

Lucas Metropolitan Housing Authority

**Financial Report
with Additional Information
June 30, 2003**



**Auditor of State
Betty Montgomery**

Board of Commissioners
Lucas Metropolitan Housing Authority
435 Nebraska
Toledo, Ohio 43602

We have reviewed the Independent Auditor's Report of the Lucas Metropolitan Housing Authority, Lucas County, prepared by Plante & Moran, PLLC, for the audit period July 1, 2002 through June 30, 2003. 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 Lucas Metropolitan Housing Authority is responsible for compliance with these laws and regulations.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

March 15, 2004

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Lucas Metropolitan Housing Authority

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Independent Auditor's Report

To the Board of Commissioners
Lucas Metropolitan Housing Authority

We have audited the accompanying basic financial statements of the Lucas Metropolitan Housing Authority (the "Authority") as of June 30, 2003 and 2002 and for the years then ended, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2003 and 2002 and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1 to the financial statements, effective July 1, 2002, the Lucas Metropolitan Housing Authority implemented Governmental Accounting Standards Board ("GASB") Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus, an amendment of GASB Statements No. 21 and No. 34*, and GASB No. 38, *Certain Financial Statement Disclosures*.

The management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion thereon.

To the Board of Commissioners
Lucas Metropolitan Housing Authority

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The additional information included on pages 24 through 30 is presented for the purpose of additional analysis and is not a required part of the basic financial statements of the Lucas Metropolitan Housing Authority. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2003 on our consideration of the Lucas Metropolitan Housing Authority's internal control over financial reporting and our tests of its compliance with certain laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Plante & Moran, PLLC

October 24, 2003

Lucas Metropolitan Housing Authority

Management's Discussion and Analysis

The Lucas Metropolitan Housing Authority (LMHA) management's discussion and analysis (MD&A) is designed to: (a) assist the reader in focusing on significant financial issues, (b) provide an overview of LMHA's financial activities for the year, (c) identify changes in LMHA's financial position, and (d) identify individual program issues or concerns.

LMHA offers this narrative overview of the financial activities of LMHA for the year ended June 30, 2003.

Since the MD&A is designed to focus on the current year's activities, resulting changes, and currently known facts, please read this discussion in conjunction with LMHA's accompanying financial statements and notes.

Mission

LMHA was created in 1934 and, through its programs and partnerships, is committed to building better neighborhoods by providing housing opportunities for qualified individuals and families through creative and professional services in partnership with the greater community.

Financial Highlights

- LMHA's total assets exceeded its liabilities by \$80,937,024 at June 30, 2003. This is a decrease of \$647,570 from the previous year as a result of operations.
- Revenues increased by \$7.27 million (17.9 percent) and were \$47,920,821 and \$40,650,037 for fiscal years 2003 and 2002, respectively. This increase mainly reflects a HUD subsidy increase for the Low Income Housing Program (of \$1.4 million), the Section 8 Housing Choice Voucher Program (of \$4.4 million), and the Capital Fund Program (of almost \$0.5 million).
- Expenses increased by \$5.1 million (11.7 percent) and were \$48,568,391 and \$43,461,032 (including depreciation) for fiscal years 2003 and 2002, respectively.

Lucas Metropolitan Housing Authority

Management's Discussion and Analysis (Continued)

The Authority's Funds

LMHA's financial statements utilize the Enterprise Funds method, on the full accrual basis of accounting. The enterprise method is similar to accounting used in the private sector. Many of the programs maintained by LMHA are required by the Department of Housing and Urban Development. Others are segregated to enhance accountability and control. Major programs are as follows:

Low Income Public Housing Program - Under this program, LMHA rents units that it owns in 34 developments and over 200 scattered sites within the area, to low-income households. This program is operated under the Annual Contributions Contract (ACC) with HUD, and HUD provides operating subsidy to enable LMHA to provide the housing at a cost that is based upon 30 percent of household income. LMHA currently owns and operates 3,101 units in this program.

Section 8 Program - Within the Section 8 Program, LMHA administers contracts with independent landlords that own and lease units within our community. LMHA subsidizes the family's rent through a Housing Assistance Payment (HAP) made to the landlord. These programs are operated under Annual Contributions Contracts (ACC) with HUD, which enables LMHA to structure a lease that sets the participants' housing costs at 30 percent of household income. LMHA currently administers over 3,471 Housing Choice Vouchers, 76 Mod Rehab units, and 598 site-based units.

Capital Fund Program - Under this program, LMHA receives funding for physical and management improvements to its owned units within the Low Income Public Housing Program. The Capital Fund Program is operated under the Annual Contributions Contract (ACC) with HUD.

In addition to the major programs outlined above, LMHA also maintains the following nonmajor programs.

Resident Services Grants - Includes grants funded by HUD, such as Public Housing Drug Elimination Grant (PHDEP), Resident Opportunity and Self-Sufficiency Grant (ROSS), and ABLE grants (state and local funding).

Non-HUD/Business Activities Programs - Include programs such as Family Investment Center (no longer subsidized by HUD) and Contract Administration (a consortium with other housing authorities), as well as proceeds from our discontinued Turnkey III Homeownership program, and our Veteran's Fund (a discretionary pool of funding developed from a variety of activities).

Lucas Metropolitan Housing Authority

Management's Discussion and Analysis (Continued)

The Authority's Financial Statements

LMHA's basic "authority-wide" accompanying audited financial statements are designed to be corporate-like in that all business-type activities are consolidated into columns which add to a total for the entire authority. These financial statements include a statement of net assets (similar to a balance sheet), which is designed to represent the available assets, net of liabilities, for the entire authority. Net assets (formerly known as equity) are reported in three broad categories: net assets invested in capital assets (net of related debt and depreciation), formerly called capital contributions; restricted net assets; and unrestricted net assets.

Our authority-wide financial statements also include a statement of revenues, expenses, and changes in net assets (similar to an income statement). This statement includes operating revenues such as rental income, operating expenses such as administrative, utilities, and maintenance, and nonoperating revenue and expense such as capital grant revenue and investment income. The focus of this statement is the change in net assets, which is similar to net income or loss.

Finally, a statement of cash flows is included, which discloses net cash provided by or used in operating activities, capital and related financing activities, and investing activities.

We also include additional information which we feel will assist the reader in understanding the financial statements. This additional information will allow the user to address relevant questions, broaden the basis for comparison, and enhance LMHA's accountability.

The following statements are condensed versions of our financial statements, for the purpose of analysis and discussion. See the full financial statements for more details on results of operations.

Lucas Metropolitan Housing Authority

Management's Discussion and Analysis (Continued)

Lucas Metropolitan Authority Statement of Net Assets Fiscal Year Ended June 30, 2003

The following table represents the condensed statement of net assets compared to the prior year for all of LMHA's programs combined.

