

**SANDUSKY METROPOLITAN
HOUSING AUTHORITY**

**BASIC FINANCIAL STATEMENTS
AND SINGLE AUDIT**

**FOR THE YEAR ENDED
JUNE 30, 2016**

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



Dave Yost • Auditor of State

Board of Directors
Sandusky Metropolitan Housing Authority
1358 Mosser Drive
Fremont, OH 43420

We have reviewed the *Independent Auditor's Report* of the Sandusky Metropolitan Housing Authority, Sandusky County, prepared by James G. Zupka, CPA, Inc., for the audit period July 1, 2015 through June 30, 2016. 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 Sandusky 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

January 17, 2017

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**SANDUSKY METROPOLITAN HOUSING AUTHORITY
BASIC FINANCIAL STATEMENTS AND SINGLE AUDIT
FOR THE YEAR ENDED JUNE 30, 2016**

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

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INDEPENDENT AUDITOR'S REPORT

To the Members of the Board of
Sandusky Metropolitan Housing Authority
Fremont, Ohio

Regional Inspector General of Audit
Department of Housing and Urban
Development

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Sandusky Metropolitan Housing Authority, Ohio, (the Authority) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Sandusky Metropolitan Housing Authority, Ohio, as of June 30, 2016, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Schedules of Net Pension Liabilities and Pension Contributions, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Sandusky Metropolitan Housing Authority's basic financial statements. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, and is not a required part of the basic financial statements.

The Schedule of Expenditures of Federal Awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2016, on our consideration of the Sandusky Metropolitan Housing Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Sandusky Metropolitan Housing Authority's internal control over financial reporting and compliance.



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

November 15, 2016

**SANDUSKY METROPOLITAN HOUSING AUTHORITY
MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2016
(UNAUDITED)**

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

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

FINANCIAL HIGHLIGHTS

- The Authority’s authority-wide statements reflect a decrease in total net position of \$8,681 (or .42 percent) during 2016. Net Position was \$2.071 million and \$2.080 million for 2016 and 2015 respectively.
- The business-type activity revenue increased by \$114,786 (or 9.44 percent) during 2016, and was \$1.331 million and \$1.216 million for 2016 and 2015 respectively.
- The total expenses of all Authority programs increased by \$58,684 (or 4.58 percent). Total expenses were \$1.340 million and \$1.281 million for 2016 and 2015 respectively.

Authority-Wide Financial Statements

The Authority-wide financial statements are designed to be corporate-like in that all business-type activities are consolidated into columns, which add to a total for the entire Authority.

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

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

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

**SANDUSKY METROPOLITAN HOUSING AUTHORITY
MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2016
(UNAUDITED)**

Authority-Wide Financial Statements (Continued)

Unrestricted Net Position: Consists of Net Position that do not meet the definition of “Net Investment in Capital Assets”, or “Restricted Net Position”. This account resembles the old operating reserves account.

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

The focus of the Statement of Revenues, Expenses and Changes in Net Position is the “Change in Net Position”, which is similar to Net Income or Loss.

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

Fund Financial Statements

Traditional users of governmental financial statements will find the Fund Financial Statements presentation more familiar. The focus is now on Major Funds, rather than fund types. The Authority consists of exclusively Enterprise Funds. Enterprise funds utilize the full accrual basis of accounting. The Enterprise method of accounting is similar to accounting utilized by the private sector accounting.

The Department of Housing and Urban Development requires the funds maintained by the Authority.

THE AUTHORITY’S PROGRAMS

Business-Type Activities

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 to enable the PHA to provide the housing at a rent that is based upon 30 percent of adjusted gross household income.

Capital Fund Program (CFP) - This is the current primary funding source for the Authority’s Public Housing physical and management improvements. Funds are provided by formula allocation and based on size and age of the agency’s Public Housing units.

**SANDUSKY METROPOLITAN HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
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Housing Choice Voucher Program - Under the Housing Choice Voucher Program, the Authority subsidizes rents to independent landlords that own the property. The Authority subsidizes the family's rent through a Housing Assistance Payment (HAP) made to the landlord. The program is administered under an Annual Contributions Contract (ACC) with HUD. HUD provides funding to enable the Authority to structure a lease that requires the participant to pay a rent based on a percentage of their adjusted gross household income, typically 30 percent, and the Housing Authority subsidizes the balance.

AUTHORITY-WIDE STATEMENTS

Statement of Net Position

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

Table 1- Statement of Net Position

	2016	2015
<u>Assets and Deferred Outflows of Resources</u>		
Current and Other Assets	\$ 335,877	\$ 261,340
Capital Assets	1,983,162	2,104,173
Deferred Outflows of Resources	33,632	6,478
Total Assets and Deferred Outflows of Resources	<u>\$ 2,352,671</u>	<u>\$ 2,371,991</u>
<u>Liabilities</u>		
Current Liabilities	\$ 68,431	\$ 77,002
Long-Term Liabilities	211,066	213,853
Total Liabilities	<u>279,497</u>	<u>290,855</u>
Deferred Inflows of Resources	<u>1,807</u>	<u>0</u>
<u>Net Position</u>		
Net Investment in Capital Assets	1,839,764	1,920,421
Restricted	4,184	631
Unrestricted	227,419	158,996
Total Net Position	<u>2,071,367</u>	<u>2,080,048</u>
Total Liabilities, Deferred Inflows of Resources, and Net Position	<u>\$ 2,352,671</u>	<u>\$ 2,370,903</u>

For more detailed information, see Statement of Net Position presented on page 10.

**SANDUSKY METROPOLITAN HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2016
(UNAUDITED)**

Major Factors Affecting the Statement of Net Position:

Current assets increased by \$74,537 and total liabilities decreased by \$11,358. The increase in current assets was primarily due to the cash generated from operations. The decrease in current liabilities is due to the retirement of the mortgages.

Table 2 - Change of Unrestricted Net Position

Unrestricted Net Position, June 30, 2015	\$	158,996
Results of Operations		(8,681)
Adjustments:		
Depreciation (1)		139,741
Capital Expenditures		(18,730)
Debt Principal Payments Less Cash from Asset Sale		(40,354)
Transfer from Restricted Net Position		<u>(3,553)</u>
Unrestricted Net Position, June 30, 2016	\$	<u>227,419</u>

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

While the results of operations are a significant measure of the Authority's activities, the analysis of the changes in Unrestricted Net Position provides a clearer change in financial well being. The Authority's unrestricted net position increased \$68,423.

