

**LAKE METROPOLITAN HOUSING AUTHORITY**

Financial Condition

As of

June 30, 2010

Together with Auditors' Report





# Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the Lake Metropolitan Housing Authority, Lake County, prepared by Kevin L. Penn, Inc., for the audit period July 1, 2009 through June 30, 2010. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

Dave Yost  
Auditor of State

March 15, 2011

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**LAKE METROPOLITAN HOUSING AUTHORITY  
PAINESVILLE, OHIO**

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## **Independent Auditor's Report**

Board of Trustees  
Lake Metropolitan Housing Authority  
Painesville, Ohio

I have audited the accompanying financial statements of the business-type activities of Lake Metropolitan Housing Authority, as of and for the year ended June 30, 2010, which collectively comprise the Authority basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Lake Metropolitan Housing Authority, management. My responsibility is to express an opinion on these basic financial statements based on my audit.

Except as discussed in the following paragraph, I conducted my 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 I plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic 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 for my opinion.

I was not able to obtain proper documentation to support the Authority capital assets as listed in the accompanying financial statements. As discussed in Note 12 to the financial statements, management did not performed a physical inventory of property and equipment and did not performed reconciliation between the subsidiary ledger and the financial statements. The Authority does not maintain an adequate detailed capital asset listing to ascertain that the capital assets listed on the financial statements are fairly stated. In addition, cash and cash equivalents were not reconciled to the financial statements, resulting in the overstatement of cash and cash equivalents in the amount of \$82,309. I was not able to satisfy myself that the capital assets and cash and cash equivalents as listed on the financial statements are fairly presented by applying other auditing procedures.

In my opinion, except for the effect of such adjustments, if any, as might have been determined to be necessary had I been able to examine evidence regarding the capital assets and cash and cash equivalents, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Lake Metropolitan Housing Authority, Ohio, as of June 30, 2010, and the respective change in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis (MD&A) on pages 4 – 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 December 28, 2010 on my consideration of the Lake Metropolitan Housing Authority's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. 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 Lake 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 28 to 30 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 Lake 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.

December 28, 2010





# Lake Metropolitan Housing Authority

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2010

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

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

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

### FINANCIAL HIGHLIGHTS

- During FY 2010, the Authority's net assets decreased by \$292,808 (or 4.03%). Since the Authority engages only in business-type activities, the increase is all in the category of business-type net assets. Net Assets were \$7,263,284 and \$6,970,476 for FY 2009 and FY 2010 respectively.
- The revenue increased by \$435,101 (or 3.88%) during FY 2010, and was \$11,218,091 and \$11,653,192 for FY 2009 and FY 2010 respectively.
- The total expenses of the Authority decreased by \$60,774 (or .50%). Total expenses were \$12,076,432 and \$12,015,658 for FY 2009 and FY 2010 respectively.

The primary focus of the Authority's financial statement (summarized fund-type information) has been discarded. The new and clearly preferable focus is on both the Authority as a whole (Authority-wide) and the major individual funds. Both perspectives (authority-wide and major fund) allow the user to address relevant questions, broaden a basis for comparison (year to year or Authority to Authority) and enhance the Authority's accountability.

### Authority Financial Statements

The Authority 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, equals "Net Assets", formerly know 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 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:

# Lake Metropolitan Housing Authority

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2010

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.

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 or Debt", or "Restricted Net Assets".

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

The 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**

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

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

### **The Authority's Programs**

Conventional Public Housing – Under the Conventional Public Housing Program, the Authority rents units that it owns to low-income households. The Conventional Public Housing Program is operated under an Annual Contributions Contract (ACC) with HUD, and HUD provides Operating Subsidy and Capital Grant funding to enable the PHA to provide the housing at a rent that is based upon 30% of household income. The Conventional Public Housing Program also includes the Capital Funds Program, which is the primary funding source for physical and management improvements to the Authority's properties.

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

# Lake Metropolitan Housing Authority

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2010

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

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

### Statement of Net 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**

	FY 2010	FY 2009
Current and Other Assets	\$4,107,482	\$4,267,803
Capital Assets	<u>3,775,431</u>	<u>3,841,711</u>
Total Assets	<u>7,882,913</u>	<u>8,109,514</u>
Other Liabilities	797,911	727,239
Non-Current Liabilities	<u>114,526</u>	<u>118,991</u>
Total Liabilities	<u>912,437</u>	<u>846,230</u>
Net Assets:		
Invested in Capital Assets, Net of Related Debt	3,775,431	3,841,271
Restricted	831,103	866,361
Unrestricted	<u>2,363,942</u>	<u>2,555,212</u>
Total Net Assets	<u>\$6,970,476</u>	<u>\$7,263,284</u>

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

### Major Factors Affecting the Statement of Net Assets

Current assets were decreased by \$160,321 or 3.8% and total liabilities were increased by \$66,207 or 8.0%. Current assets (primarily cash and investments) were used to extinguish liabilities. The operating decrease was the major reason for the decrease of assets.

# Lake Metropolitan Housing Authority

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2010

The Capital Assets decreased in 2010 the net result of \$66,280 due to current year's depreciation. For more detail see "Capital Assets and Debt Administration" below.

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

**TABLE 2**

### CHANGE OF UNRESTRICTED NET ASSETS

Unrestricted Net Assets 6/30/09		\$2,555,212
Results of Operations	(292,808)	
Adjustments:		
Depreciation (1)	430,563	
Change in Restricted Net Assets	35,258	
Adjusted Results from Operations		173,013
Capital Expenditures		(364,283)
		<hr/>
Unrestricted Net Assets 6/30/10		<u>\$2,363,942</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.

**TABLE 3**

### CHANGE OF RESTRICTED NET ASSETS

Restricted Net Assets - 6/30/2009		\$ 866,361
Results from Operations:		
Interest Income	481	
OIG Audit Findings	171,695	
Fraud Revenue Collection	11,980	
Repayment of HAP & Ports	52,551	
Change in Restricted Net Assets	<u>(271,965)</u>	
Adjusted Results from Operations		(35,258)
		<hr/>
Restricted Net Assets - 6/30/2010		<u>\$ 831,103</u>

# Lake Metropolitan Housing Authority

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2010

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

**TABLE 4**

### 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.

	2010	2009
<b>Operating Revenue:</b>		
HUD Operating Subsidies and Grants	\$10,604,243	\$ 10,504,379
Tenant Revenue	583,550	492,491
Capital Grant	364,283	30,257
Investment Income	24,943	119,575
Other Revenue	76,173	71,389
Total Operating Revenue	11,653,192	11,218,091
<b>Operating Expenses:</b>		
Housing Assistance Payments	9,090,223	9,042,696
Administrative Expense	1,432,778	1,496,009
Tenant Services	9,128	5,316
Utilities	220,916	229,663
Maintenance	673,096	726,227
Protective Services	24,819	47,997
Depreciation Expense	430,563	437,712
General Expenses	134,135	90,812
Total Operating Expenses	12,015,658	12,076,432
Net Increase (Decrease)	(\$362,466)	(\$858,341)

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

The overall loss in the period was less than the previous period. Incomes were higher than the previous period by about 5% while expenses were more in line with the prior period. A 19% increase in Tenant Revenues over the previous period was realized continuing the trend present last year. That increase resulted in part from a reduction in utility allowances used in the calculation of tenant rents for the Public Housing program. The formula HUD regulations set to be used to calculate tenant rents in that program calls for tenant families to pay 30% of the adjusted family income for rent and utilities. Since utility rates in the area have fallen in recent periods, tenants on average have to pay less for utilities and so more of the 30% of adjusted family incomes that tenants pay for rents and utilities under HUD's formula goes to paying rents.

Operating Subsidies were virtually unchanged from the prior year. Reductions which would be expected in subsidies when tenant rents increase were not realized thanks to HUD funding Operating Subsidies for the Public Housing program at much higher rates than in recent years. Capital Fund Program grants revenue increased a little more than 11% in large part due to Stimulus Act funding received by the agency.