	Fiscal Year 2003	Fiscal Year 2002	Change
Assets			
Current and other assets	\$ 12,055,614	\$ 11,702,051	\$ 353,563
Noncurrent assets	72,807,433	74,776,727	(1,969,294)
Total assets	84,863,047	86,478,778	(1,615,731)
Liabilities			
Current and other liabilities	2,979,309	4,894,184	(1,914,875)
Noncurrent liabilities	946,714	-	946,714
Total liabilities	3,926,023	4,894,184	(968,161)
Net Assets			
Invested in capital assets - Net of related debt	67,378,122	68,367,808	(989,686)
Unrestricted	13,558,902	13,216,786	342,116
Total net assets	<u>\$ 80,937,024</u>	<u>\$ 81,584,594</u>	<u>\$ (647,570)</u>

Major Factors Affecting the Statement of Net Assets

Current assets increased by \$353,563 due largely to the increase in cash and decrease in investments; this was a result of a change in investment strategy, to hold more cash and short-term investments because of the low interest yields available in long-term investment vehicles. A decrease in grants receivable indicates that LMHA was more efficient in earning and drawing down the grant funds available to us throughout the year.

Noncurrent assets decreased by approximately \$2.0 million. The decrease is a result of property sales, depreciation expense, and the write-off and disposal of obsolete property.

Total liabilities decreased by \$968,161 due primarily to the reduction of the HUD payable at year end. The decrease is a positive improvement since it reflects the more efficient use of Section 8 vouchers in fiscal year 2003.

Please refer to the full financial statements for more detailed information on these accounts.

Lucas Metropolitan Housing Authority

Management's Discussion and Analysis (Continued)

Lucas Metropolitan Housing Authority Revenues and Expenses by Fund Fiscal Year June 30, 2003 and 2002

The following schedule compares the revenues and expenses for the current and previous fiscal years for all LMHA's programs.

	Fiscal Year 2003	Fiscal Year 2002	Change
Revenue			
Conventional Public Housing (LIPH)	\$ 16,636,863	\$ 14,170,234	\$ 2,466,629
Section 8 Programs	22,542,853	18,311,244	4,231,609
Capital Fund Program (CFP)	6,697,143	6,239,998	457,145
Non-HUD/Other business activities	750,360	667,610	82,750
Resident service grants	1,293,602	1,260,951	32,651
	<u>\$ 47,920,821</u>	<u>\$ 40,650,037</u>	<u>\$ 7,270,784</u>
Expenses			
Conventional Public Housing (LIPH)	\$ 22,608,420	\$ 20,668,404	\$ 1,940,016
Section 8 Programs	21,843,639	18,021,136	3,822,503
Capital Fund Program (CFP)	2,162,458	2,920,384	(757,926)
Non-HUD/Other business activities	660,272	590,157	70,115
Resident service grants	1,293,602	1,260,951	32,651
	<u>\$ 48,568,391</u>	<u>\$ 43,461,032</u>	<u>\$ 5,107,359</u>

Major Factors Affecting the Statement of Revenue and Expenses

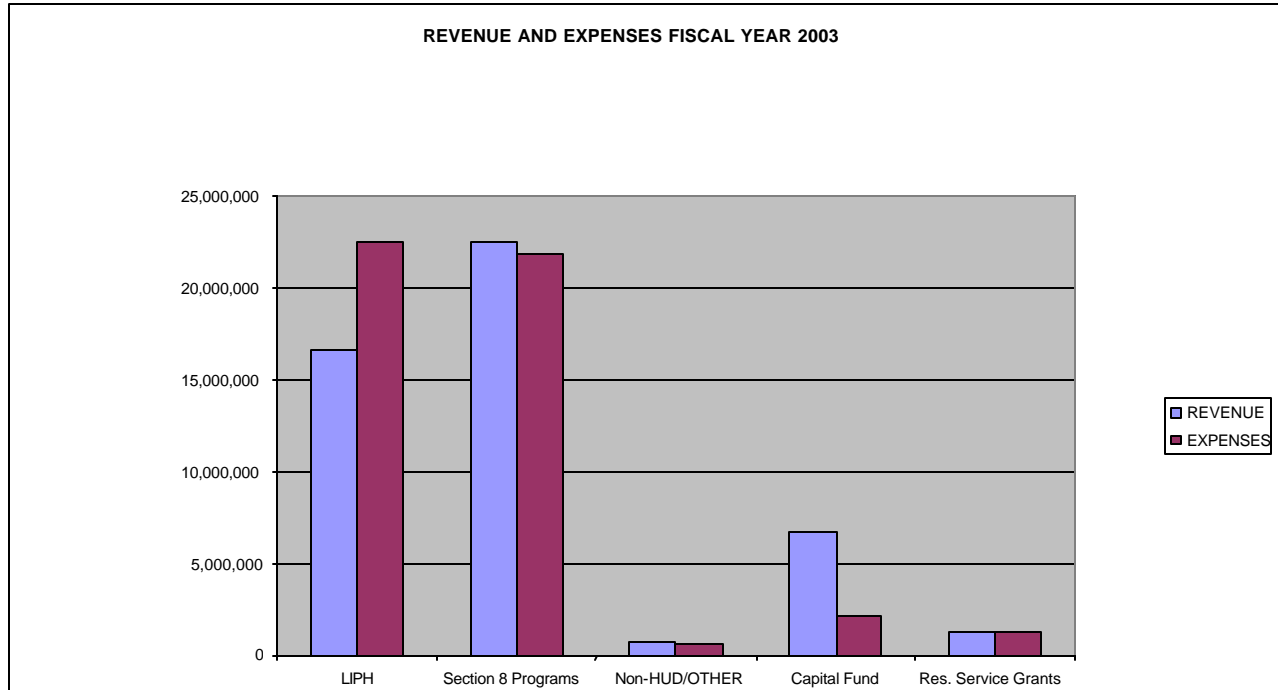
Total revenues increased by \$7.27 million. This net increase is a result of operating subsidies increasing \$2.72 million for the Low Income Public Housing program, mainly due to a one-time increase in subsidy for our utilities expenses (\$1.4 million). Also, due to a substantial increase in utilization in the Housing Choice Voucher Program, the HUD subsidy increased by \$4.44 million. Capital grants, which are used to fund our capital improvements program, also had an increase of \$457,145 over last year's funding.

Total operating expenses increased by \$4.1 million. Most expenses rose as a result of normal inflationary increases. However, property insurance rose by approximately 34 percent and bad debts expense increased by 10.85 percent. Housing assistance payments (payments to landlords under the Section 8 program) increased by almost \$4 million, due to the increase in lease-up rate. This was offset by the increased subsidy received.

Lucas Metropolitan Housing Authority

Management's Discussion and Analysis (Continued)

Please refer to the full financial statements for more detailed information on these accounts.