The following schedule compares the revenues and expenses for the current and previous fiscal year. The Authority is engaged only in Business-Type Activities.

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

	2016	2015
<u>Revenues</u>		
Tenant Revenues - Rents and Others	\$ 109,272	\$ 114,633
Operating Subsidies and Grants	1,169,742	1,087,347
Capital Grants	10,799	43,840
Investment Income	143	118
Loss on Capital Asset Disposals	-	(53,941)
Other Revenues	<u>41,419</u>	<u>24,592</u>
Total Revenues	<u>1,331,375</u>	<u>1,216,589</u>
<u>Expenses</u>		
Administrative	170,507	185,475
Utilities	15,458	17,259
Maintenance	139,106	96,023
General and Interest	37,861	29,084
Housing Assistance Payments	837,383	787,552
Depreciation	<u>139,741</u>	<u>165,979</u>
Total Expenses	<u>1,340,056</u>	<u>1,281,372</u>
Net (Decrease) in Net Position	<u>\$ (8,681)</u>	<u>\$ (64,783)</u>

**SANDUSKY METROPOLITAN HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2016
(UNAUDITED)**

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

REVENUES: Operating Subsidies, Grants and Capital Grants increased by \$82,395, or 7.58 percent. The majority of the increase was due to increased Housing Choice Voucher funding based on an increase in unit months leased.

EXPENSES: Total expenses increased by \$58,648 or 4.58 percent. The majority of the increase was due to increase in maintenance expense because of hiring subcontractors to assist with unit turn-a-round and an crease in Housing Assistance Payments due to increase in number of units leased.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of year end, the Authority had \$1.983 million invested in a variety of capital assets as reflected in the following schedule. This represents a net decrease (additions, disposals and depreciation) of \$121,011 from the end of last year.

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

	2016	2015
Land	\$ 604,764	\$ 604,764
Building and Improvements	4,357,256	4,342,245
Equipment	402,386	399,724
Accumulated Depreciation	(3,381,244)	(3,242,560)
Total	<u>\$ 1,983,162</u>	<u>\$ 2,104,173</u>

The following reconciliation summarizes the change in Capital Assets, which is presented in detail in Note 4 of the financial statements.

Table 5 - Change in Capital Assets

Beginning Balance, June 30, 2015	\$ 2,104,173
Additions	18,730
Depreciation	(139,741)
Ending Balance, June 30, 2016	<u>\$ 1,983,162</u>

Additions consisted of building improvements to the public housing units and various administrative equipment.

**SANDUSKY METROPOLITAN HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2016
(UNAUDITED)**

Debt Administration

The Authority's long term debt of \$143,398 includes mortgages for six (6) homes purchased for the Sandusky County MRDD's Capital Assisted Housing Program.

Additional information on long-term debt can be found in Note 5 of the financial statements.

Economic Factors

Significant economic factors affecting the Authority are as follows:

- Federal funding of the Department of Housing and Urban Development
- Local labor supply and demand, which can affect salary and wage rates
- Local inflationary, recessionary, and employment trends, which can affect resident incomes and therefore the amount of rental income
- Inflationary pressure on utility rates, supplies, and other costs

IN CONCLUSION

The Authority had a \$8,681 decrease in net position in fiscal year 2016 due to normal operations.

FINANCIAL CONTACT

If you have any questions regarding this report, you may contact Ralph Chamberlain, Executive Director of the Sandusky Metropolitan Housing Authority at (419) 334-4426.

SANDUSKY METROPOLITAN HOUSING AUTHORITY
STATEMENT OF NET POSITION
JUNE 30, 2016

ASSETS

Current Assets

Cash and Cash Equivalents:	\$	289,072
Restricted Cash and Cash Equivalents		24,800
Receivables, Net		2,067
Prepaid Expenses and Other Assets		9,955
Inventory		9,983
Total Current Assets		335,877

Capital Assets

Non-Depreciable Capital Assets		604,764
Depreciable Capital Assets, Net		1,378,398
Total Capital Assets		1,983,162

DEFERRED OUTFLOWS OF RESOURCES

33,632

TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

\$ 2,352,671

LIABILITIES

Current Liabilities

Accounts Payable	\$	10,811
Accrued Liabilities		2,253
Tenant Security Deposits		20,616
Other Current Liabilities		3,938
Current Portion - Mortgages Payable		30,813
Total Current Liabilities		68,431

Non-Current Liabilities

Mortgages Payable, Net of Current Portion		112,585
Accrued Pension Liability (See Note 7)		93,534
Accrued Compensated Absences - Non-Current		4,947
Total Non-Current Liabilities		211,066
TOTAL LIABILITIES		279,497

DEFERRED INFLOWS OF RESOURCES

1,807

NET POSITION

Net Investment in Capital Assets		1,839,764
Restricted		4,184
Unrestricted Net Position		227,419
TOTAL NET POSITION		2,071,367
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	\$	2,352,671

See accompanying notes to the basic financial statements.

SANDUSKY METROPOLITAN HOUSING AUTHORITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2016

<u>Operating Revenues</u>	
Tenant Rental Revenue	\$ 109,272
Government Operating Grants	1,169,742
Other Revenue	41,419
Total Operating Revenue	<u>1,320,433</u>
 <u>Operating Expenses</u>	
Administrative	170,507
Utilities	15,458
Maintenance	139,106
General	30,579
Housing Assistance Payments	837,383
Depreciation Expense	139,741
Total Operating Expenses	<u>1,332,774</u>
 Operating Loss	 <u>(12,341)</u>
 <u>Non-Operating Revenues (Expenses)</u>	
Interest and Investment Revenue	143
Interest Expense	(7,282)
Total Non-Operating Revenues (Expenses)	<u>(7,139)</u>
(Loss) Before Capital Contributions and Grants	<u>(19,480)</u>
 Capital Grants	 <u>10,799</u>
Change In Net Position	(8,681)
 Total Net Position - Beginning of Year	 <u>2,080,048</u>
 Total Net Position - End of Year	 <u>\$ 2,071,367</u>

See accompanying notes to the basic financial statements.

