Lake Metropolitan Housing Authority

Financial Statements

For the Year Ended June 30, 2008

Mary Taylor, CPA
Auditor of State

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

We have reviewed the *Independent Auditors' Report* of the Lake Metropolitan Housing Authority, Lake County, prepared by Salvatore Consiglio, CPA, Inc., for the audit period July 1, 2007 through June 30, 2008. 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.

Mary Taylor

Mary Taylor, CPA
Auditor of State

April 27, 2009

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LAKE METROPOLITAN HOUSING AUTHORITY
AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2008

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SALVATORE CONSIGLIO, CPA, INC.

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Independent Auditors' Report

Board of Directors
Lake Metropolitan Housing Authority

I have audited the accompanying financial statements of the business-type activities of Lake Metropolitan Housing Authority, Ohio, as of and for the year ended June 30, 2008, 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, Ohio, 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 11 to the financial statements, management did performed a physical inventory of property and equipment but 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. 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.

In my opinion, except for the effect of such adjustments, if any, as might have been determined to be necessary had I been able to examine evidence regarding the capital assets, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Lake Metropolitan Housing Authority, Ohio, as of June 30, 2008, 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.

As discussed in Note 1 to the financial statements, Lake Metropolitan Housing Authority changed its capitalization policy in current fiscal year.

In accordance with *Government Auditing Standards*, I have also issued my report dated March 11, 2009, on my consideration of the Lake Metropolitan Housing Authority, Ohio's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the result of my audit.

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the accounting principles generally accepted in the United State of America. I have applied certain limited procedures, which consisted principally of inquiry of management regarding the methods of measurement and presentation of the supplementary information. However, I did not audit the information and express no opinion thereon.

My Audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the Lake Metropolitan Housing Authority basic financial statements. The accompanying Schedule of Expenditure 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 Government and Non-Profit Organizations* and is not a required part of the 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 presented in all material respect in relation to the basic financial statements taken as a whole.

Salvatore Consiglio

Digitally signed by Salvatore Consiglio
DN: cn=Salvatore Consiglio, o=Salvatore Consiglio, CPA, Inc., ou, email=sconsiglio@aol.com, c=US
Date: 2009.04.20 23:38:28 -04'00'

Salvatore Consiglio, CPA, Inc.

March 11, 2009

LAKE METROPOLITAN HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2008

UNAUDITED

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

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 statement (beginning on page 11).

FINANCIAL HIGHLIGHTS

- The Authority's net assets decreased by $164,024 (or 1.98 %) during 2008. Net Assets were $8,121,625 and $8,285,649 for 2008 and 2007 respectively.
- Revenues decreased by $44,882 (or .41%) during 2008, and were $10,921,851 and $10,966,733 for 2008 and 2007 respectively.
- The total expenses of all Authority programs decreased by $248,279 (or 2.19%). Total expenses were $11,085,875 and $11,334,154 for 2008 and 2007 respectively.

USING THIS ANNUAL REPORT

This Report includes three major sections, the "Management's Discussion and Analysis (MD&A)", "Basic Financial Statements", and "Other Required Supplementary information":

MD&A

~Management's Discussion
and Analysis~

Basic Financial Statement

~Authority Financial Statements ~
~Notes to Financial Statements ~

Other Required Supplementary Information
~Required Supplementary Information ~
(other than the MD&A)

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:

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. 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.

UNAUDITED

AUTHORITY STATEMENTS

Table 1 - Condensed Statement of Net Assets Compared to Prior Year

	2008	2007
Current and Other Assets	$ 4,723,657	$ 4,384,565
Capital Assets	4,249,165	4,826,454
Total Assets	$ 8,972,822	$ 9,211,019
Current Liabilities	$ 713,888	$ 743,225
Long-Term Liabilities	137,309	182,145
Total Liabilities	851,197	925,370
Net Assets:		
Investment in Capital Assets, net of Related Debt	4,249,165	4,826,454
Restricted Net Assets	1,341,635	-
Unrestricted Net Assets	2,530,825	3,459,195
Total Net Assets	8,121,625	8,285,649
Total Liabilities and Net Assets	$ 8,972,822	$ 9,211,019

Major Factors Affecting the Statement of Net Assets

The increase in Lake MHA's current assets of $339,092 or 7.73% from the prior year-end is primarily due to payments of HAP income that exceeded the HAP expenses and also the collection in the current year of receivable from HUD that was reported on last year statements.

The change in Capital Assets in the current period was a decrease of $589,289 or 11.96%, a reflection that depreciation on assets held by Lake MHA exceeded additions to capital assets in the current period.

The overall change in liabilities was a decrease of 8%. This decrease was mainly due to change in compensated leave liability and the payment to HUD to settle up for the cancelation of the contract to administer the Section 8 New Construction Program (Andrew's Place).

