

SANDUSKY METROPOLITAN HOUSING AUTHORITY

Financial Condition

As of

June 30, 2004

Together with Auditors' Report



**Auditor of State
Betty Montgomery**

Board of Trustees
Sandusky Metropolitan Housing Authority
1358 Mosser Drive
Fremont, Ohio 43420

We have reviewed the Independent Auditor's Report of the Sandusky Metropolitan Housing Authority, Sandusky County, prepared by Kevin L. Penn, Inc., for the audit period July 1, 2003 to June 30, 2004. 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 Sandusky Metropolitan Housing Authority is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

December 27, 2004

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**SANDUSKY METROPOLITAN HOUSING AUTHORITY
FREMONT, OHIO**

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Certified Public Accountant
13212 Shaker Square, Suite 100
Cleveland, Ohio 44120
(216) 283-1535
Fax: (216) 283-5724

Independent Auditor's Report

Board of Trustees
Sandusky Metropolitan Housing Authority
Fremont, Ohio

I have audited the accompanying financial statements of the Sandusky Metropolitan Housing Authority, as of June 30, 2004 and for the year then ended, listed in the foregoing table of contents. These financial statements are the responsibility of the Sandusky Metropolitan Housing Authority's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards 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 I 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. I believe that my audit provides a reasonable basis in my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Sandusky Metropolitan Housing Authority, as of June 30, 2004, and the changes in net assets and revenues, expenditures and other changes, and the cash flows for the year ended June 30, 2004 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, 2003, the Sandusky 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 Statements Note Disclosures.

The Management's Discussion and Analysis (MD&A) on pages 3 – 10, is not a required part of the financial statements but is supplemental information required by the Governmental Accounting Standards Board. The MD&A has been reviewed in accordance with the standards established by the American Institute of Certified Public Accountants. Such a review, however, is substantially less in scope than an audit in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, I do not express such an opinion on the MD&A information.

In accordance with *Government Auditing Standards*, I have also issued my report dated November 8, 2004 on my consideration of the Sandusky Metropolitan Housing Authority's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. 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 result of my audit.

My audit was performed for the purpose of forming an opinion on the basic financial statements of Sandusky Metropolitan Housing Authority taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. In addition, the financial data schedule, pages 25 to 27 are presented for additional analysis as required by the U.S. Department of Housing and Urban Development. These schedules are the responsibility of management of Sandusky Metropolitan Housing Authority, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Kevin L. Penn, Inc.

November 8, 2004

Sandusky Metropolitan Housing Authority

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended June 30, 2004

The Sandusky Metropolitan Housing Authority's ("Authority") 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 year challenges), and (d) identify individual fund issues or concerns.

This Management Discussion and Analysis (MD&A) is new and will now be presented at the front of each year's financial statements.

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

FINANCIAL HIGHLIGHTS

- The Authority's authority-wide statements reflect a decrease in total net assets by \$59,594 (or 1.6%) during 2004. In 2001 the Housing Authority began reporting under GAAP, and in 2004 implemented GASB 34. Net Assets were \$3.584 million and \$3.524 million for 2003 and 2004 respectively.
- The business-type activity revenue increased by \$114,916 (or 7.3%) during 2004, and was \$1.575 million and \$1.690 million for 2003 and 2004 respectively.
- The total expenses of all Authority programs increased by \$213,724 (or 13.8%). Total expenses were \$1.543 million and \$1.769 million for 2003 and 2004 respectively.

Authority-Wide Financial Statements

The Authority-wide 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 statements include a Statement of Net Assets, which is similar to a Balance Sheet. The Statement of Net Assets reports all financial and capital resources for the Authority. The statement is presented in the format where assets, minus liabilities, equal "Net Assets", 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 focus of the Statement of Net Assets (the "Unrestricted Net Assets") is designed to represent the net available liquid (non-capital) assets, net of liabilities, for the entire Authority. Net Assets (formerly equity) are reported in three broad categories:

Net Assets, Invested in Capital Assets, Net of Related Debt: This component of Net Assets 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.

Authority-Wide Financial Statements (continued)

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

Unrestricted Net Assets: Consists of Net Assets that do not meet the definition of “Net Assets Invested in Capital Assets, Net of Related Debt”, or “Restricted Net Assets”. This account resembles the old operating reserves account.

The Authority-wide financial statements also include a Statement of Revenues, Expenses and Changes in Fund 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 depreciation, and Non-Operating Revenue and Expenses, such as grant revenue, investment income and interest expense.

The focus of the Statement of Revenues, Expenses and Changes in Fund Net Assets 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 for operating activities, non-capital financing activities, and from capital and related financing activities.

Fund Financial Statements

Traditional users of governmental financial statements will find the Fund Financial Statements presentation more familiar. The focus is now on Major Funds, rather than fund types. The Authority consists of exclusively Enterprise Funds. Enterprise funds utilize the full accrual basis of accounting. The Enterprise method of accounting is similar to accounting utilized by the private sector accounting.

The Department of Housing and Urban Development requires the funds maintained by the Authority.

The Authority’s Funds

Business Type Funds:

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 to enable the PHA to provide the housing at a rent that is based upon 30% of adjusted gross household income.

Capital Fund Program (CFP) – This is the current primary funding source for the Authority’s Public Housing physical and management improvements. Funds are provided by formula allocation and based on size and age of the agency’s Public Housing units.

Housing Choice Voucher Program – Under the Housing Choice Voucher Program, the Authority subsidizes rents to independent landlords that own the property. The Authority subsidizes the family’s rent through a Housing Assistance Payment (HAP) made to the landlord. The program is administered under an Annual Contributions Contract (ACC) with HUD. HUD provides funding to enable the Authority to structure a lease that requires the participant to pay a rent based on a percentage of their adjusted gross household income, typically 30%, and the Housing Authority subsidizes the balance.

AUTHORITY-WIDE STATEMENT

Statement of Net Assets

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

TABLE 1

STATEMENT OF NET ASSETS

	2004	2003
Current and Other Assets	\$610,145	\$1,016,187
Capital Assets	<u>3,476,345</u>	<u>3,236,091</u>
Total Assets	<u>\$4,086,490</u>	<u>\$4,252,278</u>
Other Liabilities	\$229,713	\$399,759
Long-Term Liabilities	<u>332,242</u>	<u>268,390</u>
Total Liabilities	<u>\$561,955</u>	<u>\$668,149</u>
Net Assets:		
Invested in Capital Assets,		
Net of Related Debt	\$3,140,168	\$2,986,530
Restricted	- 0 -	- 0 -
Unrestricted	<u>384,367</u>	<u>597,599</u>
Total Net Assets	<u>\$3,524,535</u>	<u>\$3,584,129</u>

For more detailed information see the Statement of Net Assets.

