Lake Metropolitan Housing Authority

Financial Statements

For the Year Ended June 30, 2006

Mary Taylor, CPA
Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the Lake Metropolitan Housing Authority, Lake County, prepared by Salvatore Consiglio, CPA, Inc., for the audit period July 1, 2005 through June 30, 2006. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

May 30, 2007

88 E. Broad St. / Fifth Floor / Columbus, OH 43215-3506
Telephone: (614) 466-4514 (800) 282-0370 Fax: (614) 466-4490
www.auditor.state.oh.us

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LAKE METROPOLITAN HOUSING AUTHORITY
AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2006

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SALVATORE CONSIGLIO, CPA, INC.

6548 Royalton Road, Suite 104
North Royalton, Ohio 44133
Phone (440) 877-9870
Fax (440) 877-9237
sconsilgio@aol.com

Independent Auditors' Report

Board of Directors
Lake Metropolitan Housing Authority

I have audited the accompanying financial statements of the business-type activities of Lake Metropolitan Housing Authority, Ohio, as of and for the year ended June 30, 2006, which collectively comprise the Authority basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Lake Metropolitan Housing Authority, Ohio, management. My responsibility is to express an opinion on these basic financial statements based on my audit.

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

As discussed in Note 13 to the financial statements, management has not performed a physical inventory of property and equipment. In addition certain purchases and deletion have not been properly recorded as capital assets on the financial statements and accordingly, depreciation expense not recorded for those assets. The Authority does not maintain an adequate detailed capital asset listing to ascertain that the capital assets listed on the financial statements are fairly stated. Accounting principles generally accepted in the United State of America requires that accounting records be maintain to properly support the amounts listed on the financial statements. The amount by which this departure would affect the assets, net assets and expenses of the business-type activities is not reasonably determinable.

In my opinion, except for the effect of not providing an adequate depreciation schedule for the business-type activities as described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Lake Metropolitan Housing Authority, Ohio, as of June 30, 2006, and the respective change in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards,* I have also issued my report dated March 30, 2007, on my consideration of the Lake Metropolitan Housing Authority, Ohio's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the result of my audit.

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

My Audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the Lake Metropolitan Housing Authority basic financial statements. The accompanying Schedule of Expenditure of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Government and Non-Profit Organizations* and is not a required part of the financial statements. The combining financial data schedule ("FDS") is presented for purposes 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 my opinion, is fairly presented in all material respect in relation to the basic financial statements taken as a whole.

Salvatore Consiglio

Salvatore Consiglio, CPA, Inc.

March 30, 2007

LAKE METROPOLITAN HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2006

UNAUDITED

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

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

FINANCIAL HIGHLIGHTS

- The Authority's net assets increased by $508,390 (or 6.2 %) during 2006. Net Assets were $8,653,070 and $8,144,680 for 2006 and 2005 respectively.
- Revenues increased by $201,768 (or 1.8%) during 2006, and were $11,138,143 and $10,936,375 for 2006 and 2005 respectively.
- The total expenses of all Authority programs decreased by $757,251 (or 6.7%). Total expenses were $10,487,105 and $11,244,356 for 2006 and 2005 respectively.

USING THIS ANNUAL REPORT

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

MD&A

~Management's Discussion
and Analysis~

Basic Financial Statement

~Authority Financial Statements ~
~Notes to Financial Statements ~

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

Authority Financial Statements

The Authority financial statements (see pgs 11-15) are designed to be corporate-like in that all business type activities are consolidated into columns which add to a total for the entire Authority.

These Statements include a Statement of Net Assets, which is similar to a Balance Sheet. The Statement of Net Assets reports all financial and capital resources for the Authority. The Statement is presented in the format where assets, minus liabilities, equals "Net Assets", formerly know as equity. Assets and liabilities are presented in order of liquidity, and are classified as "Current" (convertible into cash within one year), and "Non-current".

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

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

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

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

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

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

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

UNAUDITED

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

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

The Authority's Programs

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

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

Section 8 New Construction Program - Lake MHA administers a Housing Assistance Payments contract (Andrews Place) on behalf of HUD through which HUD subsidizes the rents of low to moderate-income families when those families rent from a private landlord. That rental assistance is provided similarly to how it is under the Housing Choice Voucher program except the rental assistance is tied to the dwelling units, and the assistance is provided to the families renting those units selected by HUD.

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

AUTHORITY 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 - Condensed Statement of Net Assets Compared to Prior Year

	2006	2005
Current and Other Assets	$ 4,501,947	$ 3,421,067
Capital Assets	5,238,613	5,564,649
Total Assets	$ 9,740,560	$ 8,985,716
Current Liabilities	$ 860,999	$ 581,454
Long-Term Liabilities	226,491	259,582
Total Liabilities	1,087,490	841,036
Net Assets:		
Investment in Capital Assets, net of Related Debt	5,238,613	5,564,649
Unrestricted Net Assets	3,414,457	2,580,031
Total Net Assets	8,653,070	8,144,680
Total Liabilities and Net Assets	$ 9,740,560	$ 8,985,716

For more detail information see Statement of Net Assets presented elsewhere in this report.

Major Factors Affecting the Statement of Net Assets

The increase in Lake MHA's current assets is significant, about 30% from the prior year-end. That change is primarily due to funding received by Lake MHA in the current year to make Housing Assistance Payments (HAP) to landlords renting dwelling units to Lake

MHA clients assisted through the Section 8 Housing Choice Voucher program that was not spent because Lake MHA did not provide rental assistance to as many families under the program as they could have. In past years the corresponding change would have been reflected on the liability and net assets side of the statement as a liability, because HUD did not consider such advances of funding to have been earned by the Housing Authority until it was spent by the Authority as intended by HUD. In more recent years, however, accounting pronouncements and HUD dictate such funds are to be treated as earned by the Housing Authority when the funding is provided, so the change shows up in this table as an increase in unrestricted net assets. In a sense, it makes it seem the current year operations were more favorable than they truly were, so the correction will not be reflected in the financial statements until, in subsequent periods when, Lake MHA spends the money to pay HAPs to landlords as intended by HUD.

The change in Capital Assets in the current period was about 5%, a reflection that depreciation on assets held by Lake MHA exceeded additions to capital assets in the current period.

