

Lucas Metropolitan Housing Authority

**Financial Report
with Additional Information
June 30, 2004**



**Auditor of State
Betty Montgomery**

Board of Commissioners
Lucas Metropolitan Housing Authority

We have reviewed the Independent Auditor's Report of the Lucas Metropolitan Housing Authority, Lucas County, prepared by Plante & Moran, PLLC for the audit period July 1, 2003 through June 30, 2004. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

December 28, 2004

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Lucas Metropolitan Housing Authority

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Independent Auditor's Report

To the Board of Commissioners
Lucas Metropolitan Housing Authority

We have audited the accompanying basic financial statements of the Lucas Metropolitan Housing Authority (the "Authority") as of June 30, 2004 and 2003 and for the years then ended, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2004 and 2003 and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

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

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

To the Board of Commissioners
Lucas Metropolitan Housing Authority

In accordance with *Government Auditing Standards*, we have also issued our report dated October 18, 2004 on our consideration of the Lucas Metropolitan Housing Authority's internal control over financial reporting and our tests of its compliance with certain laws, regulations, contracts, and grants. The purpose of that report is to describe the scope of our testing of internal controls over financial reporting on compliance and the results of that testing, and not to provide opinions 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.

Plante & Moran, PLLC

October 18, 2004

Lucas Metropolitan Housing Authority

Management's Discussion and Analysis

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

LMHA offers this narrative overview of the financial activities of LMHA for the year ended June 30, 2004.

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

Mission

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

Financial Highlights

- LMHA's total assets exceeded its liabilities by \$77,914,419 at June 30, 2004. This is a decrease of \$3,022,605 from the previous year, as a result of operations.
- Revenues decreased by \$2.86 million (6.0 percent) and were \$45,055,825 and \$47,920,821 for fiscal years 2004 and 2003, respectively. This decrease mainly reflects a net decrease in HUD subsidy for the Housing Programs of about \$0.66 million; discontinuance of the one-time HUD subsidy for utility adjustments of \$1.6 million for the Low Income Housing Program received in 2004; and a reduction of about 47 percent overall in resident service grants due to the discontinuation of PHDEP grants (of over \$603,000).
- Expenses decreased by about \$566,731 (1.1 percent) before the unrealized investment loss and were \$48,001,660 and \$48,568,391 (including depreciation) for fiscal years 2004 and 2003, respectively. The decrease corresponds to program reductions in response to subsidy decreases.

Lucas Metropolitan Housing Authority

Management's Discussion and Analysis (Continued)

The Authority's Funds

LMHA's financial statements utilize the Enterprise Funds method on the full accrual basis of accounting. The enterprise method is similar to accounting used in the private sector. Many of the program funds maintained by LMHA are required by the Department of Housing and Urban Development. Others are segregated to enhance accountability and control. Significant programs, including the Housing Voucher Program as the major program for 2004, are as follows:

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

Section 8 Program - Within the Section 8 Program, LMHA administers contracts with independent landlords that own and lease units within our community. LMHA subsidizes the family's rent through a Housing Assistance Payment (HAP) made to the landlord. These programs are operated under Annual Contributions Contracts (ACC) with HUD, which enables LMHA to structure a lease that sets the participants' housing costs at 30 percent of household income. LMHA currently administers 3,684 Housing Choice Vouchers, 47 Mod Rehab units, and 598 site-based units.

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

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

Resident Services Grants - Resident Service Grants include grants funded by HUD, such as Public Housing Drug Elimination Grant (PHDEP), which ended during 2004; Resident Opportunities and Self-Sufficiency Grant (ROSS); and smaller ABLE and other specific-purpose grants (state and local funding).

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

Lucas Metropolitan Housing Authority

Management's Discussion and Analysis (Continued)

The Authority's Financial Statements

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

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

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

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

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

Lucas Metropolitan Housing Authority

Management's Discussion and Analysis (Continued)

Lucas Metropolitan Authority Statement of Net Assets Fiscal Year Ended June 30, 2004

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

	Fiscal Year 2004	Fiscal Year 2003	Change
Assets			
Current and other assets	\$ 16,589,957	\$ 17,143,153	\$ (553,196)
Noncurrent assets	<u>65,425,021</u>	<u>67,719,894</u>	<u>(2,294,873)</u>
Total assets	82,014,978	84,863,047	(2,848,069)
Liabilities			
Current and other liabilities	3,077,670	2,979,309	98,361
Noncurrent liabilities	<u>1,022,889</u>	<u>946,714</u>	<u>76,175</u>
Total liabilities	<u>4,100,559</u>	<u>3,926,023</u>	<u>174,536</u>
Net Assets			
Invested in capital assets - Net of related debt	65,132,909	67,378,122	(2,245,213)
Unrestricted	<u>12,781,510</u>	<u>13,558,902</u>	<u>(777,392)</u>
Total net assets	<u>\$ 77,914,419</u>	<u>\$ 80,937,024</u>	<u>\$ (3,022,605)</u>

Major Factors Affecting the Statement of Net Assets

Current assets decreased by \$553,196 due largely to a decrease in cash and investments as these were needed for operations because of a drop in HUD subsidy. This amount is net of the increased funds in the Northgate HAP Shared Savings investments (bond refinancing funds from 1992), from the dispute resolution with a financial institution regarding the amount of LMHA's share of these savings (\$490,836). Grant receivables, due to timing differences, also increased. Noncurrent assets decreased by \$2,294,873 as a result of modernization activities, property sales, depreciation expense, and the net effect of removing \$695,495 of property that was related to the demolished Gunckel School Annex, which had been used for our Family Investment Center (FIC) activities.