Lucas Metropolitan Housing Authority Comparison of Capital Assets at Year End - Net of Depreciation For Fiscal Years Ended June 30, 2003 and 2002

	Fiscal Year 2003	Fiscal Year 2002	Change
Land	\$ 6,624,191	\$ 6,580,814	\$ 43,377
Buildings	140,981,607	140,864,888	116,719
Equipment	2,485,588	2,826,367	(340,779)
Accumulated depreciation	(92,586,418)	(86,400,547)	(6,185,871)
Subtotal	57,504,968	63,871,522	(6,366,554)
Work in process	9,873,154	5,516,816	4,356,338
Total	<u>\$ 67,378,122</u>	<u>\$ 69,388,338</u>	<u>\$ (2,010,216)</u>

Lucas Metropolitan Housing Authority

Management's Discussion and Analysis (Continued)

During fiscal year 2003, the change in capital assets amounted to a decrease of \$2,010,216. The above table represents the changes in the asset accounts by category as follows:

- Land increased by \$43,377, the result of several land purchases near the Weiler Homes development. LMHA intends to raze the structures on these lots to improve the overall neighborhood.
- Buildings increased by \$116,719 as the result of the purchase and renovation of a building on Byrne Road to be used for the General Services-South Maintenance Shop.
- Equipment values decreased by \$340,779 due to disposals of obsolete equipment and vehicles during the year.
- The accumulated depreciation increased by \$6,185,871. The increase is net of current year depreciation expense of \$6,544,728 and the write-off of accumulated depreciation on property disposed of during the year ended June 30, 2003.
- Work in process increased by \$4,356,338 over the prior year. The increase reflects renovations and improvements to various public housing developments during the year. Year-end work in process also includes \$3,271,556 related to the Comprehensive Grant Program 501-00. This WIP is transferred to the Low Income Housing Fund subsequent to year end since the program is now complete.

Lucas Metropolitan Housing Authority

Basic Financial Statements Statement of Net Assets

	June 30	
	2003	2002
Assets		
Current Assets		
Cash and cash equivalents	\$ 5,610,043	\$ 4,725,259
Investments	4,382,454	4,571,432
Grants receivable	659,347	1,157,528
Tenant receivables - Net of allowance for doubtful accounts of \$54,165 and \$42,051 in 2003 and 2002, respectively	127,642	137,252
Interest receivable	26,363	79,763
Inventory	590,892	597,159
Prepaid expenses	658,873	433,658
Total current assets	12,055,614	11,702,051
Noncurrent Assets		
Restricted cash and investments	5,429,311	5,247,341
Work in process	9,873,154	5,516,816
Property and equipment - Net of accumulated depreciation of \$92,586,418 and \$86,400,803 in 2003 and 2002, respectively	57,504,968	63,871,522
Other assets	-	141,048
Total assets	<u>\$ 84,863,047</u>	<u>\$ 86,478,778</u>
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 877,150	\$ 1,212,928
Accounts payable - HUD	350,709	1,135,532
Security and other trust deposits	437,451	444,629
Accrued compensation	610,792	1,400,957
Other current liabilities	703,207	700,138
Total current liabilities	2,979,309	4,894,184
Noncurrent Liabilities - Compensated absences	946,714	-
Total liabilities	3,926,023	4,894,184
Net Assets		
Invested in capital assets - Net of related debt	67,378,122	69,388,338
Unrestricted net assets	13,558,902	12,196,256
Total net assets	80,937,024	81,584,594
Total liabilities and net assets	<u>\$ 84,863,047</u>	<u>\$ 86,478,778</u>

Lucas Metropolitan Housing Authority

Basic Financial Statements Statement of Revenues, Expenses, and Changes in Net Assets

	Year Ended June 30	
	2003	2002
Revenues		
HUD and other grants	\$ 41,608,895	\$ 33,989,092
Rental income	5,015,990	5,149,582
Loss on sale of property and equipment	(40,941)	(68,391)
Other income	1,054,064	1,187,814
Interest income	282,813	391,940
Total revenues	47,920,821	40,650,037
Expenses		
Housing assistance payments	20,090,413	16,117,731
Administrative salaries	4,309,355	4,020,837
Utilities	4,123,750	3,410,275
Material and labor	5,965,551	5,359,595
Sundry administration	2,193,289	2,857,442
Employee benefits	2,039,338	1,692,240
Contract services	546,670	659,243
Resident services	1,487,928	1,555,600
General	1,147,641	1,001,542
Nonroutine maintenance	75,340	59,722
Protective service	44,388	47,563
Total expenses	42,023,663	36,781,790
Change in Net Assets - Before depreciation	5,897,158	3,868,247
Depreciation	6,544,728	6,679,242
Change in Net Assets	(647,570)	(2,810,995)
Net Assets - Beginning of year	81,584,594	84,395,589
Net Assets - End of year	\$ 80,937,024	\$ 81,584,594

Lucas Metropolitan Housing Authority

Basic Financial Statements Statement of Cash Flows

	Year Ended June 30	
	2003	2002
Cash Flows from Operating Activities		
Cash received from HUD operating subsidies and grants	\$ 42,107,076	\$ 33,416,576
Cash received from tenants	5,025,600	5,084,215
Other receipts	1,423,085	1,513,528
Cash payments for housing assistance	(21,225,945)	(16,390,592)
Cash payments for administrative expenses	(18,459,803)	(17,607,049)
Cash payments for other operating expenses	(1,766,582)	(1,847,865)
Cash payments for resident and other services	(1,649,291)	(1,567,014)
Other payments	(911)	(38,058)
Net cash provided by operating activities	5,453,229	2,563,741
Cash Flows from Capital and Related Financing Activities		
Proceeds from sale of property and equipment	146,775	311,118
Purchase of property and equipment	(4,722,228)	(3,757,308)
Net cash used in capital and related financing activities	(4,575,453)	(3,446,190)
Cash Flows from Investing Activities - Interest and other investment activity		
	7,008	549,196
Increase (Decrease) in Cash and Cash Equivalents	884,784	(333,253)
Cash and Cash Equivalents - Beginning of year	4,725,259	5,058,512
Cash and Cash Equivalents - End of year	\$ 5,610,043	\$ 4,725,259

Lucas Metropolitan Housing Authority

Basic Financial Statements Statement of Cash Flows (Continued)

	Year Ended June 30	
	2003	2002
Reconciliation of Change in Net Assets to Net Cash from Operating Activities		
Change in net assets	\$ (647,570)	\$ (2,810,995)
Adjustments to reconcile net loss to net cash from operating activities:		
Depreciation	6,544,728	6,679,242
Bad debts	12,114	-
Loss on sale of property and equipment	40,941	68,391
(Increase) decrease in operating assets:		
Receivables	549,077	694,297
Inventory	6,267	(54,973)
Prepaid expenses and other assets	(84,167)	3,722
Increase (decrease) in operating liabilities:		
Accounts payable	(1,120,601)	(581,269)
Accrued compensation	156,549	41,748
Deferred revenue and other current liabilities	3,069	(1,493,337)
Security and other trust deposits	(7,178)	16,915
Net cash provided by operating activities	\$ 5,453,229	\$ 2,563,741

Lucas Metropolitan Housing Authority

Notes to Financial Statements
June 30, 2003 and 2002

Note 1 - Summary of Significant Accounting Policies

Organization and Reporting Entity - The Lucas Metropolitan Housing Authority ("LMHA" or 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 Lucas Metropolitan Housing Authority and the U.S. Department of Housing and Urban Development (HUD), under the provisions of the ACC and all applicable 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 that are detrimental to the public peace, health, safety, morals, or welfare by purchasing, acquiring, constructing, maintaining, operating, improving, extending, and repairing housing facilities.