The overall change in liabilities was only about 7%, although there were fairly significant offsetting changes in the parts considered to be current and non-current. The primary cause of that shift is due to an amount owed by Lake MHA to HUD of more than $215,000 that will be paid in the year-end 6/30/07. At year-end 2005 it was considered to be non-current, but because it is due within one year of the year-end of 6/30/06, it is considered to be current at 6/30/06.

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

	2006	2005
Revenues		
Tenant Revenues	$ 399,785	$ 448,312
Operating Subsidies & Grants	10,454,865	10,188,346
Capital Grants	159,438	204,578
Investment Income	94,818	80,449
Other Revenues	29,237	14,690
Total Revenues	**11,138,143**	**10,936,375**

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

	2006	2005
Expenses		
Administrative	947,115	953,757
Tenant Services	9,005	4,230
Utilities	233,467	199,279
Maintenance	410,730	444,325
Protective Services	45,590	22,342
General Expenses	66,070	114,129
Housing Assistance Payaments	8,289,654	8,758,034
Depreciation	464,952	553,103
Loss on Sale of Assets	20,522	195,157
Total Expenses	**10,487,105**	**11,244,356**
Net Increases (Decreases)	**$ 651,038**	**$ (307,981)**

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

Revenues grew by almost 4% and expenses dropped by more than 5% as compared to the prior year-end; as mentioned in the previous section, significantly impacting these changes is the accounting treatment of the amount advanced by HUD for payments to landlords for clients housing assistance payments (HAP) through the Housing Choice Voucher program. Funding advance by HUD for HAP was not spent by Lake MHA in the current period as intended by HUD. Had Lake MHA spent all funding provided in the current period to pay for housing assistance, the change in revenues and expenses would have been just about equal. The correction for this will be reflected in future periods when Lake MHA spends the funding as intended by HUD or funding are reduce because of prior year excess advances made.

CAPITAL ASSETS

Capital Assets

As of year end, the Authority had $5,238,613 invested in a variety of capital assets as reflected in the following schedule, which represents a net decrease (addition, deductions and depreciation) of $326,036 from the end of last year.

Table 3 - Condensed Statement of Changes in Capital Assets

	2006	2005
Land and Land Rights	$ 692,731	$ 692,731
Building & Improvements	10,407,696	10,404,818
Equipment - Administrative	1,335,619	1,335,619
Equipment - Dwelling	259,914	259,914
Construction in Progress	947,594	811,556
Accumulated Depreciation	(8,404,941)	(7,939,989)
Total	$ 5,238,613	$ 5,564,649

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

Table 4 - Condensed Statement of Changes in Capital Assets

Biginning Balance, July 1, 2005	$ 5,564,649
Current Year Additions	159,438
Current Year Disposals	(20,522)
Depreciation Expenses for the Year	(464,952)
Ending Balance, June 30, 2006	$ 5,238,613

The increase in accumulated depreciation from year-end 2005 to 2006 ($465,000) outpaced the increase in construction in progress leading to a net reduction in Capital Assets of $326,000. The net increase in Construction in Progress of $139,000 was made through spending in the Capital Fund Program.

ECONOMIC FACTORS

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

FINANCIAL CONTACT

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

LAKE METROPOLITAN HOUSING AUTHORITY
Statement of Net Assets
Proprietary Funds
June 30, 2006

ASSETS	
Current assets	
Cash and cash equivalents	$2,882,914
Restricted cash and cash equivalents	$419,866
Investments	1,015,209
Receivables, net	149,668
Prepaid expenses and other assets	34,290
Total current assets	**4,501,947**
Noncurrent assets	
Capital assets:	
Land	692,731
Building and equipment	12,003,229
Construction in Progress	947,594
Less accumulated depreciation	(8,404,941)
Total noncurrent assets	***5,238,613***
Total assets	**$9,740,560**
LIABILITIES	
Current liabilities	
Accounts payable	$32,965
Accrued liabilities	30,088
Intergovernmental payables	677,364
Tenant security deposits	36,546
Deferred revenue	84,036
Total current liabilities	***860,999***

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

LAKE METROPOLITAN HOUSING AUTHORITY
Statement of Net Assets
Proprietary Funds
June 30, 2006

Noncurrent liabilities	
Accrued compensated absences non-current	24,412
Noncurrent liabilities - other	202,079
Total noncurrent liabilities	***226,491***
Total liabilities	**$1,087,490**
NET ASSETS	
Invested in capital assets, net of related debt	$5,238,613
Unrestricted net assets	3,414,457
Total net assets	**$8,653,070**

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

LAKE METROPOLITAN HOUSING AUTHORITY
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended June 30, 2006

OPERATING REVENUES	
Tenant Revenue	$399,785
Government operating grants	10,454,865
Other revenue	29,237
Total operating revenues	**10,883,887**
OPERATING EXPENSES	
Administrative	947,115
Tenant services	9,005
Utilities	233,467
Maintenance	410,730
Protective services	45,590
General	66,070
Housing assistance payment	8,289,654
Depreciation	464,952
Total operating expenses	***10,466,583***
Operating income (loss)	**417,304**
NONOPERATING REVENUES (EXPENSES)	
Interest and investment revenue	94,818
Loss from sale of capital assets	-20,522
Total nonoperating revenues (expenses)	***74,296***
Income (loss) before contributions and transfers	491,600
Capital grants	159,438
Change in net assets	651,038
Total net assets - beginning	8,114,567
Prior period adjustment	-112,535
Total net assets - ending	**$8,653,070**

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

LAKE METROPOLITAN HOUSING AUTHORITY
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2006

CASH FLOWS FROM OPERATING ACTIVITIES	
Operating grants received	$10,566,880
Tenant revenue received	409,343
Other revenue received	29,237
General and administrative expenses paid	(1,599,861)
Housing assistance payments	(8,289,654)
Net cash provided (used) by operatin gactivities	1,115,945
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest earned	96,035
Transfer to investment account	(74,914)
Net cash provided (used) by investing activities	21,121
CASH FLOWS FROM CAPITAL AND RELATED ACTIVITIES	
Capital grant funds received	159,438
Proceeds from sale of assets	20,522
Property and equipment purchased	(159,438)
Net cash provided (used) by capital and related activities	20,522
Net increase (decrease) in cash	1,157,588
Cash and cash equivalents - Beginning of year	2,145,192
Cash and cash equivalents - End of year	$3,302,780