Total liabilities increased by \$174,536 due primarily to an increase in contract retentions and in payroll/benefits accruals.

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

Lucas Metropolitan Housing Authority

Management's Discussion and Analysis (Continued)

Lucas Metropolitan Housing Authority Revenues and Expenses by Programs Fiscal Years June 30, 2004 and 2003

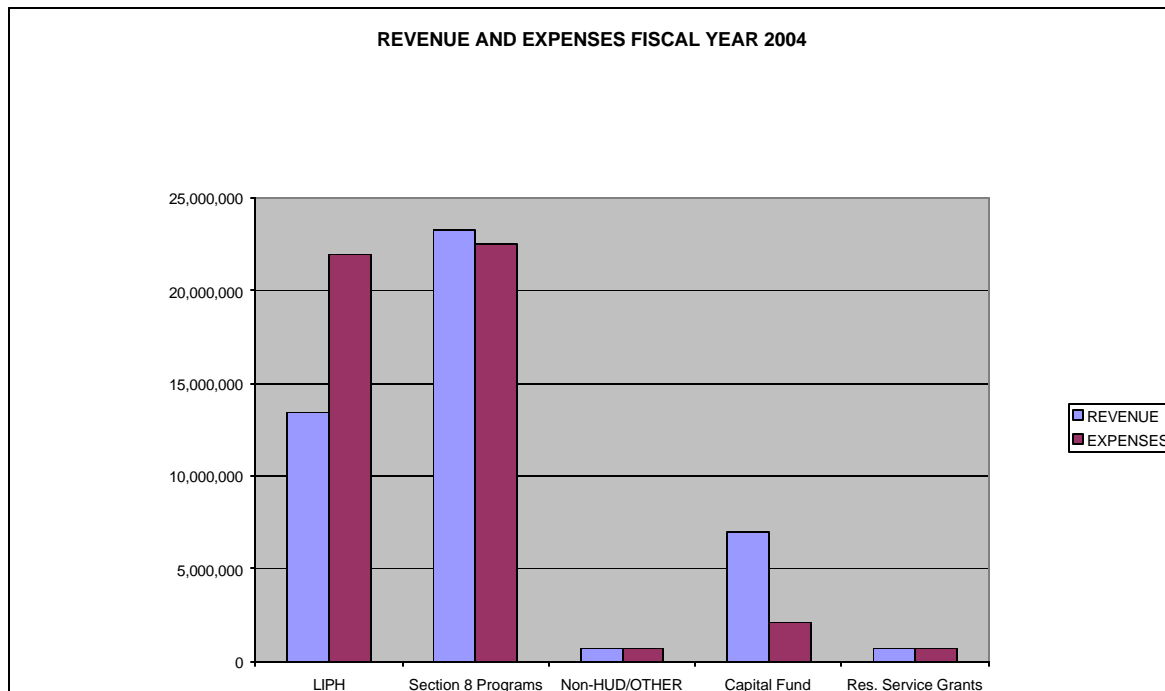
The following schedule compares the revenues and expenses for the current and previous fiscal years for all LMHA's programs.

	Fiscal Year 2004	Fiscal Year 2003	Change
Revenue			
Conventional Public Housing (LIPH)	\$ 13,415,126	\$ 16,636,863	\$ (3,221,737)
Section 8 Programs	23,314,072	22,542,853	771,219
Capital Fund Program (CFP)	6,979,042	6,697,143	281,899
Non-HUD/Other business activities	657,632	750,360	(92,728)
Resident service grants	<u>689,953</u>	<u>1,293,602</u>	<u>(603,649)</u>
Total revenue	<u>\$ 45,055,825</u>	<u>\$ 47,920,821</u>	<u>\$ (2,864,996)</u>
Expenses			
Conventional Public Housing (LIPH)	\$ 21,956,369	\$ 22,608,420	\$ (652,051)
Section 8 Programs	22,550,144	21,843,639	706,505
Capital Fund Program (CFP)	2,096,157	2,162,458	(66,301)
Non-HUD/Other business activities	709,037	660,272	48,765
Resident service grants	<u>689,953</u>	<u>1,293,602</u>	<u>(603,649)</u>
Total expenses	<u>\$ 48,001,660</u>	<u>\$ 48,568,391</u>	<u>\$ (566,731)</u>

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

Lucas Metropolitan Housing Authority

Management's Discussion and Analysis (Continued)



Major Factors Affecting the Statement of Revenue and Expenses

Total revenues decreased by \$2.86 million. This net decrease is a result of the following decreases and increases: Operating subsidies decreasing \$3.22 million for the Low Income Public Housing program, in part due to last year's one-time increase in subsidy for our prior utilities expenses (\$1.6 million), and HUD funding levels being at 97.5 percent for this year; Resident Service grants decreased by \$603,649 due to the discontinuation of PHDEP funding; the Housing Choice Voucher Program subsidy increased by \$771,219, representing several opt-outs and the renewal of expiring Moderate Rehab vouchers; Capital Grants, used to fund our capital improvements program, increased \$281,899, partially due to our achievement once again of "high-performing PHA" status.