SANDUSKY METROPOLITAN HOUSING AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2016

<u>Cash Flows from Operating Activities</u>	
Cash Received- HUD Operating Subsidies and Grants	\$ 1,169,742
Cash Received from Tenants and Other Sources	150,328
Cash Payments for Housing Assistance Payments	(837,383)
Cash Payments for Administrative Costs	(174,988)
Cash Payments for Other Operating Expenses	(177,533)
Net Cash Provided (Used) by Operating Activities	<u>130,166</u>
<u>Cash Flows from Capital and Related Financing Activities</u>	
Capital Additions	(18,730)
Capital Grants	10,799
Interest Expense	(7,282)
Repayment of Mortgage and Note	(40,354)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(55,567)</u>
<u>Cash Flows from Investing Activities</u>	
Investment Income	143
Net Cash Provided (Used) by Investing Activities	<u>143</u>
Increase in Cash and Cash Equivalents	74,742
Cash and Cash Equivalents - Beginning of Year	<u>239,130</u>
Cash and Cash Equivalents - End of Year	<u>\$ 313,872</u>
<u>Reconciliation of Operating Income to</u>	
<u>Net Cash Provided by Operating Activities</u>	
Net Operating (Loss)	\$ (12,341)
Adjustments to Reconcile Operating Loss to	
Net Cash Provided by Operating Activities	
Depreciation	139,741
(Increase) Decrease in:	
Accounts Receivable	(266)
Prepaid Expenses and Inventory	471
Deferred Outflows	(27,154)
Increase (Decrease) in:	
Accounts Payable	(1,903)
Compensated Absences	(4,462)
Net Pension Liability	31,539
Security Deposits	(97)
Deferred Inflows	3,919
Accrued Expenses and Other Current	719
Net Cash Provided (Used) by Operating Activities	<u>\$ 130,166</u>

* Non-cash increase to Net Pension Liability of \$57,453 not reflected in reported amount.

SANDUSKY METROPOLITAN HOUSING AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016

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

Organization and Reporting Entity

The Sandusky Metropolitan Housing Authority (SMHA) is a political subdivision of the State of Ohio, located in Fremont, Ohio, created under Section 3735.27 of the Ohio Revised Code, to engage in the acquisition, development, leasing and administration of low-rent housing program. An Annual Contributions Contract was signed by the SMHA and the United States 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, maintenance, operating, improving, extending, and repairing housing facilities.

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

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.

Pursuant to GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance, Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, the Authority follows GASB guidance as applicable to enterprise funds.

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

SANDUSKY METROPOLITAN HOUSING AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016
(CONTINUED)

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 changes in net position, 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 position. The statement of changes in net position presents increases (i.e., revenues) and decreases (i.e., expenses) in total net position. 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 non-operating 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 non-operating revenues and expenses.

Property and Equipment

Property and equipment is recorded at cost. Costs that materially add to the productive capacity or extend the life of an asset are capitalized, while maintenance repair costs are expensed as incurred.

Useful life of property and equipment is as follows:

Buildings	40 years
Land and Building Improvements	15 years
Equipment	7 years
Autos	5 years

Depreciation is recorded on the straight-line method. Total depreciation expense for the 2015 fiscal year was \$139,741.

SANDUSKY METROPOLITAN HOUSING AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016
(CONTINUED)

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

Cash and Cash Equivalents

The Authority considers all highly liquid investments (including restricted assets) with maturity of three months or less when purchased to be cash and cash equivalents.

Investments

Investments are stated at fair value. Cost-based measures of fair value were applied to nonnegotiable certificates of deposit and money market investments.

Restricted Net Position

Restricted net position represent cash and cash equivalents whose use is limited by legal requirements. Restricted net position include excess Housing Choice Voucher housing assistance payments funding and security deposits collected from residents of the Agency's housing units.

Net Position

Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position 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. Restricted net position includes the Housing Choice Voucher Program HAP Equity. That is funding provided to the Agency by HUD for the purpose of making rental assistance payments on behalf of program participants that has yet to be expended and was \$631 at June 30, 2015.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plans and additions to/deductions from their fiduciary from their fiduciary net position have been determined on the same basis as they are reported by the pension systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension systems report investments at fair value.

Deferred Outflows/Inflows of Resources

In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the Authority, deferred outflows of resources are reported on the statement of net position for pension. The deferred outflows of resources related to pension are explained in Note 6.

SANDUSKY METROPOLITAN HOUSING AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016
(CONTINUED)

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

Deferred Outflows/Inflows of Resources (Continued)

In addition to liabilities, the statements of financial position report a separate section of deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized until the time. For the Authority, deferred inflows of resources include pension. Deferred inflows of resources related to pension are reported on the government-wide statement of net position. (See Note 6)

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Budgetary Accounting

SMHA annually prepares funding requests as prescribed by HUD. After HUD approval of these requests, a budget is adopted by the Board of SMHA.

Capitalization of Interest

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

Financial Statement Format and Content

The format and content of the financial statements included in this report conforms to the format and content submitted to U.S. Department of Housing and Urban Development, via the Real Estate Assessment Center.

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SANDUSKY METROPOLITAN HOUSING AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016
(CONTINUED)

NOTE 2: **DEPOSITS AND INVESTMENTS**

The Authority follows the provisions of GASB Statement No. 40, *Deposit and Investment Risk Disclosures*. This new standard revised the existing requirement regarding disclosure of custodial credit risk and establishes requirements for disclosures regarding credit risk, concentration of credit risk, interest rate risk, and foreign currency risk.

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 had 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 to 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 June 30, 2016, the Authority had undeposited cash on hand (petty cash) of \$120.

At June 30, 2016, the carrying amount of the Authority's cash deposits was \$313,752 and the bank balance was \$329,042. Based on criteria described in GASB Statement No. 40, *Deposits and Investments Risk Disclosures*, as of June 30, 2015, deposits totaling \$250,000 were covered by Federal Depository Insurance, while the balance of \$79,042 was collateralized by securities pledged in the name of the Authority.