Table 2 - Statement of Revenue, Expenses & Changes in Net Assets

	2008	2007
Revenues		
Tenant Revenues	$ 429,495	$ 407,168
Operating Subsidies & Grants	10,182,092	10,268,429
Capital Grants	77,871	62,632
Investment Income	195,902	207,393
Other Revenues	36,491	21,111
Total Revenues	**10,921,851**	**10,966,733**
Expenses		
Administrative	1,561,199	1,179,626
Tenant Services	-	4,670
Utilities	233,964	207,515
Maintenance	354,737	504,976
Protective Services	22,158	20,008
General Expenses	46,494	81,159
Housing Assistance Payaments	8,406,269	8,861,408
Depreciation	461,054	474,792
Total Expenses	**11,085,875**	**11,334,154**
Net Increases (Decreases)	**$ (164,024)**	**$ (367,421)**

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

Revenues decreased by $44,882 (.41%) and expenses decreased by $248,279 (2.19%) as compared to the prior year-end.

The change in revenue is due to the decrease in Operating Revenue earned this year. All other revenue remained stable for the year.

The change in expenses is due to a decrease in housing assistance payment made during the year. This was attributed to turnover in staff in the Housing Choice Voucher Program and current ongoing investigation performed by the Inspector General Office. Also, decrease in expenses was due to the vacancy in the maintenance manager position.

CAPITAL ASSETS

Capital Assets

As of year end, the Authority had $4,249,165 invested in a variety of capital assets as reflected in the following schedule, which represents a net decrease (addition, deductions and depreciation) of $577,289 from the end of last year.

Table 3 - Condensed Statement of Changes in Capital Assets

	2008	2007
Land and Land Rights	$ 850,447	$ 692,731
Building & Improvements	10,407,696	10,407,696
Equipment - Administrative	1,335,619	1,335,619
Equipment - Dwelling	259,914	259,914
Construction in Progress	736,276	1,010,225
Accumulated Depreciation	(9,340,787)	(8,879,731)
Total	$ 4,249,165	$ 4,826,454

The following reconciliation summarizes the change in Capital Assets, which presented in detail on page 24 of the notes.

UNAUDITED

Table 4 - Condensed Statement of Changes in Capital Assets

Beginning Balance, July 1, 2007	$	4,826,454
Current Year Deletions		(194,106)
Depreciation Expenses for the Year		(461,054)
Current Year Additions		77,871
Ending Balance, June 30, 2008	$	4,249,165

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

This report is designed to provide an overview of the Authority's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to Lake Metropolitan Housing Authority, 189 First Street, Painesville, Ohio, 44077. The Lake Metropolitan Housing Authority telephone number is (440) 354-3347.

LAKE METROPOLITAN HOUSING AUTHORITY
Statement of Net Assets
Proprietary Funds
June 30, 2008

ASSETS	
Current assets	
Cash and cash equivalents	$1,766,223
Restricted cash and cash equivalents	1,216,102
Investments	1,078,313
Investments - Restricted	622,937
Receivables, net	5,770
Prepaid expenses and other assets	34,312
Total current assets	**4,723,657**
Noncurrent assets	
Capital assets:	
Land	850,447
Building and equipment	12,003,229
Construction in Progress	736,276
Less accumulated depreciation	(9,340,787)
Total noncurrent assets	***4,249,165***
Total assets	**$8,972,822**
LIABILITIES	
Current liabilities	
Accounts payable	$8,935
Accrued liabilities	67,878
Intergovernmental payables	520,995
Tenant security deposits	37,942
Deferred revenue	78,138
Total current liabilities	***$713,888***

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

LAKE METROPOLITAN HOUSING AUTHORITY
Statement of Net Assets
Proprietary Funds
June 30, 2008

Noncurrent liabilities	
Accrued compensated absences non-current	$2,219
Noncurrent liabilities - other	135,090
Total noncurrent liabilities	***137,309***
Total liabilities	**$851,197**
NET ASSETS	
Invested in capital assets, net of related debt	$4,249,165
Restricted net assets	1,341,635
Unrestricted net assets	2,530,825
Total net assets	**$8,121,625**

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

LAKE METROPOLITAN HOUSING AUTHORITY
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended June 30, 2008

OPERATING REVENUES	
Tenant Revenue	$429,495
Government operating grants	10,182,092
Other revenue	36,491
Total operating revenues	**10,648,078**
OPERATING EXPENSES	
Administrative	1,561,199
Utilities	233,964
Maintenance	354,737
Protective services	22,158
General	46,494
Housing assistance payment	8,406,269
Depreciation	461,054
Total operating expenses	***11,085,875***
Operating income (loss)	**(437,797)**
NONOPERATING REVENUES (EXPENSES)	
Interest and investment revenue	195,902
Total nonoperating revenues (expenses)	***195,902***
Income (loss) before contributions and transfers	(241,895)
Capital grants	77,871
Change in net assets	(164,024)
Total net assets - beginning	8,285,649
Total net assets - ending	**$8,121,625**

