# PORTAGE METROPOLITAN HOUSING AUTHORITY

## AUDIT REPORT

## FOR THE YEAR ENDED DECEMBER 31, 2008

Mary Taylor, CPA
Auditor of State

Board of Directors
Portage Metropolitan Housing Authority
2832 St. Rt. 59
Ravenna, Ohio 44266

We have reviewed the *Independent Auditor's Report* of the Portage Metropolitan Housing Authority, Portage County, prepared by James G. Zupka, CPA, Inc., for the audit period January 1, 2008 through December 31, 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 Portage Metropolitan Housing Authority is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

August 18, 2009

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**PORTAGE METROPOLITAN HOUSING AUTHORITY**
**AUDIT REPORT**
**FOR THE YEAR ENDED DECEMBER 31, 2008**

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**JAMES G. ZUPKA, C.P.A., INC.**
***Certified Public Accountants***
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***Garfield Hts., Ohio 44125***

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## INDEPENDENT AUDITOR'S REPORT

Board of Directors
Portage Metropolitan Housing Authority
Ravenna, Ohio

Regional Inspector General for Audit
U.S. Department of Housing and
Urban Development

We have audited the accompanying financial statements of the Portage Metropolitan Housing Authority, Ohio as of and for the year ended December 31, 2008, as listed in the table of contents. These financial statements are the responsibility of the Portage Metropolitan Housing Authority, Ohio's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Portage Metropolitan Housing Authority, as of December 31, 2008, and the respective changes in net assets, and cash flows, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated June 24, 2009, on our consideration of the Portage Metropolitan Housing Authority, Ohio's internal control over financial reporting and on our 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 our 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 considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 7 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Portage Metropolitan Housing Authority, Ohio's basic financial statements. 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 Government and Non-Profit Organizations* and is also not a required part of the basic financial statements of the Portage Metropolitan Housing Authority, Ohio. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

The Authority has not presented the Financial Data Schedules (FDS) required by the Department of Housing and Urban Development for additional analysis, although not required to be part of the basic financial statements. The FDS are not available due to revisions in the reporting system that the Department is now undertaking.

James G. Zupka

James G. Zupka, CPA, Inc.
Certified Public Accountants

June 24, 2009

This Management's Discussion and Analysis (MD&A) for the Portage Metropolitan Housing Authority (the Authority) is intended to assist the reader identify what management feels are significant financial issues, provide an overview of the financial activity for the year, and identify changes in the Authority's financial position. It is designed to focus on the financial activity for the fiscal year ended December 31, 2008, resulting changes, and currently known facts. Please read it in conjunction with the financial statements found elsewhere in this report.

**Overview in the Financial Statements**

The basic financial statements included elsewhere in this report are the Statement of Net Assets, the Statement of Revenues, Expenses, and Changes in Net Assets, and the Statement of Cash Flows.

The Statement of Net Assets is very similar to what most people would think of as a balance sheet. In the first half it reports the value of assets the Authority holds at December 31, 2008; that is, the cash the Authority has, the amounts that are owed the Authority from others, and the value of the equipment the Authority owns. The other half reports the Authority's liabilities; that is, what the Authority owes others at December 31, 2008, and what net assets (equity) the Authority has at December 31, 2008. The two parts of the report are in balance and is why many might refer to this type of report as a balance sheet, in that the total of the assets part equals the total of the liabilities plus net assets (or equity) part. In the statement, the Net Assets are broken out into three broad categories:

Net Assets, Invested in Capital Assets, Net of Related Debt
Restricted Net Assets
Unrestricted Net Assets

The balance in Net Assets, Invested in Capital Assets, Net of Related Debt, reflects the value of capital assets (assets such as land, buildings, and equipment) reported in the top part of the statement reduced by the amount of accumulated depreciation of those assets and by the outstanding amount of debt yet owed on those assets.

The balance in Restricted Net Assets reflects the value of assets reported in the top part of the statement that are restricted for use by law or regulation, or when the use of those assets is restricted by constraints placed on the assets by creditors or grantors.

The balance in Unrestricted Net Assets is the remainder of net assets after what is classified in the two previously mentioned components of Net Assets. It reflects the value of assets available to the Authority for its use in furthering its purposes.

The Statement of Revenues, Expenses, and Changes in Fund Balance is very similar to, and may commonly be referred to, an income statement. It is a report showing what the Authority earned, that is what its revenues or incomes were, versus what expenses the Authority had over the same period. It also shows how the fund balance (or net assets or equity) changed because of how the income exceeded or were less than the expenses. It helps the reader to determine if the Authority had more in revenues than in expenses, or vice-versa, and then how that net gain or net loss affected the fund balance (or net assets or equity). The ending total net assets is what is referred to in the above discussion of the Statement of Net Assets that, when added to the liabilities the Authority has, equals the total assets of the Authority.

The Statement of Cash Flows shows how the amount of cash the Authority had at the end of the previous year was impacted by the activities of the current year. It breaks out in general categories the cash coming in and going out. It helps the reader to understand the sources and uses of cash by the Authority during the year, to include a measurement of cash gained or used by operating activities, by activities related to acquiring capital assets and by activities related to investing activities.