Custodial credit 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. Multiple financial institution collateral pools that insure public deposits held by fiscal and escrow agents are collateralized with eligible securities in amounts equal to at least 110 percent of the carrying value of the deposits. Such collateral, as permitted by Chapter 135 of the Ohio Revised Code, is held in financial institution pools at Federal Reserve banks, or at member banks of the Federal Reserve system in the name of the respective depository bank, and pledged as a pool of collateral against all of the public deposits it holds, or as specific collateral held at a Federal Reserve bank in the name of the Authority.

SANDUSKY METROPOLITAN HOUSING AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016
(CONTINUED)

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

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 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 exception 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. At June 30, 2015 the Authority has no investments.

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 investment choices.

Concentration of Credit Risk

Generally, the Authority places no limit on the amount it may invest in any one financial institution. 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 represent 100 percent of its deposits.

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.

SANDUSKY METROPOLITAN HOUSING AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016
(CONTINUED)

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

Restricted Cash

Restricted cash is composed of the following restricted:

Restricted HAP Equity	\$ 4,184
Tenant Security Deposit	20,616
Total	<u>\$ 24,800</u>

NOTE 3: **CAPITAL ASSETS**

A summary of capital assets at June 30, 2016, by class is as follows:

Building and Building Improvements	\$ 4,357,256
Land	604,764
Furniture, Equipment - Dwelling	82,031
Furniture, Equipment - Administration	320,355
Total	<u>5,364,406</u>
Less Accumulated Depreciation	<u>(3,381,244)</u>
Net Property and Equipment	<u>\$ 1,983,162</u>

A summary of changes in capital assets during the year is as follows:

	Balance June 30, 2015	Additions	Deletions	Balance June 30, 2016
<u>Capital Assets Not Being Depreciated</u>				
Land	\$ 604,764	\$ 0	\$ 0	\$ 604,764
Total Capital Assets Not Being Depreciated	<u>604,764</u>	<u>0</u>	<u>0</u>	<u>\$ 604,764</u>
<u>Capital Assets Being Depreciated</u>				
Buildings and Improvements	4,342,245	15,011	0	4,357,256
Furniture, Equipment, and Machinery				
Dwelling	82,708	380	(1,057)	82,031
Administration	317,016	3,339	0	320,355
Total Capital Assets Being Depreciated	<u>4,741,969</u>	<u>18,730</u>	<u>(1,057)</u>	<u>4,759,642</u>
<u>Accumulated Depreciation</u>				
Buildings and Improvements	(2,849,595)	(135,943)	1,057	(2,984,481)
Furniture, Equipment, and Machinery	(392,965)	(3,798)	0	(396,763)
Total Accumulated Depreciation	<u>(3,242,560)</u>	<u>(139,741)</u>	<u>1,057</u>	<u>(3,381,244)</u>
Depreciable Assets, Net	<u>1,499,409</u>	<u>(121,011)</u>	<u>0</u>	<u>1,378,398</u>
Total Capital Assets, Net	<u>\$ 2,104,173</u>	<u>\$ (121,011)</u>	<u>\$ 0</u>	<u>\$ 1,983,162</u>

SANDUSKY METROPOLITAN HOUSING AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016
(CONTINUED)

NOTE 4: LONG-TERM LIABILITIES

The changes in the Authority's long-term liabilities during the year were as follows:

	Balance 6/30/2015	Additions	Deletions	Balance 6/30/2016	Amounts Due In One Year
<u>Business-Type Activities</u>					
Mortgages Payable	\$ 183,752	\$ 0	\$ (40,354)	\$ 143,398	\$ 30,813
Net Pension Liability	61,995	31,539	-	93,534	-
Compensated Absences	11,057	2,460	(6,922)	6,595	1,648
Total Capital Assets Not Being Depreciated	<u>\$ 256,804</u>	<u>\$ 33,999</u>	<u>\$ (47,276)</u>	<u>\$ 243,527</u>	<u>\$ 32,461</u>

Mortgages payable consist of the following:

The Authority has a note payable to the Croghan Colonial Bank of Fremont. The original principal of the loan was \$104,041 and the current rate is 6.25 percent annually. Principal and interest payments, currently \$432.25 began in December 2001 with the final payment due on December 2016. The loan is secured by the first mortgage on the property located at 728 Nickel St., Fremont, Ohio. \$ 2,571

The Authority has a note payable to the Croghan Colonial Bank of Fremont. The original principal of the loan was \$123,500 and the current rate is 6.15 percent annually. Principal and interest payments, currently \$430.06 began in October 2002 with the final payment due on July, 2032. The loan is secured by an open-end mortgage on real estate property located at 562 Crestwood, Fremont, Ohio. 52,657

The Authority has a note payable to the Croghan Colonial Bank of Fremont. The original principal of the loan was \$70,000 and the current rate is 4.90 percent annually. Principal and interest payments, currently \$581.64, began in March, 2003 with the final payment due on March, 2018. The loan is secured by an open-end mortgage on real estate property located at 114 S. Jefferson Street, Fremont, Ohio. 11,690

The Authority has a note payable to the Croghan Colonial Bank of Fremont, at a current rate of 4.75 percent annually. Principal and interest payments of \$648.67 began in January, 2004 with the final payment due on December, 2023. The loan is secured by an open-end mortgage on real estate located at 1407 Rosewood Street, Fremont, Ohio 43420 49,038

SANDUSKY METROPOLITAN HOUSING AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016
(CONTINUED)

NOTE 4: LONG-TERM LIABILITIES (Continued)

The Authority has a note payable to the Croghan Colonial Bank of Fremont. The original principal of the loan was \$104,000 and the current rate is 6.40 percent annually. Principal and interest payments, currently \$429.26 began in January 2002 with the final payment due in January, 2017. The loan is secured by a first mortgage on the property located at 148 W. Drew Lane, Clyde, Ohio.