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.

Basis of Accounting - 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 governmental units. The Governmental Accounting Standards Board is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Pursuant to GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Authority follows GASB guidance as applicable to proprietary funds and Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements.

The Authority's basic financial statements consist of a statement of net assets, a statement of revenues, expenses, and changes in net assets, and a statement of cash flows. The Authority uses a single Enterprise Fund to maintain its financial records on an accrual basis.

The Authority considers all revenue and expenses to be operating, as required by HUD.

Lucas Metropolitan Housing Authority

Notes to Financial Statements
June 30, 2003 and 2002

Note 1 - Summary of Significant Accounting Policies (Continued)

Changes in Accounting Principles - Effective July 1, 2002, the Authority adopted the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* as amended by GASB Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*, and GASB Statement No. 38, *Certain Financial Statement Disclosures*. GASB Statement No. 34 establishes financial reporting standards for all state and local governments and related entities. GASB Statement No. 34 primarily relates to presentation and disclosure requirements. The impact of this accounting change was related to the format of the financial statements, presentation of net assets, the inclusion of management's discussion and analysis, additional disclosures for capital assets, and the preparation of the statement of cash flows on the direct method.

GASB Statement No. 38 requires certain disclosures to be made in the notes to the financial statements concurrent with the implementation of GASB Statement No. 34.

Cash and Cash Equivalents - The Authority considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Tenant Receivables - Recognition of Bad Debts - Bad debts are provided on the allowance method based on management's evaluation of the collectibility of outstanding tenant receivable balances at the end of the year.

Inventories - Inventories and materials are stated at cost (first-in, first-out method), which approximates market.

Property and Equipment - Property and equipment are recorded at cost. Costs in excess of \$500 that materially add to the productive capacity and extend the life of an asset greater than one year are capitalized, while maintenance and repair costs are expensed as incurred. Property and equipment are depreciated using the straight-line method over the following estimated useful lives:

Building and improvement	20-40 years
Land and improvements	10-20 years
Furniture and fixtures, equipment, and moving vehicles	3-10 years

Work in Process - Work in process consists of capital projects in process funded primarily by the comprehensive and capital grants programs.

Lucas Metropolitan Housing Authority

Notes to Financial Statements June 30, 2003 and 2002

Note 1 - Summary of Significant Accounting Policies (Continued)

Investments - Investments are stated at fair value. Cost-based measures of fair value were applied to non-negotiable certificates of deposit and money market investments. Fair value of government securities, commercial paper, and the Star Ohio investments is determined using amounts confirmed by the investment's institutions and adjusting amounts as necessary for discounts, premiums, and/or interest income.

Restricted Cash and Investments - Restricted cash represents amounts held in FSS escrow, tenant security deposits, other tenants escrow accounts, and employee Section 125 withholding accounts. Restricted investments consist of amounts whose use is restricted only by HUD requirements and approval.

Reclassification - Prior year equity was reclassified to conform with current year classification of net assets. Net assets are presented in conformance with GASB Statement No. 34.

Note 2 - Deposits and Investments

Deposits - The Authority's deposits and investments are included at their carrying values on the balance sheet under the following classifications:

	<u>2003</u>	<u>2002</u>
Cash and cash equivalents	\$ 5,610,043	\$ 4,725,259
Investments	4,382,454	4,571,432
Restricted cash and investments	<u>5,429,311</u>	<u>5,247,341</u>
Total	<u>\$ 15,421,808</u>	<u>\$ 14,544,032</u>

The above amounts are classified by the Governmental Accounting Standards Board Statement No. 3 in the following categories:

	<u>2003</u>	<u>2002</u>
Bank deposits (checking accounts, savings accounts, and certificates of deposit)	\$ 6,049,219	\$ 4,723,959
Investments in securities, bank investment pools, interlocal investment pools, commercial paper, and mutual funds	9,371,289	9,818,773
Petty cash or cash on hand	<u>1,300</u>	<u>1,300</u>
Total	<u>\$ 15,421,808</u>	<u>\$ 14,544,032</u>

Lucas Metropolitan Housing Authority

Notes to Financial Statements
June 30, 2003 and 2002

Note 2 - Deposits and Investments (Continued)

Deposits

Active deposits are public deposits necessary to meet current 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 that 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.

Protection of the Authority's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the treasurer by the financial institution, or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

The Authority's deposits are categorized to give an indication of the level of risk assumed by the entity at year end. Category 1 includes deposits that are insured or collateralized with securities held by the Authority or its safekeeping agent in the Authority's name. Category 2 includes uninsured deposits collateralized with securities held by the pledging financial institution's trust department or safekeeping agent in the Authority's name.

Category 3 includes uninsured and uncollateralized deposits, including any bank balance that is collateralized with securities held by the pledging institution, or by its trust department or safekeeping agent, but not in the Authority's name.

The bank balances of the Authority's deposits are \$5,610,043 and \$4,725,259 at June 30, 2003 and 2002, respectively.

Lucas Metropolitan Housing Authority

Notes to Financial Statements
June 30, 2003 and 2002

Note 2 - Deposits and Investments (Continued)

The following show the Authority's deposits (bank balances) in each category:

- | | |
|------------|--|
| Category 1 | \$100,000 was covered by federal depository insurance at June 30, 2003 and 2002. |
| Category 3 | \$5,510,043 and \$4,625,259 was covered by collateral held by the pledging financial institution, but not in the name of the Authority, at June 30, 2003 and 2002, respectively. |

Collateral is required for demand deposits and certificates of deposit at 110 percent of all deposits not covered by federal deposit insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies and obligations of the State and its municipalities, school districts, and district corporations. Obligations pledged to secure deposits must be delivered to a bank other than the institution in which the deposit is made. Written custodial agreements are required.

Investments

HUD, State Senate, and Board Resolutions authorize the Authority to invest in obligations of U.S. Treasury, agencies and instrumentalities, certificates of deposit, repurchase agreements, money market deposit accounts, municipal depository fund, super NOW accounts, sweep accounts, 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 is 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.

