

LORAIN METROPOLITAN HOUSING AUTHORITY

AUDIT REPORT

FOR THE YEARS ENDED JUNE 30, 2005 AND 2004



**Auditor of State
Betty Montgomery**

Board of Commissioners
Lorain Metropolitan Housing Authority
1600 Kansas Avenue
Lorain, Ohio 44052

We have reviewed the Independent Auditors' Report of the Lorain Metropolitan Housing Authority, Lorain County, prepared by James G. Zupka, CPA, Inc. for the audit period July 1, 2004 through June 30, 2005. 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 Lorain Metropolitan Housing Authority is responsible for compliance with these laws and regulations.

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

BETTY MONTGOMERY
Auditor of State

January 23, 2006

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**LORAIN METROPOLITAN HOUSING AUTHORITY
AUDIT REPORT
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004**

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JAMES G. ZUPKA, C.P.A., INC.

Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Lorain Metropolitan Housing Authority
Lorain, Ohio

Regional Inspector General of Audit
Department of Housing and Urban
Development

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of the Lorain Metropolitan Housing Authority (the Authority) as of June 30, 2005, and for the year then ended, as listed in the foregoing table of contents. These basic financial statements are the responsibility of the Lorain Metropolitan Housing Authority's management. Our responsibility is to express an opinion on these basic financial statements based on our audit. The financial statements of the Lorain Metropolitan Housing Authority as of June 30, 2004 were audited by other auditors whose report dated August 31, 2004 expressed an unqualified opinion on those statements.

We conducted our audit in accordance with generally accepted auditing standards in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that 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 and report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the report of other auditors, the financial statements present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of the Lorain Metropolitan Housing Authority as of June 30, 2005, and the results of its operations and the 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 September 30, 2005, on our consideration of the Lorain Metropolitan Housing Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. 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 read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information the Governmental Accounting Standards Board requires. We applied limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion thereon.

Our audit was performed for the purpose of forming an opinion on the basic financial statements taken a whole. The accompanying Schedule of Federal Awards Expenditures is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Government and Non-Profit Organizations* and is not a required part of the financial statements. The combining Financial Data Schedules (FDS) and Schedule of Completed Grant Certificates are presented for purposes of additional analysis as required by the Department of Housing and Urban Development and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

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

September 30, 2005

**LORAIN METROPOLITAN HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2005
(Unaudited)**

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

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

FINANCIAL HIGHLIGHTS

- The Authority's net assets decreased by \$636,642, or 1.8 percent, during 2005. Since the Authority engages only in business-type activities, the decrease is all in the category of business-type net assets. Net assets were \$38,975,478 and \$39,612,120 for 2005 and 2004, respectively.
- The business-type activities revenue decreased by \$1,521,124, or 5.3 percent, during 2005 and were \$26,996,255 and \$28,517,379 for 2005 and 2004, respectively.
- The total expenses, before extraordinary items, of all Authority programs decreased by \$434,733, or 1.5 percent. Total expenses, before extraordinary items, were \$27,919,397 and \$28,354,130 for 2005 and 2004, respectively.

Financial Statements

The Authority's financial statements include a Statement of Net Assets, which is similar to a balance sheet. The Statement of Net Assets reports all financial and capital resources of the Authority. The Statement is presented in a format where assets minus liabilities equal Net Assets, formerly known as equity. Assets and liabilities are presented in order of liquidity and are classified as "current" (convertible into cash within one year) and "non-current".

The focus of the Statement of Net Assets (the "unrestricted" net assets) is designed to represent the net available liquid (non-capital) assets, net of liabilities, for the entire Authority. Net assets (formerly equity) are reported in three broad categories.

Net Assets, Invested in Capital Assets, Net of Related Debt: This component of net assets consists of capital assets, reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

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

**LORAIN METROPOLITAN HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2005
(Unaudited)**

Unrestricted Net Assets: Consists of net assets that do not meet the definition of "Net Assets Invested in Capital Assets, Net of Related Debt", or "Restricted Net Assets".

The financial statements include a Statement of Revenues, Expenses, and Changes in Net Assets", which is similar to an income statement. This Statement includes Operating Revenues, such as rental income; Operating Expenses, such as administrative, utilities, and maintenance, and depreciation; and Non-Operating Revenue and Expenses, such as grant revenue, investment income, and interest expense.

The focus of the Statement of Revenues, Expenses, and Changes in Net Assets is the "Changes in Net Assets", which is similar to Net Income or Loss.

Finally, a Statement of Cash Flows is included, which discloses net cash provided by or used for operating activities, investing activities, and from capital and related financing activities.

The Authority's Programs

Conventional Public Housing - Under the Conventional Public Housing Program, the Authority rents units that it owns to low-income households. The Conventional Public Housing Program is operated under an Annual Contributions Contract (ACC) with HUD, and HUD provides operating subsidy and capital grant funding (previously known as Comprehensive Grant funding) to enable the PHA 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.

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

Drug Elimination Program - This grant program, funded by the Department of Housing and Urban Development, is intended to reduce the use of illegal drugs within the Authority's properties.

Resident Opportunities and Self-Sufficiency Program - This grant program, funded by the Department of Housing and Urban Development, is intended to assist residents to become economically self-sufficient by providing supportive services and resident empowerment activities.

Shelter Plus Care Program - This grant program, funded by the Department of Housing and Urban Development, is designed to link rental assistance to supportive services for hard-to-reach homeless persons with disabilities (primarily those who are seriously mentally ill, have chronic problems with alcohol, drugs, or both, or have acquired immune deficiency syndrome (AIDS) and related diseases), and their families.

**LORAIN METROPOLITAN HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2005
(Unaudited)**

Component Unit - The Lorain County Elderly Housing Corporation (LCEHC), a 501 c(3) not-for-profit entity, was organized for the purpose of providing a comprehensive and coordinated system of services for the elderly in the Lorain County area of northeastern Ohio. LCEHC consists of two 100 unit apartment complexes located in Elyria and Lorain.

Business Activities - These non-HUD resources were developed from a variety of activities.

AUTHORITY-WIDE STATEMENTS

Statement of Net Assets

The following table reflects the condensed Statement of Net Assets compared to prior year. The Authority is engaged only in business-type activities.

Table 1 - Statement of Net Assets

	2005	2004
<u>Assets</u>		
Current and Other Assets	\$ 11,375,865	\$ 10,382,502
Capital Assets	<u>34,459,499</u>	<u>35,449,013</u>
Total Assets	<u>45,835,364</u>	<u>45,831,515</u>
<u>Liabilities</u>		
Other Liabilities	2,314,584	1,518,251
Long-Term Liabilities	<u>4,545,302</u>	<u>4,701,144</u>
Total Liabilities	<u>6,859,886</u>	<u>6,219,395</u>
<u>Net Assets</u>		
Invested in Capital Assets, Net of Related Debt	31,044,594	32,019,471
Restricted	972,577	965,896
Unrestricted	<u>6,958,307</u>	<u>6,626,753</u>
Total Net Assets	<u>\$38,975,478</u>	<u>\$39,612,120</u>

For more detailed information, see the Statement of Net Assets.

Major Factors Affecting the Statement of Net Assets

Currently assets were increased by \$993,363 while current liabilities were increased by \$796,333. Current assets, primarily cash and investments, increased primarily due to overfunding of the Section 8 program, which was caused by a decreased average housing assistance payment during the fiscal year. Current liabilities increased primarily due to the preceding.

Capital assets also changed significantly, decreasing from \$35,449,013 to \$34,459,499. The \$989,514 decrease may be attributed primarily to a combination of net acquisitions (\$1,765,238), less current year depreciation (\$2,750,757). For more detail, see the section Capital Assets and Debt Administration.

**LORAIN METROPOLITAN HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2005
(Unaudited)**

Table 2 - Change of Unrestricted Net Assets

Unrestricted Net Assets at 6/30/2004	\$ 6,626,753
Results of Operations	(636,643)
Adjustments:	
Depreciation (1)	<u>2,747,428</u>
Adjusted Results from Operations	2,110,785
Capital Expenditures	<u>(1,779,231)</u>
Unrestricted Net Assets at 6/30/2005	<u>\$ 6,958,307</u>

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

While the results of operations is a significant measure of the Authority's activities, the analysis of the changes in Unrestricted Net Assets provides a clearer change in financial well-being.

Table 3 - Statement of Revenues, Expenses, and Changes in Net Assets

	<u>2005</u>	<u>2004</u>
<u>Revenues</u>		
Tenant Revenue - Rents and Other	\$ 2,324,502	\$ 2,315,145
Operating Subsidies and Grants	23,223,214	23,471,989
Capital Grants	1,276,377	2,513,516
Investment Income	223,717	123,802
Other Revenues	<u>172,162</u>	<u>216,729</u>
Total Revenues	<u>27,219,972</u>	<u>28,641,181</u>
<u>Expenses</u>		
Administrative	3,616,892	3,458,964
Tenant Services	131,180	193,922
Utilities	1,540,845	1,469,569
Maintenance	2,921,781	2,883,179
Protective Services	388,443	460,477
General	800,966	938,847
Housing Assistance Payments	15,771,862	16,209,677
Depreciation	<u>2,747,428</u>	<u>2,739,495</u>
Total Expenses before Extraordinary Item	27,919,397	28,354,130
Extraordinary Item	<u>(62,782)</u>	<u>0</u>
Total Expenses after Extraordinary Item	<u>27,856,615</u>	<u>28,354,130</u>
Net Increase/(Decrease)	<u>\$ (636,643)</u>	<u>\$ 287,051</u>

**LORAIN METROPOLITAN HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2005
(Unaudited)**

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

Total revenues decreased by \$1,421,209. This net decrease is a result of a substantial decrease in the Capital Fund modernization building activity in fiscal year 2005. In years of increased planning activity, revenue will be down when compared to years of increased building activity.

Total expenses before extraordinary items decreased \$438,633 primarily due to the change in Section 8 funding from unit based to budget based and from fiscal year to calendar year funding.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of year end, the Authority had \$34,459,499 invested in a variety of capital assets as reflected in the following schedule, which represents a net decrease (additions, deductions, and depreciation) of \$989,514 from the end of last year.

Table 4 - Capital Asset at Year-End (Net of Depreciation)

	2005	2004
Land	\$ 5,094,577	\$ 5,013,988
Buildings	65,655,707	62,984,738
Office Equipment	702,897	680,713
Maintenance Equipment	262,876	284,012
Vehicles	635,905	608,343
Construction in Progress	454,664	1,510,284
Less Accumulated Depreciation	(38,347,128)	(35,633,064)
Total Capital Assets	<u>\$34,459,498</u>	<u>\$35,449,014</u>

The following reconciliation summarizes the change in Capital Assets, which is presented in detail in the notes on capital assets.

Table 5 - Change in Capital Assets

Beginning Balance	\$35,449,013
Additions	1,724,551
Retirements, net of Depreciation	
Depreciation	(2,714,065)
Ending Balance	<u>\$34,459,499</u>

This year's major additions are:

Capital Improvements Programs (modernization completed on variety of the Authority's Public Housing complexes)	\$ 1,615,350
Equipment Purchases	28,612
Land Purchases	80,589

**LORAIN METROPOLITAN HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2005
(Unaudited)**

Debt Outstanding

As of the year-end, the Authority's component unit had \$4,430,000 in debt (bonds) outstanding compared to \$4,595,000 last year, a \$165,000 decrease (debt retirement). No other debt was outstanding.

Table 6 - Outstanding Debt at Year-End

	2005	2004
Refinance of Construction and Acquisition	\$ 4,430,000	\$ 4,595,000
Less: Current Portion	(175,000)	(165,000)
Total Outstanding Debt	\$ 4,255,000	\$ 4,430,000

ECONOMIC FACTORS

Significant economic factors affecting the Authority are as follows:

- Federal funding of the Department of Housing and Urban Development and the subsidies provided to the Authority by the Department of Housing and Urban Development.
- Local labor supply and demand, which can affect salary and wage rates.
- Local inflationary, recessionary, and employment trends, which can affect resident incomes and therefore the amount of rental income.
- Inflationary pressure on utility rates, employee health care costs, insurances, rents, supplies, and other costs.

FINANCIAL CONTACT

Information regarding this report can be obtained by contacting the Finance Director of the Lorain Metropolitan Housing Authority. Specific requests may be submitted to Finance Director, Lorain Metropolitan Housing Authority, 1600 Kansas Avenue, Lorain, Ohio 44052.