Subtotal	2,943 118,899
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The PHA has entered into contractual agreements with the Ohio Department of Development Disabilities through which the agency received funds for the acquisition and/or renovation of properties. Upon receipt of the funding, the Agency is restricted to using the property as a residential facility for DODD clients for 15 years. In the event the Agency complies with this restriction, the amount of the loan is amortized at 0 percent interest by 1/180th for each month of each agreement. A summary of this debt with Ohio DODD is as follows:

Property Description	Original Loan Amount	Period	Interest Rate	Life of Loan	Balance 6/30/2016
728 Nickle Street	\$ 54,041	2002-2017	0%	180 months	\$ 1,801
408 S. Pennsylvania Ave.	59,874	2005-2020	0%	180 months	17,295
562 Crestwood	54,020	2002-2017	0%	180 months	3,603
148 W. Drew Lane	54,000	2002-2017	0%	180 months	1,800
Sub-Total Ohio DODD Debt					24,499
Total Debt					143,398
Less: Current Portion					(30,813)

The following is a summary of the Authority's future debt service requirements as of June 30, 2016:

For the Year Ended June 30	Principal	Interest	Total Payments
2017	\$ 30,813	\$ 5,935	\$ 36,748
2018	17,072	5,099	22,171
2019	12,360	4,577	16,937
2020	12,788	4,149	16,937
2021	10,596	3,676	14,272
2022-2026	33,571	11,693	45,264
2027-2031	20,739	5,067	25,806
2032-2033	5,459	200	5,659
Totals	\$ 143,398	\$ 40,396	\$ 183,794

Additional information on compensated absences is detailed in Note 9 of the financial statements.

SANDUSKY METROPOLITAN HOUSING AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016
(CONTINUED)

NOTE 5: **ALLOCATION OF COSTS**

The Authority allocated expenses not attributable to a specific program to all programs under management. The basis for this allocation was the number of units in each program or estimated actual usage. Management considers this to be an equitable method of allocation.

NOTE 6: **DEFINED BENEFIT PENSION PLANS**

Net Pension Liability

The net pension liability reported on the statement of net position represents a liability to employees for pensions. Pensions are a component of exchange transactions between an employer and its employees of salaries and benefits for employee services. Pensions are provided to an employee on a deferred-payment basis as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net pension liability represents the Authority's proportionate share of each pension plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan's fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

Ohio Revised Code limits the Authority's obligation for this liability to annually required payments. The Authority cannot control benefit terms or the manner in which pensions are financed; however, the Authority does receive the benefit of employees' services in exchange for compensation including pension.

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

The proportionate share of each plan's unfunded benefits is presented as a long-term *net pension liability* on the accrual basis of accounting. Any liability for the contractually-required pension contribution outstanding at the end of the year is included in *intergovernmental payable* on both the accrual and modified accrual bases of accounting.

SANDUSKY METROPOLITAN HOUSING AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016
(CONTINUED)

NOTE 6: **DEFINED BENEFIT PENSION PLANS** (Continued)

Plan Description – Ohio Public Employees Retirement System (OPERS)

Plan Description - Authority employees participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional pension plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan and the combined plan is a cost-sharing, multiple-employer defined benefit pension plan with defined contribution features. While members (e.g. Authority employees) may elect the member-directed plan and the combined plan, substantially all employee members are in OPERS' traditional plan; therefore, the following disclosure focuses on the traditional pension plan.

OPERS provides retirement, disability, survivor and death benefits, and annual cost of living adjustments to members of the traditional plan. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about OPERS' fiduciary net position that may be obtained by visiting <https://www.opers.org/financial/reports.shtml>, by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 800-222-7377.

Senate Bill (SB) 343 was enacted into law with an effective date of January 7, 2013. In the legislation, members were categorized into three groups with varying provisions of the law applicable to each group. The following table provides age and service requirements for retirement and the retirement formula applied to final average salary (FAS) for the three member groups under the traditional plan as per the reduced benefits adopted by SB 343 (see OPERS CAFR referenced above for additional information):

Group A	Group B	Group C
Eligible to retire prior to January 7, 2013 or five years after January 7, 2013	20 years of service credit prior to January 7, 2013 or eligible to retire ten years after January 7, 2013	Members not in other Groups and members hired on or after January 7, 2013
State and Local	State and Local	State and Local
Age and Service Requirements: Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	Age and Service Requirements: Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	Age and Service Requirements: Age 57 with 25 years of service credit or Age 62 with 5 years of service credit
Formula: 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	Formula: 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	Formula: 2.2% of FAS multiplied by years of service for the first 35 years and 2.5% for service years in excess of 35

Final average Salary (FAS) represents the average of the three highest years of earnings over a member's career for Groups A and B. Group C is based on the average of the five highest years of earnings over a member's career.

Members who retire before meeting the age and years of service credit requirement for unreduced benefits receive a percentage reduction in the benefit amount.

SANDUSKY METROPOLITAN HOUSING AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016
(CONTINUED)

NOTE 6: **DEFINED BENEFIT PENSION PLANS** (Continued)

Plan Description – Ohio Public Employees Retirement System (OPERS) (Continued)

When a benefit recipient has received benefits for 12 months, an annual cost of living adjustment (COLA) is provided. This COLA is calculated on the base retirement benefit at the date of retirement and is not compounded. For those retiring prior to January 7, 2013, the COLA will continue to be a 3 percent simple annual COLA. For those retiring subsequent to January 7, 2013, beginning in calendar year 2019, the COLA will be based on the average percentage increase in the Consumer Price Index, capped at 3 percent.

Funding Policy - The Ohio Revised Code (ORC) provides statutory authority for member and employer contributions as follows:

	State and Local
2015 Statutory Maximum Contribution Rates	
Employer	14.0 %
Employee	10.0 %
2015 Actual Contribution Rates	
Employer:	
Pension	12.0 %
Post-employment Health Care Benefits	2.0
Total Employer	14.0 %
Employee	10.0 %

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The Authority's contractually required contribution was \$7,831 for the fiscal year ending June 30, 2016.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

The net pension liability was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Authority's proportion of the net pension liability was based on the Authority's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

Proportionate Share of the Net Pension Liability	\$93,534
Proportion of the Net Pension Liability	0.000540%
Pension Expense	\$13,142

SANDUSKY METROPOLITAN HOUSING AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016
(CONTINUED)

NOTE 6: **DEFINED BENEFIT PENSION PLANS** (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2016, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Deferred Outflows of Resources	
Net difference between projected and actual earnings on pension plan investments	\$27,493
Changes in proportion and differences between City contributions and proportionate share of contributions	2,069
Authority contributions subsequent to the measurement date	<u>4,070</u>
Total Deferred Outflows of Resources	<u>\$33,632</u>
Deferred Inflows of Resources	
Differences between expected and actual experience	<u>\$1,807</u>
Total Deferred Inflows of Resources	<u>\$1,807</u>

\$4,070 reported as deferred outflows of resources related to pension resulting from Authority contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Year Ending December 31:

2017	\$6,968
2018	7,407
2019	7,158
2020	<u>6,222</u>
Total	<u>\$27,755</u>

Actuarial Assumptions - OPERS

Actuarial valuations of an ongoing plan involve estimates of the values of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and cost trends. Actuarially determined amounts are subject to continual review or modification as actual results are compared with past expectations and new estimates are made about the future.