Lucas Metropolitan Housing Authority

Notes to Financial Statements June 30, 2003 and 2002

Note 2 - Deposits and Investments (Continued)

The Authority's investments are categorized to give an indication of the level of risk assumed by the entity at year end. Category A includes investments that are insured or registered or for which the securities are held by the Authority or its agent in the Authority's name. Category B includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the Authority's name. Category C includes uninsured and unregistered investments for which securities are held by the counterparty or its trust department but not in the Authority's name. Star Ohio is not classified, since it is not evidenced by securities that exist in physical or book entry form. The Authority's investments, except Star Ohio, are all Category A and consist of the following at June 30:

	<u>Carrying Amount</u>	
	<u>2003</u>	<u>2002</u>
Government securities	\$ 8,990,868	\$ 8,856,815
Commercial paper	-	430,429
Star Ohio	<u>380,421</u>	<u>531,529</u>
Total investments	<u>\$ 9,371,289</u>	<u>\$ 9,818,773</u>

Note 3 - Property and Equipment

A summary of property and equipment by class is as follows at June 30, 2003:

	<u>Balance July 1, 2002</u>	<u>Additions</u>	<u>Disposals and Adjustments</u>	<u>Balance June 30, 2003</u>
Capital assets being depreciated:				
Buildings and improvements	\$ 140,864,888	\$ 116,719	\$ -	\$ 140,981,607
Land and improvements	6,580,814	43,377	-	6,624,191
Furniture and fixtures, equipment, and moving vehicles	<u>2,826,367</u>	<u>17,772</u>	<u>(358,551)</u>	<u>2,485,588</u>
Total property and equipment	150,272,069	177,868	(358,551)	150,091,386

Lucas Metropolitan Housing Authority

Notes to Financial Statements June 30, 2003 and 2002

Note 3 - Property and Equipment (Continued)

	Balance July 1, 2002	Additions	Disposals and Adjustments	Balance June 30, 2003
Accumulated depreciation:				
Buildings and improvements	\$ 84,357,644	\$ 6,222,476	\$ (1,752)	\$ 90,578,368
Furniture and fixtures, equipment, and moving vehicles	<u>2,042,903</u>	<u>322,252</u>	<u>(357,105)</u>	<u>2,008,050</u>
Total accumulated depreciation	<u>86,400,547</u>	<u>6,544,728</u>	<u>(358,857)</u>	<u>92,586,418</u>
Net capital assets	<u>\$ 63,871,522</u>	<u>\$ (6,366,860)</u>	<u>\$ 306</u>	<u>\$ 57,504,968</u>

Note 4 - Administrative Fee

The Authority receives an administrative fee as part of the annual contribution from HUD to cover the costs (including overhead) of administering the Section 8 Housing Assistance Payments (HAP) Programs. The fee is a percentage of a HUD-determined base rate for each unit per month under HAP contracts. The rates are as follows:

A. Vouchers and moderate rehabilitation:	
Vouchers: First 600 units	\$50.33/unit
Vouchers: Remaining units	\$46.99/unit
Moderate rehabilitation	\$50.33/unit
B. New construction - All units	
	3.0 percent or approximately \$27.08/unit

The total administrative fees received for the years ended June 30, 2003 and 2002 were \$2,299,140 and \$1,727,095, respectively.

Note 5 - Retirement and Other Benefit Plans

The employees of the Authority are covered by the Public Employees' Retirement System of Ohio (PERS), a statewide, cost-sharing, multiple-employer defined benefit pension plan. PERS provides postretirement health care and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The authority to establish and amend benefits is provided by State Statute per Chapter 145 of the Ohio Revised Code. PERS issues a publicly available financial report. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, OH 43215-4642 or by calling (614) 466-2085.

Note 5 - Retirement and Other Benefit Plans (Continued)

The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rate is 8.50 percent of qualifying wages for all employees. The 2002-2003 employer contribution rate was 13.55 percent. Required employer contributions are equal to 100 percent of the dollar amount billed to each employer and must be extracted from the employer's records.

The Authority's contributions to PERS for the years ended June 30, 2003, 2002, and 2001 were \$998,912, \$860,215, and \$706,195, respectively. All required contributions were made prior to each of those fiscal year ends.

The Public Employees' Retirement System of Ohio provides postretirement health care coverage to age and service retirees with 10 or more years of qualifying Ohio service credit and to primary survivor recipients of such retirees. Health care coverage for disability recipients is available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to PERS is set aside for the funding of postretirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The 2002 and 2001 employer contribution rates were 13.55 percent and 10.84 percent, respectively, of covered payroll; 5.00 percent was the portion that was used to fund health care. OPEB is financed through employer contributions and investment earnings thereon. The contributions allocated to retiree health and Medicare, along with investment income on allocated assets and periodic adjustments in health care provisions, are expected to be sufficient to sustain the program indefinitely.

As of December 31, 2001, the estimated net assets available for future OPEB payments were \$11.6 billion per the latest actuarial review. The number of active contributing participants was 402,041.

The Authority may participate in a statewide deferred compensation plan created in accordance with Internal Revenue Code Section 457. Participation is on a voluntary payroll deduction basis. The plan permits deferral of compensation until future years. According to the plan, the deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. The plan agreement states that the Authority and the Ohio Public Employees' Deferred Compensation Board have no liability for losses under the plan, with the exception of fraud or wrongful taking.

Lucas Metropolitan Housing Authority

Notes to Financial Statements
June 30, 2003 and 2002

Note 6 - Compensated Absences

Vacation and sick leave policies are established by agreement between the Authority and the American Federation of State, County and Municipal Employees, AFL-CIO, for members of the bargaining unit, and by personnel policy for management employees not covered by the labor agreement.

For both union and nonunion employees, these agreements provide for two weeks of paid vacation after one year of service, with an additional week for every five years of service thereafter, to a maximum of six weeks per year. Vacation time relating to a maximum of two years of service may be accumulated before it is lost.

For union personnel, the labor agreement provides for sick leave pay to be credited at a rate of eight hours per month, up to a maximum of 249 days. By limiting the use of sick leave during the fiscal year, an employee may elect to receive either bonus attendance time, to a maximum of five days, or an incentive bonus, to a maximum of \$500. Nonunion personnel have the same provisions under the personnel policies.

For union personnel, in the event of termination of employment after 10 consecutive years of service, or due to retirement, such employees are entitled to receive payment for one-half of their accumulated sick leave (maximum of 204 days accumulated, with a maximum payout of 102 days). The employee is also entitled to receive payment for any accumulated and unused vacation time. In the event of the death of an employee, the designated beneficiary shall receive such payments.

For employees not covered under the labor agreement, in the event of termination of employment after five consecutive years of service, or due to retirement, such employees are entitled to receive payment for one-half of their accumulated sick leave (maximum of 249 days accumulated, with a maximum payout of 124.5 days). The employee is also entitled to receive payment for any accumulated and unused vacation time. In the event of the death of an employee, the designated beneficiary shall receive such payments.