Major Factors Affecting the Statement of Net Assets

Current assets decreased by \$.406 million and liabilities decreased by \$.106 million.

Capital assets increased from \$3.236 million to \$3.476 million. The \$240,000 increase is attributed primarily to major renovation work completed in our Public Housing property under the Capital Fund Program.

TABLE 2
CHANGE OF UNRESTRICTED NET ASSETS

Unrestricted Net Assets 06/30/2003	\$597,599
Results of Operations	(79,144)
Adjustments:	
Depreciation (1)	<u>166,313</u>
Subtotal - Adjusted Results from Operations	87,169
Prior Period Adjustments	19,550
Proceeds from Debt	97,600
Capital Expenditures	(406,568)
Retirement of Debt	(10,983)
	<hr/>
Unrestricted Net Assets 06/30/2004	<u><u>\$384,367</u></u>

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

While the results of operations are a significant measure of the Authority's activities, the analysis of the changes in Unrestricted Net Assets provides a clearer change in financial well being. The Authority's unrestricted net assets increased.

TABLE 3**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**

The following schedule compares the revenues and expenses for the current and previous fiscal year. The Authority is engaged only in Business-Type Activities.

	2004	2003
Revenues		
Tenant Revenue – Rents and Other	\$112,134	\$84,351
Operating Subsidies and Grants	1,237,815	1,111,295
Capital Grants	106,240	98,379
Investment Income	785	5,924
Other Revenues	232,996	273,105
Total Revenue	<u>\$1,689,970</u>	<u>\$1,575,054</u>
Expenses		
Administrative	\$495,096	\$441,960
Contract Services	23,569	16,139
Utilities	11,806	11,806
Maintenance	106,698	44,040
Payments in Lieu of Taxes	12,159	4,284
General	20,888	18,326
Housing Assistance Payments	932,585	870,639
Depreciation	166,313	135,906
Total Expenses	<u>\$1,769,114</u>	<u>\$1,542,827</u>
Net Increase	<u>\$ (79,144)</u>	<u>\$32,227</u>

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

Operating Subsidies, Grants and Capital Grants increased by \$132,381, or 11%. This increase was primarily due to the new formula funding of public housing operating subsidy and utility adjustments. Most expenses increased due to inflation. Maintenance costs increased due to a larger-than-usual number of apartment units turning over. Payments in Lieu of Taxes are based on a percentage of rent income less utility costs and increased due to the rent income increase.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of year end, the Authority had \$3.476 million invested in a variety of capital assets as reflected in the following schedule, which represents a net increase (addition, deductions and depreciation) of \$240,193 from the end of last year due to the additional Capital Fund work involving major renovations to apartments and the reclassification of accounts.

TABLE 4

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

	Business-type Activities	
	2004	2003
Land and land improvements	\$ 604,704	\$ 604,764
Building and Improvements	3,799,888	3,399,969
Equipment – Administrative	274,881	318,840
Equipment – Dwelling	103,275	48,465
Accumulated Depreciation	(1,306,464)	(1,135,947)
Construction In Progress	0	0
Total	<u>\$ 3,476,284</u>	<u>\$3,236,091</u>

Debt Administration

The Authority's long term debt of \$336,175 includes mortgages for six (6) homes purchased for the Sandusky County MRDD's Capital Assisted Housing Program.

The following reconciliation summarizes the change in Capital Assets.

TABLE 5
CHANGE IN CAPITAL ASSETS

	Business Type Activities
Beginning Balance	\$ 3,236,091
Additions	406,567
Depreciation	(166,313)
	<hr/>
Ending Balance	<u><u>\$3,476,345</u></u>

This year's major additions are:

Business – Type Activities

Capital improvements completed at the Authority's Public Housing complex	\$ 277,625
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ECONOMIC FACTORS

Significant economic factors affecting the Authority are as follows:

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

IN CONCLUSION

The Authority had a \$213,232 decrease in unrestricted net assets (see table 2). A new home was added to the MRDD Capital Assisted Housing program. The agency added a full time housing inspector to its staff. A large renovation project was completed in the 48 Public Housing units owned by the agency, including the addition of air conditioning, the replacement of major systems in apartments, the replacement of kitchen and bath cabinets and counters, carpet replacement and floor repairs.

FINANCIAL CONTACT

If you have any questions regarding this report, you may contact Robin R. Kocher, Executive Director of the Sandusky Metropolitan Housing Authority at 419-334-4426.

SANDUSKY METROPOLITAN HOUSING AUTHORITY

STATEMENT OF NET ASSETS

JUNE 30, 2004

ASSETS

Current Assets

Cash and Cash Equivalents (Note 1)	\$ 448,260
Investments - Unrestricted	93,958
Tenant Accounts Receivable (net of allowance for doubtful accounts - \$12,388)	2,789
Accounts Receivable - HUD	445
Accounts Receivable - Miscellaneous	25,997
Prepaid Insurance	18,238
Security Deposit	20,458
Total Current Assets	<u>610,145</u>

Other Assets

Property and Equipment - Net (Note 1)	<u>3,476,345</u>
Total Other Assets	<u>3,476,345</u>
TOTAL ASSETS	<u><u>\$ 4,086,490</u></u>

LIABILITIES AND NET ASSETS

Current Liabilities

Accounts Payable - Vendor	\$ 12,773
Accounts Payable - Government	9,550
Accrued Wages and Payroll Taxes	13,095
Security Deposits	13,369
Accrued Interest Payable	795
Current Portion of Long Term Debt	13,250
Amount Due To Fremont Village	93,884
Amount Due To Fort Stevenson House	72,997
Total Current Liabilities	<u>229,713</u>

Non-Current Liabilities

Mortgage Payable	322,925
Accrued Compensated Absences	<u>9,317</u>
Total Non-Current Liabilities	<u>332,242</u>
Total Liabilities	<u><u>\$ 561,955</u></u>