Total operating expenses decreased by \$566,731. Most expenses decreased as a result of funding contractions for Low Income and Resident Services programs. However, property insurance rose by approximately 24 percent, utilities costs decreased by about 2 percent, and bad debt expense decreased by 16 percent. Housing assistance payments (payments to landlords under the Section 8 program) increased \$418,000, due to the increase in vouchers due to opt-outs and rollover of Mod Rehab units. This expense was offset by the increased subsidy received for these activities.

Lucas Metropolitan Housing Authority

Management's Discussion and Analysis (Continued)

Lucas Metropolitan Housing Authority Comparison of Capital Assets at Year End - Net of Depreciation For Fiscal Years Ended June 30, 2004 and 2003

	Fiscal Year 2004	Fiscal Year 2003	Change
Land	\$ 6,634,230	\$ 6,624,191	\$ 10,039
Buildings	142,746,838	140,981,607	1,765,231
Equipment	2,757,789	2,485,588	272,201
Accumulated depreciation	<u>(98,490,432)</u>	<u>(92,586,418)</u>	<u>(5,904,014)</u>
Subtotal	53,648,425	57,504,968	(3,856,543)
Work in process	<u>11,484,484</u>	<u>9,873,154</u>	<u>1,611,330</u>
Total	<u>\$ 65,132,909</u>	<u>\$ 67,378,122</u>	<u>\$ (2,245,213)</u>

During fiscal year 2004, the net change in capital assets amounted to a decrease of \$2,245,213. The above table represents the changes in the asset accounts by category as follows:

- Land increased by \$10,039 as the result of several land purchases near the Weiler Homes development. LMHA has razed the structures on these lots to improve the overall neighborhood appearance.
- Buildings increased by \$1,765,231 as the result of modernization activities carried on throughout the year, further renovation of our new General Services-South Maintenance Shop on Byrne Road, and net of the write-off of the Gunckel School Annex (our FIC building for many years).
- Equipment values increased by \$272,201 due to replacement of obsolete equipment and vehicles during the year.
- The accumulated depreciation increased by \$5,904,014. The increase is net of current year depreciation expense of \$6,446,642 and several write-offs and other adjustments during the year ended June 30, 2004.
- Work in process increased by \$1,611,330 over the prior year. The increase reflects renovations and improvements to various public housing developments during the year. Year-end work in process also includes \$4,540,598 related to the Comprehensive Grant Program 501-01. This WIP is transferred to the Low Income Housing Fund subsequent to year end since the program is now complete.

Lucas Metropolitan Housing Authority

Basic Financial Statements Statement of Net Assets

	June 30	
	2004	2003
Assets		
Current Assets		
Cash and cash equivalents	\$ 6,029,887	\$ 5,610,043
Cash - Tenant security deposits	436,657	440,476
Investments	7,908,518	9,029,517
Grants receivable	954,500	659,347
Tenant receivables - Net of allowance for doubtful accounts of \$54,376 and \$54,165 in 2004 and 2003, respectively	113,589	127,642
Interest receivable	12,524	26,363
Inventory	565,162	590,892
Prepaid expenses	569,120	658,873
Total current assets	16,589,957	17,143,153
Noncurrent Assets		
Restricted cash	292,112	341,772
Work in process	11,484,484	9,873,154
Property and equipment - Net of accumulated depreciation of \$98,490,432 and \$92,586,418 in 2004 and 2003, respectively	53,648,425	57,504,968
Total assets	\$ 82,014,978	\$ 84,863,047
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 1,152,257	\$ 877,150
Accounts payable - HUD	252,246	350,709
Accounts payable - Other government	59,385	93,354
Security and other trust deposits	437,939	437,451
Accrued wages and payroll taxes	188,858	402,757
Compensated absences	650,117	424,977
Other current liabilities	336,868	392,911
Total current liabilities	3,077,670	2,979,309
Noncurrent Liabilities - Compensated absences	1,022,889	946,714
Total liabilities	4,100,559	3,926,023
Net Assets		
Invested in capital assets - Net of related debt	65,132,909	67,378,122
Unrestricted net assets	12,781,510	13,558,902
Total net assets	77,914,419	80,937,024
Total liabilities and net assets	\$ 82,014,978	\$ 84,863,047

Lucas Metropolitan Housing Authority

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

	Year Ended June 30	
	2004	2003
Revenues		
HUD and other grants	\$ 39,157,681	\$ 41,608,895
Rental income	4,762,007	5,015,990
Loss on sale of property and equipment	(796,341)	(40,941)
Other income	1,294,428	1,054,064
Interest income	222,741	282,813
Operating transfer in	415,309	-
Total revenues	45,055,825	47,920,821
Expenses		
Housing assistance payments	20,508,742	20,090,413
Administrative salaries and benefits	5,820,643	5,496,724
Utilities	4,211,552	4,123,750
Maintenance - Material and labor	4,697,051	5,703,158
Sundry administration	2,014,097	2,120,041
Contract services	1,318,621	1,710,523
Resident services	1,335,371	1,511,277
General	1,089,987	1,147,641
Nonroutine maintenance	101,269	75,340
Protective service	42,376	44,796
Operating transfer out	415,309	-
Total expenses	41,555,018	42,023,663
Change in Net Assets - Before depreciation and unrealized loss on investments	3,500,807	5,897,158
Depreciation	6,446,642	6,544,728
Unrealized Loss on Investments	76,770	-
Change in Net Assets	(3,022,605)	(647,570)
Net Assets - Beginning of year	80,937,024	81,584,594
Net Assets - End of year	\$ 77,914,419	\$ 80,937,024

