

**LAKE METROPOLITAN HOUSING AUTHORITY**

Financial Condition

As of

June 30, 2011

Together with Auditors' Report





# Dave Yost • Auditor of State

Board of Trustees  
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 Kevin L. Penn, Inc., for the audit period July 1, 2010 through June 30, 2011. 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.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost  
Auditor of State

February 8, 2012

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**LAKE METROPOLITAN HOUSING AUTHORITY  
PAINESVILLE, OHIO**

Table of Content

Independent Auditor's Report	1
Management's Discussion and Analysis	4
Statement of Net Assets	11
Statement of Revenues and Expenses and Changes in Net Assets	12
Statement of Cash Flows	13
Notes to Financial Statements	14
Financial Data Schedule – Balance Sheet	27
Financial Data Schedule – Statement of Revenue, Expenses Changes in Equity	28
Financial Data Schedule – Additional Information Required by HUD	30
Schedule of Expenditures of Federal Awards	31
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Required by Government Auditing Standards	32
Independent Auditors' Report on Compliance with Requirements Applicable to each Major Program and Internal Control over Compliance in Accordance With OMB Circular A-133	34
Schedule of Findings	36
Summary Schedule of Prior Audit Findings	45

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## **Independent Auditor's Report**

Board of Trustees  
Lake Metropolitan Housing Authority  
Painesville, Ohio

I have audited the accompanying financial statements of the business-type activities of Lake Metropolitan Housing Authority, as of and for the year ended June 30, 2011, 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, management. My responsibility is to express an opinion on these basic financial statements based on my audit.

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

I was not able to obtain proper documentation to support the Authority capital assets as listed in the accompanying financial statements. As discussed in Note 12 to the financial statements, management did not performed a physical inventory of property and equipment and did not performed reconciliation between the subsidiary ledger and the financial statements. The Authority does not maintain an adequate detailed capital asset listing to ascertain that the capital assets listed on the financial statements are fairly stated. I was not able to satisfy myself that the capital assets as listed on the financial statements are fairly presented by applying other auditing procedures.

In my opinion, except for the effect of such adjustments, if any, as might have been determined to be necessary had I been able to examine evidence regarding the capital assets, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Lake Metropolitan Housing Authority, Ohio, as of June 30, 2011, 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.

The Management's Discussion and Analysis (MD&A) on pages 4 – 10 is not a required part of the financial statements but is supplemental information required by the Governmental Accounting Standards Board. The MD&A has been reviewed in accordance with the standards established by the American Institute of Certified Public Accountants. Such a review, however, is substantially less in scope than an audit in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, I do not express such an opinion on the MD&A information.

In accordance with *Government Auditing Standards*, I have also issued my report dated November 14, 2011 on my consideration of the Lake Metropolitan Housing Authority's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of 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.

My audit was performed for the purpose of forming an opinion on the basic financial statements of Lake Metropolitan Housing Authority taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. In addition, the financial data schedule, pages 27 to 30 are presented for additional analysis as required by the U.S. Department of Housing and Urban Development. These schedules are the responsibility of management of Lake Metropolitan Housing Authority, 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 stated, in all material respects, in relation to the basic financial statements taken as a whole.

Kevin L. Penn, Inc.

November 14, 2011





# Lake Metropolitan Housing Authority

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2011

The Lake Metropolitan Housing Authority's (the Authority's) 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 fiscal year challenges), and (d) identify individual fund issues or concerns.

This Management Discussion and Analysis is new, and will now be presented at the front of each year's financial statements.

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 statements (beginning on page 11).

### FINANCIAL HIGHLIGHTS

- During FY 2011, the Authority's net assets decreased by \$111,247 (or 1.60%). Since the Authority engages only in business-type activities, the increase is all in the category of business-type net assets. Net Assets were \$6,970,476 and \$6,859,229 for FY 2010 and FY 2011 respectively.
- The revenue increased by \$214,443 (or 1.84%) during FY 2010, and was \$11,653,192 and \$11,867,635 for FY 2010 and FY 2011 respectively.
- The total expenses of the Authority decreased by \$36,776 (or .31%). Total expenses were \$12,015,658 and \$11,978,882 for FY 2010 and FY 2011 respectively.

### Authority Financial Statements

The Authority financial statements are designed to be corporate-like in that all business type activities are consolidated 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 - Liabilities = 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 purpose of the Statement of Net Assets (the "Unrestricted Net Assets") is to report 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.

# **Lake Metropolitan Housing Authority**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2011**

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", although there may also be restrictions placed on the use of these funds.

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 purpose of the Statement of Revenues, Expenses and Changes in Fund Net Assets is to report the agencies operating performance for the fiscal year. The "Change in Net Assets", which is similar to Net Income or Loss, is the result.

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

### **Fund Financial Statements**

The Authority consists of an exclusively Enterprise Fund. Enterprise funds 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.

# Lake Metropolitan Housing Authority

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2011

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

### Statement of Net Assets

The following table reflects the condensed Statement of Net Assets compared to prior year. The Authority is engaged only in Business-Type Activities

**TABLE 1  
STATEMENT OF NET ASSETS**

	FY 2011		FY 2010
Current and Other Assets	\$3,849,072		\$4,107,482
Capital Assets	<u>3,905,304</u>		<u>3,775,431</u>
Total Assets	<u>7,754,376</u>		<u>7,882,913</u>
Other Liabilities	766,674		797,911
Non-Current Liabilities	<u>128,473</u>		<u>114,526</u>
Total Liabilities	<u>895,147</u>		<u>912,437</u>
Net Assets:			
Invested in Capital Assets, net of Related Debt	3,905,304		3,775,431
Restricted	946,527		831,103
Unrestricted	<u>2,007,398</u>		<u>2,363,942</u>
<b>Total Net Assets</b>	<u>\$6,859,229</u>		<u>\$6,970,476</u>

For more detailed information see page 11 for the Statement of Net Assets.

### Major Factors Affecting the Statement of Net Assets

Total assets were decreased by \$128,537 or 1.63% and total liabilities were decreased by \$17,290 or 1.89%. Current assets were used to extinguish liabilities. The operating decrease was the major reason for the decrease of assets.

The \$129,873 Capital Asset increased in 2011 is the net result of the purchase of several new agency vehicles, and a new computer network system, net of disposals and depreciation. For more detail see "Capital Assets and Debt Administration" below.

Table 2 presents details on the change in Unrestricted Net Assets and Table 3 the details on the change in Restricted Net Assets.

# Lake Metropolitan Housing Authority

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2011

**TABLE 2  
CHANGE OF UNRESTRICTED NET ASSETS**

Unrestricted Net Assets 6/30/10		\$2,363,942
Results of Operations	(111,247)	
Adjustments:		
Depreciation (1)	427,122	
Change in Restricted Net Assets	(115,424)	
Adjusted Results from Operations		200,451
Capital Expenditures		(556,995)
Unrestricted Net Assets 6/30/11		\$2,007,398

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

While the results of operations are 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  
CHANGE OF RESTRICTED NET ASSETS**

Restricted Net Assets - 6/30/2010				\$ 831,103
Results from Operations:				
NRA Audit Adjustment		\$142,642		
OIG Audit Findings		17,896		
Fraud Revenue Collection		11,227		
Repayment of HAP & Ports		14,943		
Change in Restricted Net Assets		<u>(71,284)</u>		
Adjusted Results from Operations				115,424
Restricted Net Assets - 6/30/2010				\$ 946,527

The following table reflects the condensed Statement of Revenues, Expenses and Changes in Net Assets compared to prior year. The Authority is engaged only in Business-Type Activities.

# Lake Metropolitan Housing Authority

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2011

The following table reflects the condensed Statement of Revenues, Expenses and Changes in Net Assets compared to prior year.