SANDUSKY METROPOLITAN HOUSING AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016
(CONTINUED)

NOTE 6: **DEFINED BENEFIT PENSION PLANS** (Continued)

Actuarial Assumptions - OPERS

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation. The total pension liability in the December 31, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Wage Inflation	3.75 percent
Future Salary Increases, including inflation COLA or Ad Hoc COLA	4.25 to 10.05 percent including wage inflation Pre 1/7/2013 retirees: 3 percent, simple; Post 1/7/2013 retirees: 3 percent, simple through 2018, then 2.8 percent, simple
Investment Rate of Return	8 percent
Actuarial Cost Method	Individual Entry Age

Mortality rates were based on the RP-2000 Mortality Table projected 20 years using Projection Scale AA. For males, 105 percent of the combined healthy male mortality rates were used. For females, 100 percent of the combined healthy female mortality rates were used. The mortality rates used in evaluating disability allowances were based on the RP-2000 mortality table with no projections. For males 120 percent of the disabled female mortality rates were used set forward two years. For females, 100 percent of the disabled female mortality rates were used.

The most recent experience study was completed for the five year period ended December 31, 2010.

The long-term rate of return on defined benefit investment assets was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected real rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adjusted for inflation.

OPERS manages investments in four investment portfolios: the Defined Benefits portfolio, the Health Care portfolio, the 115 Health Care Trust portfolio and the Defined Contribution portfolio. The Defined Benefit portfolio includes the investment assets of the Traditional Pension Plan, the defined benefit component of the Combined Plan, the annuitized accounts of the Member-Directed Plan and the VEBA Trust. Within the Defined Benefit portfolio, contributions into the plans are all recorded at the same time, and benefit payments all occur on the first of the month. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The money weighted rate of return, net of investments expense, for the Defined Benefit portfolio is 0.4 percent for 2015.

SANDUSKY METROPOLITAN HOUSING AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016
(CONTINUED)

NOTE 6: **DEFINED BENEFIT PENSION PLANS** (Continued)

Actuarial Assumptions – OPERS (Continued)

The allocation of investment assets with the Defined Benefit portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the defined benefit pension plans. The table below displays the Board-approved asset allocation policy for 2015 and the long-term expected real rates of return:

Asset Class	Target Allocation	Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)
Fixed Income	23.00 %	2.31 %
Domestic Equities	20.70	5.84
Real Estate	10.00	4.25
Private Equity	10.00	9.25
International Equities	18.30	7.40
Other investments	18.00	4.59
Total	100.00 %	5.28 %

Discount Rate The discount rate used to measure the total pension liability was 8 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the statutorily required rates. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefits payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Authority’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate The following table presents the Authority’s proportionate share of the net pension liability calculated using the current period discount rate assumption of 8 percent, as well as what the Authority’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (7 percent) or one-percentage-point higher (9 percent) than the current rate:

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
Authority's proportionate share of the net pension liability	\$149,024	\$93,534	\$46,732

SANDUSKY METROPOLITAN HOUSING AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016
(CONTINUED)

NOTE 7: 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 two cost-sharing multiple-employer defined benefit post-employment health care trusts, which fund multiple health care plans including medical coverage, prescription drug coverage, deposits to a Health Reimbursement Arrangement and Medicare Part B premium reimbursements, to qualifying benefit recipients of both the Traditional Pension and the Combined plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including OPERS sponsored health care coverage.

In order to qualify for health care coverage, age and service retirees under the Traditional Pension and Combined plans must have 20 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. Please see the Plan Statement in the OPERS 2014 CAFR for details.

The Ohio Revised Code permits, but does not require, OPERS to provide health care to its eligible benefit recipients. Authority to establish and amend health care coverage is provided to the Board in Chapter 145 of the Ohio Revised Code.

OPERS issues a stand-alone financial report. Interested parties may obtain a copy by visiting <https://www.opers.org/financial/reports.shtml#CAFR>, by writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642, or by calling 614-222-5601 or 800-222-7377.

B. Funding Policy

The Ohio Revised Code provides the statutory authority requiring public employers to fund health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside to fund OPERS health care plans.

Employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2015, State and Local employers contributed at a rate of 14.0 percent of earnable salary. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active member contributions do not fund health care.

OPERS maintains three health care trusts. The two cost-sharing, multiple-employer trusts, the 401(h) Health Care Trust and the 115 Health Care Trust, work together to provide health care funding to eligible retirees of the Traditional Pension and Combined plans. The third trust is a Voluntary Employee's Beneficiary Association (VEBA) that provides funding for a Retiree Medical Account for Member-Directed Plan members.

SANDUSKY METROPOLITAN HOUSING AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016
(CONTINUED)

NOTE 7: **POST-EMPLOYMENT BENEFITS** (Continued)

B. **Funding Policy** (Continued)

Each year, the OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside to fund health care plans. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan and Combined Plan was 2.0 percent during calendar year 2015. As recommended by OPERS' actuary, the portion of employer contributions allocated to health care beginning January 1, 2016 remained at 2.0 percent for both plans. The Board is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The employer contribution as a percentage of covered payroll deposited to the VEBA for participants in the Member-Directed Plan for 2015 was 4.5 percent. The portion of actual Authority contributions for the year ended June 30, 2016, 2015, and 2014, which were used by OPERS to fund post-employment benefits were \$1,305, \$1,264, and \$928, respectively.