LORAIN METROPOLITAN HOUSING AUTHORITY
STATEMENT OF NET ASSETS
JUNE 30, 2005

	June 30, 2005			June 30, 2004		
	Primary	Component		Primary	Component	
	<u>Government</u>	<u>Unit</u>		<u>Government</u>	<u>Unit</u>	
	Lorain Metropolitan Housing Authority	Lorain County Elderly Housing Corporation	Total (Memorandum Only)	Lorain Metropolitan Housing Authority	Lorain County Elderly Housing Corporation	Total (Memorandum Only)
ASSETS						
Current Assets						
Cash and Equivalents:						
Cash and Cash Equivalents	\$ 1,025,909	\$ 146,232	\$ 1,172,141	\$ 848,473	\$ 235,360	\$ 1,083,833
Cash - Restricted	77,497	0	77,497	91,383	0	91,383
Cash - Tenant Security Deposits	<u>150,156</u>	<u>40,042</u>	<u>190,198</u>	<u>138,955</u>	<u>39,208</u>	<u>178,163</u>
Total Cash and Cash Equivalents	<u>1,253,562</u>	<u>186,274</u>	<u>1,439,836</u>	<u>1,078,811</u>	<u>274,568</u>	<u>1,353,379</u>
Accounts and Notes Receivable:						
HUD - Other Projects	571,758	0	571,758	334,441	0	334,441
Miscellaneous	68,402	4,724	73,126	3,223	7,653	10,876
Tenants, Net	74,168	6,726	80,894	56,033	2,303	58,336
Fraud Recovery Receivable	86,100	0	86,100	79,442	0	79,442
Accrued Interest Receivable	<u>55,711</u>	<u>18,116</u>	<u>73,827</u>	<u>16,484</u>	<u>6,468</u>	<u>22,952</u>
Total Accounts and Notes Receivable	<u>856,139</u>	<u>29,566</u>	<u>885,705</u>	<u>489,623</u>	<u>16,424</u>	<u>506,047</u>
Other Current Assets:						
Investments - Unrestricted	5,834,000	1,987,000	7,821,000	5,260,000	2,015,000	7,275,000
Investments - Restricted	0	895,080	895,080	0	874,513	874,513
Inventories, Net	217,436	0	217,436	235,431	0	235,431
Prepaid Expenses and Other Assets	29,164	14,809	43,973	99,455	23,278	122,733
Interprogram Due from Other Entities	<u>72,835</u>	<u>0</u>	<u>72,835</u>	<u>15,399</u>	<u>0</u>	<u>15,399</u>
Total Other Current Assets	<u>6,153,435</u>	<u>2,896,889</u>	<u>9,050,324</u>	<u>5,610,285</u>	<u>2,912,791</u>	<u>8,523,076</u>
Total Current Assets	<u>8,263,136</u>	<u>3,112,729</u>	<u>11,375,865</u>	<u>7,178,719</u>	<u>3,203,783</u>	<u>10,382,502</u>
Non-Current Assets						
Capital Assets						
Land, Structures, and Equipment	65,294,899	7,511,727	72,806,626	63,765,640	7,316,439	71,082,079
Less Accumulated Depreciation	<u>(34,573,686)</u>	<u>(3,773,441)</u>	<u>(38,347,127)</u>	<u>(32,046,505)</u>	<u>(3,586,561)</u>	<u>(35,633,066)</u>
Total Non-Current Assets	<u>30,721,213</u>	<u>3,738,286</u>	<u>34,459,499</u>	<u>31,719,135</u>	<u>3,729,878</u>	<u>35,449,013</u>
TOTAL ASSETS	<u>\$ 38,984,349</u>	<u>\$ 6,851,015</u>	<u>\$ 45,835,364</u>	<u>\$38,897,854</u>	<u>\$ 6,933,661</u>	<u>\$45,831,515</u>

See notes to the financial statements

LORAIN METROPOLITAN HOUSING AUTHORITY
STATEMENT OF NET ASSETS
JUNE 30, 2005
(CONTINUED)

	June 30, 2005			June 30, 2004		
	Primary	Component		Primary	Component	
	Government	Unit		Government	Unit	
	Lorain	Lorain County	Total	Lorain	Lorain County	Total
Metropolitan	Elderly	Metropolitan		Elderly	Total	
	Housing	Housing	(Memorandum	Housing	Housing	(Memorandum
	Authority	Corporation	Only)	Authority	Corporation	Only)
LIABILITIES						
Current Liabilities						
Accounts Payable	\$ 146,337	\$ 4,267	\$ 150,604	\$ 239,834	\$ 94,543	\$ 334,377
Accrued Wages and Payroll Taxes	217,648	17,479	235,127	196,644	16,250	212,894
Accrued Compensated Absences	208,956	16,477	225,433	194,613	10,895	205,508
Accrued Interest Payable	0	129,438	129,438	0	134,260	134,260
Accounts Payable - HUD PHA Programs	814,337	0	814,337	0	0	0
Accounts Payable - PHA Projects	0	0	0	14,954	0	14,954
Accounts Payable - PILOT and Other	18,364	24,839	43,203	31,960	22,090	54,050
Tenant Security Deposits	138,189	40,036	178,225	138,955	39,208	178,163
Current Portion of Long-Term Debt	0	175,000	175,000	0	165,000	165,000
Other Current Liabilities	290,357	25	290,382	196,009	7,638	203,647
Interprogram Due to Other Entities	0	72,835	72,835	0	15,398	15,398
Total Current Liabilities	1,834,188	480,396	2,314,584	1,012,969	505,282	1,518,251
Non-Current Liabilities						
Long-Term Debt, Net of Current Portion	0	4,255,000	4,255,000	0	4,430,000	4,430,000
Accrued Compensated Absences	113,641	11,803	125,444	93,231	4,824	98,055
Non-Current Liabilities - FSS Escrow and Others	164,858	0	164,858	173,089	0	173,089
Total Non-Current Liabilities	278,499	4,266,803	4,545,302	266,320	4,434,824	4,701,144
TOTAL LIABILITIES	2,112,687	4,747,199	6,859,886	1,279,289	4,940,106	6,219,395
NET ASSETS						
Invested in Capital Assets, Net of Related Debt	30,721,212	323,382	31,044,594	31,719,136	300,335	32,019,471
Temporarily Restricted Net Assets	77,497	895,080	972,577	91,383	874,513	965,896
Unrestricted Net Assets	6,072,953	885,354	6,958,307	5,808,046	818,707	6,626,753
TOTAL NET ASSETS	36,871,662	2,103,816	38,975,478	37,618,565	1,993,555	39,612,120
TOTAL LIABILITIES AND NET ASSETS	\$ 38,984,349	\$ 6,851,015	\$ 45,835,364	\$ 38,897,854	\$ 6,933,661	\$ 45,831,515

See notes to the financial statements.

LORAIN METROPOLITAN HOUSING AUTHORITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

	June 30, 2005			June 30, 2004		
	Primary Government	Component Unit		Primary Government	Component Unit	
	Lorain Metropolitan Housing Authority	Lorain County Elderly Housing Corporation		Lorain Metropolitan Housing Authority	Lorain County Elderly Housing Corporation	
		Total (Memorandum Only)		Total (Memorandum Only)		
Operating Revenue						
Net Tenant Rental Revenue	\$ 1,699,680	\$ 481,939	\$ 2,181,619	\$ 1,697,739	\$ 459,774	\$ 2,157,513
Tenant Revenue - Other	137,878	5,005	142,883	153,142	4,490	157,632
	<u>1,837,558</u>	<u>486,944</u>	<u>2,324,502</u>	<u>1,850,881</u>	<u>464,264</u>	<u>2,315,145</u>
HUD PHA Operating Grants	22,365,038	858,176	23,223,214	22,614,760	857,229	23,471,989
Fraud Recovery Receivable	35,821	0	35,821	35,071	0	35,071
Other Revenue	130,047	7,495	137,542	102,361	6,980	109,341
Gain (loss) on capital assets	(1,201)	0	(1,201)	72,417	(100)	72,317
Total Operating Revenues	<u>24,367,263</u>	<u>1,352,615</u>	<u>25,719,878</u>	<u>24,675,490</u>	<u>1,328,373</u>	<u>26,003,863</u>
Operating Expenses						
Administrative	3,301,651	315,241	3,616,892	3,199,040	259,924	3,458,964
Tenant Services	130,902	278	131,180	191,340	2,582	193,922
Utilities	1,326,054	214,791	1,540,845	1,239,061	230,508	1,469,569
Ordinary Maintenance and Operation	2,670,617	251,164	2,921,781	2,680,520	202,659	2,883,179
Protective Services	388,443	0	388,443	434,612	25,865	460,477
Insurance Premiums	260,643	28,182	288,825	266,446	21,045	287,491
Other General Expenses	0	0	0	(2)	3	1
Payments in Lieu of Taxes	18,819	24,819	43,638	32,411	22,090	54,501
Bad Debt	80,568	5,754	86,322	102,597	5,145	107,742
Severance Expense	1,880	0	1,880	13,861	0	13,861
Extraordinary Maintenance	90,887	0	90,887	155,316	0	155,316
Casualty Losses - Non-Capitalized	6,564	0	6,564	26,643	0	26,643
Housing Assistance Payments	15,771,862	0	15,771,862	16,209,677	0	16,209,677
Depreciation Expense	2,560,547	186,881	2,747,428	2,571,751	167,744	2,739,495
Total Operating Expenses	<u>26,609,437</u>	<u>1,027,110</u>	<u>27,636,547</u>	<u>27,123,273</u>	<u>937,565</u>	<u>28,060,838</u>
Operating Income	<u>(2,242,174)</u>	<u>325,505</u>	<u>(1,916,669)</u>	<u>(2,447,783)</u>	<u>390,808</u>	<u>(2,056,975)</u>
Non-Operating Revenues (Expenses)						
Investment Income - Unrestricted	150,807	54,599	205,406	81,871	34,005	115,876
Investment Income - Temporarily Restricted	5,304	13,007	18,311	1,559	6,367	7,926
Interest Expense	0	(282,850)	(282,850)	0	(293,292)	(293,292)
Total Non-Operating Revenues (Expenses)	<u>156,111</u>	<u>(215,244)</u>	<u>(59,133)</u>	<u>83,430</u>	<u>(252,920)</u>	<u>(169,490)</u>
Income (Loss) Before Capital Contributions and Extraordinary Item	(2,086,063)	110,261	(1,975,802)	(2,364,353)	137,888	(2,226,465)
Capital Contributions	1,276,377	0	1,276,377	2,507,108	6,408	2,513,516
Extraordinary Item	62,782	0	62,782	0	0	0
Change in Net Assets	(746,904)	110,261	(636,643)	142,755	144,296	287,051
Total Net Assets - Beginning	<u>37,618,566</u>	<u>1,993,555</u>	<u>39,612,121</u>	<u>37,475,811</u>	<u>1,849,259</u>	<u>39,325,070</u>
Total Net Assets - Ending	<u>\$36,871,662</u>	<u>\$ 2,103,816</u>	<u>\$38,975,478</u>	<u>\$37,618,566</u>	<u>\$ 1,993,555</u>	<u>\$39,612,121</u>

See notes to the financial statements.

LORAIN METROPOLITAN HOUSING AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

	June 30, 2005			June 30, 2004		
	Primary Government Lorain Metropolitan Housing Authority	Component Unit Lorain County Elderly Housing Corporation	Total (Memorandum Only)	Primary Government Lorain Metropolitan Housing Authority	Component Unit Lorain County Elderly Housing Corporation	Total (Memorandum Only)
Cash Flows from Operating Activities						
Tenant Revenue Received	\$ 1,819,423	\$ 482,521	\$ 2,301,944	\$ 1,857,895	\$ 465,335	\$ 2,323,230
Other Revenue Received	92,064	11,252	103,316	181,765	7,643	189,408
General and Administrative Expenses Paid	(23,063,658)	(913,110)	(23,976,768)	(26,314,898)	(700,201)	(27,015,099)
Net Cash Provided (Used) by Operating Activities	(21,152,171)	(419,337)	(21,571,508)	(24,275,238)	(227,223)	(24,502,461)
Cash Flows from Non-Capital Financing Activities						
Government Operating Grants Received	22,412,525	858,176	23,270,701	22,786,484	858,462	23,644,946
Increases/Decreases in Due To/ Due From Related Activity	(57,437)	57,437	0	(6,675)	6,674	(1)
Net Cash Provided (Used) by Financing Activities	22,355,088	915,613	23,270,701	22,779,809	865,136	23,644,945
Cash Flows from Capital and Related Financing Activities						
Government Capital Grants Received	991,573	0	991,573	2,893,256	6,408	2,899,664
Purchases of Land, Structures, and Equipment	(1,566,618)	(195,289)	(1,761,907)	(2,797,660)	(571,175)	(3,368,835)
Payments to Retire Long-Term Debt	0	(165,000)	(165,000)	0	(155,000)	(155,000)
Interest Paid	0	(287,672)	(287,672)	0	(297,271)	(297,271)
Disposal of Land, Structures, and Equipment	3,995	0	3,995	2,508	100	2,608
Net Cash Provided (Used) by Capital and Related Financing Activities	(571,050)	(647,961)	(1,219,011)	98,104	(1,016,938)	(918,834)
Cash Flows from Investing Activities						
Purchase from Investments	(11,116,000)	(6,381,570)	(17,497,570)	(15,181,534)	(8,130,166)	(23,311,700)
Proceeds from Sale of Investments	10,542,000	6,389,003	16,931,003	9,921,531	6,100,658	16,022,189
Interest Received	116,884	55,958	172,842	66,946	33,904	100,850
Net Cash Provided (Used) by Investing Activities	(457,116)	63,391	(393,725)	(5,193,057)	(1,995,604)	(7,188,661)
Increase (Decrease in Cash and Cash Equivalents	174,751	(88,294)	86,457	(6,590,382)	(2,374,629)	(8,965,011)
Cash and Cash Equivalents - Beginning of Year	1,078,811	274,568	1,353,379	7,669,193	2,649,197	10,318,390
Cash and Cash Equivalents - End of Year	\$ 1,253,562	\$ 186,274	\$ 1,439,836	\$ 1,078,811	\$ 274,568	\$ 1,353,379
Reconciliation of Operating Income to Net Cash Provided by Operating Activities						
Change in Net Assets	\$ (746,904)	\$ 110,261	\$ (636,643)	\$ 142,755	\$ 144,296	\$ 287,051
Adjustments to Change in Net Assets:						
HUD PHA Operating Grants	(22,365,038)	(858,176)	(23,223,214)	(22,614,760)	(857,229)	(23,471,989)
Capital Grants	(1,276,377)	0	(1,276,377)	(2,507,108)	(6,408)	(2,513,516)
Interest Income/Expense	(156,111)	215,244	59,133	(83,430)	252,923	169,493
Add Back Non-Cash Items:						
Depreciation Expense	2,560,547	186,881	2,747,428	2,571,751	167,744	2,739,495
Decrease (Increase) in Operating Assets:						
Accounts Receivable	(89,972)	(1,494)	(91,466)	(21,936)	(588)	(22,524)
Prepaid Expenses	70,291	8,469	78,760	(27,440)	(18,578)	(46,018)
Inventory	17,995	0	17,995	(2,875)	0	(2,875)
Increase (Decrease) in Operating Liabilities:						
Accounts Payable	705,886	(90,276)	615,610	(1,710,105)	77,040	(1,633,065)
Accrued Liabilities	141,108	7,005	148,113	(9,324)	13,381	4,057
Other Liabilities	(13,596)	2,749	(10,847)	(12,766)	196	(12,570)
Net Cash Used by Operating Activities	\$(21,152,171)	\$(419,337)	\$(21,571,508)	\$(24,275,238)	\$(227,223)	\$(24,502,461)