# Lake Metropolitan Housing Authority

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2010

The increase in Other Income was primarily due to reclassing a balance as current period revenue that had been carried as deferred revenue at the prior year-end.

Expenses were just about unchanged from the prior period. Drops in Administrative, Maintenance and Protective Services costs, the result of belt tightening by management, were offset by increases in General and HAP Expense. The increase in General Expense was primarily due to an increase in bad debt expense realized by the agency and the increase in HAP Expense, referred to in the previous section, was intended and due to actions taken by management to more fully utilize funding provided by HUD for use in the Section 8 Housing Choice Voucher Program.

### CAPITAL ASSETS AND DEBT ADMINISTRATION

#### Capital Assets

As of 6/30/10 the Authority had \$945,556 in capital assets as reflected in the following schedule, which represents a net decrease (addition, deductions and depreciation).

**TABLE 5**

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

	2010	2009
Land and Land Rights	\$ 850,447	\$ 850,447
Building & Improvements	10,407,696	10,407,696
Equipment - Administrative	1,352,040	1,352,040
Equipment - Dwelling	243,494	243,494
Construction in Progress	1,130,816	766,533
Accumulated Depreciation	(10,209,062)	(9,778,449)
Total	\$ 3,775,431	\$ 3,841,761

The following reconciliation summarizes the change in Capital Assets, which is presented in detail on page 21 of the notes.

**TABLE 6**

#### CHANGE IN CAPITAL ASSETS

	Business Type Activities
Beginning Balance, July 1, 2009	\$3,841,791
Additions	0
Gain/(Loss) from Disposition	0
Depreciation	(430,563)
Ending Balance, June 30, 2010	\$3,775,431

# **Lake Metropolitan Housing Authority**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2010**

The increase in accumulated depreciation from year-end 2009 to 2010 (\$430,563) outpaced the increase in construction in progress leading to a net reduction in Capital Assets of \$67,000. This is a much smaller drop in Capital Assets than what was realized in the prior period thanks to increased capital spending in the period as referred to in the above section. The entire increase in Construction in Progress of \$364,283 was made through spending in the Capital Fund Program.

### **Debt Outstanding**

As of 6/30/10 the Authority had no debt outstanding.

### **ECONOMIC FACTORS**

Lake MHA is dependent on HUD subsidies to administer their programs and maintain their properties. Continuing drastic Federal budget cuts are a significant threat to the ongoing ability of the agency to operate their programs and maintain their facilities. Truly Lake MHA's situation may not be as drastic as other similar agencies thanks in part to cash assets accumulated in previous periods, but the threat of ongoing cuts is a real one to the agency especially as the agency's buildings age and require more physical maintenance and improvements.

### **Financial Contact**

Questions concerning this report or requests for additional information should be directed to Steven K. Knotts, Executive Director of the Lake Metropolitan Housing Authority, 189 First Street, Painesville, Ohio, 44077.

LAKE METROPOLITAN HOUSING AUTHORITY  
STATEMENT OF NET ASSETS  
JUNE 30, 2010

ASSETS

**Current Assets**

Cash and Cash Equivalents - Unrestricted (Note 1)	\$ 2,083,596
Cash and Cash Equivalents - Restricted (Note 3)	1,413,666
Investments – Unrestricted (Note 1)	378,699
Accounts Receivable - Fraud Recovery	16,606
Allowance for Doubtful Accounts	(16,606)
Accounts Receivable - HUD	190,371
Accounts Receivable - Other (Net)	16,919
Prepaid Expenses	24,231
<b>Total Current Assets</b>	<u>4,107,482</u>

**Non-Current Assets**

Capital Assets: (Note 4)	
Land	850,447
Building and Equipment	12,003,230
Construction in Progress	1,130,816
Less: Accumulated Depreciation	(10,209,062)
<b>Total Non-Current Assets</b>	<u>3,775,431</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 7,882,913</u></u>

LIABILITIES AND NET ASSETS

**Current Liabilities**

Accounts Payable	\$ 121,529
Accrued Expenses	40,815
Intergovernmental Payables	582,434
Tenant Security Deposits	42,501
Deferred Revenue	10,632
<b>Total Current Liabilities</b>	<u>797,911</u>

**Non-Current Liabilities**

FFS Program Liability	78,758
Accrued Compensated Absences	35,768
<b>Total Non-Current Liabilities</b>	<u>114,526</u>
<b>Total Liabilities</b>	<u><u>\$ 912,437</u></u>

**Net Assets**

Investment in Capital Assets, Net of Related Debt	\$ 3,775,431
Restricted	831,103
Unrestricted	2,363,942
<b>Total Net Assets</b>	<u><u>\$ 6,970,476</u></u>

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



LAKE METROPOLITAN HOUSING AUTHORITY  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2010

<b>Operating Revenue:</b>	
HUD Operating Subsidies and Grants	\$ 10,604,243
Tenant Revenue	583,550
Other Revenue	76,173
Total Operating Revenue	<u>11,263,966</u>
<b>Operating Expenses:</b>	
Housing Assistance Payments	9,090,223
Administrative Expense	1,432,778
Tenant Services	9,128
Utilities	220,916
Maintenance	673,096
Protective Services	24,819
Depreciation Expense	430,563
General Expenses	134,135
Total Operating Expenses	<u>12,015,658</u>
Operating Income (Loss)	(751,692)
Non-Operating Revenues (Expenses)	
Investment Income - Unrestricted	24,462
Investment Income - Restricted	481
Total Non-Operating Revenues (Expenses)	<u>24,943</u>
Income (Loss) before Contributions and Transfers	(726,749)
Capital Grants	<u>364,283</u>
Change in Net Assets	(362,466)
Net Assets - Beginning of Year as Previously Reported	7,263,284
Prior Period Adjustments (Note 15)	<u>69,658</u>
Net Assets - Beginning of Year as Restated	<u>7,332,942</u>
Net Assets - End of Year	<u>\$ 6,970,476</u>

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

LAKE METROPOLITAN HOUSING AUTHORITY  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2010

Cash Flows From Operating Activities:	
Cash payments to suppliers for goods and services	\$ (2,418,740)
Housing assistance payments	(9,090,223)
HUD operating subsidies and grants	10,604,243
Other receipts	659,723
Other payments	<u>(13,135)</u>
Net Cash Provided (Used) by Operating Activities	(258,132)
Cash Flows From Capital and Related Financing Activities:	
Fixed Assets Addition	(364,283)
Capital Grant Funds Received	<u>364,283</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	0
Cash Flows From Investing Activities:	
Investment Income	<u>24,943</u>
Net Cash Provided (Used) by Investing Activities	24,943
Increase (Decrease) in Cash and Cash Equivalents	(233,189)
Cash and Cash Equivalents - Beginning of Year	<u>4,109,150</u>
Cash and Cash Equivalents - End of Year	<u>\$ 3,875,961</u>
Reconciliation of Operating Income (Loss) to Net Cash Used in Operating Activities:	
Operating Income (Loss)	\$ (751,692)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Used in Operating Activities:	
Depreciation	430,563
(Increase) decrease in:	
Accounts Receivable	(70,612)
Prepaid Expenses	(2,256)
Increase (decrease) in:	
Accounts Payable	118,484
Compensated Absences	(42,955)
Deferred Revenue	14,933
Tenant Security Deposits	1,555
Accrued Expenses	<u>43,848</u>
Net cash used in operating activities	<u>\$ (258,132)</u>

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

**LAKE METROPOLITAN HOUSING AUTHORITY  
PAINESVILLE, OHIO**

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2010**

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

**Organization and Reporting Entity**

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

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

**Basis of Presentation**

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

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

The Authority'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.