**The Authority's Business-Type Fund**

The financial statements included elsewhere in this report are presented using the Authority-wide perspective, meaning the activity reported reflects the summed results of all the programs, of the Authority. The Authority consists exclusively of an enterprise fund. The full accrual basis of accounting is used for the Authority's enterprise fund. The accrual method of accounting is very similar to accounting used in the private sector.

The Authority's business-type fund includes the following programs:

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

Section 8 Housing Choice Voucher Program - Under the Housing Choice Program, the Authority administers contracts with independent landlords that own the property. The Authority subsidizes the participant's rent through a Housing Assistance Payment made to the landlord. The program is administered under an Annual Contributions Contract (ACC) with HUD. HUD provides Annual Contribution Funding to enable the Authority to structure a lease that sets the participants' rent at 30 percent of household income.

Shelter Plus Care Program - This program links rental assistance to supportive services for hard-to-reach homeless persons with disabilities, primarily those who are seriously mentally ill, have chronic substance abuse problems, or have AIDS and related diseases.

Moving to Work Program - This program is a demonstration program that allows participating housing authorities to design and test ways to promote self-sufficiency among assisted households, reduce costs through improved efficiency, and increase housing choice for low-income families. The program provides no additional funding to the Housing Authority.

Other Non-major Programs - In addition to the major programs described above, the Authority also maintains the following non-major programs. Non-major programs are defined as programs that have assets, liabilities, and revenues or expenses of less than 6 percent of the Authority's total assets, liabilities, revenues or expenses.

Resident Opportunities and Self-Sufficiency (ROSS) - This grant program is funded by HUD to assist residents in the process of moving from welfare to work.

Business Activities - This program represents non-HUD resources developed from a variety of activities.

## Condensed Financial Statements

The following represents a condensed Statement of Net Assets compared to prior year. The Authority is engaged only in business type activities.

**Table 1 - Condensed Statement of Net Assets Compared to Prior Year**
**(Values rounded to nearest Thousand)**

| | 2008 | 2007 |
|---|---|---|
| **Assets** | | |
| Current and Other Assets | $ 4,933,000 | $ 4,385,000 |
| Capital Assets | 8,176,000 | 8,546,000 |
| **Total Assets** | $13,109,000 | $ 12,931,000 |
| | | |
| **Liabilities** | | |
| Current Liabilities | $ 536,000 | $ 439,000 |
| Long-Term Liabilities | 313,000 | 356,000 |
| **Total Liabilities** | 849,000 | 795,000 |
| | | |
| **Net Assets** | | |
| Investment in Capital Assets, Net of Related Debt | 7,981,000 | 8,309,000 |
| Restricted Net Assets | 2,118,000 | 1,610,000 |
| Unrestricted Net Assets | 2,161,000 | 2,217,000 |
| **Total Net Assets** | 12,260,000 | 12,136,000 |
| **Total Liabilities and Net Assets** | $13,109,000 | $ 12,931,000 |

For more detailed information, see the Statement of Net Assets presented on page 8 of this report.

## Major Factors Affecting the Statement of Net Assets

The total net assets increased $124,000 from year end 2007 to year end 2008. This increase was primarily attributable to the increase in current assets. During 2008, current and other assets increased by $548,000, while current liabilities increased by $97,000. Capital assets decreased by $370,000, while long-term liabilities decreased by $43,000. This resulted in a 1.0 percent increase in net assets.

The following is a condensed Statement of Revenues, Expenses, and Changes in Fund Net Assets. The Authority is engaged only in business type activities.

**Table 2 - Statement of Revenues, Expenses, and Changes in Fund Net Assets**
**(Values rounded to nearest Thousand)**

| | 2008 | 2007 |
|---|---|---|
| **Revenues** | | |
| Tenant Revenues - Rents and Other | $ 656,000 | $ 694,000 |
| Operating Subsidies and Grants | 12,476,000 | 13,146,000 |
| Capital Grants | 281,000 | 177,000 |
| Investment Income | 104,000 | 193,000 |
| Other Revenues | 197,000 | 159,000 |
| **Total Revenues** | 13,714,000 | 14,369,000 |
| | | |
| **Expenses** | | |
| Administrative | 1,582,000 | 1,451,000 |
| Tenant Services | 145,000 | 171,000 |
| Utilities | 316,000 | 337,000 |
| Ordinary Maintenance and Operations | 685,000 | 662,000 |
| General and Interest Expenses | 190,000 | 191,000 |
| Housing Assistance Payments | 9,923,000 | 9,748,000 |
| Protective Services | 3,000 | 3,000 |
| Loss on Sale of Capital Assets | 0 | 12,000 |
| Depreciation | 747,000 | 739,000 |
| **Total Expenses** | 13,591,000 | 13,314,000 |
| Net Increases (Decreases) | $ 123,000 | $ 1,055,000 |

For 2008, the Authority's revenues decreased 5 percent while expenses increased by 2 percent. Expenses increased primarily due to Housing Assistance Payments increase of $175,000 because of additional units leased in 2008.