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

LAKE METROPOLITAN HOUSING AUTHORITY
Statement of Cash Flows (Continued)
Proprietary Funds
For the Year Ended June 30, 2006

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES

Net Operating Income (Loss)	$417,304
Adjustment to Reconcile Operating Loss to Net Cash Used by Operating Activities	
- Depreciation	464,952
- Loss from Sale of Assets	(20,522)
- (Increases) Decreases in Accounts Receivable	4,120
- (Increases) Decreases in Prepaid Assets	3,637
- Increases (Decreases) in Accounts Payable	11,799
- Increases (Decreases) in Accounts Payable - HUD	187,480
- Increases (Decreases) in Accounts Payable - PILOT	15,698
- Increases (Decreases) in Accrued Expenses Payable	(16,972)
- Increases (Decreases) in Other Non-Current Liabilities	(25,518)
- Increases (Decreases) in Deferred Revenue	82,053
- Increases (Decreases) in Accrued Compensated Absence	(7,573)
- Increases (Decreases) in Tenant Security Deposits	(513)
Net cash provided by operating activities	$1,115,945

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Summary of Significant Accounting Policies

The financial statements of the Lake Metropolitan Housing Authority (the Authority) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Authority's accounting policies are described below.

Reporting Entity

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

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

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

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

Basis of Presentation

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

Fund Accounting

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

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

Proprietary Fund Types

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

E. Section 8 New Construction Program
Lake MHA administers a Housing Assistance Payments contract on behalf of HUD through which HUD subsidizes the rents of low to moderate-income families when those families rent from a private landlord. That rental assistance is provided similarly to how it is under the Housing Choice Voucher program except the rental assistance is tied to the dwelling units, and the assistance is provided to the families renting those units selected by HUD.

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

Investments
The provisions of the HUD Regulations restrict investments. Investments are valued at market value. Interest income earned in fiscal year ending June 30, 2006 totaled $94,818.

Capital Assets
Capital assets are stated at cost. The capitalization policy of the Authority is to depreciate all non-expendable personal property having a useful life of more than one year and purchase price of $500 or more per unit. Depreciation is calculated using the straight-line method over the estimated useful lives of three years to forty years. Expenditures for repairs and maintenance are charged directly to expense as they are incurred. Expenditures determined to represent additions or betterments are capitalized.

NOTE 1: <u>SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES</u> (Continued)

<u>Net Assets</u>

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

<u>Operating Revenues and Expenses</u>

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

<u>Capital Contributions</u>

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

<u>Cash and Cash Equivalents</u>

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

<u>Compensated Absences</u>

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

Vacation leave and other compensated absences with similar characteristics are accrued as a liability as the benefits are earned by the employees if both of the following conditions are met: (1) the employees' rights to receive

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

compensation is attributable to services already rendered and is not contingent on a specific event that is outside the control of the employer and employee. (2) It is probable that the employer will compensate the employees for the benefits through paid time off or some other means, such as cash payments at termination or retirement.

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

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

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

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

NOTE 2: CASH AND INVESTMENTS

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

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

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

NOTE 2: CASH AND INVESTMENTS (Continued)

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

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

At fiscal year end June 30, 2006, the carrying amount of the Authority's deposits totaled \$3,302,780 and its bank balance was \$3,371,855. Based on the criteria described in GASB Statement No. 40, "Deposit and Investment Risk Disclosure," as of June 30, 2006, \$3,271,855 was exposed to custodial risk as discussed below, while \$100,000 was covered by the Federal Depository Insurance Corporation.

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

Investments

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

NOTE 2: CASH AND INVESTMENTS (Continued)

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

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

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

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

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

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

Cash and Cash Equivalent	
- Certificate of Deposits	$160,340
- Money Market Fund and Bank Deposits	118,849
Investments – U.S. Treasury / Agency Securities	736,020
Total	$1,015,209

NOTE 3: RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year ending June 30, 2006 the Authority maintains comprehensive insurance coverage with private carriers for health, real property, building contents and vehicles. Vehicle policies include liability coverage for bodily injury and property damage.

NOTE 3: RISK MANAGEMENT (Continued)

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

NOTE 4: CAPITAL ASSETS

The following is a summary of changes:

	Balance 06/30/05	Adjust / Additions	Adjust / Deletion	Balance 06/30/06
Capital Assets Not Depreciated:				
Land	$692,731	$0	$0	$692,731
Construction in Progress	811,556	159,438	(20,522)	950,472
Total Capital Assets Not Being Depreciated	**1,504,287**	**159,438**	**(20,522)**	**1,643,203**
Capital Assets Being Depreciated:				
Buildings and Building Improv.	10,404,818	0	0	10,404,818
Furnt, Mach. & Equip - Admin	1,595,533	0	0	1,595,533
Total Capital Assets Being Depreciated	**12,000,351**	**0**	**0**	**12,000,351**
Total Accumulated Depreciated	**(7,939,989)**	**(464,952)**	**0**	**(8,404,941)**
Total Capital Assets Being Depreciated, Net	**4,060,362**	**(464,952)**	**0**	**3,595,410**
Total Capital Assets, Net	**$5,564,649**	**($305,514)**	**($20,522)**	**$5,238,613**

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

All full-time employees of Authority participate in the Ohio Public Employees Retirement System (OPERS), a cost-sharing multiple-employer public employee retirement system administered by the Public Employees Retirement Board. OPERS provide basic retirement, disability and survivor benefits, based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 145 of the Ohio Revised Code. OPERS issue a publicly available

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

financial report that includes financial statements and required supplementary information for OPERS. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 466-2085 or (800) 222-PERS.

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

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

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

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

Plan members are required to contribute 8.5 percent of their annual covered salary to fund pension obligations. The 2005 employer pension contribution rate for Authority was 13.55 percent. Effective January 1, 2006 the rates increased to 9 percent for members and 13.7 percent for employers. Contributions are authorized by state statue. The contribution rates are determined actuarially. The Authority's contribution for the years ended June 30, 2006, 2005, and 2004 amounted to $96,215, $94,132, and $81,543. These costs have been charged to the employee fringe benefit account. Ninety-three percent has been contributed for 2006. All required contributions for the two previous years have been paid.