**TABLE 4  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**

	2011	2010
<b>Operating Revenue:</b>		
HUD Operating Subsidies and Grants	\$10,771,838	\$ 10,604,243
Tenant Revenue	592,702	583,550
Capital Grant	436,589	364,283
Investment Income	16,702	24,943
Other Revenue	49,804	76,173
Total Operating Revenue	11,867,635	11,653,192
<b>Operating Expenses:</b>		
Housing Assistance Payments	9,053,707	9,090,223
Administrative Expense	1,505,182	1,432,778
Tenant Services	9,808	9,128
Utilities	245,744	220,916
Maintenance	510,451	673,096
Protective Services	25,044	24,819
Depreciation Expense	427,122	430,563
General Expenses	201,824	134,135
Total Operating Expenses	11,978,882	12,015,658
Net Increase (Decrease)	(\$111,247)	(\$362,466)

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

The overall loss in the period was less than the previous period. The majority of the overall difference is related to two of the Operating Revenue line items. Overall HUD Operating Subsidies and Grants were \$167,595 over the previous fiscal year. Most of that was in Housing Assistance Payments (HAP), which are restricted funds, and cannot be used for operating expenses. The other large increase was in Capital Grant revenue. This is more a factor of when the expenditures are made, as opposed to when the Grants are received. Investment income continues to be minimal as rates on HUD approved investments continue to hover at near zero. Other revenue is down primarily due to a reclassification of deferred revenue last fiscal year, which we did not have this year.

Operating Expenses were nearly flat, if you don't take into account the \$36,000 drop in Housing Assistance Payment (HAP) expense difference. Any HAP revenue in excess of HAP expense remains restricted to the Agency, and can only be used for future HAP payments. Administrative expenses were up by over \$70,000, mainly to having reduced personnel turnover. Utilities were up about 10%, but overall Maintenance expense was down significantly. This can be attributed to more efficient use of Capital Fund expenditures, and overall reduction in all major maintenance categories. General expenses were up significantly due to primarily two non-recurring items.

# Lake Metropolitan Housing Authority

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2011

One was the buy-out of unused sick time, which occurred during the conversion of accrued vacation/sick hours to a straight Paid Time Off (PTO) system. Although, the Agency incurred a significant expense in the current fiscal year, the overall long term financial effect will be positive. The other non-recurring item was related to a prior health care expense issue.

### CAPITAL ASSETS AND DEBT ADMINISTRATION

#### Capital Assets

As of 6/30/11 the Authority had \$3,905,304 in capital assets as reflected in the following schedule, which represents a net increase of \$129,873 over last fiscal year end.

**TABLE 5  
CAPITAL ASSETS AT YEAR-END  
(NET OF DEPRECIATION)**

		2011		2010
Land and Land Rights		\$ 850,447		\$ 850,447
Building & Improvements		11,756,898		10,407,696
Equipment - Administrative		1,530,597		1,352,040
Equipment - Dwelling		306,511		243,494
Construction in Progress		29,571		1,130,816
Accumulated Depreciation		(10,568,720)		(10,209,062)
Total		\$ 3,905,304		\$ 3,775,431

The following reconciliation summarizes the change in Capital Assets, which is presented in detail on page 22 of the notes.

**TABLE 6  
CHANGE IN CAPITAL ASSETS**

	Business Type Activities
Beginning Balance, July 1, 2010	\$3,775,431
Additions	556,995
Gain/(Loss) from Disposition	0
Depreciation	(427,122)
Ending Balance, June 30, 2011	\$3,905,304

The increase in Building & Improvements is a result of the re-classification of existing Construction-In-Progress. Other changes were a result of capital purchases made throughout the year. \$303,755 was made through Capital Fund Program purchases, and another \$132,834 was made through the ARRA Stimulus Grant Program. The balance of \$120,406 represents capital purchases not covered by a specific grant.

# **Lake Metropolitan Housing Authority**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2011**

### **Debt Outstanding**

As of 6/30/11 the Authority had no debt outstanding.

### **ECONOMIC FACTORS**

Lake Metropolitan Housing Authority is dependent on HUD subsidies to administer their programs and maintain their properties. Federal budget cuts, which result in reduced operating and capital subsidy to the Agency, have a significant impact to the ongoing ability of the agency to operate their programs and maintain their facilities. LMHA currently has unrestricted reserve funds in an amount sufficient to cover modest losses in the foreseeable future, however, HUD is currently in the process of reviewing the reserve levels of all Public Housing Authorities, and has already begun implementing potential "recapture" of those funds through subsidy allocation adjustments. The agency has begun to explore other sources of housing related revenue in anticipation of uncertain future Federal subsidies.

### **Financial Contact**

Questions concerning this report or requests for additional information should be directed to Thomas P. Huth, Finance Manager of the Lake Metropolitan Housing Authority, 189 First Street, Painesville, Ohio, 44077.



LAKE METROPOLITAN HOUSING AUTHORITY  
STATEMENT OF NET ASSETS  
JUNE 30, 2011

ASSETS

**Current Assets**

Cash and Cash Equivalents - Unrestricted (Note 1)	\$ 2,134,038
Cash and Cash Equivalents - Restricted (Note 3)	1,541,449
Accounts Receivable - Fraud Recovery	12,751
Allowance for Doubtful Accounts	(12,751)
Accounts Receivable - HUD	137,268
Accounts Receivable - Other (Net)	8,884
Prepaid Expenses	<u>27,433</u>
Total Current Assets	3,849,072

**Non-Current Assets**

Capital Assets: (Note 4)	
Land	850,447
Building and Equipment	13,594,006
Construction in Progress	29,571
Less: Accumulated Depreciation	<u>(10,568,720)</u>
Total Non-Current Assets	<u>3,905,304</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 7,754,376</u></u>

LIABILITIES AND NET ASSETS

**Current Liabilities**

Accounts Payable	\$ 54,864
Accrued Expenses	52,469
Intergovernmental Payables	614,510
Tenant Security Deposits	<u>44,831</u>
Total Current Liabilities	766,674

**Non-Current Liabilities**

Noncurrent Liabilities - Other	81,006
Accrued Compensated Absences	<u>47,467</u>
Total Non-Current Liabilities	<u>128,473</u>
Total Liabilities	<u><u>\$ 895,147</u></u>

**Net Assets**

Investment in Capital Assets, Net of Related Debt	\$ 3,905,304
Restricted	946,527
Unrestricted	<u>2,007,398</u>
Total Net Assets	<u><u>\$ 6,859,229</u></u>

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

LAKE METROPOLITAN HOUSING AUTHORITY  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2011

**Operating Revenue:**

HUD Operating Subsidies and Grants	\$ 10,771,838
Tenant Revenue	592,702
Other Revenue	49,804
Total Operating Revenue	11,414,344

**Operating Expenses:**

Housing Assistance Payments	9,053,707
Administrative Expense	1,505,182
Tenant Services	9,808
Utilities	245,744
Maintenance	510,451
Protective Services	25,044
Depreciation Expense	427,122
General Expenses	201,824
Total Operating Expenses	11,978,882

Operating Income (Loss) (564,538)

**Non-Operating Revenues (Expenses)**

Investment Income - Unrestricted	16,702
Total Non-Operating Revenues (Expenses)	16,702

Income (Loss) before Contributions and Transfers (547,836)

Capital Grants 436,589

Change in Net Assets (111,247)

Net Assets - Beginning of Year 6,970,476

Net Assets - End of Year \$ 6,859,229

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

LAKE METROPOLITAN HOUSING AUTHORITY  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2011