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

LAKE METROPOLITAN HOUSING AUTHORITY
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2008

CASH FLOWS FROM OPERATING ACTIVITIES	
Operating grants received	$10,309,568
Tenant revenue received	466,653
Other revenue received	38,124
General and administrative expenses paid	(2,319,770)
Housing assistance payments	(8,406,269)
Net cash provided (used) by operatin gactivities	88,306
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest earned	195,902
Transfer to investment account	(495,315)
Net cash provided (used) by investing activities	(299,413)
CASH FLOWS FROM CAPITAL AND RELATED ACTIVITIES	
Capital grant funds received	77,871
Property and equipment purchased	(77,871)
Net cash provided (used) by capital and related activities	0
Net increase (decrease) in cash	(211,107)
Cash and cash equivalents - Beginning of year	3,193,432
Cash and cash equivalents - End of year	$2,982,325

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

LAKE METROPOLITAN HOUSING AUTHORITY
Statement of Cash Flows (Continued)
Proprietary Funds
For the Year Ended June 30, 2008

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Net Operating Income (Loss)	($437,797)
Adjustment to Reconcile Operating Loss to Net Cash Used by Operating Activities	
- Depreciation	461,054
- (Increases) Decreases in Accounts Receivable	156,516
- (Increases) Decreases in Prepaid Assets	(17,294)
- Increases (Decreases) in Accounts Payable	(40,150)
- Increases (Decreases) in Accrued Expenses Payable	(10,618)
- Increases (Decreases) in Accounts Payable HUD	(24,795)
- Increases (Decreases) in Other Noncurrent Liabilities	1,137
- Increases (Decreases) in Compensated Absence Liabilities	(19,431)
- Increases (Decreases) in Deferred Revenue	16,295
- Increases (Decreases) in Tenant Security Deposits	3,389
Net cash provided by operating activities	$88,306

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Summary of Significant Accounting Policies

The financial statements of the Lake Metropolitan Housing Authority (the Authority) have been prepared in conformity with generally accepted accounting principles (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. The more significant of the Authority's accounting policies are described below.

Reporting Entity

The Lake Metropolitan Housing Authority was created under the Ohio Revised Code, Section 3735.27. The Authority contracts with the United States Department of Housing and Urban Development (HUD) to provide low and moderate income persons with safe and sanitary housing through subsidies provided by HUD. The Authority depends on the subsidies from HUD to operate.

The accompanying basic financial statements comply with the provision of Governmental Accounting Standards Board (GASB) Statement 14, the Financial Reporting Entity, in that the financial statements include all organizations, activities and functions for which the Authority is financially accountable. This report includes all activities considered by management to be part of the Authority by virtue of Section 2100 of the Codification of Governmental Accounting and Financial Reporting Standards.

Section 2100 indicates that the reporting entity consists of a) the primary government, b) organizations for which the primary government is financially accountable, and c) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The definition of the reporting entity is based primarily on the notion of financial accountability. A primary government is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's government body and either it is able to impose

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the primary government. A primary government may also be financially accountable for governmental organizations that are fiscally dependent on it.

A primary government has the ability to impose its will on an organization if it can significantly influence the programs, projects, or activities of, or the level of services performed or provided by, the organization. A financial benefit or burden relationship exists if the primary government a) is entitled to the organization's resources; b) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide financial support to, the organization; or c) is obligated in some manner for the debt of the organization.

Management believes the financial statements included in this report represent all of the funds of the Authority over which the Authority is financially accountable.

Basis of Presentation

The Authority's basic financial statements consist of a statement of net assets, statement of revenue, expenses and changes net assets, and a statement of cash flows.

Fund Accounting

The Authority uses the proprietary fund to report on its financial position and the results of its operations for its programs. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

Funds are classified into three categories: governmental, proprietary and fiduciary. The Authority uses the proprietary category for its programs.

Proprietary Fund Types

Proprietary funds are used to account for the Authority's ongoing activities, which are similar to those found in the private sector. The following is the proprietary fund type:

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Enterprise Fund - This fund is used to account for the operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenue earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Measurement Focus/Basis of Accounting

The proprietary funds are accounted for on the accrual basis of accounting. Revenues are recognized in the period earned and expenses are recognized in the period incurred. Pursuant to GASB Statement No. 20 Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting, the Authority follows GASB guidance as applicable to proprietary funds and FASB Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

Description of programs

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

A. Public Housing Program

The pubic 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.

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.

Investments
The provisions of the HUD Regulations restrict investments. Investments are valued at market value. Interest income earned in fiscal year ending June 30, 2008 totaled $195,902.