Although the Authority's revenue decreased only 5 percent, there were noticeable changes in Operating Subsidy and Grants which decreased by 5 percent, in investment income which decreased 46 percent and in Capital Grants Revenue which increased 59 percent. Subsidies and Grants declined which was due to HUD Funding Cuts. Investment income dropped sharply due to declining interest rates and the Capital Grants Revenue increase was associated with aggressive use of the funds available.

The following is a condensed Statement of Changes in Capital Assets comparing balances in capital assets for 2008 and 2007.

**Table 3 - Condensed Statement of Changes in Capital Assets**
**(Values rounded to nearest Thousand)**

| | 2008 | 2007 |
|---|---|---|
| Land and Land Rights | $ 1,625,000 | $ 1,625,000 |
| Building and Improvements | 18,231,000 | 18,191,000 |
| Equipment | 635,000 | 676,000 |
| Construction in Progress | 903,000 | 584,000 |
| Accumulated Depreciation | (13,218,000) | (12,530,000) |
| **Total** | $ 8,176,000 | $ 8,546,000 |

The increase in accumulated depreciation outpaced the increase in capital accounts for Buildings and Improvements and Construction in Progress. Equipment balances decreased 6 percent due to dispositions and Construction in Progress increased 55 percent. In total, Capital Assets decreased by 4 percent.

## Debt

The Authority's debt was reduced by $42,000 during 2008, a reduction of 18 percent. The following is a comparison of the Authority's debt outstanding at year end 2008 and year end 2007.

**Table 4 - Condensed Statement of Changes in Debt Outstanding**
**(Values Rounded to nearest Thousand)**

| | 2008 | 2007 |
|---|---|---|
| Current Portion of Debt | $ 45,000 | $ 42,000 |
| Long-Term Portion of Debt | 150,000 | 195,000 |
| **Total** | $ 195,000 | $ 237,000 |

## Economic Factors

Significant economic factors affecting the Authority are as follows:

- Federal funding provided by Congress to the Department of Housing and Urban Development
- Local inflationary, recessionary, and employment trends, which can affect resident incomes and therefore the amount of rental income
- Federal Reserve Bank interest rates on investments at an all time low
- Local labor supply and demand, which can affect salary and wage rates.

## Contact the Authority

Questions concerning this report or requests for additional information should be directed to Frederick Zawilinski, Executive Director of the Portage Metropolitan Housing Authority, 2832 St. Rt. 59, Ravenna, Ohio 44266.

**PORTAGE METROPOLITAN HOUSING AUTHORITY**
**STATEMENT OF NET ASSETS**
**PROPRIETARY FUNDS**
**FOR THE YEAR ENDED DECEMBER 31, 2008**

| | |
|---|---|
| **ASSETS** | |
| **Current Assets** | |
| Cash and Cash Equivalents - Unrestricted (Note 2) | $ 2,287,434 |
| Cash - Restricted | 2,229,748 |
| Accounts Receivable, (Net of Allowance for Doubtful Accounts) | 187,519 |
| Inventory (Net of Allowance for obsolete) | 120,289 |
| Prepaid Expenses and Other Assets | 108,000 |
| **Total Current Assets** | 4,932,990 |
| **Capital Assets** | |
| Non-Depreciable Capital Assets | 2,528,164 |
| Depreciable Capital Assets, Net | 5,648,237 |
| **Total Capital Assets** | 8,176,401 |
| **TOTAL ASSETS** | $ 13,109,391 |
| **LIABILITIES AND NET ASSETS** | |
| **Current Liabilities** | |
| Accounts Payable | $ 145,819 |
| Intergovernmental Payables | 26,895 |
| Accrued Wages/Payroll | 73,216 |
| Accrued Compensated Liabilities - Current Portion | 44,836 |
| Security Deposits | 175,567 |
| Deferred Credits and Other Liabilities | 24,801 |
| Current Portion of Long-Term Debt | 45,064 |
| **Total Current Liabilities** | 536,198 |
| **Non-Current Liabilities** | |
| Compensated Absences, Net of Current Portion | 50,968 |
| Other Non-Current Liabilities | 112,309 |
| Long-Term Debt, Net of Current Portion (Note 4) | 150,355 |
| **Total Non-Current Liabilities** | 313,632 |
| **Total Liabilities** | 849,830 |
| **Net Assets** | |
| Invested in Capital Assets, Net of Related Debt | 7,980,982 |
| Restricted Net Assets | 2,117,439 |
| Unrestricted Net Assets | 2,161,140 |
| **Total Net Assets** | 12,259,561 |
| **TOTAL LIABILITIES AND NET ASSETS** | $ 13,109,391 |

See accompanying notes to the basic financial statements.