Cash Flows From Operating Activities:	
Cash payments to suppliers for goods and services	\$ (2,414,642)
Housing assistance payments	(9,053,707)
HUD operating subsidies and grants	10,771,838
Other receipts	659,208
Other payments	<u>(59,467)</u>
Net Cash Provided (Used) by Operating Activities	(96,770)
Cash Flows From Capital and Related Financing Activities:	
Fixed Assets Addition	(556,995)
Capital Grant Funds Received	<u>436,589</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	(120,406)
Cash Flows From Investing Activities:	
Investment Income	<u>16,702</u>
Net Cash Provided (Used) by Investing Activities	16,702
Increase (Decrease) in Cash and Cash Equivalents	(200,474)
Cash and Cash Equivalents - Beginning of Year	<u>3,875,961</u>
Cash and Cash Equivalents - End of Year	<u><u>\$ 3,675,487</u></u>
Reconciliation of Operating Income (Loss) to Net Cash Used in Operating Activities:	
Operating Income (Loss)	\$ (564,538)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Used in Operating Activities:	
Depreciation	427,122
(Increase) decrease in:	
Accounts Receivable	61,138
Prepaid Expenses	(3,202)
Increase (decrease) in:	
Accounts Payable	(34,589)
Compensated Absences	11,699
Deferred Revenue	(10,632)
Tenant Security Deposits	2,330
Accrued Expenses	<u>13,902</u>
Net cash used in operating activities	<u><u>\$ (96,770)</u></u>

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

**LAKE METROPOLITAN HOUSING AUTHORITY  
PAINESVILLE, OHIO**

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2011**

**NOTE 1 - Summary of Significant Accounting Policies:**

**Organization and Reporting Entity**

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

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

**Basis of Presentation**

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

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Authority has elected to apply the provisions of Statements and Interpretations of the Financial Accounting Standards Board issued after November 30, 1989 that do not conflict with GASB pronouncements. The Authority will continue applying all applicable pronouncements issued by the Governmental Accounting Standards Board.

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

**LAKE METROPOLITAN HOUSING AUTHORITY  
PAINESVILLE, OHIO**

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2011**

**NOTE 1 - Summary of Significant Accounting Policies: (continued)**

**Basis of Presentation (Continued)**

The Authority uses a single enterprise fund to maintain its financial records on an accrual basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts.

Enterprise fund reporting focuses on the determination of the change in net assets, financial position, and cash flows. An enterprise fund may be used to account for any activity for which a fee is charged to external users for goods and services.

**Measurement Focus and Basis of Accounting**

The enterprise fund is accounted for on a flow of economic resources measurement focus and the accrual basis of accounting. All assets and all liabilities associated with the operation of the Authority are included on the statement of net assets. The statement of changes in net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the Authority finances and meets the cash flow needs of its enterprise activity.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Authority's enterprise fund are charges to tenants for rent and operating subsidies from HUD. Operating expenses for the enterprise fund include the costs of facility maintenance, housing assistance payments, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**Description of programs**

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

**A. Public Housing Program**

The public 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.

**LAKE METROPOLITAN HOUSING AUTHORITY  
PAINESVILLE, OHIO**

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2011**

**NOTE 1 - Summary of Significant Accounting Policies: (continued)**

**C. Housing Choice Voucher Program**

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

**D. Public Housing Development Program**

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

**E. State and Local**

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

**Use of Estimates**

The preparation of financial statements in accordance with generally accepted accounting principles 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.

**Cash and Cash Equivalents**

The Authority considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents. Effective July 1, 2003, the Authority made a change in the presentation of its cash flow statement. The Authority is now presenting cash and cash equivalents (including certificates of deposit) in the cash flow statement.

**LAKE METROPOLITAN HOUSING AUTHORITY  
PAINESVILLE, OHIO**

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2011**

**NOTE 1 - Summary of Significant Accounting Policies: (continued)**

**Capital Assets**

Capital assets are stated at cost. The capitalization policy of the Authority is to depreciate all non-expendable personal property having a useful life of more than one year and purchase price of \$5,000 or more per unit. Expenditures for repairs and maintenance are charged directly to expense as they are incurred. Expenditures determined to represent additions or betterments are capitalized. Depreciation is computed on the straight line method based on the following estimated useful lives:

Buildings and Improvements	15 to 40 years
Furniture, Fixtures and Equipment	3 to 10 years
Vehicles	5 years

Total depreciation expense for the 2011 fiscal year was \$427,122.

**Capitalization of Interest**

The Authority's policy is not to capitalize interest related to the construction or purchase of capital assets.

**Investments**

The provisions of the HUD Regulations restrict investments. Investments are valued at market value. Interest income earned in fiscal year ending June 30, 2011 totaled \$16,702.

**Compensated Absences**

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

Vacation leave and other compensated absences with similar characteristics are accrued as a liability as the benefits are earned by the employees if both of the following conditions are met: (1) the employees' rights to receive compensation is attributable to services already rendered and is not contingent on a specific event that is outside the control of the employer and employee. (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.

**LAKE METROPOLITAN HOUSING AUTHORITY  
PAINESVILLE, OHIO**

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2011**

**NOTE 1 - Summary of Significant Accounting Policies: (continued)**

**Compensated Absences** (continued)

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

The following is a summary of changes in compensated absence for the fiscal year ending June 30, 2011:

<u>Balance at 6/30/10</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at 6/30/11</u>	<u>Due Within One Year</u>
\$ 35,768	\$ 58,260	\$ 34,694	\$ 59,334	\$ 11,867

**Prepaid Items**

Payments made to vendors for services that will benefit beyond year-end are recorded as prepaid items via the consumption method.

**Operating Revenues and Expenses**

Operating revenues are those revenue that are generated directly from the primary activity of the proprietary fund. For the Authority, these revenues are for Housing and Urban Development Grants and other revenues. Operating expenses are necessary costs to provide goods or services that are the primary activity of the fund. All revenues not related to operating activities have been reported as nonoperating revenues.

**Accounts Receivable**

Management considers all accounts receivable (excluding the fraud recovery receivable) to be collected in full.

**Accrued Interest Receivable**

Accrued interest receivable represents the amount of interest earned but not collected on certificates of deposits as of the balance sheet date. Interest is collected upon maturity.

**Interfund Receivables/Payables**

The Authority reports advances-in and advances-out for interfund loans. These items are not reflected as assets and liabilities in the accompanying financial statements.



**LAKE METROPOLITAN HOUSING AUTHORITY  
PAINESVILLE, OHIO**

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2011**

**NOTE 1 - Summary of Significant Accounting Policies: (continued)**

**Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consist of capital assets net of accumulated depreciation. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Authority or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The amount reported as restricted net assets at fiscal year end represents the amounts restricted by HUD for future Housing Assistance Payments and amounts from Administration Fee which may be recaptured by HUD. When an expense is incurred for purposes which both restricted and unrestricted net assets are available, the Authority first applies restricted net assets. Net assets restricted by HUD was \$946,527.

**NOTE 2 – Deposits and Investments:**

The provisions of GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, requires the disclosures regarding credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. Adoption of GASB Statement No. 40 had no effect on net assets and change in net assets in the prior or current year.

**A. Deposits**

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

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

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

Interim deposits are deposits of interim monies. Interim monies are those monies 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.

At year-end, the carrying amount of the Authority's deposits was \$3,675,487 (including \$572 of petty cash) and the bank balance was \$3,710,204.

**LAKE METROPOLITAN HOUSING AUTHORITY  
PAINESVILLE, OHIO**

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2011**

**NOTE 2 – Deposits and Investments: (continued)**

**Custodial Credit Risk**

Custodial Credit Risk is the risk that, in the event of a bank failure, the Authority's deposits may not be returned. The Authority's policy is to place deposits with major local banks approved by the Board. The financial institution collateral pool that insure public deposits must maintain collateral in excess of 105 percent of deposits, as permitted by Chapter 135 of the Ohio Revised Code. As of year-end, deposits totaling \$1,137,491 was covered by Federal Depository and \$2,572,713 was covered by the collateral pool.