**LAKE METROPOLITAN HOUSING AUTHORITY  
PAINESVILLE, OHIO**

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2010**

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

**Basis of Presentation (Continued)**

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

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

**Measurement Focus and Basis of Accounting**

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

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

**Description of programs**

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

**A. Public Housing Program**

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

**B. Capital Fund Program**

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

**LAKE METROPOLITAN HOUSING AUTHORITY  
PAINESVILLE, OHIO**

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2010**

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

**C. Housing Choice Voucher Program**

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

**D. Public Housing Development Program**

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

**E. State and Local**

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

**Use of Estimates**

The preparation of financial statements in accordance with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Cash and Cash Equivalents**

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

**LAKE METROPOLITAN HOUSING AUTHORITY  
PAINESVILLE, OHIO**

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2010**

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

**Capital Assets**

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

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

Total depreciation expense for the 2010 fiscal year was \$430,563.

**Capitalization of Interest**

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

**Investments**

The provisions of the HUD Regulations restrict investments. Investments are valued at market value. Interest income earned in fiscal year ending June 30, 2010 totaled \$24,441.

**Compensated Absences**

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

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

**LAKE METROPOLITAN HOUSING AUTHORITY  
PAINESVILLE, OHIO**

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2010**

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

**Compensated Absences** (continued)

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

The following is a summary of changes in compensated absence for the fiscal year ending June 30, 2010:

<u>Balance at 6/30/09</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at 6/30/10</u>	<u>Due Within One Year</u>
\$40,268	\$27,566	\$ 32,066	\$35,768	\$ 0

**Prepaid Items**

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

**Operating Revenues and Expenses**

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

**Accounts Receivable**

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

**Accrued Interest Receivable**

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

**Interfund Receivables/Payables**

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

**LAKE METROPOLITAN HOUSING AUTHORITY  
PAINESVILLE, OHIO**

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2010**

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

**Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consist of capital assets net of accumulated depreciation. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Authority or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The amount reported as restricted net assets at fiscal year end represents the amounts restricted by HUD for future Housing Assistance Payments and amounts from Administration Fee which may be recaptured by HUD. When an expense is incurred for purposes which both restricted and unrestricted net assets are available, the Authority first applies restricted net assets. Net assets restricted by an enabling legislation was \$831,103.

**NOTE 2 – Deposits and Investments:**

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

**A. Deposits**

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

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

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

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

At year-end, the carrying amount of the Authority's deposits was \$3,875,713 (including \$75 of petty cash) and the bank balance was \$3,917,222.



**LAKE METROPOLITAN HOUSING AUTHORITY  
PAINESVILLE, OHIO**

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2010**

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

**Custodial Credit Risk**

Custodial Credit Risk is the risk that, in the event of a bank failure, the Authority's deposits may not be returned. The Authority's policy is to place deposits with major local banks approved by the Board. The financial institution collateral pool that insure public deposits must maintain collateral in excess of 105 percent of deposits, as permitted by Chapter 135 of the Ohio Revised Code. As of year-end, deposits totaling \$350,962 was covered by Federal Depository and \$3,566,260 was covered by the collateral pool.

**B. Investments**

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

The Authority has a formal investment policy. The objective of this policy shall be to maintain liquidity and protection of principal while earning investment interest. Safety of principal is the primary objective of the investment program. The Authority follows GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, and records all its investments at fair value. However, at June 30, 2010, the Authority investments were limited to certificates of deposits.

**Interest Rate Risk**

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

**Credit Risk**

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

**Concentration of Credit Risk**

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

**LAKE METROPOLITAN HOUSING AUTHORITY  
PAINESVILLE, OHIO**

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2010**

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

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

*Custodial Credit Risk*

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

<u>Cash and Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (In Years &lt; 1)</u>
Carrying Amount of Deposits	\$3,875,886	\$ 3,875,886
Petty Cash	<u>75</u>	<u>75</u>
Totals	<u>\$3,875,961</u>	<u>\$3,875,961</u>

**NOTE 3 – Restricted Cash:**

Restricted cash balance as of June 30, 2010 of \$1,413,666 represents the following:

Unspent funding provided by HUD to make Housing Assistance Payments in the Housing Choice Voucher Program	\$ 831,103
Unspent Development Program funding provided by HUD	461,304
Family Self-Sufficiency Escrows	78,758
Tenant Security Deposits	<u>42,501</u>
Total	<u>\$1,413,666</u>

**LAKE METROPOLITAN HOUSING AUTHORITY  
PAINESVILLE, OHIO**

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2010**

**NOTE 4 – Capital Assets:**

A summary of capital assets at June 30, 2010, by class is as follows:

	<u>6/30/2009</u>	Reclasses	<u>Additions</u>	<u>Disposals</u>	<u>6/30/2010</u>
Capital Assets Not Being Depreciated					
Land	\$ 850,447	\$ 0	\$ 0	\$ 0	\$ 850,447
Construction in Progress	<u>766,533</u>	<u>0</u>	<u>364,283</u>	<u>0</u>	<u>1,130,816</u>
Total Capital Assets Not Being Depreciated	<u>1,616,980</u>	<u>0</u>	<u>364,283</u>	<u>0</u>	<u>1,981,263</u>
Capital Assets Being Depreciated					
Buildings and Improvements	10,407,696	0	0	0	10,407,696
Furniture, Equipment, and Machinery	<u>1,595,534</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1,595,534</u>
Subtotal Capital Assets Being Depreciated	12,003,230	0	0	0	12,003,230
Accumulated Depreciation:					
Buildings and Improvements	(8,182,966)	(51,553)	(426,106)	0	(8,660,625)
Furniture, Equipment and Machinery	<u>(1,595,533)</u>	<u>51,553</u>	<u>( 4,457)</u>	<u>0</u>	<u>(1,548,437)</u>
Total Accumulated Depreciation	<u>(9,778,499)</u>	<u>0</u>	<u>(430,563)</u>	<u>0</u>	<u>(10,209,062)</u>
Depreciable Assets, Net	<u>2,224,731</u>	<u>0</u>	<u>(430,563)</u>	<u>0</u>	<u>1,794,168</u>
Total Capital Assets, Net	<u>\$ 3,841,711</u>	<u>\$ 0</u>	<u>\$ 66,280</u>	<u>\$ 0</u>	<u>\$ 3,775,431</u>

**NOTE 4: Defined Benefit Pension Plan:**

**Ohio Public Employees Retirement System**

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

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

**LAKE METROPOLITAN HOUSING AUTHORITY  
PAINESVILLE, OHIO**

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2010**

**NOTE 4: Defined Benefit Pension Plan:** (continued)

The Ohio Revised Code provides statutory authority for member and employer contributions. Effective January 1, 2009, the members of all three plans were required to contribute 10.0 percent of their annual covered salaries. The Authority's contribution rate for 2010 and 2009 was 14.0 percent (of which 8.5 percent relates to pension contributions) of covered payroll.

The Authority's required contributions for pension obligations to the traditional and combined plans for the years ended June 30, 2010, 2009 and 2008 were \$127,560, 116,731 and \$112,989 respectively; 100 percent has been contributed for 2010, 2009, and 2008.

**NOTE 5- Post Employment Benefits:**

**A. Plan Description**

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

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

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

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

**LAKE METROPOLITAN HOUSING AUTHORITY  
PAINESVILLE, OHIO**

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2010**

**B. Funding Policy**

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

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2010 and 2009, the Authority contributed at a rate of 14.00 percent of covered payroll. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14.00 percent of covered payroll for state and local employer units. Active members do not make contributions to the OPEB Plan.

OPERS' Post-Employment Health Care Plan was established under, and is administered in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post-employment health care benefits. For 2010 and 2009, the employer contribution allocated to the health care plan was 5.50 percent of covered payroll. The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care coverage by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. Actual Authority contributions for the year ended June 30, 2010, which were used to fund post-employment benefits were \$63,780.