**PORTAGE METROPOLITAN HOUSING AUTHORITY**
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS**
**PROPRIETARY FUNDS**
**FOR THE YEAR ENDED DECEMBER 31, 2008**

| | |
|---|---|
| **Operating Revenue** | |
| Net Tenant Rental | $ 655,637 |
| Subsidies and Grants from HUD | 12,475,657 |
| Other Revenue | 197,511 |
| **Total Operating Revenue** | 13,328,805 |
| | |
| **Operating Expenses** | |
| Administrative | 1,582,213 |
| Tenant Services | 144,507 |
| Utilities | 316,351 |
| Maintenance and Operations | 684,548 |
| General Expenses | 175,146 |
| Protective Services | 3,310 |
| Housing Assistance Payments | 9,923,354 |
| Depreciation and Amortization | 746,919 |
| **Total Operating Expenses** | 13,576,348 |
| Net Operating Income/Loss | (247,543) |
| | |
| **Non-Operating Revenue/Expense** | |
| Interest Income | 103,869 |
| Interest Expense | (14,391) |
| **Total Non-Operating Revenue** | 89,478 |
| Excess of Revenue Over (Under) Expenses before Capital Grants | (158,065) |
| | |
| Capital Grants | 281,321 |
| Change in Net Assets | 123,256 |
| | |
| Net Assets, Beginning of Period | 12,136,305 |
| | |
| **NET ASSETS, End of Period** | $12,259,561 |

See accompanying notes to the basic financial statements.

**PORTAGE METROPOLITAN HOUSING AUTHORITY**
**STATEMENT OF CASH FLOWS**
**PROPRIETARY FUNDS**
**FOR THE YEAR ENDED DECEMBER 31, 2008**

| | |
|---|---|
| **Cash Flows from Operating Activities** | |
| Cash Received from HUD | $12,475,530 |
| Cash Received From Tenants | 619,168 |
| Cash Received From Other Income | 199,367 |
| Cash Payments for Housing Assistance Payments | (9,923,354) |
| Cash Payments for Administrative | (1,561,698) |
| Cash Payments for Other Operating Expenses | (1,256,247) |
| **Net Cash Provided by Operating Activities** | 552,766 |
| | |
| **Cash Flows from Capital and Related Financing Activities** | |
| Acquisition and Construction of Capital Assets | (377,240) |
| Principal and Interest on Debt | (56,448) |
| Capital Grants Received | 281,321 |
| **Net Cash Provided by Capital and Other Related Financing Activities** | (152,367) |
| | |
| **Cash Flows from Investing Activities** | |
| Investment Income | 123,103 |
| **Net Cash Provided from Investing Activities** | 123,103 |
| Net Change in Cash and Cash Equivalents | 523,502 |
| | |
| Cash and Cash Equivalents, Beginning | * 3,993,680 |
| | |
| **Cash and Cash Equivalents, Ending** | $ 4,517,182 |
| | |
| **Reconciliation of Operating Loss to Net Cash Used by Operating Activities** | |
| Net Operating Income | $ (247,543) |
| Adjustments to Reconcile Operating Loss to | |
| Net Cash Provided by Operating Activities: | |
| Depreciation Expense | 746,919 |
| (Increase) Decrease in: | |
| Receivables - Net of Allowance | (35,652) |
| Inventory | (4,760) |
| Prepaid Expenses and Other Assets | (3,364) |
| Increase (Decrease) in: | |
| Accounts Payable | 51,153 |
| Intergovernmental Payable | (944) |
| Accrued Wages/Payroll Taxes and Compensated Absences | 55,303 |
| Tenants Security Deposits | 6,121 |
| Non-Current Liabilities | (10,202) |
| Deferred Credits and Other Liabilities | (4,265) |
| | |
| **Net Cash Provided by Operating Activities** | $ 552,766 |

* Beginning cash revised to include Certificate of Deposits.

See accompanying notes to the basic financial statements.

NOTE 1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Summary of Significant Accounting Policies**

The financial statements of the Portage 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 Portage 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 No. 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 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.

NOTE 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**Reporting Entity** (Continued)
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. Based on the above criteria, the Authority has no component units.

**Fund Accounting**
The Authority uses an enterprise fund to report on its financial position and the results of its operations for the Section 8 and Public Housing 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:

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.

NOTE 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**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 on or before November 30, 1989, that do not conflict with or contradict GASB pronouncements. The Authority has elected not to apply FASB statements and interpretations issued after November 30, 1989.

**Investments**

Investments are restricted by the provisions of the HUD Regulations (See Note 2). Investments are valued at market value. Interest income earned in fiscal year 2008 totaled $103,869, which was from interest on certificates of deposits.

**Capital Assets**

Capital assets are stated at cost and depreciation is computed using the straight line method over an estimated useful life of the assets. The cost of normal maintenance and repairs, that do not add to the value of the asset or materially extend the asset life, are not capitalized.

**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, and certificates of deposits regardless of original maturities.

**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 service are included in the calculation of the compensated absences accrual amount.

NOTE 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**Compensated Absences** (Continued)
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 are attributable to services already rendered and are 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.

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

**Inventories**
Inventories are stated at cost. The allowance for obsolete inventory was $2,000 at December 31, 2008.

**Budgetary Accounting**
The Authority annually prepares its budget as prescribed by U.S. the Department of Housing and Urban Development. This budget is approved 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.