Net Assets

Investment in Capital Assets, Net of Related Debt	\$ 3,140,168
Unrestricted	<u>384,367</u>
Total Net Assets	<u><u>\$ 3,524,535</u></u>

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

SANDUSKY METROPOLITAN HOUSING AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2004

Operating Revenue:

HUD Operating Subsidies and Grants	\$ 1,237,815
Tenant Rental Income	112,134
Total Operating Revenue	1,349,949

Operating Expenses:

Housing Assistance Payments	932,585
Administrative Salaries	245,111
Compensated Absences	182
Employee Benefits	122,111
Other Administrative Expense	96,033
Material and Labor - Maintenance	106,698
Contract Services	23,569
Utilities	11,806
General Expenses	20,888
Payments in Lieu of Taxes	12,159
Bad Debt - Tenant Rents	12,388
Depreciation Expense	166,313
Total Operating Expenses	1,749,843

Operating Income (Loss)	(399,894)
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Non-Operating Revenues (Expenses)

Investment Income - Unrestricted	785
Capital Grants	106,240
Other Revenue	232,996
Interest Expense	(19,271)
Total Non-Operating Revenues (Expenses)	320,750

Change in Net Assets	(79,144)
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Net Assets - Beginning of Year as Previously Reported	3,584,129
Prior Period Adjustments	19,550
Net Assets - Beginning of Year as Restated	3,603,679
Net Assets - End of Year	\$ 3,524,535

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

SANDUSKY METROPOLITAN HOUSING AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2004

Cash Flows From Operating Activities:	
Cash payments to suppliers for goods and services	\$ (225,543)
Cash payments for salaries and benefits	(354,035)
Housing assistance payments	(1,244,194)
HUD operating subsidies and grants	1,237,815
Other receipts	526,789
Other payments	<u>(52,318)</u>
Net Cash Provided (Used) by Operating Activities	(111,486)
Cash Flows From Non-Capital Financing:	
-	
Cash Flows From Capital and Related Financing Activities:	
Proceeds from Long Term Debt	97,600
Repayment of Long Term Debt	<u>(10,986)</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	86,614
Cash Flows From Investing Activities:	
Changes in Investments	159,723
Change in Fixed Assets	<u>(406,568)</u>
Net Cash Provided (Used) by Investing Activities	(246,845)
Increase (Decrease) in Cash and Cash Equivalents	(271,717)
Cash and Cash Equivalents - Beginning of Year	<u>719,977</u>
Cash and Cash Equivalents - End of Year	<u>\$ 448,260</u>

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

(Continued)

SANDUSKY METROPOLITAN HOUSING AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2004

Reconciliation of Operating Loss to Net Cash Used in Operating Activities:

Change in Net Assets	\$	(79,144)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation		166,313
(Increase) decrease in:		
Accounts Receivable		(12,142)
Security Deposit		(10,142)
Prepaid Expenses		(3,114)
Increase (decrease) in:		
Accounts Payable		(308,474)
Compensated Absences		182
Amount Due To Fort Stevenson House		29,363
Amount Due To Fremont Village		93,884
Security Deposit		12,778
Accrued Expenses		(990)
Net cash used in operating activities	\$	<u>(111,486)</u>

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

**SANDUSKY METROPOLITAN HOUSING AUTHORITY
FREMONT, OHIO**

**NOTES TO FINANCIAL STATEMENTS
June 30, 2004**

NOTE 1 - Summary of Significant Accounting Policies:

A. Organization

The Sandusky Metropolitan Housing Authority (SMHA) is a political subdivision of the State of Ohio, located in Fremont, Ohio, created under Section 3735.27 of the Ohio Revised Code, to engage in the acquisition, development, leasing and administration of low-rent housing program.

An Annual Contributions Contract was signed by the SMHA and the United States 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 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 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. This criteria was considered in determining the reporting entity.

B. Basis of Accounting

The Authority has prepared its financial statements in conformity with accounting principles generally accepted in the United States of America. Effective July 1, 2002, the Authority implement GASB Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments, 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 Statement No. 38, Certain Financial Statement Disclosures. These statements revise accounting and reporting standards for general purpose external financial reporting by governmental units. The Authority now follows the business-type activities reporting requirements of GASB Statement No. 34. In accordance with GASB statement No. 34, the accompanying basic financial statements are reported on an Authority-wide basis.

**SANDUSKY METROPOLITAN HOUSING AUTHORITY
NORWALK, OHIO**

**NOTES TO FINANCIAL STATEMENTS
June 30, 2004**

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

B. Basis of Accounting (continued)

Statement No. 34 requires the following, which collectively make up the Authority's basic financial statements:

Management's Discussion and Analysis
Basic Financial Statements:
 Statement of Net Assets
 Statement of Revenues, Expenses, and Changes in Net Assets
 Statement of Cash Flows
Notes to the Financial Statements

No cumulative effect adjustments to net assets as of July 1, 2003 were required in connection with the implementation of the GASB statement described above.

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 not to apply the provisions of the Statements and Interpretations of the Financial Accounting Standards Board issued after November 30, 1989. The Authority will continue to apply all applicable pronouncements of the Governmental Accounting Standards Board.

C. Property and Equipment

Property and equipment is recorded at cost. Costs that materially add to the productive capacity or extend the life of an asset are capitalized, while maintenance and repair costs are expensed as incurred.

Useful life of property and equipment is as follows:

Buildings	40 Years
Land & Building Improvements	15 Years
Equipment	7 Years
Autos	5 Years

Depreciation is recorded on the straight-line method. Total depreciation expense for the 2004 fiscal year was \$166,613.

**SANDUSKY METROPOLITAN HOUSING AUTHORITY
FREMONT, OHIO**

**NOTES TO FINANCIAL STATEMENTS
June 30, 2004**

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

D. Cash and Cash Equivalents

The Authority considers all highly liquid investments (including restricted assets) with maturity of three months or less when purchased to be cash equivalents.

E. Investments

Investments are stated at fair value. Cost-based measures of fair value were applied to nonnegotiable certificates of deposit and money market investment.

F. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

G. Capitalization of Interest

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

H. Financial Statement Format and Content

The format and content of the financial statements included in this report conforms to the format and content submitted to U.S. Department of Housing and Urban Development, via the Real Estate Assessment Center.