See notes to the financial statements.

**LORAIN METROPOLITAN HOUSING AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004**

NOTE 1: DESCRIPTION OF THE ENTITY

The Lorain Metropolitan Housing Authority (“LMHA”) is a political subdivision organized under laws of the State of Ohio. LMHA is responsible for operating certain low-rent housing programs in Lorain County under programs administered by the U.S. Department of Housing and Urban Development (“HUD”). These programs provide housing for eligible families under the United States Housing Act of 1937, as amended.

Reporting Entity

The accompanying basic financial statements comply with the provisions of GASB Statement No. 14, *The Financial Reporting Entity*, in that financial statements include all organizations, activities and functions for which LMHA is financially accountable. Under this Statement, the financial reporting entity 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. Under the definition of GASB Statement Number No. 14, the Lorain County Elderly Housing Corporation (LCEHC) a 501c(3) not for profit entity is a component unit of LMHA.

Lorain Metropolitan Housing Authority

LMHA 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. In accordance with an Annual Contributions Contract (C-5010) between LMHA and HUD, LMHA has agreed to develop and operate low-rent owned housing units, while HUD has agreed to provide financial assistance (a) to develop such low-rent housing, (b) maintain “the low-rent character of such housing”.

In addition, LMHA participates in the Section 8 - Housing Assistance Payments Program (C-10009). Under the Section 8 housing program, LMHA provides assistance to low and moderate income persons seeking decent, safe and sanitary housing by subsidizing rents between such persons and owners of existing private housing. Under these programs, LMHA enters into housing assistance payments (“HAP”) contracts with eligible landlords. Under a HAP contract, landlords are provided with subsidies for the difference between the contract rent and the amount payable by the Section 8 tenants.

LMHA owns and operates a seven-unit apartment complex (“Complex”) with an attached car wash. LMHA does not receive federal financial assistance to operate this Complex. Revenue received from the Complex is recorded in business activities in the supplemental schedules. Management fees earned by LMHA are also recorded in business activities.

**LORAIN METROPOLITAN HOUSING AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004
(CONTINUED)**

NOTE 1: **DESCRIPTION OF THE ENTITY** (Continued)

Component Unit

The Lorain County Elderly Housing Corporation (LCEHC), a 501c(3) not for profit entity, is a component unit of the Lorain Metropolitan Housing Authority and is organized for the purpose of providing a comprehensive and coordinated system of services for the elderly in the Lorain County area of northeastern Ohio.

All three Board members of the LCEHC are also members of the Board of Commissioners of LMHA. LCEHC is a component unit of LMHA and the financial results and financial activity of the LCEHC are included as part of the financial statements of LMHA. A separate financial statement is issued for LCEHC.

LMHA acts as managing agent for the LCEHC and performs all financial and operating functions for the LCEHC except for those administrative duties performed by the Trustee. The LCEHC pays LMHA a managing fee for the services rendered.

Joint Venture

LMHA is a member of Housing Authority Property Insurance, Inc. ("HAPI"). HAPI is a nonprofit, tax-exempt mutual insurance company that is wholly owned by public housing authority members. HAPI is a captive insurance company formed pursuant to the Vermont Captive Insurance Companies Act. It provides property insurance to public housing authorities and public housing and redevelopment authorities throughout the United States. Due to the lack of significant oversight responsibility accountability of the LMHA's Board of Commissioners for actions, operations, and fiscal matters of HAPI, the degree of financial interdependency is considered insufficient to warrant inclusion of these organizations within LMHA's reporting entity.

NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Basis of Accounting

LMHA has prepared its financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP"). Under the GAAP basis of accounting, revenues and expenses are recognized in the period earned or incurred. All transactions of LMHA are accounted for in an enterprise fund. This presentation is used to reflect 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 purpose.

**LORAIN METROPOLITAN HOUSING AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004
(CONTINUED)**

NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Basis of Accounting (Continued)

Effective June 30, 2003, LMHA implemented GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, Statements No. 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus*, an amendment of GASB Statements No. 21 and No. 34, and Statement No. 38, *Certain Financial Statement Disclosures*. These statements revised accounting and reporting standards for financial reporting by governmental units. LMHA follows the business-type activities reporting requirements of GASB Statement No. 34. The implementation of these GASB statements did not have a material effect to the beginning nets of LMHA.

In accordance with GASB Statement Number 20, *Accounting and Financial Reporting for Proprietary Funds and Other Government Entities that Use Proprietary Fund Accounting*, LMHA has elected not to apply the provisions of the Statements and Interpretations of the Financial Accounting Standards Board issued after November 30, 1989. LMHA will continue to apply all applicable pronouncements of the Governmental Accounting Standards Board.

The significant accounting policies under which the financial statements have been prepared are as follows:

Cash and Cash Equivalents

Highly liquid investments are considered to be cash and cash equivalents.

Allowance for Doubtful Accounts - Bad Debt Expenses

With the Board of Commissioners approval, LMHA and its component unit LCEHC write off unpaid tenants' accounts receivable balances for which there has been no payment activity for 60 days and for which an outstanding balance remains.

Fraud Recovery Receivable

Fraud recovery receivable represents the full amount of the accounts receivable from tenants who committed fraud or misrepresentation and now owe additional rent for prior periods or retroactive rent. As collection of these accounts receivables are questionable, the revenues associated with these accounts receivables have been deferred. Revenue will be recognized when collection is assured.

Investments

Investments for both LMHA and LCEHC consist of certificates of deposits, U. S. Treasury Bills, and other federal government financial instruments. Investments are reported at fair market value.

**LORAIN METROPOLITAN HOUSING AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004
(CONTINUED)**

NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Investments - Restricted

Restricted investments for LMHA represent amounts received from tenants for either security deposits or the family self sufficiency (FSS) program which are deposited into escrow accounts.

Restricted investments for LCEHC represent tenant security deposits and amounts held by the trustee for the retirement of LCEHC debt and for other escrow accounts. Tenant security and FSS deposits are restricted by HUD regulations and can only be used to refund deposits, unless forfeited.

Trustee restricted investments can only be released to LCEHC with trustee approval.

Inventory

Inventory is valued using an average costing method. Expense is recorded based upon consumption.

Land, Property and Equipment

Land, property and equipment are recorded at cost. Property and equipment are depreciated over the estimated useful lives of the assets. Depreciation is computed using the straight line method. Useful lives of assets are:

Buildings	40 Years
Computer equipment	3 Years
Vehicles	5 Years
Office equipment	5 Years
Other equipment	5-10 Years
Leasehold improvements	15 Years

Only items with a unit cost of \$1,000 or more and a useful life greater than one year are capitalized and depreciated.

Compensated Absences

LMHA and its component unit LCEHC account for compensated absences in accordance with GASB Statement No. 16.

Vacation leave earned at the end of the fiscal year is accrued based on the employee hourly rate multiplied by the employee vacation hour balance. Vacation leave can not be carried forward from the end of the calendar year to the beginning of the next calendar year, unless specifically approved by the Board of Commissioners. Employees are not eligible to receive monetary compensation for vacation leave in lieu of time off. LMHA and LCEHC record a liability for all vacation leave earned.

**LORAIN METROPOLITAN HOUSING AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004
(CONTINUED)**

NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Compensated Absences (Continued)

Sick leave balances are subject to payment to nonunion employee after ten (10) years of service at LMHA. Sick leave balances are subject to payment to union employees after ten (10) years of service and a minimum age of sixty-five (65) or fifteen (15) years of service and a minimum age of sixty (60) or 20 years of service and a minimum age of fifty-five (55) or twenty-five (25) years of service and a minimum age of fifty (50). Employee sick leave payments are equal to 50 percent of the employee's available sick time hour, up to a maximum to 960 hours. LMHA and LCEHC record a liability for unused sick leave to the extent that it is probable that payment will be made.

Interprogram Due To and Due From Other Entities

Payables and receivables between LMHA and LCEHC, which occur due to the disbursements of expenses utilizing centralized checking accounts, are shown as either an Interprogram Due from other Entities (asset) or an Interprogram Due to other Entities (liability). These balances are current and paid within the year. Interprogram eliminations were made when combining balance sheets from the Financial Data Schedule to the Statement of Net Assets.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, revenues and expenses at and during the reported period. Actual results could differ from those estimates.

Budgetary Accounting

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

NOTE 3: **DEPOSITS AND INVESTMENTS**

Deposits

Ohio Law requires that deposits be placed in eligible banks or savings and loan associations located in Ohio. Any public depository in which LMHA and its component unit(LCEHC) places deposits, pledge as collateral eligible securities of aggregate market value equal to the excess of deposits not insured by the Federal Deposit Insurance Corporation (FDIC). The securities pledged as collateral are pledged to a pool for each individual financial institution in amounts equal to at least 100 percent of the carrying value of the public deposits held by each institution. Obligations that may be pledged as collateral are limited to obligations of the United States and its agencies. The combined

LORAIN METROPOLITAN HOUSING AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004
(CONTINUED)

NOTE 3: **DEPOSITS AND INVESTMENTS** (Continued)

Deposits (Continued)

carrying amount of both LMHA's and LCEHC's deposits; including restricted family self-sufficiency accounts and tenant security deposits, was \$1,439,836 and \$1,353,379 at June 30, 2005 and 2004, respectively, and the bank balance was \$1,714,013 and \$1,442,477 at June 30, 2005 and 2004, respectively. The difference represents outstanding checks and other in transit transactions of the bank balance. In each balance, \$100,000 was covered by federal depository insurance and the remainder was covered by pledged securities held in joint custody at the Federal Reserve.

Investments

LMHA has adopted a formal investment policy in accordance with Section 135 of the Ohio Revised Code, the "Uniform Depository Act." Safety of principal is the foremost objective of the investment policy. Maintaining sufficient liquidity to meet LMHA's cash flow needs and return on investment are secondary goals of the policy. LMHA does not purchase any form of derivative. The combined carrying amount of both LMHA's and LCEHC's investments was \$7,821,000 and \$7,275,000 at June 30, 2005 and 2004, respectively, and the bank balance was the same. The investments are held in certificates of deposit greater than 3 months but less than 1 year maturity.

Trust Funds

In accordance with LCEHC contractual provisions, the JP Morgan Trust funds are restricted for designated purposes related to servicing of the debt associated with LCEHC. The carrying amount of these funds was \$895,080 and \$874,513 at June 30, 2005 and 2004, respectively.

In accordance with the Ohio Revised Code and LMHA's investment policy, LMHA and LCEHC is authorized to invest in (1) bonds, notes, or other obligations of, or guaranteed by, the United States, or those for which the faith of the United States is pledged for the payment of principal and interest; (2) bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality; (3) certificates of deposit purchased from qualified banks and savings and loans; (4) bond and other obligations of the State of Ohio; (5) no-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligation, provided that investments in securities described in this division are made only through eligible institutions; (6) the State Treasury Asset Reserve of Ohio managed by the Treasurer of the State of Ohio (STAROhio), and (7) subject to certain restrictions and limitations, short-term commercial paper and bankers acceptances.