**Change in Accounting Principles**
For fiscal year 2008, the Authority implemented GASB Statement No. 49, "*Accounting and Financial Reporting for Pollution Remediation Obligations*", and GASB Statement No. 50 "*Pension Disclosures*". GASB Statement No. 49 provides guidance on how to calculate and report the costs and obligations associated with pollution cleanup efforts. GASB Statement No. 50 more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits. The implementation of GASB Statements No. 49 and No. 50 did not affect the presentation of the financial statements of the Authority.

## NOTE 2: DEPOSITS AND INVESTMENTS

**Deposits**

At fiscal year end, the carrying amount of the Authority's deposits were $4,517,182 and the bank balance was $4,810,027. Included in the carrying amount of deposits at December 31, 2008 is $75 in petty cash. Based on criteria described in GASB Statement No. 40, *Deposits and Investments Risk Disclosures*, as of December 31, 2008, $1,250,000 of the Authority's bank balance was covered by Federal Depository Insurance. The remainder was collateralized by securities pledged in the name of the Authority.

Custodial credit risk is the risk that, in the event of 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 Authority's Board. All deposits are collateralized with eligible securities in amounts equal to 105 percent of the carrying value of deposits. Such collateral, as permitted by Chapter 135 of the Ohio Revised Code, is held in financial institution pools at 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 the public deposits it holds, or as specific collateral held at the Federal Reserve bank in the name of the Authority.

**Investments**

The Authority has a formal investment policy; however the Authority's investments at December 31, 2008, were limited to certificates of deposit.

**Interest Rate Risk**

The Authority's investment policy limits investments to 5 years but does not limit investment maturities as a means of managing exposure to fair value losses arising from increasing interest rates. The Authority staggers maturity dates of investments to avoid losses from rising interest rates.

**Credit Risk**

Any deposits of the Authority exceeding the FDIC insurance limit are fully and continuously collateralized by securities pledged in the name of the Authority.

**Concentration of Credit Risk**

The Authority does not limit the amount of funds that may be on deposit with any one financial institution; however, as was mentioned in the preceding paragraph, all deposits exceeding the FDIC insurance limit are fully and continuously collateralized by securities pledged in the name of the Authority.

NOTE 2: **DEPOSITS AND INVESTMENTS** (Continued)

**Concentration of Credit Risk** (Continued)

Cash and investments included in the Authority's cash position at December 31, 2008, are as follows:

| Cash and Investment Type | Fair Value | Investment Maturities (in Years) <1 |
|---|---|---|
| Carrying Amount of Deposits | $ 2,287,434 | $ 2,287,434 |
| Carrying Amount of Deposits - Restricted | 2,229,748 | 2,229,748 |
| Totals | $ 4,517,182 | $ 4,517,182 |

NOTE 3: **CAPITAL ASSETS**

| | Balance 12/31/2007 | Increases | Decreases | Balance 12/31/2008 |
|---|---|---|---|---|
| **Capital Assets Not Being Depreciated** | | | | |
| Land | $1,625,461 | $ 0 | $ 0 | $ 1,625,461 |
| Construction in Progress | 583,478 | 319,225 | 0 | 902,703 |
| **Total Capital Assets Not `Being Depreciated** | 2,208,939 | 319,225 | 0 | 2,528,164 |
| **Capital Assets Being Depreciated** | | | | |
| Buildings and Improvements | 18,190,427 | 43,363 | (2,582) | 18,231,208 |
| Furniture, Equipment, and Machinery - | | | | |
| Dwellings | 87,321 | 3,522 | (40,170) | 50,673 |
| Administrative | 589,176 | 11,130 | (16,056) | 584,250 |
| **Total Capital Assets Being Depreciated** | 18,866,924 | 58,015 | (58,808) | 18,866,131 |
| **Accumulated Depreciation** | | | | |
| Buildings and Improvements | (11,949,167) | (699,664) | 2,582 | (12,646,249) |
| Furniture, Equipment, and Machinery - | | | | |
| Dwellings | (81,553) | (2,210) | 40,170 | (43,593) |
| Administrative | (499,063) | (45,045) | 16,056 | (528,052) |
| **Total Accumulated Depreciation** | (12,529,783) | (746,919) | 58,808 | (13,217,894) |
| Depreciable Assets, Net | 6,337,141 | (688,904) | 0 | 5,648,237 |
| **Total Capital Assets, Net** | $ 8,546,080 | $ (369,679) | $ 0 | $ 8,176,401 |

Depreciation is calculated using the straight line method with lives varying between 3 and 30 years. The depreciation expense for the year ended December 31, 2008 was $746,919.