NOTE 8: **COMPENSATED ABSENCES**

Vacation and sick leave policies are established by the Board of Authority based on local and state laws. All permanent employees will earn 4.6 hours of sick leave per eighty (80) hours of service. Unused sick leave may accumulate without limit. At the time of retirement, employees shall be paid the value of twenty-five percent of unused sick leave subject to a maximum payment equal to 120 days of sick leave. All permanent employees will earn vacation hours accumulated based on length of service. Employees will be paid for all unused vacation time upon their separation from service.

NOTE 9: **RISK MANAGEMENT**

The Authority is exposed to various risks of loss during the normal course of its operations including, but not limited to, loss related to torts; theft of damage to, and destruction of assets; errors and omissions; and injuries to employees.

The Authority maintains comprehensive insurance coverage with private carriers for health, real property, and building contents. There was no significant reduction in coverage and no settlements exceeded insurance coverage, during the past three years.

NOTE 10: **CONTINGENCIES**

The Authority is party to various legal proceedings which seek damages or injunctive relief generally incidental to its operations and pending projects. The Authority's management is of the opinion that the ultimate disposition of various claims and legal proceedings will not have a material effect, if any, on the financial condition of the Authority.

The Authority has received several Federal and state grants for specific purposes which are subject to review and audit by the grantor agencies. Such audits could lead to requests for reimbursements to grantor agencies for expenditures disallowed under the terms of the grant. Based upon prior experience, management believes such disallowances, if any, will be immaterial.

**SANDUSKY METROPOLITAN HOUSING AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016
(CONTINUED)**

NOTE 11: SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Sandusky 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*.

The Authority did not use the de minimus rate of 10 percent of indirect costs charged to the federal programs.

**SANDUSKY METROPOLITAN HOUSING AUTHORITY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE AUTHORITY'S PROPORTIONATE SHARE OF
THE NET PENSION LIABILITY
OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM
LAST THREE FISCAL YEARS (1)**

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Authority's Proportion of the Net Pension Liability	0.000540%	0.000514%	0.000514%
Authority's Proportionate Share of the Net Pension Liability	\$93,534	\$61,955	\$60,594
Authority's Covered-Employee Payroll	\$65,258	\$63,217	\$64,658
Authority's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Employee Payroll	143.33%	98.00%	93.71%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	81.08%	86.45%	86.36%

(1) - Information prior to 2014 is not available.

Amounts presented as of the Authority's fiscal year end.
The plan measurement date is the prior calendar year end.

(1) Information prior to 2013 is not available.

Amount presented as of the Authority's measurement date which is the December 31, 2014 and 2013.

**SANDUSKY METROPOLITAN HOUSING AUTHORITY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE AUTHORITY'S CONTRIBUTIONS
OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM
LAST TEN FISCAL YEARS**

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Contractually Required Contributions	\$ 7,831	\$ 7,586	\$ 7,759	\$ 7,729	\$ 8,976	\$ 20,507	\$ 16,537	\$ 16,035	\$ 20,849	\$ 18,276
Contributions in Relation to the Contractually Required Contribution	<u>(7,831)</u>	<u>(7,586)</u>	<u>(7,759)</u>	<u>(7,729)</u>	<u>(8,976)</u>	<u>(20,507)</u>	<u>(16,537)</u>	<u>(16,035)</u>	<u>(20,849)</u>	<u>(18,276)</u>
Contribution Deficiency / (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Authority's Covered-Employee Payroll	\$ 65,258	\$ 63,217	\$ 64,658	\$ 59,454	\$ 89,760	\$ 205,070	\$ 183,744	\$ 188,647	\$ 297,843	\$ 235,212
Contributions as a Percentage of Covered- Employee Payroll	12.00%	12.00%	12.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%

SANDUSKY METROPOLITAN HOUSING AUTHORITY
SUPPLEMENTAL FINANCIAL DATA SCHEDULE
ENTITY-WIDE BALANCE SHEET SUMMARY
JUNE 30, 2016

	Project Total	14,871 Housing Choice Vouchers	2 State/Local	Subtotal	ELIM	Total
111 Cash - Unrestricted	99,512	172,392	17,168	289,072		289,072
113 Cash - Other Restricted		4,184		4,184		4,184
114 Cash - Tenant Security Deposits	15,816		4,800	20,616		20,616
100 Total Cash	115,328	176,576	21,968	313,872	-	313,872
125 Accounts Receivable - Miscellaneous	842			842		842
126 Accounts Receivable - Tenants	1,243			1,243		1,243
126.1 Allowance for Doubtful Accounts -Tenants	-63			-63		-63
129 Accrued Interest Receivable	31		14	45		45
120 Total Receivables, Net of Allowances for Doubtful Accounts	2,053	-	14	2,067	-	2,067
142 Prepaid Expenses and Other Assets	7,790	1,018	1,147	9,955		9,955
143 Inventories	7,850	193	1,940	9,983		9,983
150 Total Current Assets	133,021	177,787	25,069	335,877	-	335,877
161 Land	596,650	8,114		604,764		604,764
162 Buildings	3,334,124		1,023,132	4,357,256		4,357,256
163 Furniture, Equipment & Machinery - Dwellings	82,031			82,031		82,031
164 Furniture, Equipment & Machinery - Administration	265,182	50,697	4,476	320,355		320,355
166 Accumulated Depreciation	-2,807,990	-50,697	-522,557	-3,381,244		-3,381,244
160 Total Capital Assets, Net of Accumulated Depreciation	1,469,997	8,114	505,051	1,983,162	-	1,983,162
171 Notes, Loans and Mortgages Receivable - Non-Current	60,938			60,938	-60,938	-
180 Total Non-Current Assets	1,530,935	8,114	505,051	2,044,100	-60,938	1,983,162
200 Deferred Outflow of Resources	23,240	7,333	3,059	33,632		33,632
290 Total Assets and Deferred Outflow of Resources	1,687,196	193,234	533,179	2,413,609	-60,938	2,352,671
312 Accounts Payable <= 90 Days	3,446	1,591	5,774	10,811		10,811
321 Accrued Wage/Payroll Taxes Payable			605	605		605
322 Accrued Compensated Absences - Current Portion	1,286	65	297	1,648		1,648
341 Tenant Security Deposits	15,816		4,800	20,616		20,616
343 Current Portion of Long-term Debt - Capital Projects/Mortgage Revenue Bonds			30,813	30,813		30,813
345 Other Current Liabilities	2,968		970	3,938		3,938
310 Total Current Liabilities	23,516	1,656	43,259	68,431	-	68,431
351 Long-term Debt, Net of Current - Capital Projects/Mortgage Revenue			99,282	99,282		99,282
353 Non-current Liabilities - Other			60,938	60,938	-60,938	-
354 Accrued Compensated Absences - Non Current	3,860	195	892	4,947		4,947
355 Loan Liability - Non Current			13,303	13,303		13,303
357 Accrued Pension and OPEB Liabilities	64,631	20,394	8,509	93,534		93,534
350 Total Non-Current Liabilities	68,491	20,589	182,924	272,004	-60,938	211,066
300 Total Liabilities	92,007	22,245	226,183	340,435	-60,938	279,497
400 Deferred Inflow of Resources	1,249	394	164	1,807		1,807
508.4 Net Investment in Capital Assets	1,469,997	8,114	361,653	1,839,764		1,839,764
511.4 Restricted Net Position		4,184		4,184		4,184
512.4 Unrestricted Net Position	123,943	158,297	-54,821	227,419		227,419
513 Total Equity - Net Assets / Position	1,593,940	170,595	306,832	2,071,367	-	2,071,367
600 Total Liabilities, Deferred Inflow of Resources, and Equity - Net	1,687,196	193,234	533,179	2,413,609	-60,938	2,352,671