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.

In current fiscal year, the Board of Commissioners increased the threshold amount for capitalization from $500 to $5,000 by passing resolution 19-2008.

The estimated useful lives for each major class of depreciable capital assets are as follows:

Buildings & improvements	15-40 years
Furniture, fixtures & equipment	3-10 years
Vehicles	5 years

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 – net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are recorded as restricted when there are limitations imposed on their use by internal or external restrictions.

Operating Revenues and Expenses

Operating revenues and expenses are those revenues that are generated directly from the primary activities of the proprietary fund and expenses incurred for the day to day operation. For the Authority, operating revenues are tenant rent charges, operating subsidy from HUD and other miscellaneous revenue.

Capital Contributions

This represents contributions made available by HUD with respect to all federally aided projects under an annual contribution contract.

Cash and Cash Equivalents

For the purpose of the statement of cash flows, cash and cash equivalents include all highly liquid debt instruments with original maturities of three months or less.

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.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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.

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

Budgetary Accounting

The Authority annually prepares its budget as prescribed by the Department of Housing and Urban Development. This budget is submitted to the Department of Housing and Urban Development and once approved is adopted by the Board of the Housing Authority

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes

No provision for income taxes is recorded as the Authority is a non-profit, tax exempt entity under the Internal Revenue Code.

NOTE 2: CASH AND INVESTMENTS

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

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

Inactive deposits are public deposits 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.

NOTE 2: CASH AND INVESTMENTS (Continued)

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.

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

At fiscal year end June 30, 2008, the carrying amount of the Authority's deposits totaled $4,683,575 and its bank balance was $4,807,573. Based on the criteria described in GASB Statement No. 40, "Deposit and Investment Risk Disclosure," as of June 30, 2008, $4,607,573 was exposed to custodial risk as discussed below, while $200,000 was covered by the Federal Depository Insurance Corporation.

Custodial credit risk is the risk that in the event of bank failure, the Authority will not be able to recover the deposits. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at the Federal Reserve Banks or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the Authority.

Investments

In accordance with the Ohio Revised Code and HUD investment policy, the Authority is permitted to invest in certificates of deposit, savings accounts, money market accounts, certain highly rated commercial paper, obligations of certain political subdivisions of Ohio and the United States government and its agencies, and repurchase agreements with any eligible depository or any eligible dealers. Public depositories must give security for all public funds on deposit. Repurchase agreements must be secured by the specific qualifying securities upon which the repurchase agreements are based.

NOTE 2: CASH AND INVESTMENTS (Continued)

The Authority is prohibited from investing in any financial instruments, contracts, or obligations whose value or return is based upon or linked to another asset or index, or both, separate from the financial instrument, contract, or obligation itself (commonly known as a derivative). The Authority is also prohibited from investing in reverse purchase agreements.

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.

Interest Rate Risk – The Authority does not have a formal investment policy that limits investments as a means of managing its exposure to fair value losses arising from increasing interest rates. However, it is the Authority practice to limit its investments to less then 5 years.

Credit Risk – HUD requires specific collateral on individual accounts in excess of amounts insured by the Federal Deposit Insurance Corporation. The Authority depository agreement specifically requires compliance with HUD requirement.

Concentration of Credit Risk – The Authority places no limit on the amount that may be invested with any one issuer.

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.

A reconciliation of cash and investments as shown on the statement of net assets follows:

	Cash and Cash Equivalent	Investments
Per Statement of Net Assets	$2,982,325	$1,701,250
Certificate of Deposits	1,701,250	(1,701,250)
Total Per GASB Statement No. 3	$4,683,575	$0

NOTE 2: CASH AND INVESTMENTS (Continued)

Restricted Cash and Investments

Restricted cash and investment balance as of June 30, 2008 of $1,839,039 represents the following:

Tenant Security Deposit	$37,942
Cash on hand to be used for Capital Improvements or returned to HUD	459,461
Cash on hand to be used for housing assistance	1,341,636
Total Restricted Cash	$1,839,039

NOTE 3: RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year ending June 30, 2008 the Authority maintains comprehensive insurance coverage with private carriers for health, real property, building contents and vehicles. Vehicle policies include liability coverage for bodily injury and property damage.

Settled claims have not exceeded this coverage in any of the last three years. There has been no significant reduction in coverage from last year.