**B. Investments**

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

The Authority has a formal investment policy. The objective of this policy shall be to maintain liquidity and protection of principal while earning investment interest. Safety of principal is the primary objective of the investment program. The Authority follows GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, and records all its investments at fair value. However, at June 30, 2011, the Authority investments were limited to certificates of deposits.

**Interest Rate Risk**

As a means of limiting its exposure to fair value of losses caused by rising interest rates, the Authority's investment policy requires those funds which are not operating reserve funds to be invested in investments with a maximum term of one year or the Authority's operating cycle. For investments of the Authority's operating reserve funds, the maximum term can be up to three years. The intent of the policy is to avoid the need to sell securities prior to maturity.

**Credit Risk**

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The Authority has no investment policy that would further limit its investment choices.

**Concentration of Credit Risk**

Generally, the Authority places no limit on the amount it may invest in any one insurer. However, the investment policy limits the investment of HUD - approved mutual funds to no more than 20 percent of the Authority's available investment funds. The Authority's deposits in financial institutions represents 100 percent of its deposits.

**LAKE METROPOLITAN HOUSING AUTHORITY  
PAINESVILLE, OHIO**

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2011**

**NOTE 2 – Deposits and Investments: (continued)**

*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.

*Custodial Credit Risk*

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Authority has no investment policy dealing with investment custodial risk beyond the requirements in ORC 135.14(M)(2) which states, "Payment for investments shall be made only upon the delivery of securities representing such investments to the treasurer, investing authority, or qualified trustee.

<u>Cash and Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (In Years &lt; 1)</u>
Carrying Amount of Deposits	\$3,674,915	\$ 3,674,915
Petty Cash	<u>572</u>	<u>572</u>
Totals	<u>\$3,675,487</u>	<u>\$3,675,487</u>

**NOTE 3 – Restricted Cash:**

Restricted cash balance as of June 30, 2011 of \$1,532,407 represents the following:

Unspent funding provided by HUD to make Housing Assistance Payments in the Housing Choice Voucher Program	\$ 946,527
Unspent Development Program funding provided by HUD	461,304
Family Self-Sufficiency Escrows	79,745
Tenant Security Deposits	<u>44,831</u>
Total	<u>\$1,532,407</u>

**LAKE METROPOLITAN HOUSING AUTHORITY  
PAINESVILLE, OHIO**

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2011**

**NOTE 4 – Capital Assets:**

A summary of capital assets at June 30, 2011, by class is as follows:

	<u>6/30/2010</u>	Reclasses	<u>Additions</u>	<u>Disposals</u>	<u>6/30/2011</u>
Capital Assets Not Being Depreciated					
Land	\$ 850,447	\$ 0	\$ 0	\$ 0	\$ 850,447
Construction in Progress	<u>1,130,816</u>	<u>(1,130,816)</u>	<u>29,571</u>	<u>0</u>	<u>29,571</u>
Total Capital Assets Not Being Depreciated	<u>1,981,263</u>	<u>(1,130,816)</u>	<u>29,571</u>	<u>0</u>	<u>880,018</u>
Capital Assets Being Depreciated					
Buildings and Improvements	10,407,696	1,130,816	218,386	(51,044)	11,705,854
Furniture, Equipment, and Machinery	<u>1,595,534</u>	<u>0</u>	<u>309,038</u>	<u>(16,420)</u>	<u>1,888,152</u>
Subtotal Capital Assets Being Depreciated	12,003,230	1,130,816	527,424	(67,464)	13,594,006
Accumulated Depreciation:					
Buildings and Improvements	(8,660,625)		( 419,974)	51,044	(9,029,555)
Furniture, Equipment and Machinery	<u>(1,548,437)</u>	<u>0</u>	<u>( 7,148)</u>	<u>16,420</u>	<u>(1,539,165)</u>
Total Accumulated Depreciation	<u>(10,209,062)</u>	<u>0</u>	<u>(427,122)</u>	<u>67,464</u>	<u>(10,568,720)</u>
Depreciable Assets, Net	<u>1,794,168</u>	<u>1,130,816</u>	<u>100,302</u>	<u>0</u>	<u>3,025,286</u>
Total Capital Assets, Net	<u>\$ 3,775,431</u>	<u>\$ 0</u>	<u>\$129,873</u>	<u>\$ 0</u>	<u>\$ 3,905,304</u>

**NOTE 4: Defined Benefit Pension Plan:**

**Ohio Public Employees Retirement System**

The Authority participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan in which the member invests both member and employee contributions (employer contributions vest over five years at 20 percent per year). Under the member directed plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings. The combined plan is a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and a defined contribution plan. Under the combined plan, employer contributions are invested by the retirement system to provide a formula retirement benefit similar to the traditional plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the member directed plan.

OPERS provides retirement, disability, survivor and death benefits, and annual cost of living adjustments to members of both the traditional and combined plans. Members of the member-directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 E. Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6705 or 1-800222-7377.

**LAKE METROPOLITAN HOUSING AUTHORITY  
PAINESVILLE, OHIO**

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2011**

**NOTE 4: Defined Benefit Pension Plan:** (continued)

The Ohio Revised Code provides statutory authority for member and employer contributions. Effective January 1, 2009, the members of all three plans were required to contribute 10.0 percent of their annual covered salaries. The Authority's contribution rate for 2011 was 14.0 percent (of which 8.5 percent relates to pension contributions) of covered payroll.

The Authority's required contributions for pension obligations to the traditional and combined plans for the years ended June 30, 2011, 2010 and 2009 were \$131,291 \$127,560 and 116,731 respectively; 100 percent has been contributed for 2011, 2010 and 2009.

**NOTE 5- Post Employment Benefits:**

**A. Plan Description**

The Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: the Traditional Pension Plan - a cost-sharing, multiple-employer defined benefit pension plan; the Member-Directed Plan - a defined contribution plan; and the Combined Plan - a cost sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

OPERS maintains a cost-sharing, multiple-employer defined benefit postemployment health care plan, which includes a medical plan, prescription drug program, and Medicare Part B premium reimbursement, to qualifying members of both the Traditional Pension and the Combined plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage.

In order to qualify for post-employment health care coverage, age and service retirees under the Traditional Pension and Combined plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post-Employment Benefit (OPEB) as described in GASB Statement No. 45. The Ohio Revised Code permits, but does not mandate, OPERS to provide OPEB benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

OPERS issues a stand-alone financial report. Interested parties may obtain a copy by writing OPERS, 277 East Town Street, Columbus, OH 43215-4642, or by calling 614-222-5601 or 800-222-7377.

**LAKE METROPOLITAN HOUSING AUTHORITY  
PAINESVILLE, OHIO**

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2011**

**B. Funding Policy**

The Ohio Revised Code provides the statutory authority requiring public employers to fund post-retirement health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of postretirement health care benefits.

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2011 and 2010, the Authority contributed at a rate of 14.00 percent of covered payroll. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14.00 percent of covered payroll for state and local employer units. Active members do not make contributions to the OPEB Plan.

OPERS' Post-Employment Health Care Plan was established under, and is administered in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post-employment health care benefits. For 2011 and 2010, the employer contribution allocated to the health care plan was 4.23 percent of covered payroll. The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care coverage by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. Actual Authority contributions for the year ended June 30, 2011, which were used to fund post-employment benefits were \$39,669.

On September 9, 2004, the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. Member and employer contribution rates increased as of January 1, 2006, January 1, 2007, and January 1, 2008, which allowed additional funds to be allocated to the health care plan.

**NOTE 6 - Risk Management:**

The Authority is exposed to various risks of loss related to torts; damage to and theft or destruction of assets; errors and omissions; injuries to employees and natural disasters. The Authority is covered for property damage, general liability, automobile liability, law enforcement liability, public officials liability, and other crime liabilities through membership in the State Housing Authority Risk Pool Association, Inc. (SHARP). SHARP is an insurance risk pool comprised of thirty-nine (39) Ohio housing authorities, of which Lake is one.