Lucas Metropolitan Housing Authority

Notes to Financial Statements June 30, 2003 and 2002

Note 6 - Compensated Absences (Continued)

All employees hired prior to December 1, 2001 become eligible for longevity pay at the end of five years of service, at which time longevity pay begins to accrue from their anniversary date. Union personnel hired December 1, 2001 and thereafter will not be eligible for longevity pay. Union personnel receive longevity pay at their 1995 pay levels at the rate of 2 percent, 4 percent, 6 percent, and 8 percent for 5 years, 10 years, 15 years, and 20 years of service, respectively. Nonunion personnel hired December 1, 2001 and thereafter are still eligible for longevity pay and receive longevity pay at their current pay levels at the rate of 1 percent, 2 percent, 3 percent, and 4 percent for 5 years, 10 years, 15 years, and 20 years of service, respectively. At June 30, 2003 and 2002, \$1,371,689 and \$1,270,490, respectively, of vested vacation, sick leave, and longevity was accrued by the Authority for both union and nonunion personnel. Nonvested amounts are not material to the financial statements and have not been accrued.

Note 7 - Insurance

The Authority maintains comprehensive insurance coverage with private carriers for health, real property, building contents, and vehicles. Vehicle policies include liability coverage for bodily injury and property damage.

No insurance settlements have exceeded coverage in any of the past three fiscal years and there has not been any significant reduction in insurance coverage in the current year.

Note 8 - Commitments and Contingencies

Grants - The Authority received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Authority. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Authority at June 30, 2003 and 2002.

Commitments - The Authority is obligated to complete modernization phases to renovate various facilities. There are currently two open phases totaling \$2,917,808, for which the Authority has approved funding from HUD to complete.

Litigation and Claims - In the normal course of operations, the Authority may be subject to litigation and claims. At June 30, 2003 and 2002, the Authority was involved in several such matters. While the outcome of the above matters cannot presently be determined, management believes that their ultimate resolution will not have a material effect on the financial statements.

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Additional Information

Lucas Metropolitan Housing Authority

	Low Rent	Section 8 Program	Comprehensive Grant Program
Assets			
Current Assets			
Cash and cash equivalents	\$ 1,481,681	\$ 3,075,039	\$ -
Investments	2,001,708	1,878,786	-
Due from other funds	3,063,144	-	-
Grants receivable	-	92,970	392,102
Tenant receivables - Net	127,642	-	-
Interest receivable	6,062	-	-
Inventory	590,294	598	-
Prepaid expenses	252,664	406,209	-
Total current assets	7,523,195	5,453,602	392,102
Noncurrent Assets			
Restricted cash and investments	440,476	341,772	-
Work in process	-	-	9,873,154
Property and equipment - Net	<u>57,348,259</u>	<u>40,462</u>	<u>-</u>
Total assets	<u>\$ 65,311,930</u>	<u>\$ 5,835,836</u>	<u>\$ 10,265,256</u>
Liabilities and Net Assets			
Current Liabilities			
Accounts payable	\$ 533,460	\$ 10,388	\$ 226,744
Accounts payable - HUD	-	350,709	-
Security and other trust deposits	437,451	-	-
Due to other funds	-	2,448,872	165,358
Accrued compensation	610,792	-	-
Other current liabilities	321,294	341,913	-
Total current liabilities	1,902,997	3,151,882	392,102
Noncurrent Liabilities - Compensated absences	946,714	-	-
Total liabilities	2,849,711	3,151,882	392,102
Net Assets			
Invested in capital assets - Net of related debt	57,348,259	40,462	9,873,154
Unrestricted net assets	<u>5,113,960</u>	<u>2,643,492</u>	<u>-</u>
Total net assets	<u>62,462,219</u>	<u>2,683,954</u>	<u>9,873,154</u>
Total liabilities and net assets	<u>\$ 65,311,930</u>	<u>\$ 5,835,836</u>	<u>\$ 10,265,256</u>

**Schedule of Net Assets by Program
June 30, 2003**

Resident Service Grants	Other	Elimination of Interfund Balances	Total
\$ -	\$ 1,053,323	\$ -	\$ 5,610,043
-	501,960	-	4,382,454
-	-	(3,063,144)	-
174,275	-	-	659,347
-	-	-	127,642
-	20,301	-	26,363
-	-	-	590,892
-	-	-	658,873
174,275	1,575,584	(3,063,144)	12,055,614
-	4,647,063	-	5,429,311
-	-	-	9,873,154
-	116,247	-	57,504,968
<u>\$ 174,275</u>	<u>\$ 6,338,894</u>	<u>\$ (3,063,144)</u>	<u>\$ 84,863,047</u>
\$ 81,156	\$ 25,402	\$ -	\$ 877,150
-	-	-	350,709
-	-	-	437,451
93,119	355,795	(3,063,144)	-
-	-	-	610,792
-	40,000	-	703,207
174,275	421,197	(3,063,144)	2,979,309
-	-	-	946,714
174,275	421,197	(3,063,144)	3,926,023
-	116,247	-	67,378,122
-	5,801,450	-	13,558,902
-	5,917,697	-	80,937,024
<u>\$ 174,275</u>	<u>\$ 6,338,894</u>	<u>\$ (3,063,144)</u>	<u>\$ 84,863,047</u>

Lucas Metropolitan Housing Authority

	Low Rent	Section 8 Program	Comprehensive Grant Program
Revenues			
HUD and other grants	\$ 11,178,726	\$ 22,439,424	\$ 6,697,143
Rental income	4,949,024	-	-
Loss on sale of property and equipment	(11,579)	-	-
Other income	428,012	77,576	-
Interest income	92,680	25,853	-
	<hr/>	<hr/>	<hr/>
Total revenues	16,636,863	22,542,853	6,697,143
Expenses			
Housing assistance payments	-	20,090,413	-
Administrative salaries	2,607,314	914,704	620,057
Utilities	4,029,115	29,327	-
Material and labor	4,841,110	923	1,121,429
Sundry administration	1,261,795	399,922	350,136
Employee benefits	1,665,494	305,414	-
Contract services	482,555	408	24,834
Resident services	148,324	-	46,002
General	940,043	98,467	-
Nonroutine maintenance	62,089	-	-
Protective service	42,967	-	-
	<hr/>	<hr/>	<hr/>
Total expenses	16,080,806	21,839,578	2,162,458
Change in Net Assets - Before depreciation	556,057	703,275	4,534,685
Depreciation	<hr/>	<hr/>	<hr/>
	6,527,614	4,061	-
Change in Net Assets	<u>\$ (5,971,557)</u>	<u>\$ 699,214</u>	<u>\$ 4,534,685</u>

**Schedule of Revenues, Expenses, and Changes in Net Assets by Program
Year Ended June 30, 2003**

Resident Service Grants	Other	Total
\$ 1,293,602	\$ -	\$ 41,608,895
-	66,966	5,015,990
-	(29,362)	(40,941)
-	548,476	1,054,064
-	164,280	282,813
<u>1,293,602</u>	<u>750,360</u>	<u>47,920,821</u>
-	-	20,090,413
-	167,280	4,309,355
-	65,308	4,123,750
-	2,089	5,965,551
-	181,436	2,193,289
-	68,430	2,039,338
-	38,873	546,670
1,293,602	-	1,487,928
-	109,131	1,147,641
-	13,251	75,340
-	1,421	44,388
<u>1,293,602</u>	<u>647,219</u>	<u>42,023,663</u>
-	103,141	5,897,158
-	13,053	6,544,728
<u>\$ -</u>	<u>\$ 90,088</u>	<u>\$ (647,570)</u>