## NOTE 4: LONG-TERM DEBT

Long-term debt for the Authority's state/local activities consist of the following:

| | Balance 12/31/2007 | Additions | Reductions | Balance 12/31/2008 | Due Within One Year |
|---|---|---|---|---|---|
| Note Payable, due November 2012, interest rate of 6.5%, monthly payment of principal and interest of $4,703.98 - proceeds used to purchase 27 multi-family rental units | $ 237,476 | $ 0 | $ (42,057) | $ 195,419 | $ 45,064 |
| Compensated Absences | 75,289 | 173,935 | (153,420) | 95,804 | 44,836 |
| Total Long-Term Debt | $ 312,765 | $ 173,935 | $(195,477) | $ 291,223 | $ 89,900 |

Maturities of the debt over the next five years are as follows:

| | Principal | Interest | Total |
|---|---|---|---|
| 2009 | $ 45,064 | $ 11,384 | $ 56,448 |
| 2010 | 48,082 | 8,366 | 56,448 |
| 2011 | 51,302 | 5,146 | 56,448 |
| 2012 | 50,971 | 1,710 | 52,681 |
| | $ 195,419 | $ 26,606 | $ 222,025 |

## NOTE 5: DEFINED BENEFIT PENSION PLAN

### Ohio Public Employees Retirement System

All full-time Authority employees participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans, as described below:

- The Traditional Pension Plan (TP) - a cost-sharing, multiple-employer defined benefit pension plan;

- The Member-Directed Plan (MD) - a benefit contribution plan in which the member invests both member and employer 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 (CO) - a cost-sharing, multiple-employer defined benefit pension plan. Under the Combined plan, employer contributions are invested by the retirement system to provide a formula retirement benefit 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.

NOTE 5: **DEFINED BENEFIT PENSION PLAN** (Continued)

**Ohio Public Employees Retirement System** (Continued)
OPERS provides retirement, disability, survivor, death benefits, and annual cost of living adjustments to members of both the Traditional Pension and the Combined plans. Members of the Member-Directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by State statute per Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-5601 or 1-800-222-7377 or by using the OPERS website at www.opers.org.

The Ohio Revised Code provides statutory authority for member and employer contributions. For 2008, member and employer contribution rates were consistent across all three plans (TP, MD, and CO). Plan members are required to contribute 9.5 percent of their annual covered salary to fund pension obligations. The employer pension contribution rate for the Authority was 14.00 percent of covered payroll. The Authority's required contributions to OPERS for the years ended December 31, 2008, 2007, and 2006, were $154,963, $143,254, and $146,607, respectively. The full amount has been contributed for 2008, 2007, and 2006. The Authority had no employees participating in the Member-Directed Plan for the years ended December 31, 2008, 2007, and 2006.

NOTE 6: **POST-EMPLOYMENT BENEFITS**

**Ohio Public Employees Retirement System**
The Ohio Public Employees Retirement System (OPERS) provides post-retirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and primary survivor recipients is available with both the Traditional and the Combined Plan; however, health care benefits are not statutorily guaranteed. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage. The health care coverage provided by the retirement system is considered an Other Post-Employment Benefit (OPEB) as described in GASB Statement No. 45. A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The 2009 employer rate was 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.

NOTE 6: **POST-EMPLOYMENT BENEFITS** (Continued)

**Ohio Public Employees Retirement System** (Continued)
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. The portion of employer contributions allocated to health care was 5.00 percent from January 1 through June 30, 2008, and 6.00 percent from July 1 through December 31, 2008. The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care benefits provided by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS' latest actuarial review performed as of December 31, 2006, include a rate of return on investments of 6.50 percent, an annual increase in active employee total payroll of 4 percent compounded annually (assuming no change in the number of active employees), and an additional increase in total payroll of between .50 percent and 6.30 percent based on additional annual pay increases. Health care premiums were assumed to increase at the projected wage inflation rate plus an additional factor ranging from .50 percent to 5 percent annually for the next 8 years. In subsequent years (9 and beyond), health care costs were assumed to increase at 4 percent (the projected wage inflation rate).

All investments are carried at market. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted to reflect 25 percent of unrealized market appreciation or depreciation on investment assets annually, not to exceed a 12 percent corridor.

As of December 31, 2008, the number of active contributing participants in the Traditional Pension and Combined plans totaled 363,503. The number of active contributing participants for both plans used in the December 31, 2006, actuarial valuation was 364,076. Actual Authority contributions for 2008 which were used to fund post-employment benefits were $77,482. The actual contribution and the actuarially required contribution amounts are the same. The actuarial value of OPERS' net assets available for payment of benefits at December 31, 2007 (the latest information available) was $12.8 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were $29.8 billion and $17.0 billion, respectively.

NOTE 6: **POST-EMPLOYMENT BENEFITS** (Continued)

**Ohio Public Employees Retirement System** (Continued)
On September 9, 2004, the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2008. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to increasing health care costs. 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.

Under the HCPP, retirees eligible for health care coverage will receive a graded monthly allocation based on their years of service at retirement. The Plan incorporates a cafeteria approach, offering a broad range of health care options that allow the benefit recipients to use their monthly allocation to purchase health care coverage customized to meet their individual needs. If the monthly allocation exceeds the cost of the options selected, the excess is deposited into a Retiree Medical Account that can be used to fund future health care expenses.

NOTE 7: **COMPENSATED ABSENCES**

Vacation and sick leave policies are established by the Board of Directors based on local and state laws.

All full-time employees earn 5.0 hours sick leave per pay period. Unused sick leave may be accumulated up to a total of 130 hours per year. There is no maximum on the total accumulation of sick time hours; however, only employees with 10 years or more of service will be paid for accumulated sick leave upon voluntary separation, up to a maximum of 25 percent of accumulated sick leave hours, not to exceed payment for 240 hours.