NOTE 4*:* CAPITAL ASSETS

The following is a summary of changes:

	Balance 06/30/07	Adjust / Additions	Adjust / Deletion	Balance 06/30/08
Capital Assets Not Depreciated:				
Land	$692,731	$157,716	$0	$850,447
Construction in Progress	1,010,225	77,871	(351,820)	736,276
Total Capital Assets Not Being Depreciated	**1,702,956**	**$235,587**	**(351,820)**	**1,586,723**
Capital Assets Being Depreciated:				
Buildings and Building Improv.	10,407,696	0	0	10,407,696
Furnt, Mach. & Equip - Admin	1,595,533	0	0	1,595,533
Total Capital Assets Being Depreciated	**12,003,229**	**0**	**0**	**12,003,229**
Accumulated Depreciated:				
Buildings and Building Improv.	**(7,284,198)**	**(461,054)**	**(2)**	**(7,745,254)**
Furnt, Mach. & Equip - Admin	**(1,595,533)**	**0**	**0**	**(1,595,533)**
Total Accumulated Depreciated	**(8,879,731)**	**(461,054)**	**(2)**	**(9,340,787)**
Total Capital Assets Being Depreciated, Net	**3,123,498**	**(461,054)**	**(2)**	**2,662,442**
Total Capital Assets, Net	**$4,826,454**	**($225,467)**	**($351,822)**	**$4,249,165**

NOTE 5: DEFINED BENEFIT PENSION PLANS -PUBLIC EMPLOYEES RETIREMENT SYSTEM

All full-time employees of Authority participate in the Ohio Public Employees Retirement System (OPERS), a cost-sharing multiple-employer public employee retirement system administered by the Public Employees Retirement Board. OPERS provide basic retirement, disability and survivor benefits, based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 145 of the Ohio Revised Code. OPERS issue a publicly available financial report that includes financial statements and required supplementary information for OPERS. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 466-2085 or (800) 222-PERS.

NOTE 5: <u>DEFINED BENEFIT PENSION PLANS -PUBLIC EMPLOYEES RETIREMENT SYSTEM</u> (Continued)

Ohio Public Employees Retirement System administers three separate pension plans as described below:

1. The Traditional Pension Plan – A cost sharing, multiple-employer defined benefit pension plan.

2. The Member-Direct Plan – A defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the Member-Direct Plan, members accumulate retirement assets equal to the value of member and (vested) employer contributions, plus any investment earnings.

3. The Combined Plan – A cost sharing, multiple-employer defined pension plan. Under the Combined Plan, OPERS invests employer contributions to provide a formula retirement benefits similar in nature to the Traditional Pension Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.

Plan members are required to contribute 10.0 percent of their annual covered salary to fund pension obligations and the employer contribution rate was 14.0 percent. These rates reflect an increase from the 2007 rates of 9.5 percent for members and 13.85 for employers. The contribution rates are determined actuarially. The Authority's contribution for the years ended June 30, 2008, 2007, and 2006 amounted to $112,989, $107,812, and $96,215. These costs have been charged to the employee fringe benefit account. Eighty-eight percent has been contributed for 2008. All required contributions for the two previous years have been paid.

NOTE 6: <u>POST-EMPLOYMENT BENEFITS</u>

The Public Employees Retirement System of Ohio (OPERS) provides post-employment health care benefits to age and service retirants with ten or more years of qualifying Ohio service credit and to primary survivor recipients of such retirants. Health care coverage for disability recipients is also available. The health care coverage provided by the OPERS is considered an Other Post-employment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to the OPERS is set aside for the funding of post

NOTE 6: POST-EMPLOYMENT BENEFITS (Continued)

retirement health care. The Ohio Revised Code provides statutory Authority requiring public employers to fund post-employment health care through their contributions to the OPERS. The portion of the employer contribution rate (identified above) that was used to fund health care for the year ended June 30, 2008 was 6.0 percent of covered payroll from July to December 2007 and 7% percent of covered payroll from January to June 2008, which amounted to $40,574. The significant actuarial assumptions and calculations relating to post-employment health care benefits were based on the OPERS' latest actuarial review performed as of December 31, 2007. An entry age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of unfunded actuarial accrued liability. All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach assets are adjusted annually to reflect 25 percent of unrealized market appreciation or depreciation on investment assets. The investment assumption rate for 2007 was 6.5 percent. An annual increase of 4.0 percent compounded annually is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.0 percent base increase, were assumed to range from 0.50 percent to 6.3 percent. Health care costs were assumed to increase at a project wage inflation rate plus an additional factor ranging from .5% to 4% for the next 7 years. In subsequent years (8 and beyond), health care costs were assumed to increase at 4% (the projected wage inflation rate).

Benefits are advanced-funded on an actuarially determined basis. The number of active contributing participants was 363,503. The actuarial value of the OPERS' net assets available for OPEB at December 31, 2007 was $12.8 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were $29.8 billion and $17.0 billion, respectively.

NOTE 7: NOTE TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES

The accompanying Schedule of Federal Awards expenditures is a summary of the activity of the Authority's federal awards programs. The schedule has been prepared on the accrual basis of accounting.