**SANDUSKY METROPOLITAN HOUSING AUTHORITY
FREMONT, OHIO**

**NOTES TO FINANCIAL STATEMENTS
June 30, 2004**

NOTE 2 – Deposits and Investments:

Legal Requirements. Monies held by the Authority are classified by State statute into two categories. Active monies means an amount of public monies determined to be necessary to meet current demands upon the Authority treasury. Active monies must be maintained either as cash in the Authority treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Monies held by the Authority which are not considered active are classified as inactive. Inactive monies may be deposited or invested in the following securities:

1. Bonds, notes, or other obligations of, or guaranteed by, the United States, or those for which the faith of the United States is pledged for the payment of principal and interest;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality;
3. Written repurchase and reverse repurchase agreements in the securities listed above;
4. Bond and other obligations of the State of Ohio, its political subdivision, or other units or agencies of this State or its political subdivisions;
5. Time certificates of deposit or savings or deposit accounts, including but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and
7. The State Treasurer's investment pool (STAR Ohio).

Protection of the Authority's deposits is provided by the Federal Deposit Insurance Corporation, 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 moneys deposited with the institution.

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.

**SANDUSKY METROPOLITAN HOUSING AUTHORITY
FREMONT, OHIO**

**NOTES TO FINANCIAL STATEMENTS
June 30, 2004**

NOTE 2 – Deposits and Investments: (continued)

At year-end, the Authority had \$70 in undeposited cash on hand which is included as part of "Pooled Cash and Cash Investments". This amount is uninsured and uncollateralized.

Deposits. At year-end, the carrying amount of the Authority's deposits was \$301,767 and the bank balance was \$306,548. Of the bank balance, \$100,000 was covered by federal depository insurance, by collateral held by the Authority, or by collateral held by a qualified third party trustee in the name of the Authority and \$206,548 was covered by collateral held by third party trustees pursuant to Section 135.181, Revised Code, in collateral pools securing all public funds on deposit with specific depository institutions.

In addition, to the above deposits, the Authority has deposits on behalf of The Fort Stephenson House and Fremont Village, with carrying amounts of \$72,997 and \$93,884 and bank balances of \$72,997 and \$109,472.

Investments. Statutory provisions require that the Authority hold all securities acquired by the Authority or deposit them with a qualified trustee pursuant to Section 135.18, Revised Code. Securities acquired under a repurchase agreement must be deposited with such a trustee unless the counterparty is a designated depository of the Authority for the current period of designation of depositories, in which case the securities may be held in trust by the depository. At the end of each day, the Authority withdraws surplus funds from the account and invests the monies in an overnight repurchase agreement. The Authority does not purchase any specific security in this manner, but the investment is collateralized by pledged securities held by a third party in the name of the bank.

GASB Statement 3 "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements" requires that local governments disclose the carrying amounts and market value of investments, classified by risk. Category 1 includes investments that are insured or registered, or securities held by the Authority or its agent in the Authority. Category 2 includes uninsured and unregistered, with securities held by the counter-party trust department or agent in the Authority. Category 3 includes uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the Authority.

	Category 1	Fair Value	Market Value
Repurchase Agreements	\$ 93,958	\$ 93,958	\$ 93,958
	=====	=====	=====

**SANDUSKY METROPOLITAN HOUSING AUTHORITY
FREMONT, OHIO**

**NOTES TO FINANCIAL STATEMENTS
June 30, 2004**

NOTE 3 – Property and Equipment:

A summary of property and equipment for the Section 8 Housing Choice Voucher at June 30, 2004, by class is as follows:

Building and Building Improvements	\$3,799,888
Land	604,764
Furniture, Equipment – Dwelling	103,275
Furniture, Equipment – Administrative	<u>274,882</u>
Total	4,782,809
Less Accumulated Depreciation	<u>(1,306,464)</u>
Net Property and Equipment	<u>\$3,476,345</u>

NOTE 4 – Mortgage Payable and Long-Term Debt

Long-term debt consists of the following:

The Authority has a note payable to the Croghan Colonial Bank of Fremont amounting to \$46,475. The original principal of the loan was \$104,041 at a rate of 6.4% annually. Principal and interest payments of \$429.25 began in December 2001 with the final payment due on December 2016. The loan is secured by a first mortgage on the property located at 728 Nickel St., Fremont, Ohio.

\$ 44,241

The Authority has a note payable to the Croghan Colonial Bank of Fremont amounting to \$19,235. The original principal of the loan was \$54,204 at a rate of 8.75% annually. Principal and interest payments of \$252.10 began in August 1997 with the final payment due on August 2012. The loan is secured by an open-end mortgage on real estate property located at 125 Pfeiffer Ave. Clyde, Ohio 43410.

17,598

**SANDUSKY METROPOLITAN HOUSING AUTHORITY
FREMONT, OHIO**

**NOTES TO FINANCIAL STATEMENTS
June 30, 2004**

NOTE 4 – Mortgage Payable and Long-Term Debt (continued)

The Authority has a note payable to the Croghan Colonial Bank of Fremont amounting to \$68,804. The original principal of the loan was \$123,500 at a rate of 7.15% annually. Principal and interest payments of \$469.07 began in October 2002 with the final payment due on July 2032. The loan is secured by an open-end mortgage on real estate property located at 562 Crestwood, Fremont, Ohio 43420. 68,084

The Authority has a note payable to the Croghan Colonial Bank of Fremont amounting to \$69,024. The original principal of the loan was \$70,000 at a rate of 5.90% annually. Principal and interest payments of \$587.20 began in March 2003 with the final payment due on March 2018. The loan is secured by an open-end mortgage on real estate property located at 114 S. Jefferson St. Fremont, Ohio 43420. 66,245

The Authority has a note payable to the Croghan Colonial Bank of Fremont, amounting \$97,600 at a rate of 5.50% annually. Principal and interest payments of \$671.62 began in January 2004 with the final payment due on December 2023. The loan is secured by an open-end mortgage on real estate located at 1407 Rosewood Street, Fremont, Ohio 43420. 96,245

**SANDUSKY METROPOLITAN HOUSING AUTHORITY
FREMONT, OHIO**

**NOTES TO FINANCIAL STATEMENTS
June 30, 2004**

NOTE 4 – Mortgage Payable and Long-Term Debt (continued)

The Authority has a note payable to the Croghan Colonial Bank of Fremont amounting to \$46,021. The original principal of the loan was \$104,000 at a rate of 6.4% annually. Principal and interest payments of \$428.95 began in January 2002 with the final payment due on January 2017. The loan is secured by a first mortgage on the property located at 148 W. Drew Lane, Clyde, Ohio.