**LORAIN METROPOLITAN HOUSING AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004
(CONTINUED)**

NOTE 3: **DEPOSITS AND INVESTMENTS** (Continued)

Interest Rate Risk

LMHA's investment policy limits investments to five years, but does not specifically limit investment maturities as a means of managing exposure to fair value losses arising from increasing interest rates. LMHA holds its investments to maturity to avoid realizing losses from rising interest rates.

Credit Risk

LMHA invests in certificates of deposits that are covered by \$100,000 FDIC insurance and the balance is collateralized by pledged securities held in joint custody at the Federal Reserve Bank.

Concentration of Credit Risk

LMHA does not limit the amount that may be invested with any one issuer and in fact is invested with one financial institution in Certificates of Deposits and Money Market Investment accounts. However, LMHA does competitively bid banking services every 3 years, with 2 one-year options. In addition, all investments are collateralized as mentioned above.

A reconciliation of cash and investments as shown on combining balance sheet follows:

	June 30, 2005		
	Primary Government	Component Unit	Total
<u>Cash and Investments</u>			
Unrestricted Cash and Cash Equivalents	\$ 1,025,909	\$ 146,232	\$ 1,172,141
Unrestricted Investments	5,834,000	1,987,000	7,821,000
Restricted Cash and Investment - Tenant Security Deposits and FSS Deposits	227,653	40,042	267,695
Restricted Investments - Trustee and Endowment Fund	0	895,080	895,080
Total Cash and Investments	\$ 7,087,562	\$ 3,068,354	\$10,155,916
Carrying Amount of Deposits	\$ 1,253,562	\$ 186,274	\$ 1,439,836
Carrying Amount of Investments	5,834,000	2,882,080	8,716,080
Total	\$ 7,087,562	\$ 3,068,354	\$10,155,916
	June 30, 2004		
	Primary Government	Component Unit	Total
<u>Cash and Investments</u>			
Unrestricted Cash and Cash Equivalents	\$ 848,473	\$ 235,360	\$ 1,083,833
Unrestricted Investments	5,260,000	2,015,000	7,275,000
Restricted Cash and Investment - Tenant Security Deposits and FSS Deposits	230,338	39,208	269,546
Restricted Investments - Trustee and Endowment Fund	0	874,513	874,513
Total Cash and Investments	\$ 6,338,811	\$ 3,164,081	\$ 9,502,892
Carrying Amount of Deposits	\$ 1,078,811	\$ 274,568	\$ 1,353,379
Carrying Amount of Investments	5,260,000	2,889,513	8,149,513
Total	\$ 6,338,811	\$ 3,164,081	\$ 9,502,892

**LORAIN METROPOLITAN HOUSING AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004
(CONTINUED)**

NOTE 4: RESTRICTED CASH AND RESTRICTED INVESTMENTS AND RESERVES

LMHA and its component unit LCEHC had the following restricted cash and investments and related reserves:

	June 30,	
	2005	2004
<u>Lorain Metropolitan Housing Authority</u>		
<u>Business Activities</u>		
Other Non-HUD Reserves	\$ 5,005	\$ 3,425
 <u>Low-Rent Public Housing</u>		
Tenant Security Deposits	145,151	135,530
Family Self-Sufficiency Escrow Deposits	13,609	13,294
 <u>Section 8 Program</u>		
Family Self-Sufficiency Escrow Deposits	63,888	78,089
Total Lorain Metropolitan Housing Authority	\$ 227,653	\$ 230,338
 <u>Lorain County Elderly Housing Corporation</u>		
Tenant Security Deposits	\$ 40,042	\$ 39,208
Trustee Reserves as Follows:		
Current Revenue Fund	0	1,060
Cumulative Reserve Fund	114,161	69,531
Replacement Reserve Fund	190,017	204,468
Tax and Insurance Fund	21,274	12,191
Management Account	0	390
Reserve Account	9,109	6,409
Interest Account	117,673	147,131
Principal Account	174,167	165,000
Debt Service Fund	268,679	268,333
Total Lorain County Elderly Housing Corporation	\$ 935,122	\$ 913,721

LORAIN METROPOLITAN HOUSING AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004
(CONTINUED)

NOTE 5: CAPITAL ASSETS

The following is a summary of capital assets:

<u>Lorain Metropolitan Housing Authority</u>	<u>July 1, 2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2005</u>
Land	\$ 4,636,058	\$ 0	\$ 0	\$ 4,636,058
Buildings	56,653,031	1,995,218	0	58,648,249
Office Equipment	655,541	40,640	(18,456)	677,725
Maintenance Equipment	263,432	1,095	(22,231)	242,296
Vehicles	608,343	27,564	0	635,907
Construction in Progress	949,233	(494,569)	0	454,664
Total	63,765,638	1,569,948	(40,687)	65,294,899
Less: Accumulated Depreciation	<u>(32,046,503)</u>	<u>(2,563,876)</u>	<u>36,692</u>	<u>(34,573,687)</u>
Total LMHA	<u>\$31,719,135</u>	<u>\$ (993,928)</u>	<u>\$ (3,995)</u>	<u>\$30,721,212</u>
<u>Lorain County Elderly Housing Corporation</u>				
Land	\$ 377,930	\$ 80,589	\$ 0	\$ 458,519
Buildings	6,331,707	675,751	0	7,007,458
Office Equipment	25,172	0	0	25,172
Maintenance Equipment	20,578	0	0	20,578
Construction in Progress	561,050	(561,050)	0	0
Total	7,316,437	195,290	0	7,511,727
Less: Accumulated Depreciation	<u>(3,586,560)</u>	<u>(186,881)</u>	<u>0</u>	<u>(3,773,441)</u>
Total LCEHC	<u>\$ 3,729,877</u>	<u>\$ 8,409</u>	<u>\$ 0</u>	<u>\$ 3,738,286</u>

NOTE 6: DEBT AND LEASE OBLIGATIONS

Lorain County Elderly Housing Corporation Bonds

On March 1, 1993 bonds totaling \$5,875,000 were issued. The bonds issued are fully registered obligations having a minimum denomination of \$5,000 or any integral multiple of \$5,000 in excess thereof. The bonds mature on July 15, 2019. Interest is payable semiannually on January 15th and July 15th.

The bonds are secured as to payment by all Project (two buildings owned by LCEHC) revenues from the operation of the Projects and an open-end Mortgage Deed and Security Agreement, dated March 1, 1995, on each Project. All units in the Projects are entitled to payments from HUD pursuant to Housing Assistance Payment Contract Number C-77-086, having an effective date of September 1, 1979 and Housing Assistance Payment (HAP) Contract Number C-76-908, having an effective date of September 1, 1979. All of the rights under the HAP contracts have been assigned to the Trustee, JP Morgan Institutional Trust Services.

**LORAIN METROPOLITAN HOUSING AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004
(CONTINUED)**

NOTE 6: **DEBT AND LEASE OBLIGATIONS** (Continued)

Lorain County Elderly Housing Corporation Bonds (Continued)

The future principal payment requirements and related interest rate are shown below:

Maturity (July 15)	Principal Amount	Interest Amount	Total Amount	Interest Rate (%)	Yield (%)
2005	\$ 175,000	\$ 282,413	\$ 457,413	6.375%	6.454%
2006	185,000	271,256	456,256	6.375%	6.454%
2007	195,000	259,463	454,463	6.375%	6.454%
2008	210,000	247,031	457,031	6.375%	6.454%
2009	225,000	233,644	458,644	6.375%	6.454%
2010-2014	1,355,000	933,936	2,288,936	6.375%	6.454%
2015-2018	1,435,000	401,944	1,836,944	6.375%	6.454%
2019	650,000	41,438	691,438		
Totals	<u>\$ 4,430,000</u>	<u>\$ 2,671,125</u>	<u>\$ 7,101,125</u>		

A reconciliation of long-term liabilities are shown below:

	<u>LMHA</u>	<u>LCEHC</u>	<u>Total</u>
Balance at July 1, 2003	\$ 0	\$ 4,595,000	\$ 4,595,000
Increase in Long-Term Liabilities	0	0	0
Decrease in Long-Term Liabilities	0	165,000	165,000
Balance at June 30, 2004	<u>0</u>	<u>4,430,000</u>	<u>4,430,000</u>
Increase in Long-Term Liabilities	0	0	0
Decrease in Long-Term Liabilities	0	175,000	175,000
Balance at June 30, 2005	<u>\$ 0</u>	<u>\$ 4,255,000</u>	<u>\$ 4,255,000</u>

Short Term Debt

The Authority has not engaged in short-term borrowing as characterized by GASB Statement No. 38 and therefore has no short-term debt obligations for the years ended June 30, 2005 and 2004, respectively.

Lease Obligations

The Authority leases office equipment under various operating leases. Total expense recognized under these operating leases was \$10,758 and \$14,409 for the years ended June 30, 2005 and 2004, respectively.

**LORAIN METROPOLITAN HOUSING AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004
(CONTINUED)**

NOTE 6: **DEBT AND LEASE OBLIGATIONS** (Continued)

Lease Obligations (Continued)

Future minimum lease payments are as follows:

<u>Year</u>	<u>Office Equipment</u>
2005	\$ 10,758
2006	6,137
2007	0
2008	0
2009	0
Total	<u>\$ 16,895</u>

NOTE 7: **DEFINED BENEFIT PENSION PLAN**

Employees and Plan

Employees of LMHA belong to the Ohio Public Employees Retirement System (“OPERS”), a state-wide and state administered defined benefit, cost sharing multi-governmental employer pension plan, as required by the Ohio Revised Code. Allocated payroll expenses are made to LCEHC along with its pro-rata share of OPERS costs.

OPERS

OPERS provides retirement 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. The Ohio Public Employees Retirement System issues a stand-alone financial report that includes financial statements and required supplementary information.

Interested parties may obtain a copy by making a written request to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6705 or 1-800-222-PERS(7377).

The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rate is 8.5 percent. The employer contribution rate for local government employer units was 13.55 percent of covered payroll; 4.0 percent was the portion used to fund health care in 2005 and 5 percent in 2004 and 2003. The LMHA’s total contributions to OPERS for pension benefits (excluding the amount relating to postretirement benefits) for years ended June 30, 2005, 2004, and 2003 were \$426,363, \$410,755, and \$394,287, respectively, equal to the required contributions for each year. LCEHC’s allocated total contributions to OPERS for pension benefits (excluding the amount relating to postretirement benefits) for the years ended June 30, 2005, 2004, and 2003 were \$29,726, \$29,761, and \$30,197, respectively, equal to the required contributions for each year.

**LORAIN METROPOLITAN HOUSING AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004
(CONTINUED)**

NOTE 8: POST-EMPLOYMENT BENEFITS

Ohio Public Employees Retirement System

OPERS provides postretirement health care coverage to age and service retirants with ten or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor 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 OPERS is set aside for the funding of postretirement health care. The Ohio Revised Code provides the statutory authority requiring public employers to fund pension and postretirement health care through their contributions to OPERS. The portion of employer contributions rate used to fund health care for 2005 was 4.0 percent, for 2004 5.0 percent of covered payroll.

LMHA’s contributions for other postemployment benefits to OPERS for the fiscal year ended 2005, 2004, and 2003 were \$123,586, \$151,570, and \$145,494, respectively. LCEHC’s contributions for other postemployment benefits to OPERS for the fiscal year ended 2005, 2004, and 2003 were \$11,053, \$10,969, \$11,143, respectively.

OPEBs are financed through employer contributions and investment earnings thereon. The contributions allocated to retiree health care, along with investment income on allocated assets and periodic adjustments in health care provisions, are expected to be sufficient to sustain the program indefinitely.

The significant actuarial assumptions and calculations relating to postemployment health care benefits were based on the OPERS’s latest actuarial review performed as of December 31, 2003. An entry age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of unfunded actuarial accrued liability. All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach, assets are adjusted annually to reflect 25 percent of unrealized market appreciation or depreciation on investment assets. The investment assumption rate for 2003 was 8.0 percent. An annual increase of 4.0 percent compounded annually is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.00 percent base increase, were assumed to range from 0.50 percent to 6.3 percent. Health care costs were assumed to increase at the projected wage inflation rate plus an additional factor ranging from 1 percent to 6 percent 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).

**LORAIN METROPOLITAN HOUSING AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004
(CONTINUED)**

NOTE 8: **POST-EMPLOYMENT BENEFITS** (Continued)

Ohio Public Employees Retirement System (Continued)

Benefits are advanced-funded on an actuarially determined basis. The number of active contributing participants was 369,885. The actuarial value of the OPERS net assets available for OPEB at December 31, 2003 was \$10.5 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$26.9 billion and \$16.4 billion, respectively.

NOTE 9: **RISK MANAGEMENT**

LMHA and its component unit LCEHC are exposed to various risks of loss related to torts and other legal actions; theft of, damage to, and destruction of assets; error and omissions, injuries to employees and tenants and natural disasters. LMHA has contracted with the Housing Authority Property Insurance, Inc. (HAPI) for property liability insurance and outside vendors for employee and Board of Commissioner's fidelity insurance, auto and vehicle insurance and office equipment insurance. Settlement claims have not exceeded this coverage in any of the past three years. There has been no significant reduction in coverage from the previous fiscal year.