NOTE 8: TENANT ACCOUNT RECEIVABLES

As of June 30, 2008, tenant account receivable is shown net of an allowance for doubtful accounts of $10,000.

NOTE 9: 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 10: CONTINGENCIES

Litigations and Claims
In the normal course of operations the PHA may be subject to litigation and claims. At June 30, 2008 the PHA was involved in such 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
In the current fiscal year, the Housing Choice Voucher program was reviewed by the by the Inspector General Office (IG). As of the date of this report, the IG has not completed its investigation and is currently ongoing. Therefore as of the date of this report, the outcome of this investigation is not known. Management is completely cooperating with the Inspector General Office and will take what ever effort possible to resolve any findings.

NOTE 11: CAPITAL ASSETS

A physical inventory of the Authority property and equipment owned has not been performed. In addition certain purchases, deletion, and depreciation expense for those assets have not been properly recorded on the financial statements in prior years. The depreciation schedule is not in sufficient detail to properly ascertain assets if assets are still owned or if they have been disposed off.

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
Schedule of Expenditures of Federal Award
For the Year Ended June 30, 2008

FEDERAL GRANTOR / PASS THROUGH GRANTOR PROGRAM TITLES	CFDA NUMBER	EXPENDITURES
U.S. Department of Housing and Urban Development Direct Program		
Low Rent Public Housing	14.850	$593,435
Housing Choice Vouchers	14.871	9,221,695
Public Housing Capital Fund Program	14.872	366,962
Total Expenditure of Federal Award		$10,182,092

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Directors
Lake Metropolitan Housing Authority

I have audited the financial statements of the business-type activities of the Lake Metropolitan Housing Authority, Ohio, as of and for the year ended June 30, 2008, which collectively comprise the Lake Metropolitan Housing Authority basic financial statements and have issued my report thereon dated March 11, 2009, wherein I noted that the Authority changed its capitalization policy during the fiscal year. 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 does not maintain an adequate detailed capital asset listing to ascertain that the capital assets listed on the financial statements are fairly stated and exist. Accounting principles generally accepted in the United State of America requires that accounting records be maintain to properly support the amounts listed on the financial statements. 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.

Internal Control over Financial Reporting

In planning and performing my audit, I considered Lake Metropolitan Housing Authority, Ohio's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but no for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the entity's internal control over financial reporting.

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, I identified certain deficiencies in internal control over financial reporting that I consider significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the authority's financial statements that is more than inconsequential will not be prevented or detected by the authority's internal control.

I consider the following deficiencies described in the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting: 2008-LMHA-1 through 2008-LMHA-3.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the authority' internal control.

My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, of the significant deficiencies described above, I consider 2008-LMHA-1 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lake Metropolitan Housing Authority financial statements are free of material misstatement, I performed tests of its compliance with certain provision of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statements 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 result of my tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

I noted certain matters that I have reported to management of Lake Metropolitan Housing Authority in a separate letter dated March 11, 2009.

Lake Metropolitan Housing Authority responses to the findings identified in my audit are described in the accompanying schedule of findings and responses. I did not audit Lake Metropolitan Housing Authority response and, accordingly, I express no opinion on it.

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

Salvatore Consiglio

Digitally signed by Salvatore Consiglio
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Salvatore Consiglio, CPA, Inc.

March 11, 2009

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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 Directors
Lake Metropolitan Housing Authority

Compliance

I have audited the compliance of the Lake Metropolitan Housing Authority, Ohio, 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, 2008. Lake Metropolitan Housing Authority, Ohio major federal programs are identified in the summary of auditor's result section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Lake Metropolitan Housing Authority, Ohio's management. My responsibility is to express an opinion on Lake Metropolitan Housing Authority, Ohio'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; 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 the Lake Metropolitan Housing Authority, Ohio's compliance with those requirements and performing such other procedures, as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination on Lake Metropolitan Housing Authority, Ohio's compliance with those requirements.

As described in item LMHA-FED-2008-1 in the accompanying schedule of findings and questioned costs, Lake Metropolitan Housing Authority, Ohio did not comply with requirements regarding eligibility that are applicable to its Low Rent Public Housing and the Housing Choice Voucher Program. Compliance with such requirements is necessary, in my opinion, for Lake Metropolitan Housing Authority, Ohio to comply with the requirements applicable to those programs.

In my opinion, except for the noncompliance described in the preceding paragraph, Lake Metropolitan Housing Authority, Ohio, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

The management of Lake Metropolitan Housing Authority, Ohio is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing my audit, I considered Lake Metropolitan Housing Authority, Ohio's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance, 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 the entity's internal control over compliance.

My consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the Authority's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, I identified certain deficiencies in internal control over compliance that I consider to be significant deficiencies.