Lucas Metropolitan Housing Authority

Basic Financial Statements Statement of Cash Flows

	Year Ended June 30	
	2004	2003
Cash Flows from Operating Activities		
Cash received from HUD operating subsidies and grants	\$ 38,862,528	\$ 42,107,076
Cash received from tenants	4,776,060	5,025,600
Other receipts	1,531,007	1,423,085
Cash payments for housing assistance	(20,607,205)	(21,225,945)
Cash payments for administrative expenses	(17,030,937)	(18,459,803)
Cash payments for other operating expenses	(1,949,773)	(1,766,582)
Cash payments for resident and other services	(1,287,992)	(1,649,291)
Other payments	26,219	(911)
Net cash provided by operating activities	4,319,907	5,453,229
Cash Flows from Capital and Related Financing Activities		
Proceeds from sale of property and equipment	10,067	146,775
Purchase of property and equipment	(5,007,837)	(4,722,228)
Net cash used in capital and related financing activities	(4,997,770)	(4,575,453)
Cash Flows from Investing Activities - Interest and other investment activity		
	1,044,228	356,794
Increase in Cash and Cash Equivalents	366,365	1,234,570
Cash and Cash Equivalents - Beginning of year	6,392,291	5,157,721
Cash and Cash Equivalents - End of year	\$ 6,758,656	\$ 6,392,291
Cash and Cash Equivalent Reconciliation		
Cash and cash equivalents	\$ 6,029,887	\$ 5,610,043
Cash - Tenant security deposits	436,657	440,476
Restricted cash	292,112	341,772
Total cash and cash equivalents	\$ 6,758,656	\$ 6,392,291

Lucas Metropolitan Housing Authority

Basic Financial Statements Statement of Cash Flows (Continued)

	Year Ended June 30	
	2004	2003
Reconciliation of Change in Net Assets to Net Cash from Operating Activities		
Change in net assets	\$ (3,022,605)	\$ (647,570)
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	6,446,642	6,544,728
Unrealized loss on investments	76,770	-
Bad debts	211	12,114
Loss on sale of property and equipment	796,341	40,941
(Increase) decrease in operating assets:		
Receivables	(267,472)	549,077
Inventory	25,730	6,267
Prepaid expenses and other assets	89,754	(84,167)
Increase (decrease) in operating liabilities:		
Accounts payable	142,675	(1,120,601)
Compensated absences	301,315	156,549
Other current liabilities	(269,942)	3,069
Security and other trust deposits	488	(7,178)
Net cash provided by operating activities	\$ 4,319,907	\$ 5,453,229

Lucas Metropolitan Housing Authority

Notes to Financial Statements
June 30, 2004 and 2003

Note 1 - Summary of Significant Accounting Policies

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

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

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

Pursuant to GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Authority follows GASB guidance as applicable to proprietary funds and Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements. Government activities, which normally are supported by intergovernmental (grant) revenues, are reported separately from any business-type activities, which would rely to a significant extent on fees and charges for support. All of the Authority's activities are considered governmental activities.

Lucas Metropolitan Housing Authority

Notes to Financial Statements
June 30, 2004 and 2003

Note 1 - Summary of Significant Accounting Policies (Continued)

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

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

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

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

Inventories - Inventories and materials are stated at average cost, which approximates market.

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

Building and improvement	20-40 years
Land and improvements	10-20 years
Furniture and fixtures, equipment, and moving vehicles	5-7 years

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

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

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

Lucas Metropolitan Housing Authority

Notes to Financial Statements June 30, 2004 and 2003

Note 1 - Summary of Significant Accounting Policies (Continued)

Reclassifications - Certain amounts in the 2003 financial statements have been reclassified to conform with the 2004 presentation.

Note 2 - Deposits and Investments

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

	<u>2004</u>	<u>2003</u>
Cash and cash equivalents	\$ 6,029,887	\$ 5,610,043
Cash - Tenant security deposits	436,657	440,476
Investments	7,908,518	9,029,517
Restricted cash	<u>292,112</u>	<u>341,772</u>
Total	<u>\$ 14,667,174</u>	<u>\$ 15,421,808</u>

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

	<u>2004</u>	<u>2003</u>
Bank deposits (checking accounts, savings accounts, and certificates of deposit)	\$ 6,465,244	\$ 6,049,219
Investments in securities, bank investment pools, interlocal investment pools, commercial paper, and mutual funds	8,200,630	9,371,289
Petty cash or cash on hand	<u>1,300</u>	<u>1,300</u>
Total	<u>\$14,667,174</u>	<u>\$ 15,421,808</u>

Lucas Metropolitan Housing Authority

Notes to Financial Statements
June 30, 2004 and 2003

Note 2 - Deposits and Investments (Continued)

Deposits

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the Authority's treasury, in commercial accounts payable, or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts. Inactive deposits are public deposits that the Authority has identified as not required for use within the current two-year period of designation of depositories.

Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

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

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

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

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

The bank balances of the Authority's deposits are \$6,029,887 and \$5,610,043 at June 30, 2004 and 2003, respectively.