NOTE 10: **NON-RECURRING ITEMS**

Proceeds from Insurance

During the year ended June 30, 2004, LMHA received insurance proceeds as a result of property damage. LMHA recognized a net gain of \$70,504 from the insurance proceeds as a gain on fixed assets.

NOTE 11: **EXTRAORDINARY ITEMS**

Recapture of Housing Choice Voucher Accumulated Administrative Fee Reserve

During the year ended June 30, 2003, the fiscal year 2003 Omnibus Appropriations bill required the recapture of any accumulated administrative fee reserve in excess of 105 percent of the fiscal year 2002 administrative fee earned as of January 31, 2003. An extraordinary expense and liability to HUD was recognized in fiscal year 2003 for \$1,366,416. On August 5, 2005 a revision to this calculation was released in PIH notice 2005-30 and resulted in a reduction of \$62,782. \$282,313 remains to be recaptured as of June 30, 2005.

NOTE 12: **CONCENTRATIONS**

The Authority receives the majority of its revenue from the U. S. Department of Housing and Urban Development and is subject to changes in Congressional acts or mandated changes by HUD.

**LORAIN METROPOLITAN HOUSING AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004
(CONTINUED)**

NOTE 13: **COMMITMENTS AND CONTINGENCIES**

Grants

The Authority received financial assistance from a federal agency in the form of grants. The disbursement of funds received under these grant 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, 2005 and 2004, respectively.

Contingencies

The authority is party to various legal proceedings. In the opinion of Lorain Metropolitan Housing Authority, the ultimate disposition of these proceedings will not have a material effect on Lorain Metropolitan Housing Authority's financial position. No provision has been made to the financial statements for the effect, if any, of such contingencies.

Lorain Metropolitan Housing Authority
Financial Data Schedule - Balance Sheet
As of June 30, 2005

Line Item #	Account Description	Business Activities	Low Rent 14.850a	Section 8 N/C S/R Program 14.182	Housing Choice Voucher 14.871	CFP 14.872	Ross Grant 14.870	PIH Drug Elimination Program 14.854	Shelter Plus Care 14.238	Component Unit Lorain County Elderly Housing	TOTAL
	ASSETS:										
	CURRENT ASSETS:										
	Cash:										
111	Cash - unrestricted	87,851	244,731		693,327					146,232	1,172,141
112	Cash - restricted - modernization and development		13,609		63,888						77,497
113	Cash - other restricted										-
114	Cash - tenant security deposits	5,005	145,151							40,042	190,198
115	Cash - restricted for payment of current liability										-
100	Total cash	92,856	403,491	-	757,215	-	-	-	-	186,274	1,439,836
	Accounts and notes receivables:										
121	Accounts receivable - PHA projects										-
122	Accounts receivable - HUD other projects					562,777	6,569		2,412		571,758
124	Accounts receivable - other government										-
125	Accounts receivable - miscellaneous	65686			2,716					4,724	73,126
126	Accounts receivable- tenants - dwelling rents	41	81,591							6,869	88,501
126.1	Allowance for doubtful accounts - dwelling rents		(7,464)							(143)	(7,607)
126.2	Allowance for doubtful accounts - other										-
127	Notes, loans & mortgages receivable - current										-
128	Fraud recovery				86,100						86,100
128.1	Allowance for doubtful accounts - fraud										-
129	Accrued interest receivable	4,604	27,713		23,394					18,116	73,827
120	Total receivables, net of allowances for doubtful accounts	70,331	101,840	-	112,210	562,777	6,569	-	2,412	29,566	885,705
	Current investments										
131	Investments - unrestricted	598,000	2,860,000		2,376,000					1,987,000	7,821,000
132	Investments - restricted									895,080	895,080
135	Investments -restricted for payment of current liability										-
142	Prepaid expenses and other assets	177	28,987							14,809	43,973
143	Inventories		227,855								227,855
143.1	Allowance for obsolete inventories		(10,419)								(10,419)
144	Interprogram - due from	319,386	409,774	27,589		6					756,755
145	Assets held for sale										-
146	Amounts to be provided										-
150	TOTAL CURRENT ASSETS	1,080,750	4,021,528	27,589	3,245,425	562,783	6,569	-	2,412	3,112,729	12,059,785
	NONCURRENT ASSETS:										
	Fixed assets:										
161	Land	71,100	4,495,558		69,400					458,519	5,094,577
162	Buildings	297,397	51,670,554		848,002	5,832,296				7,007,458	65,655,707
163	Furniture, equipment & machinery - dwellings		808,322							20,578	828,900
164	Furniture, equipment & machinery - administration		459,811		205,654	78,020	4,121			25,172	772,778
165	Leasehold improvements										-
168	Infrastructure										-
166	Accumulated depreciation	(40,324)	(33,507,514)		(372,358)	(650,973)	(2,518)			(3,773,441)	(38,347,128)
167	Construction in progress	-	-			454,664				-	454,664
160	Total fixed assets, net of accumulated depreciation	328,173	23,926,731	-	750,698	5,714,007	1,603	-	-	3,738,286	34,459,498
	Other Non Current Assets										
171	Notes, loans & mortgages receivable - non current										-
172	Notes, loans & mortgages receivable - non current -past due										-
173	Grants Receivable - non current										-
174	Other assets										-
176	Investment in joint ventures										-
180	TOTAL NONCURRENT ASSETS	328,173	23,926,731	-	750,698	5,714,007	1,603	-	-	3,738,286	34,459,498
190	TOTAL ASSETS	1,408,923	27,948,259	27,589	3,996,123	6,276,790	8,172	-	2,412	6,851,015	46,519,283

Lorain Metropolitan Housing Authority
Financial Data Schedule - Balance Sheet
As of June 30, 2005

Line Item #	Account Description	Business Activities	Low Rent 14.850a	Section 8 N/C S/R Program 14.182	Housing Choice Voucher 14.871	CFP 14.872	Ross Grant 14.870	PIH Drug Elimination Program 14.854	Shelter Plus Care 14.238	Component Unit Lorain County Elderly Housing	TOTAL
	LIABILITIES AND EQUITY:										
	LIABILITIES:										
	Current Liabilities										
311	Bank overdraft										-
312	Accounts payable ≤ 90 days	204	90,370		2,788	52,973	2			4,267	150,604
313	Accounts payable > 90 days past due										-
321	Accrued wage/payroll taxes payable	10,918	135,438		52,609	17,123	1,560			17,479	235,127
322	Accrued compensated absences - current portion		133,524		45,442	27,079	2,911			16,477	225,433
325	Accrued interest payable									129,438	129,438
331	Accounts payable - HUD PHA programs			9,241	805,096						814,337
333	Accounts payable - other government		18,364							24,839	43,203
341	Tenant security deposits	3,425	134,764							40,036	178,225
342	Deferred revenues										-
343	Current portion of Long-Term debt - capital projects/mortgage revenue bonds									175,000	175,000
345	Other current liabilities		25							25	50
346	Accrued liabilities - other		-			289,006			1,326		290,332
347	Inter-program - due to	416,239		18,348	87,215	161,032			1,085	72,835	756,754
348	Loan Liability - current										-
310	TOTAL CURRENT LIABILITIES	430,786	512,485	27,589	993,150	547,213	4,473	-	2,411	480,396	2,998,503
	Non Current Liabilities										
351	Long-term debt, net of current- capital projects/ mortgage revenue bonds									4,255,000	4,255,000
352	Long-term debt, net of current- operating borrowings										-
353	Noncurrent liabilities- other		12,807		152,051						164,858
354	Accrued Compensated Absences - non current		67,567		28,405	15,573	2,096			11,803	125,444
355	Loan Liability - non current										-
350	TOTAL NONCURRENT LIABILITIES	-	80,374	-	180,456	15,573	2,096	-	-	4,266,803	4,545,302
300	TOTAL LIABILITIES	430,786	592,859	27,589	1,173,606	562,786	6,569	-	2,411	4,747,199	7,543,805
	EQUITY:										
501	Investment in general fixed assets										-
	Contributed Capital:										
508.1	Invested in Capital Assets, Net of Related Debt	328,173	23,926,731	-	750,698	5,714,007	1,603	-	-	323,382	31,044,594
511.1	Restricted Net Assets	-	13,609	-	63,888	-	-	-	-	895,080	972,577
512.1	Unrestricted Net Assets	649,964	3,415,060	-	2,007,931	(3)	-	-	1	885,354	6,958,307
513	TOTAL EQUITY/NET ASSETS	978,137	27,355,400	-	2,822,517	5,714,004	1,603	-	1	2,103,816	38,975,478
600	TOTAL LIABILITIES and EQUITY/NET ASSETS	1,408,923	27,948,259	27,589	3,996,123	6,276,790	8,172	-	2,412	6,851,015	46,519,283

Lorain Metropolitan Housing Authority
Financial Data Schedule - Revenue & Expenses
for 12 months ending 06/30/2005

Account Description	Business Activities	Low Rent 14.850a	Section 8 N/C S/R Program 14.182	Housing Choice Voucher 14.871	CFP 14.872	Ross Grant 14.870	PIH Drug Elimination Program 14.854	Shelter Plus Care 14.238	Component Unit Lorain County Elderly Housing
REVENUE:									
703 Net tenant rental revenue	46,835	1,652,845							481,939
704 Tenant revenue - other	150	137,728							5,005
705 Total tenant revenue	46,985	1,790,573	-	-	-	-	-	-	486,944
706 HUD PHA operating grants		4,079,282	207,857	16,867,798	882,677	38,922		288,502	858,176
706.1 Capital Grants					1,276,377				
708 Other government grants									
711 Investment income - unrestricted	15,930	82,995		51,882					54,599
712 Mortgage interest income									
713 Proceeds from disposition of assets held for sale									
713.1 Cost of sale of assets									
714 Fraud recovery				35,821					
715 Other revenue	32,642	97,464		(59)					7,495
716 Gain or loss on the sale of fixed assets		(1,201)							
720 Investment income - restricted				5,304					13,007
700 TOTAL REVENUE	95,557	6,049,113	207,857	16,960,746	2,159,054	38,922	-	288,502	1,420,221
EXPENSES:									
Administrative									
911 Administrative salaries		1,011,846		783,808	212,937				196,165
912 Auditing fees		15,667		9,582					5,451
913 Outside management fees			18,348					28,720	21,417
914 Compensated absences		23,105		8,555	(1,914)	5,007			12,561
915 Employee benefit contributions- administrative		380,027		342,232	69,282				52,829
916 Other operating- administrative	13,620	265,547		113,202	2,080				26,818
Subtotal	13,620	1,696,192	18,348	1,257,379	282,385	5,007	-	28,720	315,241
Tenant services									
921 Tenant services - salaries		15,312			17,992	3,629			
922 Relocation costs									
923 Employee benefit contributions- tenant services		9,223			10,054	1,387			
924 Tenant services - other		44,406				28,899			278
Subtotal	-	68,941	-	-	28,046	33,915	-	-	278
Utilities									
931 Water	1,175	239,411	-	165					15,017
932 Electricity	6,440	356,385	-	8,437					168,662
933 Gas	7,799	351,766	-	5,802					2,079
934 Fuel									
935 Labor									
937 Employee benefit contributions- utilities									
938 Other utilities expense	1,389	347,141	-	144					29,033
Subtotal	16,803	1,294,703	-	14,548	-	-	-	-	214,791
Ordinary maintenance & operation									
941 Ordinary maintenance and operations - labor	1,212	1,005,882							80,709
942 Ordinary maintenance and operations - materials & other	1,000	334,404		18,035	120,057				27,126
943 Ordinary maintenance and operations - contract costs	6,508	669,867		40,244	24,099				106,979
945 Employee benefit contributions- ordinary maintenance	487	448,822							36,350
Subtotal	9,207	2,458,975	-	58,279	144,156	-	-	-	251,164
Protective services									
951 Protective services - labor					31,861				
952 Protective services- other contract costs					344,253				
953 Protective services - other									
955 Employee benefit contributions- protective services					12,329				
Subtotal	-	-	-	-	388,443	-	-	-	-
General expenses									
961 Insurance premiums	1,290	236,915		22,438					28,182
962 Other General Expenses	(2)								
963 Payments in lieu of taxes	295	18,524			1	1			24,819
964 Bad debt - tenant rents		80,568							5,754
965 Bad debt- mortgages									
966 Bad debt - other									
967 Interest expense									282,850
968 Severance expense		1,880							
Subtotal	1,583	337,887	-	22,438	1	1	-	-	341,605
969 TOTAL OPERATING EXPENSES	41,213	5,856,698	18,348	1,352,644	843,031	38,923	-	28,720	1,123,079

Lorain Metropolitan Housing Authority
Financial Data Schedule - Revenue & Expenses
For 12 months ending 06/30/2005