NOTE 6: POST-EMPLOYMENT BENEFITS

The Public Employees Retirement System of Ohio (OPERS) provides post-employment health care benefits to age and service retirants with ten or more years of qualifying Ohio service credit and to primary survivor recipients of such retirants. Health care coverage for disability recipients is also available. The health care coverage provided by the OPERS is considered an Other Post-employment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to the OPERS is set aside for the funding of post retirement health care. The Ohio Revised Code provides statutory Authority requiring public employers to fund post-employment health care through their contributions to the OPERS. The portion of the 2005 employer contribution rate (identified above) that was used to fund health care for the year ended June 30, 2006 was 4.0 percent of covered payroll, which amounted to $28,253. The significant actuarial assumptions and calculations relating to post-employment health care benefits were based on the OPERS' latest actuarial review performed as of December 31, 2005. 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 2005 was 6.5 percent. An annual increase of 4.0 percent compounded annually is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.0 percent base increase, were assumed to range from 0.50 percent to 6.3 percent. Health care costs were assumed to increase at a project wage inflation rate plus an additional factor ranging from .5% to 6% for the next 9 years. In subsequent years (10 and beyond), health care costs were assumed to increase at 4% (the projected wage inflation rate).

Benefits are advanced-funded on an actuarially determined basis. The number of active contributing participants was 369,214. The actuarial value of the OPERS' net assets available for OPEB at December 31, 2005 was $11.1 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were $31.3 billion and $20.2 billion, respectively.

NOTE 6: POST-EMPLOYMENT BENEFITS (Continued)

OPERS Retirement Board Implemented its Health Care Preservation Plan (HCPP). HCPP was adopted on September 9, 2004, and is effective on January 1, 2007. In addition, OPERS created a separate investment pool for health care assets. Members and employers contribution rates increases in January 1, 2006 and in 2007 will allow additional funds to be allocated to the health care plan.

NOTE 7: NOTE TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES

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

NOTE 8: RESTRICTED CASH

The Authority administers grant funds received from HUD for future development of housing. The grant funds received in prior years were used to purchase vacant lots. Due to the uncertainties of the funding from HUD, the Authority has determined that it will not be developing any new housing in the near future. Therefore, in effort to reduce the upkeep cost, the Authority started to re-sale the vacant lots purchased. The proceeds from the sale of $419,866 are recorded as restricted cash.

NOTE 9: PRIOR PERIOD ADJUSTMENT

A prior period adjustment of $112,535 was necessary to properly state beginning equity balance. The adjustment represents the following:

HOUSING CHOICE VOUCHER PROGRAM:	
- Adjustment to set-up a payable to HUD for amount to recaptures for excess Administration Funds Reserved	$215,910
- Adjustment to eliminate a payable to HUD for prior year excess funds received from HUD	(48,970)
LOW RENT PUBLIC HOUSING PROGRAM:	
- Adjustment to the properly state investment at fair mark value.	(54,405)
Total Prior Period Adjustment	$112,535

NOTE 10: TENANT ACCOUNT RECEIVABLES

As of June 30, 2006, tenant account receivable is shown net of an allowance for doubtful accounts of $4,000.

NOTE 11: ECONOMIC DEPENDENCY

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

NOTE 12: CONTINGENCIES

Litigations and Claims
In the normal course of operations the PHA may be subject to litigation and claims. At June 30, 2006 the PHA was involved in such matter. While the outcome of this matter cannot presently be determined, management believes that the ultimate resolution will not have a material effect on the financial statements.

NOTE 13: CAPITAL ASSETS

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

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

Lake Metropolitan Housing Authority FDS Schedule Submitted To REAC Propriety Fund Type- Enterprise Fund June 30, 2006								
Line Item No.	Account Description	N/C S/R Section 8 Programs	Low Rent Public Housing	Development	Housing Choice Vouchers	Public Housing Capital Fund Program	State/Local	Total
111	Cash - Unrestricted	$147,506	$101,643	$0	$2,301,600	$0	$130,086	$2,680,835
112	Cash - Restricted - Modernization and Development	$0	$0	$419,866	$0	$0	$0	$419,866
113	Cash - Other Restricted	$0	$0	$0	$202,079	$0	$0	$202,079
100	Total Cash	$147,506	$101,643	$419,866	$2,503,679	$0	$130,086	$3,302,780
125	Accounts Receivable - Misc	$0	$0	$0	$0	$0	$9,579	$9,579
122	Accounts Receivable - HUD Other Projects	$38,649	$0	$4,423	$0	$91,101	$0	$134,173
126	Accounts Receivable - Tenants - Dwelling Rents	$0	$9,916	$0	$0	$0	$0	$9,916
126.1	Allowance for Doubtful Accounts - Dwelling Rents	$0	($4,000)	$0	$0	$0	$0	($4,000)
126.2	Allowance for Doubtful Accounts - Other	$0	$0	$0	$0	$0	$0	$0
128.1	Allowance for Doubtful Accounts - Fraud	$0	$0	$0	$0	$0	$0	$0
120	Total Receivables, net of allowances for doubtful accounts	$38,649	$5,916	$4,423	$0	$91,101	$9,579	$149,668
131	Investments - Unrestricted	$0	$198,905	$0	$716,086	$0	$100,218	$1,015,209
142	Prepaid Expenses and Other Assets	$0	$34,290	$0	$0	$0	$0	$34,290
143.1	Allowance for Obsolete Inventories	$0	$0	$0	$0	$0	$0	$0
144	Interprogram Due From	$120,069	$224,282	$0	$0	$0	$0	$344,351
150	Total Current Assets	$306,224	$565,036	$424,289	$3,219,765	$91,101	$239,883	$4,846,298
161	Land	$0	$692,731	$0	$0	$0	$0	$692,731
162	Buildings	$0	$10,078,202	$0	$21,652	$307,842	$0	$10,407,696
163	Furniture, Equipment & Machinery - Dwellings	$0	$259,914	$0	$0	$0	$0	$259,914
164	Furniture, Equipment & Machinery - Administration	$51,044	$1,090,706	$0	$170,165	$23,704	$0	$1,335,619