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

**NOTE 6 - Risk Management:**

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

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

**LAKE METROPOLITAN HOUSING AUTHORITY  
PAINESVILLE, OHIO**

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2010**

**NOTE 7: Changes in Accounting Principles:**

For fiscal year 2010, the Authority implemented GASB Statements No. 52, *Land and Other Real Estate Held as Investments by Endowments*, GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, and GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*.

GASB Statement No. 52 improves the quality of financial reporting by requiring endowments to report their land and other real estate investments at fair value, creating consistency in reporting among similar entities that exist to invest resources for the purpose of generating income.

GASB Statement No. 55 incorporates the hierarchy of generally accepted accounting principles for state and local governments into the GASB's authoritative literature.

GASB Statement No. 56 incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance presented in the AICPA's *Statements on Auditing Standards*.

The implementation of GASB Statements No. 52, 55, and 56 did not affect the presentation of the financial statements of the Authority.

**NOTE 8 - Contingent Liabilities:**

**Litigations and Claims**

In the normal course of operations the PHA may be subject to litigation and claims. At June 30, 2010 the PHA was involved in such a matter. While the outcome of this matter cannot presently be determined, management believes that the ultimate resolution will not have a material effect on the financial statements.

**Inspector General Audit**

The Authority is currently waiting for the final resolution of an investigation conducted by the Inspector General Office (IG), which is the third and final stage of a three phase process.

This process consist of the IG, determining whether the Authority administer its program in accordance with HUD requirement and its administrative plan regarding the Family Self Sufficiency Program, zero-income households and procurement procedures.

**LAKE METROPOLITAN HOUSING AUTHORITY  
PAINESVILLE, OHIO**

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2010**

**NOTE 8 - Contingent Liabilities:** (continued)

**Inspector General Audit**

The IG issued its report on September 30, 2010 with a recommendation that the Director of HUD's Cleveland Office of Public Housing requiring the following: 1) the Authority provide documentation or reimburse its program for unsupported payments cited in the report, pertaining to the procurement process, 2) the Authority reimburse its program from non-Federal funds for improper use of program funds, and 3) the Authority implement adequate procedures and controls to address the finding cited to prevent programs funds from being spent on excessive escrow credits, housing assistance and utility allowance payments and contract payments.

The Authority is in the process of working with HUD Cleveland to resolve these issues.

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

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

**NOTE 10 – Economic Dependency:**

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

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

The Authority had no material operating lease commitments or material capital or construction commitments at June 30, 2010.

**NOTE 12 – Capital Assets:**

A physical inventory of the Authority property and equipment owned has not been performed, as a result the financial statements were not reconciled with the actual inventory records. The depreciation schedule is not in sufficient detail to determine if the assets are still owned and in working condition or if they were disposed off in prior fiscal years.

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

**LAKE METROPOLITAN HOUSING AUTHORITY  
PAINESVILLE, OHIO**

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2010**

**NOTE 13 - Subsequent Events:**

Generally accepted accounting principles define subsequent events as events or transactions that occur after the statement of financial position date, but before the financial statements as issued or are available to be issued. Management has evaluated subsequent events through December 28, 2010, the date on which the financial statements were available to be issued, noting the following:

1. On December 28, 2010, the Authority signed a concurrence provision, pertaining to the U.S. Department of Housing and Urban Development performance of a reconciliation of the 2009 Net Restricted Asset account, which resulted in a prior period revenue adjustment, which will result into an equity transfer of \$142,642.
2. As a result of reported W-2 income being understated for federal and state purposes, the Authority has authorized a resolution to execute corrections and reimbursements for tax deficiencies in payroll tax withholdings for the tax years 2008 and 2009, related to the taxability of OPERS deductions. In order to resolve this issue, the Authority has approved \$50,000 to be paid from only unrestricted pre-2004 nonfederal funds. As of December 28, 2010 a total of \$34,115.15 has been reimbursed to current and former employees.

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

Interprogram balance at June 30, 2010, consists of the following receivables and payables:

	<u>Due From</u>	<u>Due to</u>
Public Housing Program		\$385,079
Section 8 Program		\$ 41,190
Housing Choice Voucher Program	\$ 426,269	\$ 89,718
State & Local	\$ 89,718	

These interprogram Due From/Due To arise from housing assistance payments and the repayment of funds from the non-federal program to the proper federal program based on an audit conducted by the Inspector General Office. These balances are eliminated for the Statement of Net Assets on page 11.

**NOTE 15 - Prior Period Adjustment:**

The Authority adjusted prior period net assets as follows:

Net Assets as of June 30, 2009	\$ 7,263,284
Adjustment:	
Decrease in Deferred Revenue	<u>69,658</u>
Restated Net Assets as of June 30, 2009	<u>\$ 7,332,942</u>

The adjustment to prior period net assets was necessary to properly reflect the overstatement of Deferred Revenue.



Lake Metropolitan Housing Authority  
Statement of Net Assets  
June 30, 2010

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

Line item	Account Description	Project	Section 8	Housing Choice Voucher	Development	Subtotal	State & Local	TOTALS
111	Cash - Unrestricted	\$ 202,549	\$ 212,067	\$ 1,410,920		\$ 1,825,536	\$ 258,060	\$ 2,083,596
113	Cash - Other Restricted	42,501		909,861	461,304	1,413,666		1,413,666
100	Total Cash	245,050	212,067	2,320,781	461,304	3,239,202	258,060	3,497,262
122	Acct. Rec. - HUD	190,371				190,371		190,371
125	Acct. Rec. - Misc.	1,381				1,381		1,381
126	Acct. Rec. - Tenants	16,538				16,538		16,538
126.1	Allowance Doubtful Accts. - Tenants	(900)				(900)		(900)
126.2	Allowance Doubtful Accts. - Other	(100)				(100)		(100)
128	Fraud Recovery			16,606		16,606		16,606
128.1	Allowance Doubtful Accts.			(16,606)		(16,606)		(16,606)
120	Net Total Receivables	207,290	-	-	-	207,290	-	207,290
131	Investments-Unrestricted	51,344		327,355		378,699		378,699
142	Prepaid Expenses	24,231				24,231		24,231
144	Inter Program Due From	385,079	41,190	89,713		515,982		515,982
150	<b>Total Current Assets</b>	<b>912,994</b>	<b>253,257</b>	<b>2,737,849</b>	<b>461,304</b>	<b>4,365,404</b>	<b>258,060</b>	<b>4,623,464</b>
161	Land	692,731			157,716	850,447		850,447
162	Buildings	10,386,044		21,652		10,407,696		10,407,696
163	Furniture, Equip. & Mach. - Dwellings	243,494				243,494		243,494
164	Furniture, Equip. & Mach. - Admin.	1,130,831	51,044	170,165		1,352,040		1,352,040
166	Accumulated Depreciation	(9,979,914)	(51,044)	(178,104)		(10,209,062)		(10,209,062)
167	Construction in Progress	1,130,816				1,130,816		1,130,816
160	Net Fixed Assets	3,604,002	-	13,713	157,716	3,775,431	-	3,775,431
190	<b>TOTAL ASSETS</b>	<b>4,516,996</b>	<b>253,257</b>	<b>2,751,562</b>	<b>619,020</b>	<b>8,140,835</b>	<b>258,060</b>	<b>8,398,895</b>
312	A/P <= 90 days	116,827		4,702		121,529		121,529
321	Accrued Wage/Taxes Payable	21,154		19,661		40,815		40,815
331	Accounts Payable - HUD PHA				461,304	461,304		461,304
333	Accounts Payable - Other Government	121,130				121,130		121,130
341	Tenant Security Deposits	42,501				42,501		42,501
342	Deferred Revenue	10,632				10,632		10,632
347	Inter Program - Due To			426,269		426,269	89,713	515,982
310	Total Current Liabilities	312,244	-	450,632	461,304	1,224,180	89,713	1,313,893
353	Non-current Liabilities - Other			78,758		78,758		78,758
354	Accrued Comp. Abs. - Noncurrent	16,453		19,315		35,768		35,768
	TOTAL Liabilities	328,697	-	548,705	461,304	1,338,706	89,713	1,428,419
508.1	Invested in Capital Assets Net	3,604,002		13,713	157,716	3,775,431		3,775,431
511.1	Restricted Net Assets			831,103		831,103	-	831,103
512.1	Unrestricted Net Assets	584,297	253,257	1,358,041		2,195,595	168,347	2,363,942
513	TOTAL Equity/Net Assets	4,188,299	253,257	2,202,857	157,716	6,802,129	168,347	6,970,476
600	<b>TOTAL LIAB. &amp; EQUITY</b>	<b>\$ 4,516,996</b>	<b>\$ 253,257</b>	<b>\$ 2,751,562</b>	<b>\$ 619,020</b>	<b>\$ 8,140,835</b>	<b>\$ 258,060</b>	<b>\$ 8,398,895</b>