Additionally, Workers' Compensation insurance is maintained through the State of Ohio Bureau of Workers' Compensation, in which rates are calculated retrospectively. The Authority is also fully insured through a premium payment plan with OMER-Esa for employee health care benefits. Settled claims have not exceeded the Authority's insurance in any of the past three years.

**LAKE METROPOLITAN HOUSING AUTHORITY  
PAINESVILLE, OHIO**

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2011**

**NOTE 7: Changes in Accounting Principles:**

For fiscal year 2011, the Authority implemented GASB Statement No. 54, Fund Balance Reporting.

The implementation of GASB Statements No. 54 did not affect the presentation of the financial statements of the Authority.

**NOTE 8 - Contingent Liabilities:**

**Litigations and Claims**

In the normal course of operations the PHA may be subject to litigation and claims. At June 30, 2011 the PHA was involved in such a 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 9 - Schedule of Expenditures of Federal Awards:**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Lake Metropolitan Housing Authority and is presented on the accrued basis of accounting. 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.

**NOTE 10 – 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 11- Construction and Other Commitments:**

The Authority had no material operating lease commitments or material capital or construction commitments at June 30, 2011.

**NOTE 12 – Capital Assets:**

A physical inventory of the Authority property and equipment owned has not been performed, as a result the financial statements were not reconciled with the actual inventory records. The depreciation schedule is not in sufficient detail to determine if the assets are still owned and in working condition or if they were disposed off in prior fiscal years.

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  
PAINESVILLE, OHIO**

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2011**

**NOTE 13 - Subsequent Events:**

Generally accepted accounting principles define subsequent events as events or transactions that occur after the statement of financial position date, but before the financial statements as issued or are available to be issued. Management has evaluated subsequent events through November 14, 2011, the date on which the financial statements were available to be issued, noting the following:

1. On July 11, 2011, the Authority reimbursed the Housing Choice Voucher program in the amount of \$7,480 from non-Federal funds relating to improper administrative fees.
2. On July 13, 2011, the Authority reimbursed the Housing Choice Voucher program in the amount of \$3,652 from non-Federal funds relating to ineligible expenses.
3. On October 3, 2011, the Authority reimbursed the Housing Choice Voucher program in the amount of \$18,181 from non-Federal funds relating to the overpayment of housing assistance and utility allowance.
4. On October 17, 2011, the Authority reimbursed the Housing Choice Voucher program in the amount of \$64,264 from non-federal funds relating to unsupported costs.

**NOTE 14 – Interprogram Receivables/Payables:**

Interprogram balance at June 30, 2011, consists of the following receivables and payables:

	<u>Due From</u>	<u>Due to</u>
Public Housing Program		\$ 27,578
Housing Choice Voucher Program	\$ 27,578	

These interprogram Due From/Due To arise from housing assistance payments and the repayment of funds from the non-federal program to the proper federal program based on an audit conducted by the Inspector General Office. These balances are eliminated for the Statement of Net Assets on page 11.



Lake Metropolitan Housing Authority

Statement of Net Assets

June 30, 2011

Financial Data Schedule Submitted to U.S. Department of HUD

Line item	Account Description	Housing			Public	Subtotal	State &	Total
		Development	CFP	Choice Voucher	Housing (Project)		Local	
111	Cash - Unrestricted		\$ -	\$ 1,181,745	\$ 575,221	\$ 1,756,966	\$377,072	\$ 2,134,038
113	Cash - Other Restricted	\$ 431,733		1,064,885	44,831	1,541,449		1,541,449
100	Total Cash	431,733	-	2,246,630	620,052	3,298,415	377,072	3,675,487
122	Acct. Rec. - HUD				137,268	137,268		137,268
125	Acct. Rec. - Misc.				1,866	1,866		1,866
126	Acct. Rec. - Tenants				8,018	8,018		8,018
126.1	Allow. Doubtful Accts. - Tenants				(1,000)	(1,000)		(1,000)
128	Fraud Recovery			12,751		12,751		12,751
128.1	Allowance Doubtful Accts.			(12,751)		(12,751)		(12,751)
120	Net Total Receivables	-		-	146,152	146,152		146,152
142	Prepaid Expenses			303	27,130	27,433		27,433
144	Inter Program Due From			-	27,578	27,578		27,578
150	<b>Total Current Assets</b>	431,733	-	2,246,933	820,912	3,499,578	377,072	3,876,650
161	Land	157,716			692,731	850,447		850,447
162	Buildings			21,652	11,735,246	11,756,898		11,756,898
163	Furniture, Equip. & Mach.- Dwellings				306,511	306,511		306,511
164	Furniture, Equip. & Mach. - Admin.			233,613	1,296,984	1,530,597		1,530,597
166	Accumulated Depreciation			(168,832)	(10,399,888)	(10,568,720)		(10,568,720)
167	Construction in Progress	29,571			-	29,571		29,571
160	Net Fixed Assets	187,287	-	86,433	3,631,584	3,905,304	-	3,905,304
190	<b>TOTAL ASSETS</b>	<b>\$ 619,020</b>	<b>\$ -</b>	<b>\$ 2,333,366</b>	<b>\$ 4,452,496</b>	<b>\$ 7,404,882</b>	<b>\$ 377,072</b>	<b>\$ 7,781,954</b>
312	A/P <= 90 days				\$ 54,864	\$ 54,864		\$ 54,864
321	Accrued Wage/Taxes Payable			22,709	17,893	40,602		40,602
322	Accrued Compensated Absences			6,926	4,941	11,867		11,867
331	Accounts Payable - HUD PHA	461,304				461,304		461,304
333	Accounts Payable - Other Government				153,206	153,206		153,206
341	Tenant Security Deposits				44,831	44,831		44,831
347	Inter Program - Due To	-		27,578	-	27,578	-	27,578
310	Total Current Liabilities	461,304	-	57,213	275,735	794,252	-	1,588,504
353	Non-current Liabilities - Other			81,006		81,006		81,006
354	Accrued Comp. Abs. - Noncurrent			27,703	19,764	47,467		47,467
	TOTAL Liabilities	461,304	-	165,922	295,499	922,725	-	922,725
508.1	Invested in Capital Assets Net	187,287		86,433	3,631,584	3,905,304		3,905,304
511.1	Restricted Net Assets			946,527	-	946,527	-	946,527
512.1	Unrestricted Net Assets	( 29,571)		1,134,484	525,413	1,630,326	377,072	2,007,398
513	TOTAL Equity/Net Assets	157,716	-	2,167,444	4,156,997	6,482,157	377,072	6,859,229
600	<b>TOTAL LIAB. &amp; EQUITY</b>	<b>\$ 619,020</b>	<b>\$ -</b>	<b>\$ 2,333,366</b>	<b>\$ 4,452,496</b>	<b>\$ 7,404,882</b>	<b>\$ 377,072</b>	<b>\$ 7,781,954</b>

Lake Metropolitan Housing Authority  
Statement of Revenue and Expenses  
June 30, 2011