	<u>43,762</u>
Subtotal	\$336,175
Less: Current Portion	(<u>13,250</u>)
Total Long-Term Debt	<u>\$322,925</u>

The aggregate amounts of long-term debt maturities for the five years following 2003 are as follows:

Year	Principal	Interest	Total
2005	\$ 13,250	\$ 20,808	\$ 34,058
2006	\$ 14,098	\$ 19,960	\$ 34,058
2007	\$ 15,058	\$ 19,000	\$ 34,058
2008	\$ 16,042	\$ 18,016	\$ 34,058
2009	\$ 17,119	\$ 16,939	\$ 34,058
Thereafter	<u>\$260,608</u>	<u>\$138,582</u>	<u>\$399,190</u>
Total	<u>\$336,175</u>	<u>\$233,305</u>	<u>\$569,480</u>

NOTE 5 – Administrative Fee:

The Authority receives and “administrative fee” as part of the annual contributions 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 based rate for each unit per month under HAP contracts. The rates are as follows:

Units per month x \$44.33/units – July to December
Units per month x \$41.22/units – January to June

NOTE 6 – Allocation of Costs:

The Authority allocated expenses not attributable to a specific program to all programs under management. The basis for this allocation was the number of units in each program or estimated actual usage. Management considers this to be an equitable method of allocation.

**SANDUSKY METROPOLITAN HOUSING AUTHORITY
FREMONT, OHIO**

**NOTES TO FINANCIAL STATEMENTS
June 30, 2004**

NOTE 7 – 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 deferred benefit pension plan. PERS provides retirement and disability benefits annual cost-of-living adjustments, death benefits to plan members and beneficiaries. The authority to establish and amend benefits is provided by the state statute per Chapter 145 of the Ohio Revised Code. PERS issues a publicly available financial report. The report may be obtained by writing PERS, 277 East Town Street, Columbus, OH 43215-4642, or by calling (614) 466-2085.

The Ohio Revised Code provides statutory authority for employee and employer contributions. Covered employees are required by the System's Retirement Board to contribute 8.5% of their salary to the plan. The employer contribution rate was 13.55% for fiscal year 2004. The Authority's total payroll for covered employees was \$320,212. The Authority's 2004 total contribution was \$43,388.

The contribution requirement to fund the pension obligation for the year ended June 30, 2004, 2003 and 2002 were \$43,388, \$43,886 and \$45,630 from the Authority.

PERS of Ohio provides post-retirement health care coverage to age and service retirants with 10 or more years of qualifying Ohio service credit and to primary survivor recipients of such retirants. Health care coverage for disability recipients is available. The health care coverage provided by the retirement system is considered an Other Post-employment 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 post retirement health care OPEB is financed through employer contributions and investment earnings and is expected to be sufficient to sustain the program indefinitely.

The pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among PERS and employers.

The System does not make separate measurements of assets and pension benefit obligation for individual employers. PERS issues a stand-alone financial report.

**SANDUSKY METROPOLITAN HOUSING AUTHORITY
FREMONT, OHIO**

**NOTES TO FINANCIAL STATEMENTS
June 30, 2004**

NOTE 8 – Compensated Absences:

Vacation and sick leave policies are established by the Board of Authority based on local and state laws. All permanent employees will earn 4.6 hours of sick leave per (80) hours of service. Unused sick leave may not be accumulated in excess of one hundred sixty (160) hours. At the time of retirement, employees shall be paid the value of (20) days of unused sick leave. All permanent employees will earn vacation hours accumulated based on length of service. All vacation time accumulated will be limited to (10) days and paid upon separation.

NOTE 9 – Insurance Coverage and Risk Retention:

The Authority is exposed to various risks of loss during the normal course of its operations including, but not limited to, loss related to torts; theft of damage to, and destruction of assets; errors and omissions; and injuries to employees.

The Authority maintains comprehensive insurance coverage with private carriers for health, real property, and building contents. There was no significant reduction in coverage and no settlements exceeded insurance coverage, during the past three years.

NOTE 10 – Schedule of Expenditures of Federal Awards:

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Sandusky 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.

NOTE 11 – Prior Period Adjustments:

Beginning retained earnings balance has been restated in the amount of \$19,550 as a result of the following:

\$16,037	(Overstatement of compensated absences)
\$(4,402)	(Understatement of accumulated depreciation)
<u>\$ 7,715</u>	(Understatement of CFP expenses)
<u>\$19,550</u>	Total