Lucas Metropolitan Housing Authority

Notes to Financial Statements
June 30, 2004 and 2003

Note 2 - Deposits and Investments (Continued)

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

- | | |
|------------|--|
| Category 1 | \$100,000 was covered by federal depository insurance at June 30, 2004 and 2003. |
| Category 3 | \$5,929,887 and \$5,510,043 was covered by collateral held by the pledging financial institution, but not in the name of the Authority, at June 30, 2004 and 2003, respectively. |

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

Investments

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

Lucas Metropolitan Housing Authority

Notes to Financial Statements June 30, 2004 and 2003

Note 2 - Deposits and Investments (Continued)

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

	<u>2004</u>	<u>2003</u>
Government securities	\$ 7,816,365	\$ 8,990,868
Star Ohio	<u>384,265</u>	<u>380,421</u>
Total investments	<u>\$ 8,200,630</u>	<u>\$ 9,371,289</u>

Note 3 - Property and Equipment

A summary of property and equipment by class is as follows at June 30, 2004:

	Balance July 1, 2003	Additions	Disposals and Adjustments	Balance June 30, 2004
Capital assets being depreciated:				
Buildings and improvements	\$ 140,981,607	\$ 2,992,154	\$ (1,226,923)	\$ 142,746,838
Land and improvements	6,624,191	29,468	(19,429)	6,634,230
Furniture and fixtures, equipment, and moving vehicles	2,485,588	374,885	(102,684)	2,757,789
Total property and equipment	150,091,386	3,396,507	(1,349,036)	152,138,857
Accumulated depreciation:				
Buildings and improvements	90,578,368	6,059,783	(472,411)	96,165,740
Furniture and fixtures, equipment, and moving vehicles	2,008,050	386,859	(70,217)	2,324,692
Total accumulated depreciation	92,586,418	6,446,642	(542,628)	98,490,432
Net capital assets	\$ 57,504,968	\$ (3,050,135)	\$ (806,408)	\$ 53,648,425

Lucas Metropolitan Housing Authority

Notes to Financial Statements June 30, 2004 and 2003

Note 4 - Administrative Fee

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

A. Vouchers and moderate rehabilitation:		
Vouchers - Average rate		\$46.39/unit
Moderate rehabilitation		\$50.33/unit
B. New construction - All units		
	3.0 percent or approximately	\$27.08/unit

The total administrative fees received for the years ended June 30, 2004 and 2003 were \$2,325,013 and \$2,299,140, respectively.

Note 5 - Retirement and Other Benefit Plans

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

The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rate is 8.50 percent of qualifying wages for all employees. The 2003-2004 employer contribution rate was 13.55 percent. Required employer contributions are equal to 100 percent of the dollar amount billed to each employer and must be extracted from the employer's records.

The Authority's contributions to PERS for the years ended June 30, 2004, 2003, and 2002 were \$885,220 \$998,912, and \$860,215, respectively. All required contributions were made prior to each of those fiscal year ends.

Lucas Metropolitan Housing Authority

Notes to Financial Statements
June 30, 2004 and 2003

Note 5 - Retirement and Other Benefit Plans (Continued)

The Public Employees' Retirement System of Ohio provides postretirement health care coverage to age and service retirees with 10 or more years of qualifying Ohio service credit and to primary survivor recipients of such retirees. Health care coverage for disability recipients is available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to PERS is set aside for the funding of postretirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The 2003 and 2002 employer contribution rates were 13.55 percent of covered payroll; 5.00 percent was the portion that was used to fund health care. OPEB is financed through employer contributions and investment earnings thereon. The contributions allocated to retiree health and Medicare, along with investment income on allocated assets and periodic adjustments in health care provisions, are expected to be sufficient to sustain the program indefinitely.

As of December 31, 2002, the estimated net assets available for future OPEB payments were \$10.0 billion per the latest actuarial review. The number of active contributing participants was 364,881.

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

Note 6 - Compensated Absences

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

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

Lucas Metropolitan Housing Authority

Notes to Financial Statements
June 30, 2004 and 2003

Note 6 - Compensated Absences (Continued)

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

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

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

All employees hired prior to December 1, 2001 become eligible for longevity pay at the end of five years of service, at which time longevity pay begins to accrue from their anniversary date. Union personnel hired December 1, 2001 and thereafter will not be eligible for longevity pay. Union personnel receive longevity pay at their 1995 pay levels at the rate of 2 percent, 4 percent, 6 percent, and 8 percent for five years, 10 years, 15 years, and 20 years of service, respectively. Nonunion personnel hired December 1, 2001 and thereafter are still eligible for longevity pay and receive longevity pay at their current pay levels at the rate of 1 percent, 2 percent, 3 percent, and 4 percent for five years, 10 years, 15 years, and 20 years of service, respectively. At June 30, 2004 and 2003, \$1,673,006 and \$1,371,691, respectively, of vested vacation, sick leave, and longevity was accrued by the Authority for both union and nonunion personnel. Nonvested amounts are not material to the financial statements and have not been accrued.

Lucas Metropolitan Housing Authority

Notes to Financial Statements
June 30, 2004 and 2003

Note 7 - Insurance

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

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

Note 8 - Commitments and Contingencies

Grants - The Authority received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Authority. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Authority at June 30, 2004 and 2003.

Commitments - The Authority is obligated to complete modernization phases to renovate various facilities. There are currently two open phases totaling \$2,044,301, for which the Authority has approved funding from HUD to complete.