Financial Data Schedule Submitted to U.S. Department of HUD

Line item	Account Description	Development	CFP	Housing Choice Voucher	Public Housing (Project)	Subtotal	State & Local	Total
703	Net Tenant Rental Revenue		\$ -		\$ 563,058	\$ 563,058		\$ 563,058
704	Tenant Revenue - Other				29,644	29,644		29,644
705	Total Tenant Revenue		-		592,702	592,702		592,702
706	HUD PHA Operating Grants		21,850	\$ 10,013,431	736,557	10,771,838		10,771,838
706.1	Capital Grants		132,834		303,755	436,589		436,589
711	Investment Income - Unrestricted			10,346	2,146	12,492	4,210	16,702
714	Fraud Recovery			22,454		22,454		22,454
715	Other Revenue			212		212	23,563	23,775
716	Gain or Loss on Sale of Capital Assets	-		3,575	-	3,575	-	3,575
700	TOTAL REVENUE	-	154,684	10,050,018	1,635,160	11,839,862	27,773	11,867,635
911	Admin Salaries		14,567	543,553	233,471	791,591		791,591
912	Audit			7,197	4,798	11,995		11,995
915	Employee Benefits		7,283	211,476	107,804	326,563		326,563
917	Legal Expense			20,041	12,125	32,166		32,166
918	Travel			25,725	6,125	31,850		31,850
919	Other			165,487	99,503	264,990	46,027	311,017
	Total Operating - Admin.	-	21,850	973,479	463,826	1,459,155	46,027	1,505,182
924	Tenant Services - Other				9,808	9,808		9,808
925	Total Tenant Services	-	-	-	9,808	9,808	-	9,808
931	Water				50,830	50,830		50,830
932	Electricity	-		-	148,473	148,473	-	148,473
933	Gas				40,201	40,201		40,201
938	Other Utilities			3,432	2,808	6,240		6,240
930	Total Utilities	-	-	3,432	242,312	245,744	-	245,744

Lake Metropolitan Housing Authority  
Statement of Revenue and Expenses  
June 30, 2011

Financial Data Schedule Submitted to U.S. Department of HUD

Line item	Account Description	Housing			Public	Subtotal	State &	Total
		Development	CFP	Choice Voucher	Housing (Project)		Local	
941	Ord. Maint. & Operations - Labor				204,700	204,700		204,700
942	Ord. Maint. & Operations - Materials & Other			8,346	143,889	152,235		152,235
943	Ord. Maint. & Operations - Contracts	-		-	59,702	59,702	-	59,702
945	Employee Benefits Contributions				93,814	93,814		93,814
940	Total Maintenance	-	-	8,346	502,105	510,451	-	510,451
952	Protective Services - Other Contract Costs	-		-	25,044	25,044	-	25,044
950	Total Protective Services	-	-	-	25,044	25,044	-	25,044
961.1	Property Insurance				49,385	49,385		49,385
961.2	Insurance - Liab. Insurance			10,082		10,082		10,082
961	Total Insurance	-	-	10,082	49,385	59,467	-	59,467
962	Other General Expenses			18,290	3,251	21,541	1,144	22,685
962.1	Compensated Absences			35,650	33,444	69,094		69,094
963	Payments in Lieu of Taxes				32,075	32,075		32,075
964	Bad Debt - Tenant Rents	-		-	18,503	18,503	-	18,503
960	Total Other General Expenses	-	-	53,940	87,273	141,213	1,144	142,357
	TOTAL OPERATING EXPENSES	-	21,850	1,049,279	1,379,753	2,450,882	47,171	2,498,053
970	Excess Operating Revenue over Expenses	-	132,834	9,000,739	255,407	9,388,980	(19,398)	9,369,582
971	Extraordinary Maintenance							
973	Housing Assistance Payments			9,053,707		9,053,707		9,053,707
974	Depreciation Expense			7,148	419,974	427,122		427,122
900	TOTAL EXPENSES	-	21,850	10,110,134	1,799,727	11,931,711	47,171	11,978,882
1000	Excess (Deficiency) of Total Revenue							
	Over (Under) Total Expenses	\$ -	\$ 132,834	\$ (60,116)	\$ (164,567)	\$ (91,849)	\$ (19,398)	\$ (111,247)

Lake Metropolitan Housing Authority  
 Statement of Revenues and Expenses  
 For the Year Ended June 30, 2011

Financial Data Schedule Submitted to U.S. Department of HUD

<b>Line item</b>	<b>Account Description</b>	<b>Project</b>	<b>Housing Choice Voucher</b>
11170	Administrative Fee Equity		\$ 1,220,917
11180	Housing Assistance Payments Equity		\$ 946,527
11190	Unit Months Available	2892	17,484
11210	Number of Unit Months Leased	2824	16,581
11270	Excess Cash	\$ 403,390	



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## **Report on Internal Control over Financial Reporting and on Compliance and Other Matters Required by Government Auditing Standards**

Board of Trustees  
Lake Metropolitan Housing Authority  
Painesville, Ohio

I have audited the financial statements of Lake Metropolitan Housing Authority (the Authority) as of and for the year ended June 30, 2011, and have issued my report thereon dated November 14, 2011. I qualified my report on the business-type activities because management has not fully resolved a finding over the capital assets that have been repeated for several audits. The Authority did not maintain an adequate detailed capital asset listing to ascertain that the capital assets listed on the financial statements are fairly stated and exist. Accounting principles generally accepted in the United State of America requires that accounting records be maintain to properly support the amounts listed on the financial statements. I conducted my audit in accordance with 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 my audit, I considered the Authority's internal control over financial reporting as a basis for designing my auditing procedures for the for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

My consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, I identified certain deficiencies in internal control over financial reporting that I consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. I consider the deficiencies described in the accompanying Schedule of Findings to be material weaknesses. 2011-1.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Authority'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.

I noted certain matters that I reported to management of the Authority's in a separate letter dated November 14, 2011.

The Authority's response to the finding identified in my audit is described in the accompanying Schedule of Findings. I did not audit the Authority's response and, accordingly, I express no opinion on it.

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

Kevin L. Penn, Inc.

November 14, 2011





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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 Trustees  
Lake Metropolitan Housing Authority  
Painesville, Ohio

Compliance

I have audited the compliance of Lake Metropolitan Housing Authority (the Authority) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that could directly and materially affect each of the Authority's major federal programs for the year ended June 30, 2011. The summary of auditor's results section of the accompanying schedule of findings identifies the Authority's major federal programs. The Authority's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. My responsibility is to opine on the Authority's compliance based on my audit.

My compliance audit followed auditing standards generally accepted in the United States of America; the standards applicable to financial audits included in the Comptroller General of the United States' Authority Auditing Standards; and OMB Circular A-133, Audits of States, Local Authorities, and Non-Profit Organizations. These standards and OMB Circular A-133 require that I plan and perform the audit to reasonably assure whether noncompliance occurred with the compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the Authority's compliance with these requirements and performing other procedures I considered necessary in the circumstances. I believe my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination on the Authority's compliance with these requirements.

As described in finding 2011-1 in the accompanying schedule of findings, the Authority did not comply with requirements regarding equipment and real property management that are applicable to its Low Rent Public Housing Program. Compliance with this requirement is necessary, in my opinion, for the Authority to comply with requirements applicable to this program.

In my opinion, except for the noncompliance described in the preceding paragraph, the Authority complied, in all material respects, with the requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2011.

## Internal Control Over Compliance

The Government's management 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 my audit, I considered the Government's internal control over compliance with the requirements that could directly and materially affect a major federal program, 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, but not for the purpose of opining on the effectiveness of internal control over compliance. Accordingly, I have not opined on the effectiveness of the Government's internal control over compliance.

My consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, I cannot assure I have identified all deficiencies, significant deficiencies, or material weaknesses. However, as discussed below, I identified certain deficiencies in internal control over compliance that I consider to be material weaknesses and other deficiencies that I consider to be significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected. I consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings as item 2011-1 to be a material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a federal program compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. I consider the deficiencies in internal control over compliance described in the accompanying schedule of findings as items 2011-2 and 2011-3 to be significant deficiencies.

The Authority's response to the finding identified in my audit is described in the accompanying Schedule of Findings. I did not audit the Authority's response and, accordingly, I express no opinion on it.

I intend this report solely for the information and use of the management, others within the Authority and federal awarding agencies. It is not intended for anyone other than these specified parties.

Kevin L. Penn, Inc.