Lake Metropolitan Housing Authority FDS Schedule Submitted To REAC Propriety Fund Type- Enterprise Fund June 30, 2006								
Line Item No.	Account Description	N/C S/R Section 8 Programs	Low Rent Public Housing	Development	Housing Choice Vouchers	Public Housing Capital Fund Program	State/Local	Total
165	Leasehold Improvements	$0	$0	$0	$0	$0	$0	$0
166	Accumulated Depreciation	($51,044)	($8,140,520)	$0	($162,440)	($50,937)	$0	($8,404,941)
167	Construction In Progress	$0	$0	$157,716	$0	$789,878	$0	$947,594
160	Total Fixed Assets, Net of Accumulated Depreciation	$0	$3,981,033	$157,716	$29,377	$1,070,487	$0	$5,238,613
190	Total Assets	$306,224	$4,546,069	$582,005	$3,249,142	$1,161,588	$239,883	$10,084,911
312	Accounts Payable <= 90 Days	$0	$26,716	$0	$6,249	$0	$0	$32,965
321	Accrued Wage/Payroll Taxes Payable	$0	$30,088	$0	$0	$0	$0	$30,088
331	Accounts Payable - HUD PHA Programs	$0	$0	$419,884	$215,910	$0	$0	$635,794
333	Accounts Payable - Other Government	$0	$41,570	$0	$0	$0	$0	$41,570
341	Tenant Security Deposits	$0	$36,546	$0	$0	$0	$0	$36,546
342	Deferred Revenues	$0	$84,036	$0	$0	$0	$0	$84,036
347	Interprogram Due To	$13,975	$0	$4,405	$225,291	$91,101	$9,579	$344,351
310	Total Current Liabilities	$13,975	$218,956	$424,289	$447,450	$91,101	$9,579	$1,205,350
354	Accrued Compensated Absences - Non Current	$46	$12,987	$0	$11,379	$0	$0	$24,412
353	Noncurrent Liabilities - Other	$0	$0	$0	$202,079	$0	$0	$202,079
350	Total Noncurrent Liabilities	$46	$12,987	$0	$213,458	$0	$0	$226,491
300	Total Liabilities	$14,021	$231,943	$424,289	$660,908	$91,101	$9,579	$1,431,841
508.1	Invested in Capital Assets, Net of Related Debt	$0	$3,981,033	$157,716	$29,377	$1,070,487	$0	$5,238,613
512.1	Unrestricted Net Assets	$292,203	$333,093	$0	$2,558,857	$0	$230,304	$3,414,457

Lake Metropolitan Housing Authority FDS Schedule Submitted To REAC Propriety Fund Type- Enterprise Fund June 30, 2006									
Line Item No.	Account Description	N/C S/R Section 8 Programs	Low Rent Public Housing	Development	Housing Choice Vouchers	Public Housing Capital Fund Program	State/Local	Total
513	Total Equity/Net Assets	$292,203	$4,314,126	$157,716	$2,588,234	$1,070,487	$230,304	$8,653,070
600	Total Liabilities and Equity/Net Assets	$306,224	$4,546,069	$582,005	$3,249,142	$1,161,588	$239,883	$10,084,911
703	Net Tenant Rental Revenue	$0	$399,785	$0	$0	$0	$0	$399,785
705	Total Tenant Revenue	$0	$399,785	$0	$0	$0	$0	$399,785
706	HUD PHA Operating Grants	$505,829	$456,876	$0	$9,437,345	$54,815	$0	$10,454,865
706.1	Capital Grants	$0	$0	$0	$0	$159,438	$0	$159,438
711	Investment Income - Unrestricted	$7,554	$14,346	$0	$60,615	$0	$12,303	$94,818
713.1	Cost of Sale of Assets	$0	$0	$0	$0	$0	$0	$0
715	Other Revenue	$0	$14,044	$0	$15,193	$0	$0	$29,237
716	Gain/Loss on Sale of Fixed Assets	$0	$0	($20,522)	$0	$0	$0	($20,522)
720	Investment Income - Restricted	$0	$0	$0	$0	$0	$0	$0
700	Total Revenue	$513,383	$885,051	($20,522)	$9,513,153	$214,253	$12,303	$11,117,621
911	Administrative Salaries	$7,398	$118,171	$0	$365,150	$0	$0	$490,719
912	Auditing Fees	$500	$2,875	$0	$3,250	$0	$0	$6,625
914	Compensated Absences	($288)	($3,255)	$0	($4,029)	$0	$0	($7,572)
915	Employee Benefit Contributions - Administrative	$2,922	$44,437	$0	$152,136	$0	$0	$199,495
916	Other Operating - Administrative	$5,482	$62,413	$0	$156,091	$33,862	$0	$257,848
921	Tenant Services - Salaries	$0	$9,005	$0	$0	$0	$0	$9,005
931	Water	$0	$14,751	$0	$0	$0	$0	$14,751
932	Electricity	$0	$156,191	$0	$0	$0	$0	$156,191

Lake Metropolitan Housing Authority FDS Schedule Submitted To REAC Propriety Fund Type- Enterprise Fund June 30, 2006									
Line Item No.	Account Description	N/C S/R Section 8 Programs	Low Rent Public Housing	Development	Housing Choice Vouchers	Public Housing Capital Fund Program	State/Local	Total
933	Gas	$0	$62,525	$0	$0	$0	$0	$62,525
941	Ordinary Maintenance and Operations - Labor	$0	$169,641	$0	$0	$0	$0	$169,641
942	Ordinary Maintenance and Operations - Materials and Other	$0	$107,980	$0	$6,784	$0	$0	$114,764
943	Ordinary Maintenance and Operations - Contract Costs	$0	$57,547	$0	$4,832	$0	$0	$62,379
945	Employee Benefit Contributions - Ordinary Maintenance	$0	$63,946	$0	$0	$0	$0	$63,946
952	Protective Services - Other Contract Costs	$0	$39,464	$0	$6,126	$0	$0	$45,590
961	Insurance Premiums	$0	$25,891	$0	$11,710	$0	$0	$37,601
962	Other General Expenses	$0	$212	$0	$3,533	$0	$0	$3,745
963	Payments in Lieu of Taxes	$0	$16,632	$0	$0	$0	$0	$16,632
964	Bad Debt - Tenant Rents	$0	$8,092	$0	$0	$0	$0	$8,092
969	Total Operating Expenses	$16,014	$956,518	$0	$705,583	$33,862	$0	$1,711,977
970	Excess Operating Revenue over Operating Expenses	$497,369	($71,467)	($20,522)	$8,807,570	$180,391	$12,303	$9,405,644
973	Housing Assistance Payments	$476,820	$0	$0	$7,812,834	$0	$0	$8,289,654
974	Depreciation Expense	$0	$430,376	$0	$9,504	$25,072	$0	$464,952
900	Total Expenses	$492,834	$1,386,894	$0	$8,527,921	$58,934	$0	$10,466,583
1001	Operating Transfers In	$0	$20,953	$0	$0	$0	$0	$20,953
1002	Operating Transfers Out	$0	$0	$0	$0	($20,953)	$0	($20,953)
1010	Total Other Financing Sources (Uses)	$0	$20,953	$0	$0	($20,953)	$0	$0