Lake Metropolitan Housing Authority  
Statement of Revenues and Expenses  
For the Year Ended June 30, 2010

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

Line item	Account Description	Project	Section 8	Housing Choice Voucher	Development	Subtotal	State & Local	TOTALS
703	Net Tenant Rental Revenue	\$ 561,542				\$ 561,542	\$ -	\$ 561,542
704	Tenant Revenue - Other	22,008				22,008		22,008
705	Total Tenant Revenue	583,550				583,550		583,550
706	HUD PHA Operating Grants	747,252		9,841,991	15,000	10,604,243		10,604,243
706.1	Capital Grants	165,430			198,853	364,283		364,283
711	Investment Income - Unrestricted	13,695		791		14,486		14,486
714	Fraud Recovery			23,960		23,960		23,960
715	Other Revenue	7,822		54,367		62,189		62,189
720	Investment Income – Restricted			481	-	481		481
700	TOTAL REVENUE	1,517,749	-	9,921,590	213,853	11,653,192	-	11,653,192
911	Admin Salaries	195,056		506,387	11,250	712,693		712,693
912	Audit	3,670		16,252		19,922		19,922
915	Employee Benefits	83,679		219,645	3,750	307,074		307,074
917	Legal Expense	10,401		16,323		26,724		26,724
918	Travel	10,472		50,045		60,517		60,517
919	Other	95,095	1	210,752		305,848		305,848
	Total Operating - Admin.	398,373	1	1,019,404	15,000	1,432,778	-	1,432,778
924	Tenant Services - Other	9,128				9,128		9,128
925	Total Tenant Services	9,128	-	-	-	9,128	-	9,128
931	Water	44,682				44,682		44,682
932	Electricity	133,269		4,919		138,188		138,188
933	Gas	38,046				38,046		38,046
930	Total Utilities	215,997	-	4,919	-	220,916	-	220,916

Lake Metropolitan Housing Authority  
Statement of Revenues and Expenses  
For the Year Ended June 30, 2010

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

Line item	Account Description	Project	Section 8	Housing Choice Voucher	Development	Subtotal	State & Local	TOTALS
941	Ordinary Maint. & Operations - Labor	225,061				225,061		225,061
942	Ordinary Maint. & Operations - Materials & Other	148,389		11,219		159,608		159,608
943	Ordinary Maint. & Operations - Contracts	58,244		10,778		69,022		69,022
945	Employee Benefits Contributions - Ordinary Maint.	96,552				96,552		96,552
940	Total Maintenance	528,246	-	21,997	-	550,243	-	550,243
952	Protective Services - Other Contract Costs	23,120		1,699		24,819		24,819
950	Total Protective Services	23,120	-	1,699	-	24,819	-	24,819
961.1	Property Insurance	41,941				41,941		41,941
961.2	Insurance - Liab. Insurance			11,559		11,559		11,559
961	Total Insurance	41,941	-	11,559	-	53,500	-	53,500
962	Other General Expenses	338		6,760		7,098		7,098
962.1	Compensated Absences	861				861		861
963	Payments in Lieu of Taxes	36,033				36,033		36,033
964	Bad Debt - Tenant Rents	36,643	-	-	-	36,643		36,643
960	Total Other General Expenses	73,875	-	6,760	-	80,635	-	80,635
	TOTAL OPERATING EXPENSES	1,290,680	1	1,066,338	15,000	2,372,019	-	2,372,019
970	Excess Operating Revenue over Expenses	227,069	(1)	8,855,252	198,853	9,281,173	-	9,281,173
971	Extraordinary Maintenance	122,853				122,853		122,853
973	Housing Assistance Payments			9,090,223		9,090,223		9,090,223
974	Depreciation Expense	429,120		1,443	-	430,563		430,563
900	TOTAL EXPENSES	1,842,653	1	10,158,004	15,000	12,015,658	-	12,015,658
1000	Excess (Deficiency) of Total Revenue Over (Under) Total Expenses	(324,904)	(1)	(236,414)	198,853	(362,466)	-	(362,466)
11030	Beginning Equity	4,244,692	335,240	2,267,576	157,716	7,005,224	258,060	7,263,284
11040	Prior Period Adjustments, Equity Transfers and Correction of Errors	268,511	(81,982)	171,695	(198,853)	159,371	(89,713)	69,658
	Ending Equity	\$ 4,188,299	\$ 253,257	\$ 2,202,857	\$ 157,716	\$ 6,802,129	\$ 168,347	\$ 6,970,476

Lake Metropolitan Housing Authority  
Statement of Revenues and Expenses  
For the Year Ended June 30, 2010

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

<b>Line item</b>	<b>Account Description</b>	<b>Project</b>	<b>Housing Choice Voucher</b>
11170	Administrative Fee Equity		\$ 1,371,754
11180	Housing Assistance Payments Equity		\$ 831,103
11190	Unit Months Available	2892	17,484
11210	Number of Unit Months Leased	2794	16,776
11270	Excess Cash	\$ 467,715	

Lake Metropolitan Housing Authority		
Schedule of Expenditures of Federal Awards		
For the Fiscal Year Ended June 30, 2010		
<b>Federal Grantor</b>	Federal	
Pass Through Grantor/	CFDA	
Program Title	Number	Expenditures
<b>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</b>		
Direct Program		
Public Housing Capital Fund Program	14.872	\$ 288,283
Low Rent Public Housing	14.850	624,399
Housing Choice Vouchers	14.871	9,841,991
Formula Capital Fund Stimulus Grant	14.885 ARRA	213,853
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>		<b>\$ 10,968,526</b>
The accompanying notes to this schedule are an integral part of this schedule.		



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

Board of Trustees  
Lake Metropolitan Housing Authority  
Painesville, Ohio

I have audited the financial statements of Lake Metropolitan Housing Authority, (the Authority) as of and for the year ended June 30, 2010, and have issued my report thereon dated December 28, 2010. I qualified my report on the business-type activities because management has not fully resolved a finding over the capital assets that have been repeated for several audits. The Authority did not maintain an adequate detailed capital asset listing to ascertain that the capital assets listed on the financial statements are fairly stated and exist. In addition, cash and cash equivalents were not reconciled to the financial statements, resulting in the overstatement of cash and cash equivalents in the amount of \$82,309. Accounting principles generally accepted in the United State of America requires that accounting records be maintain to properly support the amounts listed on the financial statements. 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 the Authority's internal control over financial reporting as a basis for designing my auditing procedures for the for the purpose of expressing my opinion on effectiveness of the Authority's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

My consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, I identified certain deficiencies in internal control over financial reporting that I consider to be material weaknesses and other deficiencies that I consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. I consider the deficiencies described in the accompanying Schedule of Findings to be material weaknesses. 2010-1, 2010-2, 2010-3, 2010-5 and 2010-6.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. I consider the deficiencies described in the accompany Schedule of Findings to be significant deficiencies. 2010-4.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Authority's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards which are described in the accompanying Schedule of Findings as items 2010-7.