All full-time non contract employees will earn vacation hours accumulated based on length of service. All vacation time accumulated will be paid upon separation.

At December 31, 2008, based on the vesting method, $95,804 was accrued by the Authority for unused vacation and sick time.

## NOTE 8: INSURANCE

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 Portage is one. Deductibles and coverage limits are summarized below:

| Type of Coverage | Deductible | Coverage Limits |
|---|---|---|
| Property | $ 1,500 | $ 250,000,000 (per occurrence) |
| Boiler and Machinery | 1,000 | 50,000,000 |
| General Liability | 0 | 6,000,000 |
| Automobile Physical Damage/Liability | 500/0 | ACV/6,000,000 |
| Public Officials | 0 | 6,000,000 |

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 Kaiser Permanente for employee health care benefits. Settled claims have not exceeded the Authority's insurance in any of the past three years.

## NOTE 9: CONTINGENCIES AND OTHER COMMITMENTS

### Litigation and Claims

In the normal course of operations, the Authority may be subject to litigation and claims. At December 31, 2008, the Authority was involved in no matters which management believes would have a material effect on the financial statements. In addition, the Authority had no material operating lease commitments or construction commitments at December 31, 2008.

## NOTE 10: RESTRICTED NET ASSETS

The Authority's restricted net assets are as follows:

| | |
|---|---|
| Section 8 Housing Choice Voucher funds provided for Housing Assistance Payments in excess of the amounts used | $ 2,117,439 |

**PORTAGE METROPOLITAN HOUSING AUTHORITY**
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**
**FOR THE YEAR ENDED DECEMBER 31, 2008**

| **FEDERAL GRANTOR/ PASS THROUGH GRANTOR/ PROGRAM TITLE** | **Federal CFDA Number** | **Funds Expended** |
|---|---|---|
| **U.S. Department of Housing and Urban Development** | | |
| *Direct Programs:* | | |
| PHA Owned Housing: | | |
| Public and Indian Housing Operating Subsidy | 14.850 | $ 780,314 |
| Total PHA Owned Housing | | 780,314 |
| Capital Fund Grants: | | |
| Capital Fund | 14.872 | 601,339 |
| Total Capital Fund Grants | | 601,339 |
| Section 8 Programs: | | |
| Section 8 Project Based Cluster: | | |
| Annual Contribution - Mod. Rehab. | 14.856 | 1,072,839 |
| - New Construction | 14.182 | 423 |
| Total Section 8 Project Based Cluster | | 1,073,262 |
| Supportive Housing for Persons with Disabilities | 14.181 | 287,891 |
| Annual Contribution - Housing Choice Voucher | 14.871 | 9,766,448 |
| Total Section 8 Programs | | 11,127,601 |
| Resident Opportunity and Supportive Services | 14.870 | 118,031 |
| Shelter Plus Care | 14.238 | 129,693 |
| **Total U.S. Department of Housing and Urban Development** | | 12,756,978 |
| **TOTAL ALL PROGRAMS** | | $ 12,756,978 |

NOTE A: **SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Schedule of Expenditures of Federal Awards is a summary of the activity of the District's federal awards programs. The schedule has been prepared on the accrual basis of accounting prescribed by the U.S. Department of Housing and Urban Development.

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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*

To the Board of Directors
Portage Metropolitan Housing Authority
Ravenna, Ohio

Regional Inspector General for Audit
Department of Housing and Urban Development

We have audited the financial statements of the Portage Metropolitan Housing Authority, Ohio, as of and for the year ended December 31, 2008, which collectively comprise the Portage Metropolitan Housing Authority, Ohio's basic financial statements and have issued our report thereon dated June 24, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

## Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Portage Metropolitan Housing Authority, Ohio's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Portage Metropolitan Housing Authority, Ohio's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Portage Metropolitan Housing Authority, Ohio's internal control over financial reporting.

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 Portage Metropolitan Housing Authority, Ohio'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 Portage Metropolitan Housing Authority, Ohio's financial statements that is more than inconsequential will not be prevented or detected by the Portage Metropolitan Housing Authority, Ohio's internal control.

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 Portage Metropolitan Housing Authority, Ohio's internal control.

Our 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. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Portage Metropolitan Housing Authority, Ohio's financial statements are free of material misstatement, we 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 our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

James G. Zupka

James G. Zupka, CPA, Inc.
Certified Public Accountants

June 24, 2009

**JAMES G. ZUPKA, C.P.A., INC.**
***Certified Public Accountants***
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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
Portage Metropolitan Housing Authority
Ravenna, Ohio

Regional Inspector General of Audit
Department of Housing and Urban
Development

## Compliance

We have audited the compliance of the Portage 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 December 31, 2008. The Portage Metropolitan Housing Authority, Ohio's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Portage Metropolitan Housing Authority, Ohio's management. Our responsibility is to express an opinion on the Portage Metropolitan Housing Authority, Ohio's compliance based on our audit.