A control deficiency in internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Authority's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the Authority's internal control. I consider the deficiency in internal controls over compliance described in the accompanying schedule of findings and questioned costs as finding LMHA-FED-2008-2 to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the Authority's internal control. I did not consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness.

Lake Metropolitan Housing Authority response to the finding identified in my audit is described in the accompanying schedule of findings and questioned costs. I did not audit Lake Metropolitan Housing Authority response and, accordingly, I express no opinion on it.

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

Salvatore Consiglio

Digitally signed by Salvatore Consiglio
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Date: 2009.04.20 23:37:21 -04'00'

Salvatore Consiglio, CPA, Inc.
March 11, 2009

Lake Metropolitan Housing Authority
Schedule of Findings and Questioned Costs
OMB Circular A-133 § .505
June 30, 2008

1. SUMMARY OF AUDITOR'S RESULTS

Type of Financial Statement Opinion	Qualified
Were there any significant deficiency reported as material weakness at the financial statement level (GAGAS)?	Yes
Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?	Yes
Were there any reported material non-compliance at the financial statement level (GAGAS)?	No
Were there any significant deficiency reported for any major federal programs as material weakness?	No
Were there any other significant deficiency reported for the major federal programs?	Yes
Type of Major Programs' Compliance Opinion	Qualified
Are there any reportable findings under § .510?	Yes
Major Programs (list):	CFDA # 14.850, 14.871 and 14.872 - Low Rent Public Housing, Housing Choice Voucher Program, and Capital Fund Program
Dollar Threshold: Type A/B Programs	Type A: > $305,463 Type B: All Others
Low Risk Auditee?	No

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

FINDING NUMBER	2008-LMHA -1

Material Significant Deficiency - Capital Assets

In the current audit period, the PHA conducted the physical inventory of all assets; however, the reconciliation between the physical inventory, the financial statements and accounting records was not performed. The depreciation schedule was not maintained in adequate detailed 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 prior audit with a recommendation that the Authority performs 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 program.

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.

Corrective Action Plan:

This finding has not been fully corrected due to operation manager turnover. A new tracking system for the assets has been put in place and a physical inventory was completed and recorded electronically. This system is now updated on a timely basis and the Authority is confident in its accuracy. A new depreciation schedule will be completed by December 31, 2009.

Contact Person: Finance Manager
Resolution Date: December 31, 2009

FINDING NUMBER	2008-LMHA -2

Significant Deficiency – Financial Statements

Sound financial reporting is the responsibility of management and is essential to ensure the information provided to the readers of the financial statements is complete, accurate and ready for the annual audit.

The result of audit procedures required several adjustments to the financial statements.

Recommendation:
To ensure the housing authority financial statements and notes to the statements are complete and accurate, the PHA should adopt policies and procedures, including a final review.

Corrective Action Plan:
This past year was a very difficult year for the Authority with turnover in several key positions, including the Executive Director, and with the time involved with the ongoing IG investigation. The Finance Manager assistance was utilized in other departments. In addition, this was the first year the fiscal year end GAAP conversion was performed in-house without the assistance of a fee accountant. Also, this year REAC revamped its financial reporting system to reflect changes for asset management. This delayed in having the reporting format (excel tool) available until January 2009. All of this caused the finance department to fall behind with the financial statement preparation for the audit. This situation should not exist in the upcoming fiscal year now that those positions have been filled and have gone through this difficult year.

Contact Person: Finance Manager
Resolution Date: June 30, 2009

FINDING NUMBER	2008-LMHA-3

Significant Deficiency – Restricted Cash

The PHA financial statements properly presented the proceeds from the sale of land that was acquired with HUD Development Grant Funds as restricted cash. As of June 30, 2008, the PHA is carrying $459,461 of restricted funds on its financial statements. There has been no plan on how to use this money nor as it been returned to HUD. This finding is repeated from prior year audit.

Recommendation:
The PHA must return the money to HUD or prepare a plan and submitted to HUD on how it will use. The funds must not be spending without prior approval from HUD.

Corrective Action Plan: The Authority is in agreement with the Auditor and will present a plan to HUD on how it's planning on using the funds.

Contact Person: Executive Director and Finance Manager
Resolution Date: December 31, 2009

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

FINDING NUMBER	LMHA-FED-2008-1

Compliance Finding – Eligibility (Supporting Documentation)

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

24 CFR 982.158 requires that the PHA maintain complete and accurate accounts and other records for the program in accordance with HUD requirements, in a manner that permits a speedy and effective audit.

Audit procedures over 90 HCV and 49 PH tenant files revealed the following errors:

- Low Rent Public Housing Program
  - 4 files did not properly have signed form HUD-9886 for all adults living in the units.
  - 7 files revealed errors the use of EIV System was not documented.