I noted certain matters that I reported to management of the Authority's in a separate letter dated December 28, 2010.

The Authority's response to the finding identified in my audit is described in the accompanying Schedule of Findings. I did not audit the Authority's response and, accordingly, I express no opinion on it.

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

Kevin L. Penn, Inc.

December 28, 2010



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

Board of Trustees  
Lake Metropolitan Housing Authority  
Painesville, Ohio

Compliance

I have audited the compliance of Lake Metropolitan Housing Authority (the 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, 2010. The Authority's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Authority's management. My responsibility is to express an opinion on the Authority's compliance based on my audit.

I conducted my 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 of America 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 Lake 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 of Lake Metropolitan Housing Authority's compliance with those requirements.

As described in item 2010-7 in the accompanying Schedule of Findings, Lake Metropolitan Housing Authority did not comply with requirements regarding eligibility that are applicable to its Housing Choice Voucher Program. Compliance with such requirements is necessary, in my opinion, for Lake Metropolitan Housing Authority to comply with the requirements applicable to that program.



In my opinion, except for the noncompliance described in the preceding paragraph, Lake Metropolitan Housing Authority, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs identified in the accompanying Schedule of Findings for the year ended June 30, 2010.

#### Internal Control Over Compliance

The management of Lake Metropolitan Housing Authority is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing my audit, I considered Lake Metropolitan Housing Authority's internal control over compliance with the 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of Lake Metropolitan Housing Authority's internal control over compliance.

My consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses in internal control over compliance and therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified. However, as discussed below, I identified certain deficiencies in internal control over compliance that I consider to be material weaknesses.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. I consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings as item 2010-7 to be a material weaknesses.

The Authority's response to the finding identified in my audit is described in the accompanying Schedule of Findings. I did not audit the Authority's response and, accordingly, I express no opinion on it.

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

Kevin L. Penn, Inc.

December 28, 2010

**Lake Metropolitan Housing Authority**  
 Schedule of Findings  
 June 30, 2010

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Qualified

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

Noncompliance material to financial statements noted? No

Federal Awards

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

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

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

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

Dollar threshold used to distinguish  
 between Type A and Type B programs: \$329,056 (Type A)

Auditee qualified as low-risk auditee? No

**Lake Metropolitan Housing Authority**  
Schedule of Findings  
June 30, 2010

Section II - Financial Statement Findings

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

2010-1

**Preparation of Financial Statements**

Condition:

The year-end financial statements that management prepared and presented for the audit contained a number of errors and inconsistencies, resulting in several adjusting journal entries.

Criteria:

The internal controls established by management, pertaining to the year-end financial statements should operate in a manner which should prevent or detect errors and inconsistencies.

Effect:

The financial statements provided contained errors and inconsistencies.

Cause:

Turnover in Finance Manager, during the 2010 fiscal year.

Recommendation:

I recommend that management should assess the adequacy of the design of its policies and procedures related to preparation of financial statements and the design appropriate controls as necessary to rectify inadequacies. Furthermore, management should consider where errors or fraud could occur that would cause a material misstatement in the financial statements and which policies or procedures would prevent or detect the error or fraud on a timely basis.

Planned Corrective Action:

The following are the changes that have already taken place regarding financial statement preparation and presentation:

1. Each account has been scrutinized for reporting purposes, and prior transaction data has been reviewed for accuracy. Adjusting entries were made to correct identifiable errors.
2. Numerous accounts that were being used for the same component have been merged, and the unnecessary accounts have been cleared. Most contra accounts and all clearing accounts have been eliminated. Some of the contra accounts remain necessary due to system restrictions, however.

**Lake Metropolitan Housing Authority**  
Schedule of Findings  
June 30, 2010

Section II - Financial Statement Findings

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

2010-1

**Preparation of Financial Statements** (continued)

Planned Corrective Action:

3. Certain components of the financial reporting process were being recorded as a separate program, and then merged to create financial statements. This also led to high inter-company entries. Many of those components have been merged, and identified appropriately.
4. There are now a standard set of monthly financial entries (i.e. payroll, prepaid, specific bank account entries) which are clearly identified, including each component part with clear concise descriptions. It's this description that shows up on all general ledger reports.
5. Financial statements are being generated directly from the system. Monthly financial transactions and account balances are reviewed for accuracy and reasonableness. Information is still being transferred to an Excel version for monthly Board reports, until non-operating components can be segregated for internal reporting purposes.
6. The Vendor Accounting setup has been totally updated, and the underlying account distributions have been mapped to the proper general ledger account. Program distribution percentages are being updated as we go, and the basis for the percentage split is being entered as a description right in the system. Many of these still need to be reviewed, however, but that will be done (and appropriate adjustments made) prior to the closing of Fiscal Year 2011.
7. HUD financial report data will come directly from the system generated financial reports, with Excel spreadsheets used only for verification, supporting documentation and analytical procedures.

Anticipated Completion Date:

February 15, 2011

Responsible Contact Person:

Finance Manager

**Lake Metropolitan Housing Authority**  
Schedule of Findings  
June 30, 2010

Section II - Financial Statement Findings

2010-2

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

**Bank Reconciliation**

Condition:

During the testing of cash, it was noted that bank reconciliations were not performed on a monthly basis. Resulting in cash and cash equivalents being overstated by \$82,309.01.

Criteria:

Bank accounts should be reconciled to the general ledger on a monthly basis

Effect:

There is a \$55,411.57 difference between the year end reconciliation and the general ledger for the Rental Assistance program, and a \$26,897.44 difference between the year end reconciliation and the general ledger for the Public Housing program.

Cause:

Turnover in Finance Manager, during the 2010 fiscal year.

Recommendation:

I recommend that all bank accounts be reconciled each month prior to preparation of the monthly financial statements. Performing this procedure will reduce the risk of presenting inaccurate financial statement.

Planned Corrective Action:

After numerous attempts at reconciliation of the two large accounts were largely unsuccessful (the four smaller accounts have been reconciled on a monthly basis), which prompted an all encompassing analysis of the cash transactions in our financial package. As a result, a weakness in the way cash transactions can be processed, and recorded by financial period was revealed. This has been brought to the attention of the software vendor, however, we have implemented a monthly verification system for those transactions in lieu of software modification. Subsequent bank reconciliation have been performed on those accounts successfully.

**Lake Metropolitan Housing Authority**  
Schedule of Findings  
June 30, 2010

Section II - Financial Statement Findings

2010-2

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

**Bank Reconciliation** (continued)

Anticipated Completion Date:

March 31, 2011

Responsible Contact Person:

Finance Manager

2010-3

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

**Physical Inventory**

Condition:

A reconciliation between the physical inventory, the financial statements and accounting records has not been performed as of June 30, 2010. The depreciation schedule is not maintained in adequate detail to identify all assets owned. The failure to maintain an accurate capital asset listing did not enable auditors to obtain sufficient evidential matter regarding the amounts reported for capital assets on the Statement of Net Assets and depreciation expense on the Statements of Activities and the Statement of Revenues, Expenses, and Changes in Fund Net Assets for the Proprietary Funds. In addition, I was not able to satisfy myself that the capital assets as listed on the financial statements are fairly presented by applying other auditing procedures.

This condition has been noted in the prior audit with a recommendation that the Authority perform a physical inventory of all items it owns and reconciles the inventory to the depreciation schedule. This finding is also required to be reported for major federal programs.

Criteria:

A physical inventory should be performed at least every other year, and reconciled to the financial and accounting records.

**Lake Metropolitan Housing Authority**  
Schedule of Findings  
June 30, 2010

Section II - Financial Statement Findings

2010-3

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

**Physical Inventory** (continued)

Effect:

Was unable to determine whether capital assets were fairly presented as of June 30, 2010.

Cause:

Turnover in fiscal staff.

Recommendation:

The Authority needs to perform the reconciliation of the financial statements with the fiscal inventory to ascertain that the capital assets are fairly stated in the financial statements. The physical inventory needs to be performed annual to ascertain that assets are properly safeguarded.