Litigation and Claims - In the normal course of operations, the Authority may be subject to litigation and claims. At June 30, 2004 and 2003, the Authority was involved in several such matters. While the outcome of the above matters cannot presently be determined, management believes that their ultimate resolution will not have a material effect on the financial statements.

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Additional Information

Lucas Metropolitan Housing Authority

	Low Rent	Section 8 Program	Comprehensive Grant Program
Assets			
Current Assets			
Cash and cash equivalents	\$ 1,845,198	\$ 2,181,418	\$ -
Cash - Tenant security deposits	436,657	-	-
Investments	1,464,651	2,412,224	-
Due from other funds	1,765,621	-	14,515
Grants receivable	-	300,718	589,172
Tenant receivables - Net	113,589	-	-
Interest receivable	2,933	-	-
Inventory	564,438	724	-
Prepaid expenses	242,203	301,917	-
Total current assets	6,435,290	5,197,001	603,687
Noncurrent Assets			
Restricted cash and investments	-	292,112	-
Work in process	-	-	11,484,484
Property and equipment - Net	53,608,076	624	-
Total assets	<u>\$ 60,043,366</u>	<u>\$ 5,489,737</u>	<u>\$ 12,088,171</u>
Liabilities and Net Assets			
Current Liabilities			
Accounts payable	\$ 515,297	\$ 43	\$ 603,687
Accounts payable - HUD	-	252,246	-
Accounts payable - Other government	59,385	-	-
Security and other trust deposits	437,939	-	-
Accrued wages and payroll taxes	188,858	-	-
Due to other funds	-	1,505,987	-
Compensated absences	650,117	-	-
Other current liabilities	11,000	283,579	-
Total current liabilities	1,862,596	2,041,855	603,687
Noncurrent Liabilities - Compensated absences	1,022,889	-	-
Total liabilities	2,885,485	2,041,855	603,687
Net Assets			
Invested in capital assets - Net of related debt	53,608,076	624	11,484,484
Unrestricted net assets	3,549,805	3,447,258	-
Total net assets	<u>57,157,881</u>	<u>3,447,882</u>	<u>11,484,484</u>
Total liabilities and net assets	<u>\$ 60,043,366</u>	<u>\$ 5,489,737</u>	<u>\$ 12,088,171</u>

**Schedule of Net Assets by Program
June 30, 2004**

Resident Service Grants	Other	Elimination of Interfund Balances	Total
\$ -	\$ 2,003,271	\$ -	\$ 6,029,887
-	-	-	436,657
-	4,031,643	-	7,908,518
-	-	(1,780,136)	-
64,610	-	-	954,500
-	-	-	113,589
-	9,591	-	12,524
-	-	-	565,162
-	25,000	-	569,120
<u>64,610</u>	<u>6,069,505</u>	<u>(1,780,136)</u>	<u>16,589,957</u>
-	-	-	292,112
-	-	-	11,484,484
-	39,725	-	53,648,425
<u>\$ 64,610</u>	<u>\$ 6,109,230</u>	<u>\$ (1,780,136)</u>	<u>\$ 82,014,978</u>

\$ 16,749	\$ 16,481	\$ -	\$ 1,152,257
-	-	-	252,246
-	-	-	59,385
-	-	-	437,939
-	-	-	188,858
43,822	230,327	(1,780,136)	-
-	-	-	650,117
4,039	38,250	-	336,868
64,610	285,058	(1,780,136)	3,077,670
-	-	-	1,022,889
64,610	285,058	(1,780,136)	4,100,559
-	39,725	-	65,132,909
-	5,784,447	-	12,781,510
<u>-</u>	<u>5,824,172</u>	<u>-</u>	<u>77,914,419</u>
<u>\$ 64,610</u>	<u>\$ 6,109,230</u>	<u>\$ (1,780,136)</u>	<u>\$ 82,014,978</u>

Lucas Metropolitan Housing Authority

	Low Rent	Section 8 Program	Comprehensive Grant Program
Revenues			
HUD and other grants	\$ 8,602,494	\$ 22,886,192	\$ 6,979,042
Rental income	4,713,972	-	-
Loss on sale of property and equipment	(796,341)	-	-
Other income	424,375	376,298	-
Interest income	55,317	51,582	-
Operating transfer in	415,309	-	-
	<u>13,415,126</u>	<u>23,314,072</u>	<u>6,979,042</u>
Total revenues	13,415,126	23,314,072	6,979,042
Expenses			
Housing assistance payments	-	20,508,742	-
Administrative salaries and benefits	3,514,372	1,510,694	565,043
Utilities	4,135,082	29,479	-
Maintenance - Material and labor	3,876,161	7,613	812,266
Sundry administration	1,241,949	394,368	136,503
Contract services	1,253,066	-	38,379
Resident services	502,205	-	128,657
General	955,386	94,277	-
Nonroutine maintenance	8,013	-	-
Protective service	40,700	816	-
Operating transfer out	-	-	415,309
	<u>15,526,934</u>	<u>22,545,989</u>	<u>2,096,157</u>
Total expenses	15,526,934	22,545,989	2,096,157
Change in Net Assets - Before depreciation and unrealized loss on investments	(2,111,808)	768,083	4,882,885
Depreciation	6,429,435	4,155	-
Unrealized Loss on Investments	34,650	-	-
Change in Net Assets	<u>\$ (8,575,893)</u>	<u>\$ 763,928</u>	<u>\$ 4,882,885</u>