November 14, 2011

**Lake Metropolitan Housing Authority**  
Schedule of Findings  
June 30, 2011

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Qualified
Internal control over financial reporting:	
Material weakness(es) identified?	Yes
Significant Deficiency(ies) identified not considered to be material weaknesses?	No
Noncompliance material to financial statements noted?	No
 <u>Federal Awards</u>	
Internal control over compliance:	
Material weakness(es) identified?	Yes
Significant Deficiency(ies) identified not considered to be material weaknesses?	Yes
Type of auditor's report issued on compliance for major program:	Qualified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	Yes
Identification of major programs:	
14.871	Housing Choice Vouchers
14.850	Low Rent Public Housing
Dollar threshold used to distinguish between Type A and Type B programs:	\$336,253 (Type A)
Auditee qualified as low-risk auditee?	No

**Lake Metropolitan Housing Authority**  
Schedule of Findings  
June 30, 2011

Section II - Financial Statement Findings

2011-1

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

**Physical Inventory**

Condition:

A reconciliation between the physical inventory, the financial statements and accounting records has not been performed as of June 30, 2011. The depreciation schedule is not maintained in adequate detailed to identify all assets owned. The failure to maintain an accurate capital asset listing did not enable auditors to obtain sufficient evidential matter regarding the amounts reported for capital assets on the Statement of Net Assets and depreciation expense on the Statements of Activities and the Statement of Revenues, Expenses, and Changes in Fund Net Assets for the Proprietary Funds. In addition, I was not able to satisfy myself that the capital assets as listed on the financial statements are fairly presented by applying other auditing procedures.

This condition has been noted in the prior audit with a recommendation that the Authority perform a physical inventory of all items it owns and reconciles the inventory to the depreciation schedule. This finding is also required to be reported for major federal programs.

Criteria:

The requirements for equipment are contained in the A-102 Common Rule (§\_\_\_\_.32), program legislation, Federal awarding agency regulations, and the terms and conditions of the award.

Local governments and subgrantees shall follow the A-102 Common Rule for equipment acquired under Federal awards received directly from a Federal awarding agency. Basically the A-102 Common Rule require that equipment be used in the program for which it was acquired or, when appropriate, other Federal programs. Equipment records shall be maintained, a physical inventory of equipment shall be taken at least once every two years and reconciled to the equipment records, an appropriate control system shall be used to safeguard equipment, and equipment shall be adequately maintained.

Effect:

Was unable to determine whether capital assets were fairly presented as of June 30, 2011.

Cause:

Turnover in fiscal staff.

**Lake Metropolitan Housing Authority**  
Schedule of Findings  
June 30, 2011

2011-1

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

**Physical Inventory** (continued)

Recommendation:

The Authority needs to perform the reconciliation of the financial statements with the fiscal inventory to ascertain that the capital assets are fairly stated in the financial statements. The physical inventory needs to be performed annual to ascertain that assets are properly safeguarded.

Planned Corrective Action:

A certified letter dated November 22, 2011 was sent to our local HUD Field Representative outlining a proposed resolution to this finding. Since complete, original documentation cannot be located, I have recommended that we re-construct our fixed asset listing, beginning with data from the county auditor's office to support the building values. Then, we would work backwards, from June 30, 2011, and specifically identify assets that are still in use as of that date, using original invoices. Once the asset listing is compiled, the remaining asset balances, and related accumulated depreciation, would be written off. This entry would not affect the net book value of the fixed assets. The risk of material misstatement is low since, until 2005, there were no findings related to the capital asset listings, and no subsequent audit has identified an issue related to current year capital assets.

We have requested that HUD accept the successful completion of this plan, as a basis for the removal of the ongoing audit finding related to fixed assets. This letter was received by HUD November 30, 2011, and we are currently waiting for a response.

Anticipated Completion Date:

Pending HUD response.

Responsible Contact Person:

Finance Manager

Section III - Federal Award Findings

2011-1

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

**Physical Inventory**

See in Section II.

**Lake Metropolitan Housing Authority**  
Schedule of Findings  
June 30, 2011

Section III - Federal Award Findings (continued)

2011-2

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

**Tenant Files – Housing Choice Voucher Program**

Condition:

During the testing of tenant files, the following weaknesses in the Authority's procedures and controls were noted:

Move-Ins:

1. In two (2) out of thirty (30) files tested, the lease agreement was not signed by the landlord.
2. In three (3) out of thirty (30) files tested, the family obligation form was not maintained in the tenant file.
3. In one (1) out of thirty (30) files tested, landlord fraud letter was not maintained in the tenant file.
4. In sixteen (16) out of thirty (30) files tested, the tenancy addendum was not signed.
5. In thirteen (13) out of thirty (30) files tested, the Applicant/Tenant Certificate Form was not maintained in the file.
6. In one (1) out of thirty (30) files tested, the income reported was understated.
7. In one (1) out of thirty (30) files tested, the personal declaration form was not signed by the tenant.
8. In one (1) out of thirty (30) files tested, the lead-based disclosure form was not properly completed, prior to be signed by the tenant and the landlord.
9. In one (1) out of thirty (30) files tested, the lead-based disclosure form was not signed by the landlord.
10. In nine (9) out of thirty (30) files tested, the 50058 Certification Statement was not signed by the tenant.
11. In twenty-seven (27) out of thirty (30) files tested, the rent computation worksheet was not signed by the tenant.
12. In one (1) out of thirty (30) files tested, the HUD Form 92006, Supplement to Application for Federally Assisted Housing was signed by the applicant, but the questions were not answered.
13. In two (2) out of thirty (30) files tested, the HUD Form 92006, Supplement to Application for Federally Assisted Housing was not signed by the applicant.

**Lake Metropolitan Housing Authority**  
Schedule of Findings  
June 30, 2011

Section III - Federal Award Findings

2011-2

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

**Tenant Files – Housing Choice Voucher Program** (continued)

Condition:

Recertification:

1. In twenty-eight (28) out of forty (40) files tested, the rent computation worksheet was not signed by the tenant.
2. In four (4) out of forty (40) files tested, the 50058 Certification Statement was not signed by the tenant.

Move-outs:

1. In two (2) out of thirty-five (35) files tested, there was no letter submitted to the landlord from the Housing Authority, regarding the termination of the HAP contract.
2. In three (3) out of thirty-five (35) files tested, the 50058/Adjustment Form was not maintained in the file.

Criteria:

Tenant files should be maintained in accordance with HUD guidelines and the Administrative Plan.

Effect:

Procedures and controls relating to tenant files processing were inadequate.

Cause:

Oversight by management and staff turnover.

Recommendation:

The Authority should maintained the tenant files, pertaining to the Housing Choice Voucher program in accordance with guidelines established by the U.S. Department of Housing and Urban Development and the Administrative Plan. By performed these procedures, the risk of potential overcharges and files being processed inadequately, will be significant reduced.

**Lake Metropolitan Housing Authority**  
Schedule of Findings  
June 30, 2011

Section III - Federal Award Findings

2011-2

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

**Tenant Files – Housing Choice Voucher Program** (continued)

Planned Corrective Action:

**Move-Ins:**

**Item(s) 1, 2, 3, 6, 7, 8, 9, 12 and 13:** LMHA acknowledges that these findings appear to be properly identified as procedural and control errors. These errors have since been corrected in the sample files. Further, weekly meetings with the HCV Department are being conducted to address the need for consistent application of the agency's policies and procedures. It is the goal of the HCV Department to strive for a zero error rate with regard to future file audits.

**Item number 4:** LMHA was notified of this error at the conclusion of the 2010 fiscal year audit. LMHA was made aware that the PHA-Web software included a signature line on the tenancy addendum form. The signature line is not a HUD requirement and LMHA was not aware that PHA-Web had included the signature line. LMHA has since requested that the signature line be removed from the form. LMHA will not require the signature line, and has been making the corrections to the tenant files as the files are being processed. The noted finding of 16 out of 30 files in this year's audit is an indication that the corrections have been made for the six months of the 2011 fiscal year that LMHA was aware of the error. The remaining corrections will be completed as those files are processed.

