing these procedures, the risk of potential overcharges and files being processed inadequately will be significantly reduced.

Anticipated Completion Date:

Ongoing

**Lake Metropolitan Housing Authority**  
Schedule of Findings  
June 30, 2013

Section III - Federal Award Findings (continued)

2013-2

**U.S. Department of HUD**  
**Housing Choice Voucher Program (CFDA # 14.871)**

**Tenant Files – Housing Choice Voucher Program** (continued)

Responsible Contact Person:

HCV Team Leader

2013-3

**U.S. Department of HUD**  
**Housing Choice Voucher Program (CFDA # 14.871)**

**Waiting List**

Condition:

During the testing of tenant files relating to move-ins, the Authority did not properly document the selection of an applicant for admission from the waiting list.

Criteria:

The Authority must have written policies in their administrative plan for selecting applicants from the waiting list, and there must be documentation, showing the Authority follows these policies when selecting applicants for admission from the waiting list.

Effect:

Was unable to determine whether applicants were selected for admission from the waiting list in accordance with the Authority's policies.

Cause:

Lack of administrative internal controls regarding the waiting list.

Recommendation:

The Authority needs to comply with the written policies identified in the administrative plan for selecting applicants from the waiting list. In addition, there must be documentation, showing the Authority follows these policies when selecting applicants for admission from the waiting list.

**Lake Metropolitan Housing Authority**  
Schedule of Findings  
June 30, 2013

Section III - Federal Award Findings (continued)

2013-3

**U.S. Department of HUD**  
**Housing Choice Voucher Program (CFDA # 14.871)**  
**Low Rent Public Housing (CFDA # 14.850)**

**Waiting List** (continued)

Planned Corrective Action:

Feedback from the authority's waitlist software provider will be sought as a part of an in-depth review of current waitlist policies and procedures. In addition, we will consult with other housing authorities who use the same software to determine what their best practices are relative to waitlist policy and procedure. Revision or development of policies will occur and applicable staff will be trained on any revisions or additions.

The Authority will comply with the written policies identified in the Administrative Plan for selecting applicants from the waiting list. In addition, the Authority will maintain documentation showing the Authority follows the policies when selecting applicants for admission from the waiting list.

Anticipated Completion Date:

March 1, 2014

Responsible Contact Person:

HCV Team Leader

2013-4

**U.S. Department of HUD**  
**Low Rent Public Housing (CFDA # 14.850)**

**Relocation Expense**

Condition:

During the testing of relocation expenses, the following discrepancies were noted:

1. In four (4) out of ten (10) files selected for testing, supporting documentation to verify annual gross income was not maintained in the file.
2. In two (2) out of ten (10) files selected for testing, annual gross income was calculated incorrectly, based on the supporting documentation maintained in the file.

**Lake Metropolitan Housing Authority**  
Schedule of Findings  
June 30, 2013

Section III - Federal Award Findings (continued)

2013-4

**U.S. Department of HUD**  
**Low Rent Public Housing (CFDA # 14.850)**

**Relocation Expense** (continued)

Criteria:

Per HUD Uniform Act Handbook 1378 CHG-7 Chapter 6 recordkeeping:

Documentation of income (for tenants only):

- (1) Agencies should have policies that describe the nature of documentation they will require to support income determinations for relocation assistance (particularly where a person claims to be of low-income and/or where the Agency also operates a HUD subsidized housing program for which the displaced person may be eligible).
- (2) Acceptable documentation can include: Wage statement from employer(s), W-2s, copy of current tax return; if employment is sporadic (e.g., from irregular day-labor) obtain a self-certification; Government and/or private pensions, disability payments, benefit income (such as welfare, SSI, etc.) can be documented with a copy of an eligibility letter or statement, check or record of regular bank deposits; and other reasonable evidence of income accepted under HUD subsidized housing programs.

In addition, the annual gross income should be based on the actual supporting documentation provided by the tenant.

Effect:

Potential overpayment of relocation expenses in the amount of \$63,294.

Cause:

The verification of income was difficult to obtain from the tenants and miscommunications with the Department of HUD, regarding maximum allowable relocation benefit limits and proper supporting documentation of the annual gross income.

Recommendation:

I recommend that income should be properly verified in accordance with the Department of HUD and supporting documentation should be maintained in the file, prior to determining the relocation expense. If reported income is not made available, to reasonably support basic housing and living needs, the Authority should use a rent to rent calculation for replacement housing without income consideration. By performing this procedure, the risk of overpayment of relocation expense will be significantly reduced.

**Lake Metropolitan Housing Authority**  
Schedule of Findings  
June 30, 2013

Section III - Federal Award Findings (continued)

2013-4

**U.S. Department of HUD**  
**Low Rent Public Housing (CFDA # 14.850)**

**Relocation Expense**

Planned Corrective Action:

Our relocation activities have been completed for this project and, therefore, no corrective action is required.

Lake MHA contracted with a relocation consultant to administer our HUD approved Relocation Plan. We relied on her expertise to calculate the proper relocation payments that were made to eligible tenants. During the verification process, residents contacted HUD directly to dispute benefit calculations that had been determined by the consultant. Due to very adverse circumstances with verifying income for some of the tenants involved, the consultant contacted HUD to determine what should be done to facilitate the process. Lake MHA relied on communications from the consultant before relocation payments were made.

Should Lake MHA have a future opportunity to expand affordable housing, we will be sure to follow all applicable policies and procedures as outlined in the above-mentioned recommendation.

Anticipated Completion Date:

N/A

Responsible Contact Person:

Director of Operations

**Lake Metropolitan Housing Authority**  
 Summary Schedule of Prior Audit Findings  
 Year Ended June 30, 2013

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2012-1  U.S. Department of HUD Low Rent Public Housing (CFDA # 14.850)	The Authority has recorded \$3,876,737 in building and land improvements based on the County Auditor's assessed valuation, as a result 34% of the Authority's fixed assets are not recorded in accordance with accounting principles generally accepted in the United State of America. In addition, the depreciation schedule is not in sufficient detail to determine if the assets are still owned and in working condition or if they were disposed off in prior fiscal years. Furthermore, I was not able to satisfy myself that the capital assets as listed on the financial statements are fairly presented by applying other auditing procedures.	No	This finding will be repeated in the 2013 audit.
2012-2  U.S. Department of HUD Housing Choice Voucher Program (CFDA # 14.871)	Procedures and controls relating to the Housing Choice Voucher program tenant files processing were inadequate.	No	This finding has been partially corrected, with the exception of two significant deficiencies for the 2013 audit.
2012-3  U.S. Department of HUD Housing Choice Voucher Program (CFDA # 14.871) Low Rent Public Housing (CFDA # 14.850)	During the testing of tenant files relating to move-ins, the Authority did not properly document the selection of an applicant for admission from the waiting list.	No	This finding has been corrected by the Low Rent Public Housing; however, will be repeated in the 2013 audit for the Housing Choice Voucher Program.



# Dave Yost • Auditor of State

**LAKE METROPOLITAN HOUSING AUTHORITY**

**LAKE COUNTY**

**CLERK'S CERTIFICATION**

**This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.**

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
MARCH 25, 2014**