SANDUSKY METROPOLITAN HOUSING AUTHORITY

Balance Sheet

June 30, 2004

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

FDS Line Item No.	Account Description	Public				Total
		Section 8	Housing	C.F.P.	State/Local	
ASSETS						
111	Cash - Unrestricted	\$ 4,548	\$ 213,759	\$ -	\$ 229,953	\$ 448,260
114	Cash - Tenant Security Deposit	-	17,267	-	3,191	20,458
100	TOTAL CASH	4,548	231,026	-	233,144	468,718
122	Accounts Receivable - HUD	445	-	-	-	445
125	Accounts Receivable - Miscellaneous	-	-	-	25,997	25,997
126	Accounts Receivable - Tenants - Dwelling Units	-	3,089	-	-	3,089
126.1	Allowance for Doubtful Accounts - Dwelling Rents	-	(300)	-	-	(300)
120	TOTAL ACCOUNTS RECEIVABLE	445	2,789	-	25,997	29,231
131	Investments - Unrestricted	-	93,958	-	-	93,958
142	Prepaid Expenses	6,182	10,910	-	1,146	18,238
144	Interprogram Due From	116,281	60,001	-	57,788	234,070
150	TOTAL CURRENT ASSETS	127,456	398,684	-	318,075	844,215
161	Land	8,114	596,650	-	-	604,764
162	Buildings	-	2,795,367	181,490	823,031	3,799,888
163	Furniture, Equipment & Machinery - Dwellings	-	99,207	-	4,068	103,275
164	Furniture, Equipment & Machinery - Administration	50,705	224,177	-	-	274,882
166	Accumulated Depreciation	(48,838)	(1,129,101)	(10,412)	(118,113)	(1,306,464)
160	TOTAL FIXED ASSETS, NET	9,981	2,586,300	171,078	708,986	3,476,345
190	TOTAL ASSETS	\$ 137,437	\$ 2,984,984	\$ 171,078	\$ 1,027,061	\$ 4,320,560
LIABILITIES						
312	Accounts Payable	\$ 2,828	\$ 5,748	\$ -	\$ 4,182	\$ 12,758
321	Accrued Wage/Payroll Taxes Payable	2,474	3,025	-	7,596	13,095
325	Accrued Interest Payable	-	-	-	795	795
331	Accounts Payable - HUD PHA Programs	4,526	-	-	-	4,526
333	Accounts Payable - Other Government	-	5,024	-	-	5,024
341	Tenant Security Deposits	-	10,187	-	3,182	13,369
343	Current Portion of Long-term Debt	-	-	-	13,250	13,250
345	Other Current Liabilities	-	15	-	166,881	166,896
347	Interprogram Due To	100,771	6,721	-	126,578	234,070
310	TOTAL CURRENT LIABILITIES	110,599	30,720	-	322,464	463,783
351	Long-term Debt, Net of Current	-	-	-	322,925	322,925
354	Accrued Compensated Absences - Non Current	2,457	3,862	-	2,998	9,317
	TOTAL NON-CURRENT LIABILITIES	2,457	3,862	-	325,923	332,242
	TOTAL LIABILITIES	113,056	34,582	-	648,387	796,025
508.1	Invested in Capital Assets, Net of Related Debt	9,981	2,586,299	171,078	372,810	3,140,168
512	Retained Earnings	14,400	364,103	-	5,864	384,367
	TOTAL EQUITY/NET ASSETS	24,381	2,950,402	171,078	378,674	3,524,535
	TOTAL LIABILITIES AND EQUITY/NET ASSETS	\$ 137,437	\$ 2,984,984	\$ 171,078	\$ 1,027,061	\$ 4,320,560

SANDUSKY METROPOLITAN HOUSING AUTHORITY
Statement of Revenue, Expenses and Changes in Equity
For the Year Ended June 30, 2004

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

FDS Line		Public				
<u>Item No.</u>	<u>Account Description</u>	<u>Section 8</u>	<u>Housing</u>	<u>C.F.P</u>	<u>State/Local</u>	<u>Total</u>
Revenue:						
703	Net Tenant Rental Revenue	\$ -	\$ 61,239	\$ -	\$ 50,895	\$ 112,134
706	HUD PHA Operating Grant	1,066,946	129,790	41,079		1,237,815
706.1	Capital Grants	-		106,240		106,240
711	Investment Income – Unrestricted	206	418	-	161	785
715	Other Revenues	<u>38</u>	<u>592</u>	<u>-</u>	<u>232,366</u>	<u>232,996</u>
700	Total Revenue	1,067,190	192,039	147,319	283,422	1,689,970
Expenses:						
911	Administrative Salaries	87,825	39,623	7,500	110,163	245,111
912	Audit Fees	535	-	-	6,965	7,500
914	Compensated Absences	-	-	-	182	182
915	Employee Benefit Contributions – Administrative	29,465	14,282	-	46,461	90,208
916	Other Operating – Administrative	18,683	21,419	20,000	28,431	88,533
931	Water	-	1,699	-	100	1,799
932	Electricity	-	5,822	-	76	5,898
933	Gas	-	3,477	-	632	4,109
941	Ordinary Maintenance and Operations – Labor	-	25,744	-	56,229	81,973
942	Ordinary Maintenance and Operations - Materials and Other	5,700	16,119	-	2,906	24,725
943	Ordinary Maintenance and Operations - Contract Costs	940	13,883	-	8,746	23,569
945	Employee Benefit Contributions - Ordinary Maintenance	-	9,522	-	22,381	31,903
961	Insurance Premiums	4,408	13,961	-	1,142	19,511
962	Other General Expenses	1,377		-	-	1,377
963	Payments in Lieu of Taxes	42	5,024	-	7,093	12,159
964	Bad Debt - Tenant Rents	-	12,388	-	-	12,388
967	Interest Expense	<u>-</u>	<u>-</u>	<u>-</u>	<u>19,271</u>	<u>19,271</u>
969	Total Operating Expenses	<u>148,975</u>	<u>182,963</u>	<u>27,500</u>	<u>310,778</u>	<u>670,216</u>
970	Excess Operating Revenue over Expenses	918,215	9,076	119,819	(27,356)	1,019,754
Other Expenses						
973	Housing Assistance Payments	932,585	-	-	-	932,585
974	Depreciation Expense	<u>133</u>	<u>128,535</u>	<u>9,576</u>	<u>28,069</u>	<u>166,313</u>
900	Total Expenses	<u>1,081,693</u>	<u>311,498</u>	<u>37,076</u>	<u>338,847</u>	<u>1,769,114</u>
1001	Operating Transfer In	-	13,579	-	-	13,579
1002	Operating Transfer Out	<u>-</u>	<u>-</u>	<u>(13,579)</u>	<u>-</u>	<u>(13,579)</u>
1010	Total Other Financing Sources (Uses)	<u>-</u>	<u>13,579</u>	<u>(13,579)</u>	<u>-</u>	<u>-</u>
1000	Excess of Operating Revenue Over Expenses	(14,503)	(105,880)	96,664	(55,425)	(79,144)
1103	Beginning Equity	(24,656)	3,006,498	160,330	441,957	3,584,129
1104	Prior Period Adjustments	<u>63,540</u>	<u>49,784</u>	<u>(85,916)</u>	<u>(7,858)</u>	<u>19,550</u>
	Ending Equity	<u>\$ 24,381</u>	<u>\$ 2,950,402</u>	<u>\$ 171,078</u>	<u>\$ 378,674</u>	<u>\$ 3,524,535</u>

SANDUSKY METROPOLITAN HOUSING AUTHORITY
Additional Information Required by HUD
Year Ended June 30, 2004

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

<u>FDS Line Item No.</u>	<u>Account Description</u>	
1113	Maximum Annual Contributions Commitment (Per ACC)	\$ 1,367,930
1114	Applicable to a Period of Less Than Twelve Months	\$ -
1115	Contingency Reserve, ACC Program Reserve	\$ 495,783
1116	Total Annual Contributions Available	\$ 1,863,713
1120	Unit Months Available	4,008
1121	Number of Unit Months Leased	3,084

SANDUSKY METROPOLITAN HOUSING AUTHORITY
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2004

Federal Grantor/Program Title	Federal CFDA Number	Contract Number	Grant Amount Received	Federal Expenditures
U.S. Department of Housing and Urban Development				
Direct Program:				
Section 8 Tenant Based Cluster:				
Housing Choice Voucher	14.871	C-10004	\$1,066,501	\$ 1,066,946
Low Rent Public Housing Program	14.850	C-5506	\$ 129,790	\$ 129,790
Public Housing Capital Fund Program	14.872	OH12P05450104	\$ 147,319	<u>\$ 147,319</u>
TOTAL FEDERAL FINANCIAL ASSISTANCE				<u><u>\$ 1,344,055</u></u>

The notes to the financial statements are an integral part of this statement.