**Item number 5:** Use of the Applicants/ Tenants Certification form was discontinued by LMHA under previous HCV Program managers. The form was determined to be redundant, as the information is contained on other forms already being processed in the HCV files. It is not clear to the current program manager when this form was officially discontinued. The HCV Program Manager has drafted a notice to be included in the HCV files to clarify that this form is no longer required.

**Item number 10:** LMHA will work to clarify the procedure for processing the 50058 Certification Statement. The auditor has indicated that 9 out of 30 statements were not signed. LMHA will clarify that effective January 1, 2012 all 50058 will need to be signed upon move in and at annual recertification. Furthermore, LMHA will maintain the practice of not requiring signatures on 50058 Certification Statement if they are for an interim.

**Item number 11:** This error was pointed out to LMHA following the conclusion of the 2010 fiscal year audit. Effective January 30, 2011, LMHA requires that all rent computation worksheets must be signed. Files that have not been processed as of the effective date of the change will still carry the error, however, it is anticipated that all files will be corrected prior to the next fiscal year end audit.



**Lake Metropolitan Housing Authority**  
Schedule of Findings  
June 30, 2011

Section III - Federal Award Findings

2011-2

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

**Tenant Files – Housing Choice Voucher Program** (continued)

Planned Corrective Action:

**Recertification:**

**Item number 1:** This error was pointed out to LMHA following the conclusion of the 2010 fiscal year audit. Effective January 30, 2011, LMHA requires that all rent computation worksheets must be signed. Files that have not been processed as of the effective date of the change will still carry the error, however, it is anticipated that all files will be corrected prior to the next fiscal year end audit.

**Item number 2:** LMHA will work to clarify the procedure for processing the 50058 Certification Statement. The auditor has indicated that 9 out of 30 statements were not signed. LMHA will clarify that effective January 1, 2012 all 50058 will need to be signed upon move in and at annual recertification. Furthermore, LMHA will maintain the practice of not requiring signatures on 50058 Certification Statement if they are for an interim.

**Move outs:**

**Item number 1:** LMHA acknowledges that these findings appear to be properly identified as procedural and control errors. These errors have since been corrected in the sample files. Further, weekly meetings with the HCV Department are being conducted to address the need for consistent application of the agency's policies and procedures. It is the goal of the HCV Department to strive for a zero error rate with regard to future file audits.

**Item number 2:** LMHA acknowledges that the 50058/Adjustment Form was not properly maintained in 3 out of the 30 files tested. However, LMHA would also like to stipulate that the information was properly conveyed to the finance department and did not result in the over or under payment of HAP funds.

Anticipated Completion Date:

February 28, 2012

Responsible Contact Person:

Housing Choice Voucher Manager

**Lake Metropolitan Housing Authority**  
Schedule of Findings  
June 30, 2011

Section III - Federal Award Findings

2011-3

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

Waiting List

Condition:

During the testing of tenant files relating to move-ins, the Authority did not properly document the selection of an applicant for admission from the waiting list.

Criteria:

The Authority must have written policies in their administrative plan for selecting applicants from the waiting list, and there must be documentation, showing the Authority follows these policies when selecting applicants for admission from the waiting list.

Effect:

Was unable to determine whether applicants were selected for admission from the waiting list in accordance with the Authority's policies.

Cause:

Lack of administrative internal controls regarding the waiting list.

Recommendation:

The Authority needs to comply with the written policies identified in the administrative plan for selecting applicants from the waiting list. In addition, there must be documentation, showing the Authority follows these policies when selecting applicants for admission from the waiting list.

Planned Corrective Action:

Upon review of the auditor's finding related to the wait list, LMHA has begun the process of improving the reporting system that documents the HCV waiting list. LMHA has identified that software inconsistency as well as gaps in the data entry can result in the unclear reporting of the HCV waiting list administration. To improve on the wait list administration and reporting, the HCV Program manager will re-institute the use of additional classifications for the wait list applicants. When an applicant is pulled from the wait list, their status will be changed from "eligible" to "requested". Once the applicant has completed the voucher briefing and submitted the proper documentation for verification, they will be classified as "pending". Once the verification process has been completed, the applicants status will be revised to "voucher issued".

**Lake Metropolitan Housing Authority**  
Schedule of Findings  
June 30, 2011

Section III - Federal Award Findings

2011-3

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

Waiting List (continued)

Planned Corrective Action:

LMHA will be working with PHA-Web to determine if an applicant can be automatically removed from the waiting list once their 50058 has been entered into the PHA-Web system. This would be the final step in the process and would indicate that the applicant has been housed. LMHA believes that the PHA-Web should be able to remove the applicant from the waiting list once they are housed; since the system should not allow them to be entered into the system as a tenant and an applicant who is still on the waiting list.

Anticipated Completion Date:

February 28, 2012

Responsible Contact Person:

Housing Choice Voucher Manager

**Lake Metropolitan Housing Authority**  
 Summary Schedule of Prior Audit Findings and Questioned Costs  
 Year Ended June 30, 2011

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2010-1  <b>U.S. Department of HUD            Low Rent Public Housing            (CFDA # 14.850)            Housing Choice Voucher            Program (CFDA # 14.871)</b>	The year-end financial statements that management prepared and presented for the audit contained a number of errors and inconsistencies, resulting in several adjusting journal entries.	Yes	This finding has been corrected.
2010-2  <b>U.S. Department of HUD            Low Rent Public Housing            (CFDA # 14.850)            Housing Choice Voucher            Program (CFDA # 14.871)</b>	During the testing of cash, it was noted that bank reconciliations were not performed on a monthly basis. Resulting in cash and cash equivalents being overstated by \$82,309.01.	Yes	This finding has been corrected.
2010-3  <b>U.S. Department of HUD            Low Rent Public Housing            (CFDA # 14.850)</b>	A reconciliation between the physical inventory, the financial statements and accounting records has not been performed as of June 30, 2011. The depreciation schedule is not maintained in adequate detailed to identify all assets owned.	No	This finding will be repeated in the 2011 audit.

**Lake Metropolitan Housing Authority**  
 Summary Schedule of Prior Audit Findings and Questioned Costs  
 Year Ended June 30, 2011

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2010-4  <b>U.S. Department of HUD            Low Rent Public Housing            (CFDA # 14.850)</b>	A detail aging schedule of accounts receivable was not prepared and reconciled to the general ledger.	Yes	This finding has been corrected.
2010-5  <b>U.S. Department of HUD            Low Rent Public Housing            (CFDA # 14.850)            Housing Choice Voucher            Program (CFDA # 14.871)</b>	Timecards were not properly signed by the employee and their supervisor and the hours worked did not always agree to the payroll journal/register. In addition, supporting documentation to support approval the pay rate was not always maintained in the personnel file.	Yes	This finding has been corrected.
2010-6  <b>U.S. Department of HUD            Low Rent Public Housing            (CFDA # 14.850)            Housing Choice Voucher            Program (CFDA # 14.871)</b>	During the testing of cash disbursements, there were numerous transactions identified on the credit card statement, relating to travel costs whereby supporting documentation was not provided.	Yes	This finding has been corrected.

**Lake Metropolitan Housing Authority**  
 Summary Schedule of Prior Audit Findings and Questioned Costs  
 Year Ended June 30, 2011

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2010-7  <b>U.S. Department of HUD            Housing Choice Voucher            Program (CFDA # 14.871)</b>	Procedures and controls relating to the Housing Choice Voucher program tenant files processing were inadequate.	No	This finding will be repeated in the 2011 audit.



# Dave Yost • 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  
FEBRUARY 21, 2012