Planned Corrective Action:

Temporary help was brought in during November / December 2010 to help identify, compile and organize data for the purpose of preparing a physical inventory listing. Original HUD grant documentation, old financial reports and original invoices dating back to 2002 have been documented in an amount that supports the financial reporting. All of the data has been organized into three boxes, and a handful of spreadsheets, however, much of the data still needs to be disseminated by year and category. We may bring back the same temporary person to help expedite the completion of the project.

Anticipated Completion Date:

March 31, 2011

Responsible Contact Person:

Finance Manager

**Lake Metropolitan Housing Authority**  
Schedule of Findings  
June 30, 2010

Section II - Financial Statement Findings

2010-4

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

**Accounts Receivable Aging Schedule**

Condition:

A detail aging schedule of accounts receivable was not prepared and reconciled to the general ledger.

Criteria:

A reconciliation of accounts receivable from the general ledger to the aging accounts receivable detail ledger should be prepared to check that the recording of transactions is accurate and proper and that any adjustments to or write-offs of accounts receivable have been approved.

Effect:

There was no detail accounts receivable aging schedule prepared as of June 30, 2010 which agreed to the financial statement.

Cause:

Turnover in Finance Manager, during the 2010 fiscal year.

Recommendation:

The Authority should prepare a detail aging accounts receivable schedule and reconcile to the general ledger on a monthly basis.

Planned Corrective Action:

Agency entered into agreement with a third party collection service provider at the end of Fiscal Year 2010, and an attempt to reconcile at that time revealed discrepancies between two system generated reports. A detailed analysis of the transactional data will be done to identify the source of the discrepancies, and the necessary adjustments will be documented. From that point, monthly reconciliation procedures will be put in place with documentation to support those balances.

Anticipated Completion Date:

March 31, 2011



**Lake Metropolitan Housing Authority**  
Schedule of Findings  
June 30, 2010

Section II - Financial Statement Findings

2010-4

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

**Accounts Receivable Aging Schedule** (continued)

Responsible Contact Person:

Finance Manager

2010-5

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

**Payroll**

Condition:

1. In four (4) out of twenty-six (26) pay periods tested, 100% of the timecards were not properly signed by the employee and their supervisor.
2. In four (4) out of twenty-six (26) pay periods tested, 82% of the timecards did not agree to hours worked on the payroll journal/register.
3. There were four (4) instances whereby the supporting documentation to support approval the pay rate was not maintained in the personnel file.

Criteria:

The following procedures should be performed:

1. Timecards should be signed by the employee and approved by their supervisor.
2. The approved timecard, should be reconciled to the hours worked, reported in the payroll register.
3. The personnel file should contain the approved employee pay rate.

Effect:

Procedures and controls relating to Payroll transactions were inadequate.

Cause:

Oversight by management and staff turnover.

**Lake Metropolitan Housing Authority**  
Schedule of Findings  
June 30, 2010

Section II - Financial Statement Findings

2010-5

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

**Payroll** (continued)

Recommendation:

The Authority should perform the following procedures:

1. Timecards should be signed by the employee and approved by their supervisor.
2. The approved timecard, should be reconciled to the hours worked, reported in the payroll register.
3. The personnel file should contain the approved employee pay rate.

Planned Corrective Action:

The following current payroll procedures have already corrected most of the issues:

1. Time cards are being signed by the employee prior to approval
2. Managers are signing off on the timecards, approving time worked
3. Master hours spreadsheet is being generated from the timecards
4. Spreadsheet hours are reconciled to payroll report, by type, and verified for accuracy prior to processing
5. Finance Manager approves (by sign-off) payroll register before processing, verifying payroll hours submitted equal payroll hours recorded on master hours spreadsheet
6. Supporting documentation for most recent pay increases was documented, verified by Finance Manager, and is present in each employee file.

Anticipated Completion Date:

January 1, 2011

Responsible Contact Person:

Finance Manager

**Lake Metropolitan Housing Authority**  
Schedule of Findings  
June 30, 2010

Section II - Financial Statement Findings

2010-6

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

**Cash Disbursements**

Condition:

During the testing of cash disbursements, there were numerous transactions identified on the credit card statement, relating to travel costs whereby supporting documentation was not provided.

Criteria:

Each credit card transaction should be properly supported, prior to the issuance of the check.

Effect:

The Federal programs were overcharged as follows: \$1,247.45 for the Public Housing Program and \$4,558.67 for the Housing Choice Voucher Program.

Cause:

There were several instances whereby reservations were made for airline tickets and hotel and were not properly cancelled, resulting in the Authority being charged by the airline and the hotel.

Recommendation:

Each credit card transaction should be properly supported, prior to the issuance of the check to the Federal program. By performed this procedure, the risk of potentially overcharging the Federal programs, will be significant reduced.

Planned Corrective Action:

Procedures have been changed to include verification of all supporting documentation prior to the release of payment.

Anticipated Completion Date:

January 15, 2011

Responsible Contact Person:

Finance Manager

**Lake Metropolitan Housing Authority**  
Schedule of Findings  
June 30, 2010

Section III - Federal Award Findings

2010-7

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

**Tenant Files – Housing Choice Voucher Program**

Condition:

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

Move-Ins:

1. In two (2) out of thirty-five (35) files tested, the lease agreement was not signed by the landlord.
2. In one (1) out of thirty-five (35) files tested, the amount indicated on the lease agreement did not agree to the amount on the HAP contract.
3. In five (5) out of thirty-five (35) files tested, landlord fraud letter was not maintained in the file.
4. In two (2) out of thirty-five (35) files tested, the voucher was not maintained in the file.
5. In four (4) out of thirty-five (35) files tested, the expiration date on the voucher was prior to the date on the "Request for Tenancy Approval"
6. In twenty-nine (29) out of thirty-five (35) files tested, the tenancy addendum was not signed.
7. In three (3) out of thirty-five (35) files tested, the tenancy addendum was not maintained in the file.
8. In two (2) out of thirty-five (35) files tested, the tenancy addendum was not signed by the tenant.
9. In one (1) out of thirty-five (35) files tested, the "Request for Tenancy Approval" was not signed by the tenant or the landlord.
10. In three (3) out of thirty-five (35) files tested, the Applicant/Tenant Certificate Form was not maintained in the file.
11. In one (1) out of thirty-five (35) files tested, the supporting documentation for income verification was not maintained in the file.
12. In one (1) out of thirty-five (35) files tested, the Rent Calculation Report/Certificate of Rent Reasonableness, was not maintained in the file.
13. In five (5) out of thirty-five (35) files tested, the personal declaration form was not maintained in the file.
14. In three (3) out of thirty-five (35) files tested, the lead-based disclosure form was not properly completed, prior to be signed by the tenant and the landlord.
15. In three (3) out of thirty-five (35) files tested, a 30-day notice for fail inspection was not maintained in the file.
16. In thirty-five (35) out of thirty-five (35) files tested, the waiting list did not properly indicate the status of the individual who received a voucher.