Kevin L.
Penn, Inc.

Certified Public Accountant
13212 Shaker Square, Suite 100
Cleveland, Ohio 44120
(216) 283-1535
Fax: (216) 283-5724

Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

Board of Trustees
Sandusky Metropolitan Housing Authority
Fremont, Ohio

I have audited the financial statements of Sandusky Metropolitan Housing Authority as of and for the year ended June 30, 2004, and have issued my report thereon dated November 8, 2004. I conducted my audit in accordance with generally accepted auditing standards 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.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Sandusky Metropolitan Housing Authority's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, I noted certain matters involving the internal control over financial reporting and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect Sandusky Metropolitan Housing Authority's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2004-1.

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 caused by error or fraud 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. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, I believe that none of the reportable conditions described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Sandusky Metropolitan Housing Authority's financial statements are free of material misstatement, I 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 my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and questioned costs as items 2004-1. I also noted certain immaterial instances of noncompliance, which I have reported to management of Sandusky Metropolitan Housing Authority in a separate letter dated November 8, 2004.

This report is intended solely for the information and use of the audit committee, management, and the Department of Housing and Urban Development and is not intended to be and should not be used by anyone other than these specified parties.

Kevin L. Penn, Inc.

November 8, 2004



Certified Public Accountant
13212 Shaker Square, Suite 100
Cleveland, Ohio 44120
(216) 283-1535
Fax: (216) 283-5724

Independent Auditor's 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
Sandusky Metropolitan Housing Authority
Fremont, Ohio

Compliance

I have audited the compliance of Sandusky 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, 2004. Sandusky Metropolitan Housing Authority's major federal programs 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 Sandusky Metropolitan Housing Authority's management. My responsibility is to express an opinion on Sandusky Metropolitan Housing Authority's compliance based on my audit.

I conducted my audit of compliance in accordance with generally accepted auditing standards 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 I 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 Sandusky Metropolitan Housing Authority's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination on Sandusky Metropolitan Housing Authority's compliance with those requirements.

In my opinion, Sandusky 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, 2004. However, the results of my 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 2004-1.

Internal Control Over Compliance

The management of Sandusky 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 my audit, I considered Sandusky 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 my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

My 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 caused by error or fraud 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. I noted no matters involving the internal control over compliance and its operation that I consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee, management, and the Department of Housing and Urban Development and is not intended to be and should not be used by anyone other than these specified parties.

Kevin L. Penn, Inc.

November 8, 2004

Sandusky Metropolitan Housing Authority
 Schedule of Findings and Questioned Costs
 June 30, 2004

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?	No
Reportable condition(s) identified not considered to be material weaknesses?	Yes
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over financial reporting:	
Material weakness(es) identified?	No
Reportable condition(s) identified not considered to be material weaknesses?	Yes
Type of auditor's report issued on compliance for major program:	Unqualified
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 Voucher Program
Dollar threshold used to distinguish between Type A and Type B programs:	\$300,000 (Type A)
Auditee qualified as low-risk auditee?	No

Sandusky Metropolitan Housing Authority
Schedule of Findings and Questioned Costs
June 30, 2004

Section II - Financial Statement Findings

Sandusky Metropolitan Housing Authority
Schedule of Findings and Questioned Costs
June 30, 2004

Section II - Financial Statement Findings

No matters were reported.

Section III - Federal Award Findings and Questioned Costs

2004-1

Department of Housing and Urban Development
Housing Choice Voucher Program (CFDA #14.871)

Tenant Files

Condition:

The following discrepancies noted, during the testing the tenant files:

1. There were two instances, whereby, the lease agreement was not maintained, in the tenant's file.
2. There was one instance, whereby, the HAP contract was not maintained in the tenant's file.
3. There were three instances, whereby, the lease agreement was not signed.
4. There was one instance, whereby, the family report was not signed by the tenant.

Criteria:

Section 24 CFR 982.308, requires that the "family and owner must submit a standard form lease used in the locality by the owner" and "the HUD prescribed tenancy addendum must be included in the lease word-for-word before the lease is executed". Furthermore, an individual income should be properly verified and documented in order to ensure the proper HAP payment. Each family report must be signed by the tenant, prior to the applicant occupying the unit.

Effect:

Could result in questioned costs.

Sandusky Metropolitan Housing Authority
Schedule of Findings and Questioned Costs
June 30, 2004

2003-3

Department of Housing and Urban Development
Housing Choice Voucher Program (CFDA #14.871)

Tenant Files (continued)

Cause:

Oversight by management.

Recommendation:

I recommend that prior to and individual receiving federal assistance, that the family and owner submit a standard form lease, and that the HUD prescribed tenancy addendum be included in the lease word-for-word. In addition income should be properly verified and documented in order ensure the proper HAP payment, and the family report should be signed by the tenant. Furthermore, these documents should be maintained in the tenant's file. By performing this procedure, the risk of incurring questioned costs, will be significantly reduced.

Sandusky Metropolitan Housing Authority
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2004

2003-1

Department of Housing and Urban Development
Housing Choice Voucher Program (CFDA #14.871)

Financial Statements Preparation and Submission

Recommendation:

I recommend that Sandusky Metropolitan Housing Authority prepare their financial statements in accordance with accounting principles generally accepted in the United States of America and submit these financial statements to the Department of Housing and Urban Development, via the Real Estate Assessment Center, within the nine month period prescribed. By performing this procedure, the risk of late submissions will be significantly reduced.

Auditee's Response:

The prior period audit adjustments for the period ending June 30, 2002, were not posted in a timely manner because they were not received until after the June 30, 2003, financial records were closed. They were also not available when the 2003 unaudited submission to REAC was being prepared. Every effort will be made to post in the 2004 financial records any prior period adjustments as a result of this audit for 2003.