Lake Metropolitan Housing Authority FDS Schedule Submitted To REAC Propriety Fund Type- Enterprise Fund June 30, 2006								
Line Item No.	Account Description	N/C S/R Section 8 Programs	Low Rent Public Housing	Development	Housing Choice Vouchers	Public Housing Capital Fund Program	State/Local	Total
1000	Excess (Deficiency) of Operating Revenue Over (Under) Expenses	$20,549	($480,890)	($20,522)	$985,232	$134,366	$12,303	$651,038
1103	Beginning Equity	$271,654	$4,740,611	$178,238	$1,769,942	$936,121	$218,001	$8,114,567
1104	Prior Period Adjustments, Equity Transfers and Correction of Errors	$0	$54,405	$0	($166,940)	$0	$0	($112,535)
	Ending Equity	$292,203	$4,314,126	$157,716	$2,588,234	$1,070,487	$230,304	$8,653,070
1113	Maximum Annual Contributions Commitment (Per ACC)	$519,443	$0	$0	$9,437,345	$0	$0	$9,956,788
1114	Prorata Maximum Annual Contributions Applicable to a Period of less than Twelve Months	$0	$0	$0	$0	$0	$0	$0
1115	Contingency Reserve, ACC Program Reserve	$39,642	$0	$0	$0	$0	$0	$39,642
1116	Total Annual Contributions Available	$559,085	$0	$0	$9,437,345	$0	$0	$9,996,430
1120	Unit Months Available	936	2,868	0	14,374	0	0	18,178
1121	Number of Unit Months Leased	936	2,628	0	14,374	0	0	17,938

Lake Metropolitan Housing Authority
Schedule of Expenditures of Federal Award
For the Year Ended June 30, 2006

FEDERAL GRANTOR / PASS THROUGH GRANTOR PROGRAM TITLES	CFDA NUMBER	EXPENDITURES
U.S. Department of Housing and Urban Development Direct Program		
N/C S/R Section 8 Programs	14.182	$505,829
Low Rent Public Housing	14.850	456,876
Housing Choice Vouchers	14.871	9,437,345
Public Housing Capital Fund Program	14.872	214,253
Total Expenditure of Federal Award		$10,614,303

SALVATORE CONSIGLIO, CPA, INC.

6548 Royalton Road, Suite 104
North Royalton, Ohio 44133
Phone (440) 877-9870
Fax (440) 877-9237
sconsilgio@aol.com

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

Board of Directors
Lake Metropolitan Housing Authority

I have audited the financial statements of the Lake Metropolitan Housing Authority, Ohio, as of and for the year ended June 30, 2006, and have issued my report thereon dated March 30, 2007. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing my audit, I considered Lake Metropolitan Housing Authority, Ohio's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, I noted certain matters involving the internal control over financial reporting and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect Lake Metropolitan Housing Authority, Ohio's ability to record, process, summarize, and report financial data consistent with the assertion of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2006-LMHA-1 through 2006-LMHA-8.

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. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, I consider items 2006-LMAH-1 and 2006-LMHA-5 to be material weaknesses.

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

This report is intended solely for the information of the Board of Directors, management, 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.

Salvatore Consiglio

Salvatore Consiglio, CPA, Inc.

March 30, 2007

SALVATORE CONSIGLIO, CPA, INC.

6548 Royalton Road, Suite 104
North Royalton, Ohio 44133
Phone (440) 877-9870
Fax (440) 877-9237
sconsilgio@aol.com

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

Board of Directors
Lake Metropolitan Housing Authority

Compliance

I have audited the compliance of the Lake Metropolitan Housing Authority, Ohio, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2006. Lake Metropolitan Housing Authority, Ohio major federal programs are identified in the Summary of Auditor's result section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Lake Metropolitan Housing Authority, Ohio's management. My responsibility is to express an opinion on Lake Metropolitan Housing Authority, Ohio's compliance based on my audit.

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

As discussed in item FED-2006-1 through FED-2006-6 in the accompanying schedule of findings and questioned costs, Lake Metropolitan Housing Authority, Ohio, did not comply with requirements regarding special test and provisions for its Section 8 New Construction Program; reporting and eligibility that are applicable to its Low Rent Public Housing Program; eligibility for its Housing Choice Voucher Program; and allowable activities for its Public Housing Capital fund Program. Compliance with such requirement is necessary, in my opinion, for Lake Metropolitan Housing Authority, Ohio, to comply with requirements applicable to that program.

In my opinion, except for the noncompliance described in the preceding paragraph, Lake Metropolitan Housing Authority, Ohio, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

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

I have noted certain matters involving the internal control over compliance and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in my judgment, could adversely affect Lake Metropolitan Housing Authority, Ohio's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2006-LMHA-1 through 2006-LMHA-8.

A material weakness is a reportable condition in which the design or operation of one or more of internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, I consider items 2006-LMHA-1 and 2006-LMHA-5 to be material weaknesses.

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

Salvatore Consiglio

Salvatore Consiglio, CPA, Inc.