**Lake Metropolitan Housing Authority**  
Schedule of Findings  
June 30, 2010

Section III - Federal Award Findings

2010-7

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

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

17. In six (6) out of thirty-five (35) files tested, the 50058 Certification Statement was not signed by the tenant.
18. In eleven (11) out of thirty-five (35) files tested, the 50058 Certification Statement was not signed by the tenant or the Housing Authority.
19. In twelve (12) out of thirty-five (35) files tested, the 50058 Certification Statement was not signed by the Housing Authority.
20. In one (1) out of thirty-five (35) files tested, the 50058 Certification Statement was not maintained in the file.
21. In thirty-two (32) out of thirty-five (35) files tested, the rent computation worksheet was not signed by the tenant.
22. In three (3) out of thirty-five (35) files tested, the rent computation worksheet was not maintained in the file.
23. In thirty-five (35) out of thirty-five (35) files tested, the HUD Form 92006, Supplement to Application for Federally Assisted Housing was not maintained in the file.
24. In one (1) out of thirty-five (35) files tested, the zero income questionnaire was not completed within the required sixty days.
25. In one (1) out of thirty-five (35) files tested, the zero income questionnaire was not maintained in the file.
26. In two (2) out of thirty-five (35) files tested, the zero income questionnaire was completed nine months prior to the tenant occupying the unit, without being updated.
27. In one (1) out of thirty-five (35) files tested, the criminal background check, indicated that the individual was not qualified to participant in the Housing Choice Voucher program; however, a voucher was issued to the individual, resulting in \$1,835 of funds received from HUD through June 30, 2010.
28. In one (1) out of thirty-five (35) files tested, the HAP contract indicated the initial housing assistance payment in the amount of \$555; however, the 50058 Certification Statement indicated an amount of \$558.
29. In four (4) out of thirty-five (35) files tested, the voucher expiration date was prior to the date on the Request for Tenancy Approval, resulting in \$15,920 of potential overcharges to the U.S. Department of HUD.
30. In two (2) out of thirty-five (35) files tested, the voucher was not maintained in the file.
31. In one (1) out of thirty-five (35) files tested, the voucher omitted the expiration date.
32. In one (1) out of thirty-five (35) files tested, the voucher reported 2 bedrooms; however, the 50058 indicated 0 bedrooms.
33. In one (1) out of thirty-five (35) files tested, the lease agreement indicated rent of \$763; however, the 50058 contract payment was for \$755.

**Lake Metropolitan Housing Authority**  
Schedule of Findings  
June 30, 2010

Section III - Federal Award Findings

2010-7

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

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

Recertification:

1. In one (1) out of forty (40) files tested, the inspection was not maintained in the file.
2. In forty (40) out of forty (40) files tested, the rent computation worksheet was not signed by the tenant.
3. In one (1) out of forty (40) files tested, income was not properly verified. The 2008 income was used to support the 2009 annual recertification. As a result, the Authority overcharged the tenant by \$112 per month, or \$1,344 for the year.
4. In one (1) out of forty (40) files tested, the 50058 Certification Statement was not signed by the tenant.

Move-outs:

1. In six (6) out of forty-one (41) files selected for testing, the file could not be located.
2. In nine (9) out of thirty-five (35) files tested, a move-out notice was not maintained in the file.
3. In twelve (12) out of thirty-five (35) files tested, there was no letter submitted to the landlord from the Housing Authority, regarding the termination of the HAP contract.
4. In one (1) out of thirty-five (35) files tested, the intent to vacate notice was dated three month prior to the EOP effective date.
5. In twelve (12) out of thirty-five (35) files tested, the 50058/Adjustment Form was not maintained in the file.

Criteria:

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

Effect:

Procedures and controls relating to tenant files processing were inadequate. In addition, there were potential overcharges to the U.S. Department of Housing and Urban Development in the amount of \$17,755 and to one tenant in the amount \$1,344.

Cause:

Oversight by management and staff turnover.

**Lake Metropolitan Housing Authority**  
Schedule of Findings  
June 30, 2010

Section III - Federal Award Findings

2010-7

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

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

Recommendation:

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

Planned Corrective Action:

During this audit period, July 1, 2009 through June 30, 2010, there was considerable turnover in the Cert II position and reorganization in the HCV department which significantly contributed to HUD and Administrative violations. The Housing Choice Voucher department has distributed a detailed Standard Order of Documentation in HCV form for file organization and content. A request has been made to the Auditor to provide a list of the tenant names and the file violations for each, so therefore the stated violations can be corrected immediately. Internal QC measures have increased. An Annual Recertification/New Admission Self-Audit form has been created to provide the ability for self-audit. Internal Quality Control Audit form for SEMAP Indicator #3 (Determination of Adjusted Income) has been revised with more detail and content to assure compliance and will begin being utilized with January 2011 monthly recertification QC. An Annual Recertification Self-Audit form has been created and distributed. A 2 Year Certification Specialist position will be filled in January 2011, solely for the purpose of providing a complete Quality Control of all active HCV files. Once identified, this individual will be responsible for quality control and corrections of all active HCV files.

A new Zero Income Procedure has been approved by the Board in December 2010 and is being utilized by the HCV Caseworkers currently. This procedure was implemented to assure appointments were being made to assure that our zero income tenants were being addressed per our Administrative Plan. Also the upgraded Quality Control process will assure that this process is completely followed internally. Along with the 2 Year Cert Specialist, the complete file audit will assure compliance in this area.

The HCV Department is not the property owner and therefore would not be able assure that the lead-based disclosure form was accurately completed. This form is given to be utilized between the landlord and tenant and returned to LMHA to be placed in the file for documentation purposes. The Rent Computation Worksheet is included as part of the 50058 in PHA-Web, this form in not technically part of the HUD 50058 form.

**Lake Metropolitan Housing Authority**  
Schedule of Findings  
June 30, 2010

Section III - Federal Award Findings

2010-7

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

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

Planned Corrective Action:

However, we have implemented a process at the end of November 2010 which would affect all transactions with effective dates beginning January 1, 2011 obtaining signature and providing tenant with a copy of Rent Computation Worksheet. When verified with PHA-Web, the Rent Computation Worksheet may be removed from processing based upon HUD compliance standards. Along with the 2 Year Cert Specialist, the complete file audit will assure compliance in this area.

There was turnover (2 people) in the position of Cert II during the specified audit period. The current Cert II is well trained and understands the positions' responsibilities clearly and understand procedures. Quality Control measures have been fully extended to this area and will assure that new admissions to the HCV program will be firmly audited.

Based upon the new Quality Control measures, will assure these items are identified and corrected the Rent Computation Worksheet is included as part of the 50058 in PHA-Web, this form is not technically part of the HUD 50058 form. However, we have implemented a process at the end of November 2010 which would affect all transactions with effective dates beginning January 1, 2011 obtaining signature and providing tenant with a copy of Rent Computation Worksheet. When verified with PHA-Web, the Rent Computation Worksheet may be removed from processing based upon HUD compliance standards.

We have resumed sending out notices to the landlord and tenant regarding the HAP contract ending when a notice to vacate has been received by Cert II. However, we have no control of how fast the tenant searches for new units to move in to. Monthly quality control will measure this area along with the complete file audit of HCV files.

Anticipated Completion Date:

February 1, 2011

Responsible Contact Person:

Housing Choice Voucher Manager



**Lake Metropolitan Housing Authority**  
 Summary Schedule of Prior Audit Findings and Questioned Costs  
 Year Ended June 30, 2010

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2009-LMHA-1	The Authority does not maintain an adequate detailed capital asset listing.	No	This finding will be repeated in the 2010 audit.
2009-LMHA-2	Accounting records were not current and up to date through the end of the fiscal year and it was discovered that one bank account had not been reconciled for several months and related transactions for those months had not been recorded in the accounting records.	No	Partially corrected, the bank reconciliation issue is still applicable.
LMHA-FED-2009-1  <b>Housing Choice Voucher Program (CFDA # 14.871)</b>	<p>The Authority was under investigation by the Inspector General Office (IG). There were two phases of the investigation:</p> <p>The first phase of the IG audit pertained to a review of the tenant files to determine if the Authority properly administered the Housing Choice Voucher Program (HCV) housing assistance payment calculation in accordance with HUD regulations.</p> <p>The second phase of the IG audit was to determine whether the Authority administer its program in accordance with HUD requirement and its administrative plan regarding the enforcement of housing quality standards.</p>	No	The Authority has repaid \$171,695 to HUD. However, there remains compliance issues with the Housing Choice Voucher Program.

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# Dave Yost • Auditor of State

**LAKE METROPOLITAN HOUSING AUTHORITY**

**LAKE COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
MARCH 29, 2011**