Concerning the condition cited that financial statements were not prepared in accordance with GAAP, contributing to the problem was the inclusion of the records for the Fort Stephenson House Apartments (Fort) in what was reported as financial activity of Sandusky MHA. The Fort operating budget income and expenditures, dating back to the first audit ever conducted for the Sandusky MHA in the late 1970's, have always been included in the Sandusky MHA audit. In the 2002 audit, a determination was made that we should not be reporting this financial activity as financial activity of Sandusky MHA. Again, due to the 2002 audit being completed so late, no adjustments could be made in the 2003 records before they were closed to reverse this situation. It resulted in many entries being made to eliminate the Fort Stephenson operating income and expenses from the SMHA records in 2003.

Also contributing to the problem was the method of accounting for management fees and expenses for another property managed by Sandusky MHA (the Fremont Village Apartments). Changes have been made in how management fees and operating expenses are reported in order to be in accordance with GAAP.

Current Status:

The finding has been corrected, and does not warrant further action.

Sandusky Metropolitan Housing Authority
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2004

2003-2

Department of Housing and Urban Development
Housing Choice Voucher Program (CFDA #14.871)

Security Deposits

Recommendation:

I recommend that security deposits be released from the security deposit account within 30 days of an individual vacating the unit. By performing this procedure, the risk of the Authority incurring legal cost will be significantly reduced.

Auditee's Response:

Effective December, 2003, a procedure was established to insure that security deposits are returned to the tenant or to the operating account to repair damages within 30 days of a tenant vacating a unit.

Current Status:

The finding has been corrected, and does not warrant further action.

2003-3

Department of Housing and Urban Development
Housing Choice Voucher Program (CFDA #14.871)

Tenant Files

Recommendation:

I recommend that prior to and individual receiving federal assistance, that the family and owner submit a standard form lease, and that the HUD prescribed tenancy addendum be included in the lease word-for-word. In addition income should be properly verified and documented in order ensure the proper HAP payment, and the family report should be signed by the tenant. Furthermore, these documents should be maintained in the tenant's file. By performing this procedure, the risk of incurring questioned costs, will be significantly reduced.

Auditee's Response:

Effective immediately a checklist is being added to each tenant file (at the next recertification) that includes a list of all the steps (including forms) to be completed in order to complete the file at each recertification. Each step/form must be initialed and dated by staff at the time of completion, and no initials or dates are to be entered if the step is not complete. The lack of initials/dates will help staff track activity that still needs to be completed, which should result in a better review of items in each file and more assurance that a file is complete.

Sandusky Metropolitan Housing Authority
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2004

2003-3

Department of Housing and Urban Development
Housing Choice Voucher Program (CFDA #14.871)

Tenant Files (continued)

Current Status:

The finding has been partially corrected see repeat findings at 2004-1.

2003-4

Department of Housing and Urban Development
Housing Choice Voucher Program (CFDA #14.871)

Overpayment Due to Department of HUD

Recommendation:

I recommend that financial records be reviewed on a quarterly basis with respects to monthly advances received and program costs, in order to determine whether the five percent threshold will be exceeded. By performing this procedure, the risk of jeopardizing future funding will be significantly reduced.

Auditee's Response:

The Accounting Department has added notes to the department's calendar to remind staff to review Voucher Program costs at least quarterly to determine if the five percent threshold will be exceeded. The reminders are noted at the beginning of September, December, March, and May.

Current Status:

The finding has been corrected, and does not warrant further action.



SANDUSKY METROPOLITAN HOUSING AUTHORITY

1358 MOSSER DRIVE, FREMONT, OH 43420
PHONE: (419) 334-4426 FAX: (419) 334-6933 EMAIL: INFO@SANDUSKYMHA.ORG

CORRECTIVE ACTION PLAN

June 30, 2004

Oversight Agency for Audit: Department of Housing and Urban Development

Sandusky Metropolitan Housing Authority respectfully submits the following corrective action plan for the year ended June 30, 2004.

Name and address of independent public accounting firm: Kevin L. Penn, Inc. 13212 Shaker Square, Suite 100, Cleveland, Ohio 44120.

Audit Period: June 30, 2004

The findings from the June 30, 2004 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

FINDINGS – FINANCIAL STATEMENT AUDIT

Reportable Condition

2004-1

**Department of Housing and Urban Development
Housing Choice Voucher Program (CFDA #14.871)**

Tenant Files

Recommendation:

I recommend that prior to and individual receiving federal assistance, that the family and owner submit a standard form lease, and that the HUD prescribed tenancy addendum be included in the lease word-for-word. In addition income should be properly verified and documented in order ensure the proper HAP payment, and the family report should be signed by the tenant. Furthermore, these documents should be maintained in the tenant's file. By performing this procedure, the risk of incurring questioned costs, will be significantly reduced.

Auditee's Response:

This condition is repeated from last year, and the problems found were much fewer than in 2003 (4 problems in 2004 as opposed to approximately 15 problems in 2003). Improvements have been made in maintaining tenant files. Efforts to improve the files are ongoing and were not complete at the time of the audit, partly due to the timing of the two file reviews. The 2003 files were reviewed in January 2004, and the 2004 files were reviewed in mid-August 2004, only seven months later. Any tenants not undergoing a recertification between January and August may not have had their files reviewed by SMHA staff by the time the August review was conducted for 2004.

Three (3) of the five (5) problems found in 2004 pertained to documents not being "maintained" in the file. There is a possibility the documents were in the office and had not yet been filed as was the case with at least one of the problems found in the 2003 audit; however, there is no way to prove that at this time.

Since the review was completed for 2003, a checklist has been added to each tenant file at the tenant's next recertification. The checklist shows all steps to be taken and documents to be completed for each file. As steps are completed and/or completed documents are placed in the file, the staff person responsible must initial and date that item on the checklist. No initials or dates are to be entered beside a step or document if it is not complete.

Within a another month or two all files will have been reviewed since the January 2004 review, and all files should be complete.

If there are any questions regarding this plan, please call Robin R. Kocher, Executive Director at (419) 334-4426.

Sincerely,



Robin R. Kocher
Executive Director



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

**SANDUSKY METROPOLITAN HOUSING AUTHORITY
SANDUSKY 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
DECEMBER 30, 2004**