Lucas Metropolitan Housing Authority

Schedule of Units Under Management

The PHA had the following units under management at June 30, 2003 and 2002, respectively:

	Year Ended June 30	
	2003	2002
	(in Units)	
PHA owned housing - OH12-P006-001	3,101	3,100
PHA home ownership - OH12-P006-039	-	1
Moderate rehabilitation - OH006-MR0-004	76	110
Voucher - OH006-V00078-98	3,471	3,213
New construction:		
OH12-A009-003	120	120
OH12-A007-010	159	159
OH12-0014-044	40	40
OH12-A007-019	229	229
OH12-0016-003	30	30
OH12-0016-004	20	20
Total	<u>7,246</u>	<u>7,022</u>

Lucas Metropolitan Housing Authority

Actual Modernization Cost Certification Fiscal Year Ended June 30, 2003

Comprehensive Grant Program OH12P006501-00

Funds Approved	\$6,247,899
Funds Expended	\$6,247,899
Excess (Deficiency) of Funds Approved	<u>0</u>
Funds Advanced	\$6,247,899
Funds Expended	\$6,247,899
Excess (Deficiency) of Funds Advanced	<u>0</u>

Notes:

- 1) The distribution of costs as shown on the schedule of modernization grant expenditures submitted to HUD for approval is in agreement with LMHA's records.
- 2) All modernization grant costs have been paid and all related liabilities have been discharged through payment.

Lucas Metropolitan Housing Authority

Actual Modernization Cost Certificate

U.S. Department of Housing and Urban Development
Office of Public and Indian Housing

OMB Approval No. 2577-0044 (exp. 04/30/2004)
OMB Approval No. 2577-0157 (exp. 12/31/99)

Comprehensive Improvement Assistance Program (CIAP)
Comprehensive Grant Program (CGP)

Public reporting burden for this collection of information is estimated to average 2 hours per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden, to the Reports Management Officer, Paperwork Reduction Project (2577-0044 and 0157), Office of Information Technology, U.S. Department of Housing and Urban Development, Washington, D.C. 20410-3600. This agency may not conduct or sponsor, and a person is not required to respond to, a collection of information unless that collection displays a valid OMB control number.

Do not send this form to the above address.

This collection of information requires that each Housing Authority (HA) submit information to enable HUD to initiate the fiscal closeout process. The information will be used by HUD to determine whether the modernization grant is ready to be audited and closed out. The information is essential for audit verification and fiscal close out. Responses to the collection are required by regulation. The information requested does not lend itself to confidentiality.

HA Name: Lucas Metropolitan Housing Authority	Modernization Project Number: OH12P006501
---	---

The HA hereby certifies to the Department of Housing and Urban Development as follows:

1. That the total amount of Modernization Cost (herein called the "Actual Modernization Cost") of the Modernization Grant, is as shown below:

A. Original Funds Approved	\$ 6,247,899
B. Funds Disbursed	\$ 6,247,899
C. Funds Expended (Actual Modernization Cost)	\$ 6,247,899
D. Amount to be Recaptured (A-C)	\$ -0-
E. Excess of Funds Disbursed (B-C)	\$ -0-

2. That all modernization work in connection with the Modernization Grant has been completed;

3. That the entire Actual Modernization Cost or liabilities therefor incurred by the HA have been fully paid;

4. That there are no undischarged mechanics', laborers', contractors', or material-men's liens against such modernization work on file in any public office where the same should be filed in order to be valid against such modernization work; and

5. That the time in which such liens could be filed has expired.

I hereby certify that all the information stated herein, as well as any information provided in the accompaniment herewith, is true and accurate.

Warning: HUD will prosecute false claims and statements. Conviction may result in criminal and/or civil penalties. (18 U.S.C. 1001, 1010, 1012; 31 U.S.C. 3729, 3802)

Signature of Executive Director & Date:

x [Signature] 9.9.2003

For HUD Use Only

The Cost Certificate is approved for audit:

Approved for Audit (Director, Office of Public Housing / ONAP Administrator)

x [Signature] for SS

Date:

9/15/03

The audited costs agree with the costs shown above:

Verified: (Designated HUD Official)

X

Date:

Approved: (Director, Office of Public Housing / ONAP Administrator)

Date:

X

Form HUD-83001 (10/96)
ref Handbook 7485.1 & 3

Lucas Metropolitan Housing Authority

**Federal Awards
Supplemental Information
June 30, 2003**

Lucas Metropolitan Housing Authority

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Independent Auditor's Report

To the Board of Commissioners
Lucas Metropolitan Housing Authority

We have audited the basic financial statements of Lucas Metropolitan Housing Authority for the year ended June 30, 2003 and have issued our report thereon dated October 24, 2003. Those basic financial statements are the responsibility of the management of Lucas Metropolitan Housing Authority. Our responsibility was to express an opinion on those basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was made for the purpose of forming an opinion on the basic financial statements of Lucas Metropolitan Housing Authority taken as a whole. The accompanying schedule of expenditures of federal awards and reconciliation of basic financial statements federal revenue with schedule of expenditures of federal awards are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The information in these schedules has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

October 24, 2003



Plante & Moran, PLLC

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Report Letter on Compliance with Laws and Regulations and
Internal Control - Basic Financial Statements

To the Board of Commissioners
Lucas Metropolitan Housing Authority

We have audited the basic financial statements of Lucas Metropolitan Housing Authority as of and for the year ended June 30, 2003 and have issued our report thereon dated October 24, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Lucas Metropolitan Housing Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

To the Board of Commissioners
Lucas Metropolitan Housing Authority

This report is intended solely for the information and use of the Board of Commissioners, management, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

October 24, 2003



Plante & Moran, PLLC

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Report Letter on Compliance with Laws and Regulations and
Internal Control - Major Federal Awards

To the Board of Commissioners
Lucas Metropolitan Housing Authority

Compliance

We have audited the compliance of Lucas Metropolitan Housing Authority with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2003. The major federal programs of Lucas Metropolitan Housing Authority are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Lucas Metropolitan Housing Authority's management. Our responsibility is to express an opinion on Lucas Metropolitan Housing Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Lucas Metropolitan Housing Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Lucas Metropolitan Housing Authority's compliance with those requirements.

In our opinion, Lucas Metropolitan Housing Authority complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2003-1 and 2003-2.