Account Description		Business Activities	Low Rent 14.850a	Section 8 N/C S/R Program 14.182	Housing Choice Voucher 14.871	CFP 14.872	Ross Grant 14.870	PIH Drug Elimination Program 14.854	Shelter Plus Care 14.238	Component Unit Lorain County Elderly Housing	TOTAL
970	EXCESS OPERATING REVENUE OVER OPERATING EXPENSES	54,344	192,415	189,509	15,608,102	1,316,023	(1)	-	259,782	297,142	17,917,316
971	Extraordinary maintenance		51,231			39,656					90,887
972	Casualty losses - non-capitalized		6,564								6,564
973	Housing assistance payments			189,509	15,322,572				259,781		15,771,862
974	Depreciation expense	9,805	2,134,835		58,834	355,700	1,373			186,881	2,747,428
975	Fraud losses										-
976	Capital outlays- governmental funds										-
977	Debt principal payment- governmental funds										-
978	Dwelling units rent expense										-
900	TOTAL EXPENSES	51,018	8,049,328	207,857	16,734,050	1,238,387	40,296	-	288,501	1,309,960	27,919,397
OTHER FINANCING SOURCES (USES)											
1001	Operating transfers in		100,000								100,000
1002	Operating transfers out				(100,000)						(100,000)
1003	Operating transfers from/to primary government										-
1004	Prior Period Adjustments, Equity/Net Assets										-
1005	Proceeds from notes, loans and bonds										-
1006	Proceeds from property sales										-
1007	Extraordinary Items (net gain/loss)				62,782						62,782
1008	Special Items (net gain/loss)										-
1010	TOTAL OTHER FINANCING SOURCES (USES)	-	100,000	-	(37,218)	-	-	-	-	-	62,782
1000	EXCESS (DEFICIENCY) OF TOTAL REVENUE OVER (UNDER) TOTAL EXPENSE	44,539	(1,900,215)	-	189,478	920,667	(1,374)	-	1	110,261	(636,643)
MEMO account information											
1101	Capital contributions										-
1102	Debt principal payments- enterprise funds									165,000	165,000
1103	Beginning equity	933,598	29,255,449		2,633,039	4,793,337	2,977	166		1,993,555	39,612,121
1104	Prior period adjustments, equity transfers and correction of errors		166					(166)			-
1105	Changes in compensated absence liability balance (in the GLTDAG)										-
1106	Changes in contingent liability balance (in the GLTDAG)										-
1107	Changes in unrecognized pension transition liability (in the GLTDAG)										-
1108	Changes in special term/severance benefits liability (in the GLTDAG)										-
1109	Changes in allowance for doubtful accounts - dwelling rents										-
1110	Changes in allowance for doubtful accounts - other										-
1112	Depreciation "add back"										-
1113	Maximum annual contributions commitment (per ACC)			214,807	17,695,188						17,909,995
1114	Prorata maximum annual contributions applicable to a period of less than twelve months										-
1115	Contingency reserve, ACC program reserve			14,954	324,247						339,201
1116	Total annual contributions available			229,761	18,019,435						18,249,196
1120	Unit months available	84	17,340	600	32,460				780	2,400	53,664
1121	Number of unit months leased	84	17,047	598	30,318				632	2,370	51,049
											-

**LORAIN METROPOLITAN HOUSING AUTHORITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2005**

Federal Grantor/ Program Title	CFDA Number	Federal Expenditures
<u>U.S. Department of Housing and Urban Development</u>		
<u>Direct Program</u>		
<i>Low Income Housing Assistance Programs</i>		
Section 8 Housing Choice Voucher	14.871	\$16,867,798
Public Housing - Operating Subsidy	14.850A	4,079,282
Public Housing Capital Fund Program	14.872	2,159,054
Shelter Care Plus	14.238	288,502
Section 8 - New Construction and Substantial Rehabilitation Program - Concord Manor (Passed through to subrecipient)	14.182	207,857
Resident Opportunity and Supportive Services Grant	14.870	<u>38,922</u>
Total Federal Financial Assistance		<u>\$ 23,641,415</u>

See Notes to the Schedule of Expenditures of Federal Awards.

LORAIN METROPOLITAN HOUSING AUTHORITY
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2005

NOTE 1: **PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards is a summary of the federal grant activity of LMHA. This schedule has been prepared on the accrual basis of accounting as required by accounting principles generally accepted in the United States of America. 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: **COMPONENT UNIT**

Federal expenditures for the component unit, Lorain County Elderly Housing Corporation (LCEHC) were reported separate in the Corporation's OMB Circular A-133 single audit report. A summary of the amount reported is presented below:

<u>Federal Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Federal Expenditures</u>
<i>U.S. Department of Housing and Urban Development Section 8 Housing</i>	14.871	<u>\$ 858,176</u>

**LORAIN METROPOLITAN HOUSING AUTHORITY
SCHEDULE OF COMPLETED GRANTS/CERTIFICATES
FOR THE YEAR ENDED JUNE 30, 2005**

<u>Description</u>	Note A OH16C20-7019 Shelter <u>Plus Care</u>	Note B OH12HAD040100 <u>ROSS Grant</u>	Note C OH12PO1250101 Capital <u>Fund Grant</u>
Funds Approved - Latest Budget	<u>\$ 390,300</u>	<u>\$ 200,000</u>	<u>\$ 3,130,237</u>
Funds Advanced	194,828	198,118	3,130,237
Funds Expended	<u>194,828</u>	<u>198,118</u>	<u>3,130,237</u>
Difference between Funds Advanced and Funds Expended	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

Note A: This Shelter Plus Care grant was completed by LMHA during fiscal year 2005. \$195,472 was not advanced or expended.

Note B: This Resident Opportunity and Self Sufficiency (ROSS) grant was completed by LMHA during fiscal year 2005. \$1,882 was not advanced or expended.

Note C: This Capital Fund grant was completed by LMHA during fiscal year 2005. All funds were advanced and expended.

Note D: The distribution of costs shown on scheduled submitted to HUD for approval are in agreement with LMHA's records and all grant costs and expenses and all related liabilities have been paid and liquidated through payment.

**LORAIN METROPOLITAN HOUSING AUTHORITY
SCHEDULE OF UNITS UNDER LMHA MANAGEMENT
FOR THE YEAR ENDED JUNE 30, 2005**

Lorain Metropolitan Housing Authority (LMHA) had a total of 4,436 units under its management. See details below.

Management	Units Available	Average Number of Units Leased in Fiscal Year
Lorain Metropolitan Housing Authority		
Low Income Public Housing	1,445	1,421
Section 8 Vouchers	2,719	2,527
Shelter Plus Care	65	53
General Fund (not HUD funded)	7	7
Total Lorain Metropolitan Housing Authority	4,236	4,008
 Lorain County Elderly Housing Corporation		
Section 8 New Construction	200	198
 Total LMHA and LCEHC	4,436	4,206

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

Board of Directors
Lorain Metropolitan Housing Authority
Lorain, Ohio

Regional Inspector General of Audit
Department of Housing and Urban
Development

We have audited the financial statements of the business-type activities and the discretely presented component unit of the Lorain Metropolitan Housing Authority, Ohio, as of and for the year ended June 30, 2005, which collectively comprise the Lorain Metropolitan Housing Authority, Ohio's basic financial statements and have issued our report thereon dated September 30, 2005. 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 Lorain Metropolitan Housing Authority, Ohio's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion 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 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 caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Lorain 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 that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the audit committee, management, Board of Directors, 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, CPA, Inc.
Certified Public Accountants

September 30, 2005

JAMES G. ZUPKA, C.P.A., INC.

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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
Lorain Metropolitan Housing Authority
Lorain, Ohio

Regional Inspector General of Audit
Department of Housing and Urban
Development

Compliance

We have audited the compliance of the Lorain Metropolitan Housing Authority, Ohio, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133* that are applicable to each of its major federal programs for the year ended June 30, 2005. Lorain 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 Lorain 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; 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 Lorain 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 on Lorain Metropolitan Housing Authority, Ohio's compliance with those requirements.

In our opinion, Lorain Metropolitan Housing Authority, Ohio, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

The management of the Lorain 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 Lorain Metropolitan Housing Authority, Ohio's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine 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.

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 reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. 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 Directors, management, Auditor of State, and Federal Awarding Agencies and is not intended to be used by anyone other than these specified parties.

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

September 30, 2005

**LORAIN METROPOLITAN HOUSING AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 & .505
MARCH 31, 2005**

1. SUMMARY OF AUDITOR'S RESULTS

2005(i)	Type of Financial Statement Opinion	Unqualified
2005(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
2005(ii)	Were there any other reportable control weakness conditions reported at the financial statements level (GAGAS)?	No
2005(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
2005(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
2005(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
2005(v)	Type of Major Programs' Compliance Opinion	Unqualified
2005(vi)	Are there any reportable findings under .510?	No
2005(vii)	Major Programs (list): Housing Choice Vouchers - CFDA #14.871	
2005(viii)	Dollar Threshold: Type A\B Programs	Type A: >\$709,242 Type B: > all others
2005(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

None.

**LORAIN METROPOLITAN HOUSING AUTHORITY
STATUS OF PRIOR YEAR FINDINGS
FOR THE YEAR ENDED JUNE 30, 2005**

There were no significant or material findings or questioned costs included in the audit report for the year ended June 30, 2004.

LORAIN COUNTY ELDERLY HOUSING CORPORATION

AUDIT REPORT

FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

LORAIN COUNTY ELDERLY HOUSING CORPORATION
AUDIT REPORT
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

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Lorain County Elderly Housing Corporation
Lorain, Ohio

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying statements of financial position of the Lorain County Elderly Housing Corporation, Lorain, Ohio (the Corporation) (a nonprofit organization) as of June 30, 2005, and 2004, the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits. The Corporation's financial statements for the period ending June 30, 2004 were audited by other auditors whose report dated August 31, 2005, expressed an unqualified opinion on those statements.

We conducted our audits in accordance with generally accepted auditing standards in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Lorain County Elderly Housing Corporation, Lorain, Ohio as of June 30, 2005 and 2004, and the changes in its net assets and its cash flows for the years 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 our report dated September 2, 2005 on our consideration of the Lorain County Elderly Housing Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. The purpose of that report is to describe the scope of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

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

September 2, 2005

LORAIN COUNTY ELDERLY HOUSING CORPORATION
STATEMENTS OF FINANCIAL POSITION
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

	2005	2004
<u>ASSETS</u>		
<u>Current Assets</u>		
Cash and Cash Equivalents	\$ 146,232	\$ 235,360
Cash Restricted for Tenant Security Deposits	40,042	39,208
Unrestricted Investments	1,987,000	2,015,000
Temporarily Restricted Investments	895,080	874,513
Accounts Receivable - HUD		
Accounts Receivable - Tenants, Net of Allowance of \$143 in 2005 and \$36 in 2004	6,726	2,303
Accounts Receivable - Miscellaneous	4,724	7,653
Accrued Interest Receivable	18,116	6,468
Prepaid Insurance	14,809	23,278
Total Current Assets	3,112,729	3,203,783
<u>Noncurrent Assets</u>		
Land, Structures, and Equipment	7,511,727	7,316,439
Less: Accumulated Depreciation	(3,773,441)	(3,586,561)
Total Noncurrent Assets	3,738,286	3,729,878
TOTAL ASSETS	\$ 6,851,015	\$ 6,933,661
<u>LIABILITIES AND NET ASSETS</u>		
<u>Current Liabilities</u>		
Accounts Payable	\$ 4,267	\$ 94,543
Accrued Wages and Fringe Benefits	17,479	16,250
Accrued Compensated Absences	16,477	10,895
Accrued Interest	129,438	134,260
Accrued Liabilities - Other	0	7,538
Other Current Liabilities	25	100
Payment in Lieu of Taxes (PILOT)	24,839	22,090
Tenant Security Deposit Payable	40,036	39,208
Payable to LMHA	72,835	15,398
Bonds Payable - Current Portion	175,000	165,000
Total Current Liabilities	480,396	505,282
<u>Noncurrent Liabilities</u>		
Long-term Compensated Absences	11,803	4,824
Long-term Bonds Payable, Less Current Portion	4,255,000	4,430,000
Total Noncurrent Liabilities	4,266,803	4,434,824
TOTAL LIABILITIES	4,747,199	4,940,106
<u>Net Assets</u>		
Unrestricted	1,208,736	1,119,042
Temporarily Restricted	895,080	874,513
Total Net Assets	2,103,816	1,993,555
TOTAL LIABILITIES AND NET ASSETS	\$ 6,851,015	\$ 6,933,661

See notes to the financial statements.

LORAIN COUNTY ELDERLY HOUSING CORPORATION
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

	2005	2004
<u>Revenue</u>		
Net Tenant Rental Revenue	\$ 481,939	\$ 459,774
Tenant Revenue - Other	5,005	4,490
Total Tenant Revenue	486,944	464,264
HUD PHA Operating Grants	858,176	857,229
Capital Grants	0	6,408
Other Revenue	7,495	6,980
Gain or Loss on Fixed Assets	0	(100)
Total Revenue	1,352,615	1,334,781
<u>Operating Expenses</u>		
Administrative	315,241	259,927
Tenant Service	278	2,582
Utilities	214,791	230,508
Ordinary Maintenance and Operation	251,164	202,659
Protective Services	0	25,865
Insurance Premiums	28,182	21,045
Payment in Lieu of Taxes (PILOT)	24,819	22,090
Bad Debt (Recovery) - Tenant Rents	5,754	5,145
Interest Expense	282,850	293,292
Total Operating Expenses	1,123,079	1,063,113
Net Operating Income	229,536	271,668
<u>Other Revenues (Expenses)</u>		
Extraordinary Maintenance		
Investment Income - Unrestricted	54,599	34,005
Interest Income - Restricted	13,007	6,367
Depreciation Expense	(186,881)	(167,744)
Total Other Revenues (Expenses)	(119,275)	(127,372)
Change in Net Assets	\$ 110,261	\$ 144,296

See notes to financial statements.