**Schedule of Revenues, Expenses, and Changes in Net Assets by Program
Year Ended June 30, 2004**

Resident Service	Grants	Other	Total
	\$ 689,953	\$ -	\$ 39,157,681
	-	48,035	4,762,007
	-	-	(796,341)
	-	493,755	1,294,428
	-	115,842	222,741
	-	-	415,309
	<u>689,953</u>	<u>657,632</u>	<u>45,055,825</u>
	-	-	20,508,742
	-	230,534	5,820,643
	-	46,991	4,211,552
	-	1,011	4,697,051
	-	241,277	2,014,097
	-	27,176	1,318,621
	689,953	14,556	1,335,371
	-	40,324	1,089,987
	-	93,256	101,269
	-	860	42,376
	-	-	415,309
	<u>689,953</u>	<u>695,985</u>	<u>41,555,018</u>
	-	(38,353)	3,500,807
	-	13,052	6,446,642
	-	42,120	76,770
	<u>\$ -</u>	<u>\$ (93,525)</u>	<u>\$ (3,022,605)</u>

Lucas Metropolitan Housing Authority

Schedule of Units Under Management

The PHA had the following units under management at June 30, 2004 and 2003:

	Year Ended June 30	
	2004	2003
	(in Units)	
PHA owned housing - OH00600104	3,101	3,101
Moderate rehabilitation - OH006-MR-004	47	76
Voucher - OH006-V0	3,684	3,681
New construction:		
OH006-NCO-003	120	120
OH006-SBO-010	159	159
OH006-NCO-044	40	40
OH006-NCO-019	229	229
OH006-NCA-003	30	30
OH006-NCO-004	20	20
	7,430	7,456
Total	7,430	7,456

Lucas Metropolitan Housing Authority

Actual Modernization Cost Certification Fiscal Year Ended June 30, 2004

Comprehensive Grant Program OH12P006501-01

Funds approved	\$ 6,372,242
Funds expended	<u>6,372,242</u>
Excess (deficiency) of funds approved	<u>\$ -</u>
Funds advanced	\$ 6,372,242
Funds expended	<u>6,372,242</u>
Excess (deficiency) of funds approved	<u>\$ -</u>

Notes:

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

Lucas Metropolitan Housing Authority

Actual Comprehensive Grant Cost Certificate Comprehensive Grant Program (CGP)

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

OMB Approval No. 2577-0157
(Exp. 06/30/2005)

PHA/HA Name Lucas Metropolitan Housing Authority	Comprehensive Grant Number OH12P00650101
	FFY of Grant Approval 2001

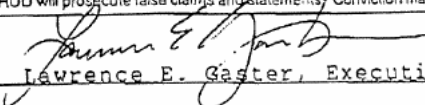
The PHA/HA hereby certifies to the Department of Housing and Urban Development as follows:

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

A. Original Funds Approved	\$ 6,372,242.00
B. Revised Funds Approved	\$ -0-
C. Funds Advanced	\$ 6,372,242.00
D. Funds Expended (Actual Modernization Cost)	\$ 6,372,242.00
E. Amount to be Recaptured (A-D)	\$ -0-
F. Excess of Funds Advanced (C-D)	\$ -0-

- That all modernization work in connection with the Comprehensive Grant has been completed;
- That the entire Actual Modernization Cost or liabilities therefor incurred by the PHA have been fully paid;
- That there are no undischarged mechanics', laborers', contractors', or material-men's liens against such modernization work on file in any public office where the same should be filed in order to be valid against such modernization work; and
- That the time in which such liens could be filed has expired.

I hereby certify that all the information stated herein, as well as any information provided in the accompaniment here-with, is true and accurate.
Warning: HUD will prosecute false claims and statements; Conviction may result in criminal and/or civil penalties. (18 U.S.C. 1001, 1010, 1012; 31 U.S.C. 3729, 3802)

Signature  Lawrence E. Gaster, Executive Director	Date 10/27/04
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For HUD Use Only

The Cost Certificate is approved for audit.

Approved for Audit (Director, Public Housing Division) <i>SCR 11/02/04</i>	Date 11/4/04
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The audited costs agree with the costs shown above.
Verified (Director, Public Housing Division)

Approved (Field Office Manager)	Date
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Lucas Metropolitan Housing Authority

**Federal Awards
Supplemental Information
June 30, 2004**

Lucas Metropolitan Housing Authority

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Independent Auditor's Report

To the Board of Commissioners
Lucas Metropolitan Housing Authority

We have audited the basic financial statements of Lucas Metropolitan Housing Authority for the year ended June 30, 2004 and have issued our report thereon dated October 18, 2004. Those basic financial statements are the responsibility of the management of Lucas Metropolitan Housing Authority. Our responsibility was to express an opinion on those basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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. We believe that our audit provides a reasonable basis for our opinion.

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

Plante & Moran, PLLC

October 18, 2004

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

To the Board of Commissioners
Lucas Metropolitan Housing Authority

We have audited the financial statements of Lucas Metropolitan Housing Authority as of and for the year ended June 30, 2004 and have issued our report thereon dated October 18, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

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

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

Plante & Moran, PLLC

October 18, 2004

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

To the Board of Commissioners
Lucas Metropolitan Housing Authority

Compliance

We have audited the compliance of Lucas Metropolitan Housing Authority with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended June 30, 2004. The major federal program of Lucas Metropolitan Housing Authority is 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 its major federal program is the responsibility of Lucas Metropolitan Housing Authority's management. Our responsibility is to express an opinion on Lucas Metropolitan Housing Authority's compliance based on our audit.