March 30, 2007

Lake Metropolitan Housing Authority
Schedule of Findings and Questioned Costs
OMB Circular A-133 § .505
June 30, 2006

1. SUMMARY OF AUDITOR'S RESULTS

Type of Financial Statement Opinion	Qualified
Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	Yes
Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	Yes
Was there any reported material non-compliance at the financial statement level (GAGAS)?	Yes
Were there any material internal control weakness conditions reported for major federal programs?	Yes
Were there any other reportable internal control weakness conditions reported for major federal programs?	No
Type of Major Programs' Compliance Opinion	Qualified
Are there any reportable findings under § .510?	Yes
Major Programs (list):	CFDA # 14.182, 14.850 and 14.871 - Section 8 N/C, Low Rent Public Housing and Housing Choice Voucher Program
Dollar Threshold: Type A/B Programs	Type A: > $318,429 Type B: All Others
Low Risk Auditee?	No

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

MATERIAL WEAKNESS

FINDING NUMBER	2006-LMHA -1

Material Weakness - Capital Assets

The Authority does not maintain an adequate detailed capital asset listing for capital assets. Also, depreciation expense was calculated by major class of assets rather than by individual asset or like assets. The failure to maintain an accurate capital asset listing and calculate depreciation by individual or like assets did not enable auditors to obtain sufficient evidential matter regarding the amounts reported for capital assets on the Statement of Net Assets and depreciation expense on the Statements of Activities and the Statement of Revenues, Expenses, and Changes in Fund Net Assets for the Proprietary Funds. This could increase the risk that capital assets may be inaccurate for reporting and insurance purposes and increase the possibility of theft or loss without detection.

This condition has been noted in prior audit with a recommendation that the Authority performs a physical inventory of all items it owns and reconciles the inventory to the depreciation schedule. This recommendation has been made year after year without the complying. This finding is also required to be reported for major federal program.

Recommendation:

The Authority should have a formal policy in place to track additions and deletions and to maintain an up-to date capital asset listing for all funds. The capital asset listing should include opening balances, additions and deletions by category and fund, ending balances, current and accumulated depreciation (if applicable), carrying amounts for all assets, location and purchase date. The capital asset system should also assign each asset to a functional category so that the Authority can allocate depreciation expense to proper functions. The capital asset procedures should include documents for the addition and deletion of capital assets with signatures of the responsible officials. The policy should also require depreciation to be calculated by individual items or like assets.

FINDING NUMBER	2006-LMHA -2

Material Weakness – Record Retention

Cancelled checks for disbursements made during the first half of the fiscal year could not be located. The Authority had obtained copies from bank. Quarterly federal payroll tax form 941 for the first quarter on the fiscal year could not be located. In addition, tenant accounting records for the first half of the fiscal year were not made available during the

Audit. Alternative audit procedures were necessary to ascertain that tenant transactions were properly recorded in the accounting records. This appeared to have been caused by the turnover in the fiscal department during the current fiscal year. Failure to maintain proper supporting documentation could increase the risk of unauthorized or unallowable expenditures.

This matter was noted in prior audit and no action was taking by the Authority to resolve this issue.

Recommendation:

The Authority must implement a central filling system. In addition, the Authority must have a formal record retention polity. The policy should address what is considered proper supporting documentation and how long the record must be kept. Authorization to destroy any record must be documented and approved.

FINDING NUMBER	2006-LMHA -3

Material Weakness – Fiscal Policy and Procedures

The Authority could not locate its written policy and procedures for the fiscal department to follow. A procedures manual existed and was provided in prior audit, however, current management was not aware of such manual. Therefore, it was not made available to fiscal staff during the fiscal year.

A written manual will assure consistent treatment of accounting transactions from year to year and also can be very helpful in training new personnel.

Recommendation:

A written procedural manual should be prepared.

FINDING NUMBER	2006-LMHA -4

Material Weakness – Authorization to Execute Contracts

The Authority Procurement Policy, section IIA, page 2 states: "All procurement transactions shall be administered by the Contracting Officer, who shall be the Executive Director or other individual he or she has authorized in writing".

The result of audit procedural over contracts awarded revealed that the Maintenance Manager had obligated the Authority into several contracts with out proper authority to do so.

Recommendation:

The Authority must follow its procurement policy.

FINDING NUMBER	2006-LMHA -4

Material Weakness – Credit Card

Audit procedures over the Authority credit card usage revealed that the PHA policy was not followed (actual policy on credit card was not provided). It was explained that the Authority policy requires that the all credit cards are kept locket at the Finance Office safe. When a card is used a log must be singed indicating the individual taking the card, date, time and Vendor/Purpose for the use of the card.

A review of the log activities revealed that transaction were not always logged on the sign out sheet. Unauthorized used of the card can result in unallowable expenditures and it leaves the Authority at vulnerable for abuse.

Also, it was noted that the Authority has five VISA card accounts in addition to Office Depot, Office Max, Home Depot and BP Gas Card. The VISA card consisted of a main account with a $13,000 credit limit and four additional cards in the name of four separate board members with a $5,000 limit on each card. An explanation was not provided as to why so many credit cards were needed.

Recommendation:

The Authority must maintain a written policy on credit card usage. In addition, the Board must review if it is necessary that so many card be maintain.

FINDING NUMBER	2006-LMHA -5

Material Weakness – Management Staff

During the audit period it was noted that the Authority did not have an Executive Director nor did it have a Finance Manager. During part of the year the Authority operated under an Interim Executive Director until a replacement was hired. An Executive Director was hired, however, this individual was place on administrative leave.

In addition, the finance department was also in disarray. The Finance Manager hired during the year was terminated. During the fiscal year the Authority fiscal department consisted of a Temporary staff hired from a staffing office so that vendors could be paid and payroll processed. This individual left and replaced by the Finance Manager who was terminated. A part time staff was hired and since gave notice. This made it very difficult to perfume the audit and to obtain answers to several questions.

The Authority is under contract with a Fee Accountant to assist the agency with the accounting department. However, the Fee Accountant is only available at the PHA one day a week. I do not believe that this sufficient amount of time for the needs that Lake MHA has.

This leaves the Authority with no leadership or internal controls in place.

Recommendation:

The Board must take quick action to have a proper management staff in place.