To the Board of Commissioners
Lucas Metropolitan Housing Authority

Internal Control Over Compliance

The management of Lucas Metropolitan Housing Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Lucas Metropolitan Housing Authority's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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

This report is intended solely for the information and use of the Board of Commissioners, management, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

October 24, 2003

Lucas Metropolitan Housing Authority

Schedule of Expenditures of Federal Awards Year Ended June 30, 2003

Federal Agency/Pass-through Agency/Program Title	Federal CFDA Number	Contract Number	Grant Amount	Expenditures for the Year Ended June 30, 2003
U.S. Department of Housing and Urban Development:				
Direct Program - Low Income Public Housing	14.850	C-5005	\$ 11,178,726	\$ 11,178,726
Lower Income Housing Assistance Program - Voucher	14.871	C-5035	17,389,557	17,389,557
Lower Income Section 8 Project Based Cluster:				
Low Income Housing Assistance Program Moderate Rehabilitation	14.856	C-5035	553,638	553,638
Lower Income Housing Assistance Program - New Construction	14.182	C-5035	4,482,266	<u>4,482,266</u>
Total Lower Income Section 8 Project Based Cluster				5,035,904
Public Housing Capital Fund Program - 2000	14.872	501-00	6,247,899	169,136
Public Housing Capital Fund Program - 2001	14.872	501-01	6,372,242	3,415,183
Public Housing Capital Fund Program - 2002	14.872	501-02	5,920,071	<u>3,112,824</u>
Total Public Housing Capital Fund Program Grant Program				6,697,143
Public Housing Drug Elimination Program - 2001	14.854	OH12-DEP	787,933	481,126
Public Housing Drug Elimination Program - 2000	14.854	OH12-DEP	738,098	249,081
Total Public Housing Drug Elimination Program				730,207
Resident Opportunities and Support Services - 1999	14.870	OH99RSF-133	250,000	70,902
Resident Opportunities and Support Services - 2001	14.870	OH01RSV-024	225,000	97,462
Resident Opportunities and Support Services - 2001	14.870	OH01RSF-109	500,000	181,488
Resident Opportunities and Support Services - 2002	14.870	OH01RSV-012	225,000	147,666
Total Resident Opportunities and Support Services				497,518
Total federal assistance				\$ 41,529,055

Lucas Metropolitan Housing Authority

Reconciliation of Basic Financial Statements Federal Revenue with Schedule of Expenditures of Federal Awards Year Ended June 30, 2003

HUD and other grants - As reported on financial statements (includes all grants and funds)	\$ 41,608,895
Less state and other revenue reported as grant revenue	<u>(79,840)</u>
Federal expenditures per the schedule of expenditures of federal awards	<u>\$ 41,529,055</u>

Lucas Metropolitan Housing Authority

Notes to Schedule of Expenditures of Federal Awards Year Ended June 30, 2003

Note 1 - Significant Accounting Policies

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Lucas Metropolitan Housing Authority and is presented on the same basis of accounting as the basic financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 2 - Subrecipient Awards

Of the federal expenditures presented in the schedule, Lucas Metropolitan Housing Authority provided federal awards to subrecipients as follows:

Federal Program	CFDA		Amount
	Number	Description	
Lower Income Section 8 - Lower Income Housing Assistance Program - New Construction	14.182	Passed through to various project owners	<u>\$ 4,284,462</u>

Lucas Metropolitan Housing Authority

Schedule of Findings and Questioned Costs Year Ended June 30, 2003

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Reportable condition(s) identified that are not considered to be material weaknesses? Yes None reported

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major program(s):

- Material weakness(es) identified? Yes No
- Reportable condition(s) identified that are not considered to be material weaknesses? Yes None reported

Type of auditor's report issued on compliance for major program(s): Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? Yes No

Identification of major program(s):

CFDA Numbers	Name of Federal Program or Cluster
14.871	Lower Income Housing Assistance Program - Voucher
14.872	Public Housing Capital Fund Program

Dollar threshold used to distinguish between type A and type B programs: \$1,243,000

Auditee qualified as low-risk auditee? Yes No

Lucas Metropolitan Housing Authority

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2003

Section II - Financial Statement Audit Findings

None

Section III - Federal Program Audit Findings

Reference Number	Findings
Current Year: 2003-1	<p>Program Name - CFDA# 14.871 Lower Income Assistance Program - Voucher</p> <p>Finding Type - (L) Noncompliance</p> <p>Criteria - LMHA must review its schedule of utility allowances each year and revise its allowance for any utility category if there has been a change of 10 percent or more in the utility rate since the last time the utility allowance schedule was reviewed. The Housing Voucher Program Guidebook indicates that the utility schedule also contain the appropriate unit type.</p> <p>Condition - In the HUD Rental and Integrity Monitoring (RIM) Report for the review conducted on June 23, 2003, it was noted that the current utility schedules in use did not present all the apartment types nor had it been updated in over a year. During federal award compliance procedures in conjunction with the audit, we also noted the use of the outdated utility schedule.</p> <p>Questioned Costs - Unknown to date</p> <p>Context - The potential for the utility rates to have changed and not been reflected accurately in the schedules could result in families receiving inaccurate utility allowances.</p> <p>Cause/Effect - LMHA's intent is to comply with the updates of the utility schedules. Due to unusual circumstances this year with delayed rate increase schedules from Columbia Gas of Ohio, LMHA was not able to timely update its schedules.</p> <p>Recommendation - LMHA should ensure that the utility allowance schedule is reviewed and adjusted appropriately annually.</p> <p>Auditee Response - LMHA's normal policy is that such updates should be performed. As required, they have completed the required updates and are submitting the revised schedules to HUD to determine any adjustments that may be required.</p>

Lucas Metropolitan Housing Authority

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2003

Section III - Federal Program Audit Findings (Continued)

Reference Number	Findings
2003-2	<p>Program Name - CFDA# 14.871 Lower Income Assistance Program - Voucher</p> <p>Finding Type - (L) Noncompliance</p> <p>Criteria - LMHA is required to include in tenant files all necessary documentation verifying assets and income. If other than third-party verification must be used, LMHA is required to document the reason why such evidence is used.</p> <p>Condition - In the HUD Rental and Integrity Monitoring (RIM) Report for the review conducted on June 23, 2003, it was noted that although LMHA demonstrated much effort to obtain the appropriate documentation, files were still lacking some asset documentation and explanations as to why in some instances third-party verification was not used. A total of 16 files out of 41 tested were identified as needing additional documentation. In compliance monitoring in conjunction with the audit, no additional instances of noncompliance were noted.</p> <p>Cause/Effect - LMHA's intent is to comply with the third-party verification requirements. Although compliance materials are available on site for use at LMHA, it appears that not all the staff may have been aware of specific documentation requirements. As a result, files were incomplete as to documentation in certain circumstances.</p> <p>Recommendation - Ensure staff are trained on the verification and documentation requirements and utilize tools such as tracing logs to ensure verification attempts are documented.</p> <p>Auditee Response - LMHA has provided a timely response to the RIM report summarizing the findings and corrective plans. LMHA is now using tracking sheets to document verification requests and will begin to hold training sessions for staff.</p>
Prior Year	None



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LUCAS METROPOLITAN HOUSING AUTHORITY

LUCAS 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
APRIL 29, 2004**