- Housing Choice Voucher Program
  - 1 file did not document that the annual recertification were performed timely.
  - 29 files revealed errors in income verification or use of EIV System. The errors on the assistance amount were calculated and adjustment was made in current fiscal year to use administration funds to correct the errors. Regarding the EIV errors noted, the PHA files contained the current year EIV documentation and destroyed the documentation for the period under audit. Therefore, I could not ascertain that the EIV system was properly used for the period under audit.
  - 1 file did not properly document a signed form HUD-9886 for all adult family members.
  - 3 files did not properly document rent reasonableness.
  - 1 file could not be located. The tenant ended participation on November 30, 2007. Total assistance provided during the audit period was $1,765. This amount is listed as questioned cost.

Recommendation:
The PHA must assure that a proper system is in place to review tenant files and that the files include all required documentation. For the files with error noted, the PHA must calculate the effect on the rent or housing assistance amount and if necessary refund payment to the tenants.

Corrective Action Plan:
PH and HCV department has increased review control processes and is working to ensure employees are trained to gather all necessary information, and that monthly audits of files are done.

Contact Person: Section 8 Manager and PH Manager
Resolution Date: June 30, 2009

Federal Questioned Costs:
Housing Choice Voucher Program $1,765

FINDING NUMBER	LMHA-FED-2008-2

Compliance Finding – Reporting (SEMAP)

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

24CFR 985.1 identifies the requirement for the Section 8 Management Assessment Program (SEMAP). SEMAP is designed for HUD to assess the PHA performance in administering the section 8 tenant base assistance programs properly and effectively. This assessment is measured based on the following indicators:

- Selection from the waiting list
- Rent Reasonableness
- Determination of adjusted income
- Utility Allowance Schedule
- HQS quality control inspections
- HQS Enforcement
- Expanding housing opportunity
- Payment standard
- Annual reexaminations
- Correct tenant rent calculations
- Pre-contract HQS Inspections
- Annual HQS Inspections
- Lease-up
- FSS Enrolment and Escrow Accounts

Section 982.158 states: "The PHA must maintain complete and accurate accounts and other records for the program in accordance with HUD requirements, in a manner that permits speedy and effective audits. The records must be in the form required by HUD."

The PHA hired a new Executive Director during the audit period and the new management team was proactive in addressing areas of concerns. One of the first action taking was to hire an outside consultant to perform a review of its SEMAP system to assess the actual condition of its HCV Program. Prior to this action, the Agency conducted the review in house.

The Consultant performed its review during the month of March 2008 and issued a report stating the following in May of 2008:

> "Currently LMHA management does not fully utilize the SEMAP performance analysis to assess organizational effectiveness. Management does not complete monthly audits of all SEMAP indicators. As such, management does not have and/or utilize the necessary reports in order to accommodate defendable year end reporting."

Audit procedures confirmed the errors noted by consultant. Since that report was issued the PHA contracted with the consultant to perform quarterly SEMAP Audits.

Recommendation:
The PHA has taking appropriate steps in resolving this finding by hiring the consultant in performing quarterly audits of the SEMAP system. I recommend that the consultant recommendation be implemented.

Corrective Action Plan:
The housing authority has contracted with the consultant to perform quarterly SEMAP reviews and will take appropriate action to implementing recommendation.

Contact Person: Section 8 Manager
Resolution Date: June 30, 2009

Lake Metropolitan Housing Authority
Schedule of Prior Audit Findings
June 30, 2008

The following are the status of the June 30, 2007 audit findings.

Finding Number	Finding Summary	Fully Corrected?	Not Corrected; Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; **Explain**:
2007-LMHA -1	The Authority does not maintain an adequate detailed capital asset listing	No	Not Corrected – Finding repeated in current audit report. The Agency has stated that a new tracking system has been put in place. The new subsidiary ledger will be place by December 31, 2009.
2007-LMHA -2	Written allocation plan	Yes	Corrected – A time study is done every quarter and the labor distribution is based on the result of the time study.
2007-LMHA-3	System of controls over purchases	Yes	Corrected – A PO system was put in place and enforced.
2007-LMAH-4	Receivable from HUD carried forward from several years	Yes	Corrected – The uncollectible balance was written off.
2007-LMHA-5	Revenue from Washer and Dryer Fund	Yes	Corrected – Activities from the washer and dryer fund were properly recorded.
2007-LMHA-6	Cash on Hand from sale of land	No	Not Corrected – The cash proceeds from the sale of the vacant lots acquired with Development Funds remain on the PHA financial statements. The Agency has stated that the Executive Director with submit a plan to HUD on how the funds will be used.
LMHA-FED-2007-1	Eligibility – supporting documentation	No	Not Corrected – Finding repeated in current audit report. Result of audit procedures over tenant files revealed several errors.
LMHA-FED-2007-2	Cash Management	Yes	Corrected – Current year draws was properly disbursed timely.

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
MAY 7, 2009