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

As described in **Finding 2008-1** in the accompanying Schedule of Findings and Questioned Costs, the Authority did not comply with special provisions that are applicable to its Section 8 Project-Based Voucher Program. Compliance with such requirements is necessary in our opinion, for the Authority to comply with requirements applicable to that program.

In our opinion, except for the noncompliance in the preceding paragraph, the Portage 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 December 31, 2008.

**Internal Control Over Compliance**

The management of the Portage 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 our audit, we considered the Portage Metropolitan Housing Authority, Ohio'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 our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Portage Metropolitan Housing Authority, Ohio's internal control over compliance.

A *control deficiency* in an entity's 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 entity'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 entity's internal control. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as **Finding 2008-1** 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 entity's internal control. We did not consider the significant deficiency listed above as **Finding 2008-1** to be a material weakness.

Our consideration of the internal control over compliance 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

The Portage Metropolitan Housing Authority's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the Portage Metropolitan Housing Authority's response and accordingly we express no opinion on it.

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

James G. Zupka

James G. Zupka CPA, Inc.
Certified Public Accountants

June 24, 2009

**PORTAGE METROPOLITAN HOUSING AUTHORITY**
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**
**OMB CIRCULAR A-133 & .505**
**DECEMBER 31, 2008**

## 1. SUMMARY OF AUDITOR'S RESULTS

| | | |
|---|---|---|
| 2008(i) | Type of Financial Statement Opinion | Unqualified |
| 2008(ii) | Were there any material control weaknesses reported at the financial statement level (GAGAS)? | No |
| 2008(ii) | Were there any other significant deficiencies in internal control reported at the financial statements level (GAGAS)? | No |
| 2008(iii) | Was there any reported material noncompliance at the financial statement level (GAGAS)? | No |
| 2008(iv) | Were there any material internal control weaknesses reported for major federal programs? | No |
| 2008(iv) | Were there any significant deficiencies in internal control reported for major federal programs? | Yes |
| 2008(v) | Type of Major Programs' Compliance Opinion | Qualified |
| 2008(vi) | Are there any reportable findings under .510? | Yes |
| 2008(vii) | Major Programs (list):<br>Housing Choice Vouchers - CFDA #14.871<br>Capital Fund Program - CFDA #14.872 | |
| 2008(viii) | Dollar Threshold: Type A\B Programs | Type A: > $382,709<br>Type B: all others |
| 2008(ix) | Low Risk Auditee? | Yes |

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

None.

## 3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

### Significant Deficiency - Compliance Finding

### 2008-1 Section 8 Project -Based Voucher Program

**Identification of Program**
CFDA Title and Number - Housing Choice Voucher - CFDA # 14.871
Federal Agency - Department of Housing and Urban Development
Federal Award Years - 2005-2008

Condition
With regard to the administration of the Section 8 Project-Based Voucher Program, the Authority was reviewed by the Department of Housing and Urban Development and was determined to be in non-compliance with the administration of this program.

Criteria
The Authority's Section 8 Project-Based Voucher Program is a part of the Housing Choice Voucher Program and was awarded under the Moving to Work Demonstration Program. This program allowed the Authority the flexibility to establish unique guidelines under its own Administrative Plan approved by the Department of HUD for the administration of the program.

The Authority inappropriately administered its project-based program when it failed to ensure that the following requirements were followed before approving and contracting units for housing assistance:

- Select units for participation that were eligible for project-based voucher assistance,
- Properly evaluate project proposals,
- Conduct subsidy layering reviews,
- Perform an analysis to demonstrate how the projects would assist low-income people without unduly concentrating them,
- Ensure that environmental reviews were conducted,
- Conduct housing quality standards inspections, and
- Conduct rent reasonableness determinations.

Cause
The Authority has policies for compliance with these requirements, but did not comply with its own policy statement and therefore did not comply with the regulations of the Department of Housing and Urban Development under the Moving to Work Demonstration Program.

3. **FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS** (Continued)

**Significant Deficiency - Compliance Finding** (Continued)

**2008-1 Section 8 Project -Based Voucher Program** (Continued)

Effect
The Authority is in noncompliance with these requirements which caused the payment of rental assistance in excess of Project-Based Voucher Program regulations. The final amounts of over payment are being determined by HUD and will be paid back to the program from other Authority funds.

Questioned Costs
$0 as funds are being paid back to this program.

Recommendation
We recommend the Authority follow the policy set forth in its Administrative Plan for the Section 8 Project-Based Voucher Program and administer the program as required by the Department of Housing and Urban Development.

***Correction Action Plan/Client Response***
The Authority is implementing procedures to insure that their guidelines are complied with. The Authority is working with HUD to establish the final pay back amount.

## PORTAGE METROPOLITAN HOUSING AUTHORITY
## STATUS OF PRIOR YEAR FINDINGS
## FOR THE YEAR ENDED DECEMBER 31, 2008

The audit report for the prior year ended December 31, 2007 contained no findings or citations. Management letter comments were corrected in 2008.

**PORTAGE METROPOLITAN HOUSING AUTHORITY**

**PORTAGE 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**
**SEPTEMBER 1, 2009**