LORAIN COUNTY ELDERLY HOUSING CORPORATION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

	2005	2004
<u>Cash Flows from Operating Activities</u>		
Tenant Revenue Received	\$ 482,521	\$ 465,335
Government Operating Grants Received	858,176	864,870
Other Revenue Received	11,252	7,643
General and Administrative Expenses Paid	(913,110)	(700,201)
Interest Received	55,958	33,904
Interest Paid	<u>(287,672)</u>	<u>(297,271)</u>
Net Cash Provided by Operating Activities	<u>207,125</u>	<u>374,280</u>
 <u>Cash Flows from Investing Activities</u>		
Purchases of Land, Structures, and Equipment	(195,289)	(571,175)
Purchase of Investments	(6,381,570)	(8,130,166)
Proceeds from Sale of Investments	6,389,003	6,100,658
Disposal of Land, Structures, and Equipment	<u>0</u>	<u>100</u>
Net Cash Used in Investing Activities	<u>(187,856)</u>	<u>(2,600,583)</u>
 <u>Cash Flows from Capital and Related Financing Activities</u>		
Increases/Decreases in Due To/Due From Related Entity	57,437	6,674
Payments to Retire Long-term Debt	<u>(165,000)</u>	<u>(155,000)</u>
Net Cash Used in Financing Activities	<u>(107,563)</u>	<u>(148,326)</u>
Decrease in Cash and Cash Equivalents	(88,294)	(2,374,629)
 Cash and Cash Equivalents - Beginning of Year	<u>274,568</u>	<u>2,649,197</u>
 Cash and Cash Equivalents - End of Year	<u>\$ 186,274</u>	<u>\$ 274,568</u>
 <u>Reconciliation of Operating Income to</u>		
<u>Net Cash Provided by Operating Activities</u>		
Change in Net Assets	\$ 110,261	\$ 144,296
Add Back Non-Cash Items:		
Depreciation Expense	186,881	167,744
Decrease (Increase) in Assets		
Accounts Receivable	(13,142)	(5,820)
Prepaid Expenses	8,469	(18,578)
Increase (Decrease) in Liabilities		
Accounts Payable	(90,276)	77,040
Accrued Liabilities	2,183	9,402
Other Liabilities	<u>2,749</u>	<u>196</u>
Net Cash Provided by Operating Activities	<u>\$ 207,125</u>	<u>\$ 374,280</u>

See notes to the financial statements.

LORAIN COUNTY ELDERLY HOUSING CORPORATION
STATEMENTS OF CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
Beginning Net Assets	\$ 1,993,555	\$ 1,849,259
Change in Net Assets	<u>110,261</u>	<u>144,296</u>
Ending Net Assets	<u><u>\$ 2,103,816</u></u>	<u><u>\$ 1,993,555</u></u>

See notes to the financial statements.

LORAIN COUNTY ELDERLY HOUSING CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

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

Nature of Business

On December 24, 1974, the Lorain Metropolitan Housing Authority (LMHA) approved the formation of the Lorain County Leased Housing Corporation, later amended on February 5, 1977 to the Lorain Elderly Housing Corporation (Corporation) for the following purposes:

- to create a charitable, nonprofit corporation to promote and advance decent, safe, and sanitary housing for elderly persons of low income, moderate income, or the elderly or infirm, or any combination thereof, and to construct or to acquire or to rehabilitate a housing project or projects usable for public housing purposes or other charitable purposes not inconsistent therewith, and to maintain and operate the same;
- to provide charitable, nonprofit housing for elderly persons of low income, pursuant to Ohio and United States Government laws pertaining to same;
- to enable the construction or rehabilitation of such housing with financing and grants allowed by the Housing Authority of the State of Ohio and the Housing and Urban Development law of the United States of America.

Sources of Funding

The Corporation receives tenant rents from its two fully owned buildings (HARR Plaza and International Plaza) and remits these rents to the Trustee. (See Note 4 for Trustee information.) The Trustee earns and receives Housing Assistance Payments (HAP) subsidy from the U.S. Department of Housing and Urban Development (HUD). The Corporation receives its budgeted revenues from the Trustee and makes a final settlement with the Trustee at year-end based on its financial results.

Basis of Accounting and Presentation

The Corporation follows accounting principles generally accepted in the United States of America. Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117 *Financial Statements of Not-for-Profit Organizations*.

The financial statements present the financial activity of the Corporation and trust fund activity authorized by the JP Morgan Institutional Trust Services (“JP Morgan”), Columbus, Ohio.

Books and records are maintained by LMHA, based on an agreement dated June 1, 1978. Trust funds are controlled and maintained by JP Morgan.

LORAIN COUNTY ELDERLY HOUSING CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004
(CONTINUED)

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

Basis of Accounting and Presentation (Continued)

The projects are subsidized by HUD under HAP contracts for a maximum of 40 years.

Structures and Equipment, Accumulated Depreciation, and Depreciation Expense

Structures and equipment are carried at cost and depreciated over the estimated useful life of the items as follows:

- Buildings (40 years)
- Leasehold improvements (15 years)
- Maintenance equipment (5-10 years)
- Office equipment (5 years)
- Computer equipment (3 years)
- Auto/trucks and other vehicles (5 years)

Depreciation expense is calculated on a straight-line method. The policy of the corporation is to generally capitalize assets over \$1,000 in value and have a useful life greater than one year.

Accounts Receivable and Credit Policy

Accounts receivable are uncollateralized obligations due from governmental contracts and tenants requiring payment within 30 days from the invoice date. Past due invoices bear no interest.

Payments of accounts receivable are allocated to the specific invoices identified on the remittance advice or, if unspecified, are applied to the earliest unpaid invoices.

Accounts receivable are stated at the amount management expects to collect from balances outstanding at year-end. Based on management's assessment of the credit history with HUD and other governmental organizations having outstanding balances and current relationships with them, it has concluded that realized losses on balances outstanding at June 30, 2005 and 2004, will be immaterial and no allowance for doubtful accounts is required.

Based on management's assessment of the credit history with tenants having outstanding balances and current relationships with them, it has established an allowance for doubtful accounts of \$143 and \$36 at June 30, 2005 and 2004, respectively.

Management individually reviews all outstanding accounts receivable balances. Accounts are written off when deemed uncollectible. Bad debt expense for the years ended June 30, 2005 and 2004, was \$5,754 and \$5,145, respectively.

LORAIN COUNTY ELDERLY HOUSING CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004
(CONTINUED)

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

Investments

Investments for the Corporation may consist of certificates of deposit, U.S. Treasury Bills, and other federal government financial instruments. All investments are held until maturity. Accrued interest receivable is recognized at year-end, based on the interest income earned.

Income Tax Status

The Corporation is tax exempt from federal and state tax as an instrumentality of a political subdivision created pursuant to the Ohio Revised Code Section 3735.27. No provision for Federal and state income tax has been recorded in the accompanying financial statements.

Cash and Cash Equivalents

The Corporation considers highly liquid investments to be cash and cash equivalents.

Due to/Due from Related Entity

During the course of operations, payables and receivables occur between the Corporation and LMHA. These activities are shown as either a "Due from Related Entity" (asset) or a "Due to Related Entity" (liability).

Use of Estimates

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

NOTE 2: **DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS**

The deposit and investment of the Corporation's monies are governed by the provisions of the Ohio Revised Code. These provisions permit the Corporation, as a component unit of a political subdivision, to invest its monies in certificates of deposit, savings accounts, certain money market accounts, obligations of this state, the State Treasurer's Investment Pool (STAROhio), and obligations of the United States Government or certain agencies thereof. Financial institutions eligible for deposits are limited to banks located in Ohio and domestic savings and loan associations. The Corporation may enter into repurchase agreements as permitted.

LORAIN COUNTY ELDERLY HOUSING CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004
(CONTINUED)

NOTE 2: **DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS**
(Continued)

Financial institutions designated as a public depository must give security for the funds on deposit. These institutions may either specifically collateralize individual accounts in excess of amounts insured by the Federal Deposit Insurance Corporation (FDIC), or may pledge a pool of government securities, the face value of which is at least 105 percent of the total value of public monies on deposit at the institution.

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

Deposits

The carrying amount of the Corporation’s cash deposits were \$186,274 and \$274,568 at June 30, 2005 and 2004, respectively, with a \$186,274 and \$274,568 bank balance, respectively. Of the bank balance, \$100,000 was insured by the Federal Deposit Insurance Corporation (FDIC) at June 30, 2005 and 2004, respectively. The remaining balances of \$86,274 and \$174,568 were uninsured at June 30, 2005 and 2004, respectively. The uninsured deposits were, however, collateralized with investments in the Corporation’s name held by the financial institution as permitted under the Ohio Revised Code Section 135.

Investments

The Corporation’s investments are detailed below and are categorized to give an indication of the level of credit risk as of year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the Corporation or its agent in the Corporation’s name. Category 2 includes investments that are uninsured and unregistered for which the securities are held by the counterparty’s trust department or agent in the Corporation’s name. Category 3 includes uninsured or unregistered investments for which securities are held by the counterparty or by its trust department or agent but not in the Corporation’s name.

LORAIN COUNTY ELDERLY HOUSING CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004
(CONTINUED)

NOTE 2: DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS
(Continued)

Investments (Continued)

<u>Description</u>	<u>June 30, 2005</u>			<u>Fair Value</u>
	<u>Risk Category</u>			
	<u>1</u>	<u>2</u>	<u>3</u>	
Certificates of Deposits	\$ 0	\$ 1,987,000	\$ 0	\$ 1,987,000
JP Morgan Trust Funds	0	895,080	0	895,080
Total Investments June 30, 2005	<u>\$ 0</u>	<u>\$ 2,882,080</u>	<u>\$ 0</u>	<u>\$ 2,882,080</u>

<u>Description</u>	<u>June 30, 2004</u>			<u>Fair Value</u>
	<u>Risk Category</u>			
	<u>1</u>	<u>2</u>	<u>3</u>	
Certificates of Deposits	\$ 0	\$ 2,015,000	\$ 0	\$ 2,015,000
JP Morgan Trust Funds	0	874,513	0	874,513
Total Investments June 30, 2004	<u>\$ 0</u>	<u>\$ 2,889,513</u>	<u>\$ 0</u>	<u>\$ 2,889,513</u>

At June 30, the Corporation's cash, cash equivalents, and investments consist of the following:

	<u>2005</u>	<u>2004</u>
Demand Deposits	\$ 186,274	\$ 274,568
JP Morgan Trust Funds	895,080	874,513
Certificates of Deposit	<u>1,987,000</u>	<u>2,015,000</u>
	<u>\$ 3,068,354</u>	<u>\$ 3,164,081</u>

The balances are included in the accompanying June 30 balance sheet under the following captions:

	<u>2005</u>	<u>2004</u>
<u>Current Assets</u>		
Cash and Cash Equivalents	\$ 146,232	\$ 235,360
Cash Restricted for Tenant Security Deposits	40,042	39,208
Unrestricted Investments	1,987,000	2,015,000
Temporarily Restricted Investments	<u>895,080</u>	<u>874,513</u>
	<u>\$ 3,068,354</u>	<u>\$ 3,164,081</u>

Temporarily Restricted Investments

In accordance with contractual provisions, portions of the JP Morgan Trust Funds are restricted for designated purposes related to the servicing of the debt.

LORAIN COUNTY ELDERLY HOUSING CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004
(CONTINUED)

NOTE 3: LAND, STRUCTURES, AND EQUIPMENT

	<u>June 30, 2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2005</u>
Land	\$ 377,930	\$ 80,589	\$ 0	\$ 458,519
Buildings	6,331,707	675,751	0	7,007,458
Office Equipment	25,172	0	0	25,172
Maintenance Equipment	20,580	0	0	20,580
Construction in Progress (plumbing)	<u>561,050</u>	<u>(561,050)</u>	<u>0</u>	<u>0</u>
Total	7,316,439	195,290	0	7,511,729
Less: Accumulated Depreciation	<u>(3,586,561)</u>	<u>(186,881)</u>	<u>0</u>	<u>(3,773,442)</u>
Total	<u>\$ 3,729,878</u>	<u>\$ 8,409</u>	<u>\$ 0</u>	<u>\$ 3,738,287</u>

NOTE 4: BONDS PAYABLE

JP Morgan Institutional Trust Services

On March 1, 1993, bonds totaling \$5,875,000 were issued for the Corporation and Bank One Ohio Trust Company of Columbus, Ohio (Trustee), was selected to service the debt. On November 15, 2003, JP Morgan Institutional Trust Services of Columbus, Ohio purchased Bank One Ohio Trust Company of Columbus, Ohio, and assumed the rights and obligations to service the debt as Trustee.