REPORTABLE CONDITION

FINDING NUMBER	2006-LMHA -6

Labor Distribution

A review of the staff labor distribution revealed that certain management staff was allocated to the various programs. The percentages used for the distributions were based on the management judgment. No written documentation or allocation plan was provided to support the percentages used. Not having a proper allocation plan can result expenses not properly charged to the various programs.

I reviewed the staff distribution percentage and determined, based on my experience with other PHAs, that the allocations appear reasonable.

Recommendation:

I recommend that the Authority implements a written allocation plan. At a minimum a time study should be compiled to document and support the percentage used for labor distribution.

FINDING NUMBER	2006-LMHA -7

Check Number Sequence

Check numbers sequence were not accounted for properly. Several checks that cleared bank did not match the amounts listed on the accounting records. After further procedures it was determined that the check number issued did not match the pre-printed check number. It was noted that when checks are printed and the detail on the stub is printed on more then one check, those checks were not voided in the system. Therefore, resulting in the check sequence to be off. On the next check run the starting check number in the system needed to be reset. This was not always done, resulting in the errors noted above.

This is an internal control weakness that can result in opportunity for potential abuse.

Recommendation:

Procedures must be implemented to properly account for all check numbers. Any voided check should be entered in the system as a void so that all checks are properly accounted for in the accounting system.

FINDING NUMBER	2006-LMHA -8

Purchase Order

A review of the purchasing procedures and controls in place at the Authority identified that a purchase order system was in place. Audit procedures over 60 check disbursements selected for testing revealed 8 errors were the purchase order were dated after the vendor invoice date. This revealed that a proper system of internal controls over authorization to make purchase was not in place and this can result in unauthorized expenses.

Recommendation:

The Authority most implement a proper system of controls over purchases. No purchases or expenditure should be allowed with out proper authorization.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

FINDING NUMBER	FED-2006-1

Annual Contribution Contract

U.S. Department of HUD
Section 8 New Construction (CFDA # 14.182)
The Department of Housing and Urban Development (HUD) enters into annual contributions contracts with Lake Metropolitan Housing Authority to administer a Housing Assistance Payments contract (Andrews Place) on behalf of HUD through which HUD subsidizes the rents of low to moderate-income families when those families rent from a private landlord. That rental assistance is provided similarly to how it is under the Housing Choice Voucher program except the rental assistance is tied to the dwelling units, and the assistance is provided to the families renting those units selected by HUD. Under the contract, the Authority has certain responsibilities to ascertain that the owner is operating the program in compliance with HUD rules and regulations.

During the audit period, Lake Metropolitan Housing Authority did not perform any management reviews of the section 8 new construction project called Andrews Place. This is in violation of the annual contribution contract with HUD.

As part of my audit procedures, I requested and received copy of Andrews Place audit report. The audit report did not identify any findings. Therefore, it appears that the project is properly administered incompliance with HUD rules and regulations.

Recommendation:

Lake Metropolitan Housing Authority must comply with the annual contribution contract signed with HUD and properly perform its responsibilities.

FINDING NUMBER	FED-2006-2

Performance Reporting

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

Section 24 CFR 902 requires that a housing authority files form HUD-500072 Public Housing Assessment System (PHAS) Management Operations Certification at the end of the fiscal year.

During the audit procedures, the Authority was not able to provide documentation that the PHAS report was properly submitted to HUD. Therefore, I concluded that the Lake MHA is not incompliance with HUD requirement on performance reporting.

Recommendation:

The Authority needs to verify that the form HUD-500072 was properly filed with HUD.

FINDING NUMBER	FED-2006-3

Eligibility – Annual Reexamination

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

Section 24 CFR 960.253, 960.257 and 960.259 requires that annual reexamination of family income and composition be performed at least once every 12 month period.

Audit procedures over 60 public revealed 2 errors where the annual reexamination was done after the 12 month period. This resulted in the Authority not been in compliance with above requirement.

Recommendation:

Controls must be implemented to ascertain that annual reexamination is done timely.

FINDING NUMBER	FED-2006-4

Eligibility – Income Verification

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

Section 24 CFR 960. 259 require that family income is documented in the tenant file by obtaining third party verification.

Audit procedures over 60 public revealed 1 error where the documentation obtained from third party verification did not agree with the income reported in the form HUD – 50058. This resulted in rent payment by the tenant to be understated.

Recommendation:

Controls must be implemented to ascertain that tenant files are properly reviewed for quality assurance.

FINDING NUMBER	FED-2006-5

Eligibility – Declaration of Citizenship

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

Section 24 CFR 5.230, 5.609 and 982.516 require that as a condition of admission or continued occupancy, the tenant and other family members are required to provide certain necessary information and documentation.

Audit procedures over 60 housing choice voucher program revealed 2 errors:

- Declaration of Citizenship was not obtain for one tenant family members.
- The wrong payment standard was used for one tenant calculation of housing assistance payment.

Recommendation:

Controls must be implemented to ascertain that tenant files are properly reviewed for quality assurance.

FINDING NUMBER	FED-2006-6

Allowable Expenditures

U.S. Department of HUD
Public Housing Capital Fund Program (CFDA # 14.872)

Section 24 CFR 968.325 identifies allowable activities and expenditure with Capital Fund Program.

Audit procedures over this program revealed that the Authority did not properly have expenses to support grant funds requested from HUD. Therefore, I was not able to identify actual expenses for the open grant.

Recommendation:
The Authority must reconcile grant expenses for all open capital fund program.

Lake Metropolitan Housing Authority
Schedule of Prior Audit Findings
June 30, 2005

The following are the status of the June 30, 2004 audit findings.

Finding Number	Finding Summary	Fully Corrected?	Not Corrected; Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; **Explain**:
2005-LMHA -1	The Authority does not maintain an adequate detailed capital asset listing	No	Not Corrected – Finding repeated in current audit report.
2005-LMHA -2	Several vendors' invoices, cancelled checks and payroll taxes returns filed could not be located	No	Not Corrected – Finding repeated in current audit report.

Mary Taylor, CPA
Auditor of State

LAKE METROPOLITAN HOUSING AUTHORITY

LAKE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
JUNE 12, 2007

88 E. Broad St. / Fourth Floor / Columbus, OH 43215-3506
Telephone: (614) 466-4514 (800) 282-0370 Fax: (614) 466-4490
www.auditor.state.oh.us