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

In our opinion, Lucas Metropolitan Housing Authority complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2004.

Internal Control Over Compliance

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

To the Board of Commissioners
Lucas Metropolitan Housing Authority

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

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

Plante & Moran, PLLC

October 18, 2004

Lucas Metropolitan Housing Authority

Schedule of Expenditures of Federal Awards Year Ended June 30, 2004

Federal Agency/Pass-through Agency/Program Title	CFDA Number	Pass-through Entity Project/Grant Number	Award Amount	Federal Expenditures
<u>U.S. Department of Housing and Urban Development</u>				
Direct programs:				
Low Income Public Housing	14.850	C-5005	\$ 8,602,494	\$ 8,602,494
Lower Income Housing Assistance Program - Voucher	14.871	C-5035	18,226,231	18,226,231
Lower Income Section 8 Project Based Cluster:				
Lower Income Housing Assistance Program Moderate Rehabilitation	14.856	C-5035	363,319	363,319
Lower Income Housing Assistance Program New Construction	14.182	C-5035	4,293,281	4,293,282
Total Lower Income Section 8 Project Based Cluster				4,656,601
Public Housing Capital Fund Program 2001	14.872	501-01	6,372,242	110,561
Public Housing Capital Fund Program 2002	14.872	501-02	5,920,071	2,733,985
Public Housing Capital Fund Program 2003	14.872	501-03	4,870,945	4,091,184
Public Housing Capital Fund Program 2003	14.872	502-03	992,281	43,313
Total Public Housing Capital Fund Program Grant Programs				6,979,043
Public Housing Drug Elimination Program 2001	14.854	OH12-DEP	787,933	202,235
Resident Opportunities and Support Services - 1999	14.870	OH99RSF-133	250,000	40,012
Resident Opportunities and Support Services - 2001	14.870	OH01RSF-109	500,000	163,413
Resident Opportunities and Support Services - 2002	14.870	OH01RSV-012	456,750	241,401
Total resident opportunities and support services				444,826
Total federal assistance				<u>\$ 39,111,430</u>

Lucas Metropolitan Housing Authority

Reconciliation of Basic Financial Statements Federal Revenue with Schedule of Expenditures of Federal Awards Year Ended June 30, 2004

HUD and other grants - As reported on financial statements (includes all grants and funds)	\$ 39,157,681
Less: State and other revenue reported as grant revenue	<u>(46,251)</u>
Federal expenditures per the schedule of expenditures of federal awards	<u>\$ 39,111,430</u>

Lucas Metropolitan Housing Authority

Notes to Schedule of Expenditures of Federal Awards Year Ended June 30, 2004

Note 1 - Significant Accounting Policies

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

Note 2 - Subrecipient Awards

Of the federal expenditures presented in the schedule, federal awards were provided to subrecipients as follows:

<u>Federal Program</u>	<u>CFDA Number</u>	<u>Description</u>	<u>Amount</u>
Lower Income Housing Assistance Program New Construction	14.182	Passed through to various project owners	\$4,098,718

Lucas Metropolitan Housing Authority

Schedule of Findings and Questioned Costs Year Ended June 30, 2004

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major program(s):

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

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

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

Identification of major program(s):

CFDA Number	Cluster/Program Title
14.871	Lower Income Housing Assistance Program - Voucher

Dollar threshold used to distinguish between type A and type B programs: \$1,173,343

Auditee qualified as low-risk auditee? Yes No

Lucas Metropolitan Housing Authority

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2004

Section II - Financial Statement Audit Findings

Current Year Findings

None

Prior Year Findings

None

Section III - Federal Program Audit Findings

Current Year Findings

None

Prior Year Findings

Program Name - CFDA #14.871 Lower Income Assistance Program - Voucher

Finding Type - (L) Noncompliance

Summary of Finding: The HUD Rental and Integrity Monitoring Report (RIM) for the review conducted on June 23, 2003 noted an outdated utility schedule and the lack of some tenant documentation in their files, despite much effort to obtain on the part of LMHA (16 out of 41 files tested were lacking some documentation).

Resolution: LMHA provided a timely response to HUD and all issues were cleared. No further findings were noted.

Master Document Basic Letters

FIELD	VALUES
ClientName	Lucas Metropolitan Housing Authority
TheClientName	Lucas Metropolitan Housing Authority
NamePlural	Lucas Metropolitan Housing Authority's
Salutation	Board of Commissioners
Year End	June 30, 2004
GPFSBasicReportDate	October 18, 2004
ComplianceAuditReportDate	October 18, 2004
ManagementLetterDate	October 18, 2004
DepartureFromFsUnqualified	InsertJ
BasicGeneralPurpose	basic
Entities	management

Master Document Findings

FIELD	VALUES
FSNoncomplianceFindings	FindingI
FSReportableConditionFindings	FindingJ
FSMaterialWeaknessFindings	FindingK
MajorFANoncomplianceFindings	FindingL
MajorFAReportableConditionFindings	FindingM
MajorFAMaterialWeaknessFindings	FindingN



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LUCAS METROPOLITAN HOUSING AUTHORITY

LUCAS COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
FEBRUARY 10, 2005**