The bonds issued are fully registered obligations having a minimum denomination of \$5,000 or any integral multiple of \$5,000 in excess thereof. The bonds mature on July 15, 2019. Interest is payable semiannually on January 15th and July 15th. As of June 30, 2005, the outstanding balance is \$4,430,000.

The bonds are secured as to payment by all project revenues from the operation of the projects and an open-end Mortgage Deed and Security Agreement dated March 1, 1995, on each project. All units in the projects are entitled to payments from HUD pursuant to HAP Contract Number C-77-086, having an effective date of September 1, 1979, and HAP Contract Number C-76-908, having an effective date of September 1, 1979. All of the rights under the HAP contracts have been assigned to the Trustee, JP Morgan Institutional Trust Services.

The Trustee is responsible for ensuring that all principal and interest payments are made in accordance with the terms specified in the bond indenture agreement. The Corporation is bound to certain debt covenants that pertain to the issuance and the servicing of the bonds payable.

LORAIN COUNTY ELDERLY HOUSING CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004
(CONTINUED)

NOTE 4: **BONDS PAYABLE** (Continued)

The future principal payment requirements and related interest rates are shown below:

Maturity (July 15)	Principal Amount	Interest Amount	Total Amount	Interest Rate(%)	Yield(%)
2005	\$ 175,000	\$ 282,413	\$ 457,413	6.375%	6.454%
2006	185,000	271,256	456,256	6.375%	6.454%
2007	195,000	259,463	454,463	6.375%	6.454%
2008	210,000	247,031	457,031	6.375%	6.454%
2009	225,000	233,644	458,644	6.375%	6.454%
2010-2014	1,355,000	933,936	2,288,936	6.375%	6.454%
2015-2018	1,435,000	401,944	1,836,944	6.375%	6.454%
2019	<u>650,000</u>	<u>41,438</u>	<u>691,438</u>		
Total	<u>\$ 4,430,000</u>	<u>\$ 2,671,125</u>	<u>\$ 7,101,125</u>		

NOTE 5: **RELATED PARTY TRANSACTIONS**

All three Board members of the Corporation are also members of the Board of Commissioners of the LMHA. The Corporation is a component unit of LMHA and the financial results and financial activity of the Corporation are included as part of the financial statements of LMHA.

LMHA acts as managing agent for the Corporation and performs all financial and operating functions for the Corporation except for those administrative duties performed by the Trustee. The Corporation pays LMHA a managing fee for the services rendered, which totaled \$13,366 and \$12,927 for the years ended June 30, 2005 and 2004, respectively. Various operating expenses are allocated by LMHA to the component unit based on period time and expense studies. Included in the allocation are payroll and related costs such as compensated absences and pension costs.

NOTE 6: **CONCENTRATIONS**

The Lorain Metropolitan Housing Authority receives the majority of its revenues from the U.S. Department of Housing and Urban Development and is subject to changes in Congressional acts or mandated changes by HUD.

**LORAIN COUNTY ELDERLY HOUSING CORPORATION
ANNUAL AUDITORS' CERTIFICATE
DEBT SERVICE COVERAGE RATIOS
FOR THE YEAR ENDED JUNE 30, 2005**

Project Revenues

Tenants' Rent	\$ 481,190	
HUD Operating Subsidy and Capital Grants	858,176	
Investment Income	67,606	
Gain on Disposal of Fixed Assets and Other Income	<u>7,495</u>	
Total Operating Revenues		\$ 1,414,467

Project Expenses

Operating Salaries (b)	196,165	
Maintenance Salaries	80,709	
Employee Benefits	89,178	
Office and Administrative	26,818	
Utilities	214,792	
Property Taxes and Payment in Lieu of Taxes	24,819	
Insurance	28,182	
Professional and Consulting Fees	5,451	
Maintenance - Materials, Supplies, and Contracts (a)	124,089	
Other Expenses	<u>278</u>	
Total Operating Expenses		<u>790,481</u>
Operating Income		623,986

Less:

Trustee Fees	8,052	
Replacement Reserve Account Deposits	40,099	
Management Fee	<u>13,366</u>	
		<u>61,517</u>

Net Operating Income **\$ 562,469**

Debt Service Reserve Account Balance	\$ 268,333
Less: Debt Service Reserve Minimum Reserve Requirement	<u>(268,333)</u>
Excess (Deficit) Debt Service Reserve Funds	<u>\$ 0</u>

Maximum Annual Debt Service **\$ 461,619**

Debt Service Coverage Ratio **121.85 %**

(a) Not including replacement reserve reimbursements (\$10,015).

(b) Not including accrued compensated absence (\$12,561).

**LORAIN COUNTY ELDERLY HOUSING CORPORATION
ANNUAL AUDITORS' CERTIFICATE
ASSET/LIABILITY PARITY TEST
FOR THE YEAR ENDED JUNE 30, 2005**

To be calculated as of June 30th of each year, the asset/liability parity test is calculated as the sum of: **(i)** the outstanding principal balance of the Bonds; **(ii)** the amounts in the Debt Service Reserve Fund and the Replacement Reserve Account; and **(iii)** the minimum ending balance in the Current Revenue Account (not to exceed \$21,000) divided by the outstanding principal balance of the Bonds.

Outstanding Principal Balance	\$4,430,000
Debt Service Reserve Fund Balance	268,333
Replacement Reserve Account Balance	190,017
Current Reserve Account (Maximum \$21,000)	<u>0</u>
Total	<u>\$4,888,350</u>
Outstanding Principal Balance	<u>\$4,430,000</u>
Asset/Liability Parity Percent	<u>110.35%</u>

**LORAIN COUNTY ELDERLY HOUSING CORPORATION
SUMMARY OF JP MORGAN TRUST FUND
FOR THE TWELVE MONTHS ENDING JUNE 30, 2005**

EXHIBIT B

	Current Revenue Fund	Cumm. Revenue Account	Operating Expense Account	Replacement Reserve Fund	Insurance & Taxes Fund	Admin Account	Management Account	Interest Account	Principal Account	Debt Service Revenue	Cumm Revenue Sub-Fund	Combined Account
Balance at June 30, 2004	\$1,060	\$69,531	\$0	\$204,468	\$12,191	\$6,409	\$390	\$147,131	\$165,000	\$268,333	\$0	\$874,513
Housing assistance payments	858,176											858,176
Investments purchased	781,596											781,596
Rental income	480,003											480,003
Interest income	283	203		3,430	322	106		1,256	1,736	4,722	949	13,007
Transfer from:												
Revenue fund	79	-117	690,700	40,099	46,944	7,072	13,367	283,289	174,167		117,067	1,372,667
Interest account	25,954											25,954
Principal account	1,273											1,273
Debt service fund	3,379											3,379
Taxes and insurance	236											236
Cumulative revenue fund	118	390								345		853
Management account			1,112									1,112
Cumulative revenue subaccount	1,789											1,789
Total receipts	2,152,886	476	691,812	43,529	47,266	7,178	13,367	284,545	175,903	5,067	118,016	3,540,045
Disbursements												
Transfer to:												
LMHA		69,921	690,700	56,988	22,070							839,679
Current Revenue Fund					236	78		25,954	1,273	3,379	1,789	32,709
Operating expense account	690,700						1,112					691,812
Cumulative revenue account	0						390					390
Replacement reserve account	40,099											40,099
Tax and insurance fund	46,944											46,944
Revenue Fund	7,072											7,072
Management account	13,366											13,366
Debt Service Reserve	0										345	345
Principal account	174,167											174,167
Interest account	283,289											283,289
Cumulative revenue subaccount	115,567					1,500						117,067
Principal and interest payments								287,672	165,000			452,672
Investments sold	782,656											782,656
Insurance and tax expense					15,792							15,792
Trustee fees	86	86		991	85	2,900		378	463	1,343	1,720	8,052
Management fees			1,112				12,255					13,367
Total disbursements	2,153,946	70,007	691,812	57,979	38,183	4,478	13,757	314,004	166,736	4,722	3,854	3,519,478
Balance at June 30, 2005	\$0	\$0	\$0	\$190,018	\$21,274	\$9,109	\$0	\$117,672	\$174,167	\$268,678	\$114,162	\$895,080
Investment balance at June 30, 200	\$1,060	\$69,531	\$0	\$204,468	\$12,191	\$6,409	\$0	\$147,131	\$165,000	\$268,333	\$0	\$874,123
Investments purchase	781,596	70,010	0	217,976	67,715	13,843	0	282,568	276,433	273,950	200,479	2,184,570
Investments sold	782,656	139,541	0	232,427	58,632	11,143	0	312,026	267,266	273,604	86,318	2,163,613
Investment balance at June 30, 200	\$0	\$0	\$0	\$190,017	\$21,274	\$9,109	\$0	\$117,673	\$174,167	\$268,679	\$114,161	\$895,080
Cash balance at June 30, 2005	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Balance at June 30, 2005	\$0	\$0	\$0	\$190,017	\$21,274	\$9,109	\$0	\$117,673	\$174,167	\$268,679	\$114,161	\$895,080

**LORAIN COUNTY ELDERLY HOUSING CORPORATION
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED JUNE 30, 2005**

Federal Grantor/ Pass Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	
<u>U.S. Department of Housing and Urban Development</u> Section 8 Housing Choice Voucher	14.871	N/A	<u>\$ 858,176</u>

See Notes to the Schedule of Expenditures of Federal Awards.

LORAIN COUNTY ELDERLY HOUSING CORPORATION
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2005

NOTE 1: **BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Lorain County Elderly Housing Corporation and is presented on the accrual basis of accounting as required by generally accepted accounting principles. 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.

**LORAIN COUNTY ELDERLY HOUSING CORPORATION
SCHEDULE OF COMPLETED GRANTS/CERTIFICATES
FOR THE YEAR ENDED JUNE 30, 2005**

No grants were closed during fiscal year 2005. Grants closed during fiscal year 2004 were:

	Note A OH12HAD0040100 New Approach <u>Anti-Drug Grant</u>
Funds Approved - Latest Budget	\$ 134,070
Funds Advanced	134,070
Funds Expended	<u>134,070</u>
Difference Between Funds Advanced and Funds Expended	<u>\$ 0</u>

Note A: The New Approach Anti-Drug grant was completed by the Lorain Metropolitan Housing Authority during fiscal year 2004 and the final report submitted to HUD on July 6, 2004.

Note B: The distribution of costs shown on schedules submitted to HUD for approval are in agreement with the Authority's records and all grant costs and expenses and all related liabilities have been paid and liquidated through payment.

JAMES G. ZUPKA, C.P.A., INC.

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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 Trustees of
Lorain County Elderly Housing Corporation
Lorain, Ohio

We have audited the financial statements of the Lorain County Elderly Housing Corporation, Lorain, Ohio (the Corporation) (a nonprofit organization) as of and for the year ended June 30, 2005, and have issued our report thereon dated September 2, 2005. We conducted our audit in accordance with generally accepted auditing standards in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Lorain County Elderly Housing Corporation'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 an opinion 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 that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Lorain County Elderly Housing Corporation'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 that are required to be reported under *Government Auditing Standards*.

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

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

September 2, 2005

JAMES G. ZUPKA, C.P.A., INC.

Certified Public Accountants

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Garfield Hts., Ohio 44125

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**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Trustees of
Lorain County Elderly Housing Corporation
Lorain, Ohio

Compliance

We have audited the compliance of the Lorain County Elderly Housing Corporation (the Corporation) (a nonprofit organization) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. The Lorain County Elderly Housing Corporation'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 Lorain County Elderly Housing Corporation's management. Our responsibility is to express an opinion on the Lorain County Elderly Housing Corporation'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 Lorain County Elderly Housing Corporation'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 Lorain County Elderly Housing Corporation's compliance with those requirements.

In our opinion, the Lorain County Elderly Housing Corporation complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

The management of the Lorain County Elderly Housing Corporation is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Lorain County Elderly Housing Corporation'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.

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 Trustees, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

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

September 2, 2005

**LORAIN COUNTY ELDERLY HOUSING CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133
JUNE 30, 2005**

1. SUMMARY OF AUDITOR'S RESULTS

2005(i)	Type of Financial Statement Opinion	Unqualified
2005(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
2005(ii)	Were there any other reportable control weakness conditions reported at the financial statements level (GAGAS)?	No
2005(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
2005(iv)	Were there any material internal control weakness conditions reported for major Federal programs?	No
2005(iv)	Were there any other reportable internal control weakness conditions reported for major Federal programs?	No
2005(v)	Type of Major Programs' Compliance Opinion	Unqualified
2005(vi)	Are there any reportable findings under .510?	No
2005(vii)	Major Programs (list):	Housing Choice Voucher Program CFDA# 14.871
2005(viii)	Dollar Threshold: Type A\B Programs	Type A: >\$300,000 Type B: >all others
2005(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

None.



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LORAIN METROPOLITAN HOUSING AUTHORITY

LORAIN 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 9, 2006**