**SANDUSKY METROPOLITAN HOUSING AUTHORITY
SUPPLEMENTAL FINANCIAL DATA SCHEDULE
ENTITY-WIDE REVENUE AND EXPENSE SUMMARY
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

	Project Total	14.871 Housing Choice Vouchers	2 State/Local	Subtotal	ELIM	Total
70300 Net Tenant Rental Revenue	45,556		63,716	109,272		109,272
70400 Tenant Revenue - Other				-		-
70500 Total Tenant Revenue	45,556	-	63,716	109,272	-	109,272
70600 HUD PHA Operating Grants	220,324	949,418		1,169,742		1,169,742
70610 Capital Grants	10,799			10,799		10,799
71100 Investment Income - Unrestricted	48	85	10	143		143
71400 Fraud Recovery		390		390		390
71500 Other Revenue	15,502	10,492	15,035	41,029		41,029
70000 Total Revenue	292,229	960,385	78,761	1,331,375	-	1,331,375
91100 Administrative Salaries	24,344	15,979		40,323		40,323
91200 Auditing Fees	9,284	1,950	1,950	13,184		13,184
91300 Management Fee	26,048	8,314	4,434	38,796		38,796
91310 Book-keeping Fee	5,502			5,502		5,502
91400 Advertising and Marketing	1,174	272	157	1,603		1,603
91500 Employee Benefit contributions - Administrative	8,705	6,053	10	14,768		14,768
91600 Office Expenses	5,617	4,105	1,407	11,129		11,129
91700 Legal Expense	7,905	1,676	1,188	10,769		10,769
91800 Travel	3,481		169	3,650		3,650
91900 Other		23,136	7,647	30,783		30,783
91000 Total Operating - Administrative	92,060	61,485	16,962	170,507	-	170,507
93100 Water	2,221			2,221		2,221
93200 Electricity	10,770			10,770		10,770
93300 Gas	2,467			2,467		2,467
93000 Total Utilities	15,458	-	-	15,458	-	15,458
94100 Ordinary Maintenance and Operations - Labor	26,471		6,458	32,929		32,929
94200 Ordinary Maintenance and Operations - Materials and	9,875		969	10,844		10,844
94300 Ordinary Maintenance and Operations Contracts	72,034	2,952	4,987	79,973		79,973
94500 Employee Benefit Contributions - Ordinary Maintenance	12,371		2,989	15,360		15,360
94000 Total Maintenance	120,751	2,952	15,403	139,106	-	139,106
96110 Property Insurance	8,396		1,612	10,008		10,008
96120 Liability Insurance	621	177	89	887		887
96130 Workmen's Compensation	769	223	109	1,101		1,101
96140 All Other Insurance	2,002			2,002		2,002
96100 Total insurance Premiums	11,788	400	1,810	13,998	-	13,998
96200 Other General Expenses	3,080	69	76	3,225		3,225
96210 Compensated Absences		-2,298	257	-2,041		-2,041
96300 Payments in Lieu of Taxes	6,028		449	6,477		6,477
96400 Bad debt - Tenant Rents	8,920			8,920		8,920
96000 Total Other General Expenses	18,028	-2,229	782	16,581	-	16,581
96710 Interest of Mortgage (or Bonds) Payable			7,282	7,282		7,282
96700 Total Interest Expense and Amortization Cost	-	-	7,282	7,282	-	7,282
96900 Total Operating Expenses	258,085	62,608	42,239	362,932	-	362,932
97000 Excess of Operating Revenue over Operating Expenses	34,144	897,777	36,522	968,443	-	968,443
97300 Housing Assistance Payments		837,383		837,383		837,383
97350 HAP Portability-In				-		-
97400 Depreciation Expense	106,272		33,469	139,741		139,741
90000 Total Expenses	364,357	899,991	75,708	1,340,056	-	1,340,056
10010 Operating Transfer In	56,560			56,560	-56,560	-
10020 Operating transfer Out	-56,560			-56,560	56,560	-
10100 Total Other financing Sources (Uses)	-	-	-	-	-	-
10000 Excess (Deficiency) of Total Revenue Over (Under) Total Expenses	-72,128	60,394	3,053	-8,681	-	-8,681
11030 Beginning Equity	1,666,068	110,201	303,779	2,080,048		2,080,048
11170 Administrative Fee Equity		166,411		166,411		166,411
11180 Housing Assistance Payments Equity		4,184		4,184		4,184
11190 Unit Months Available	576	2,640	96	3,312		3,312
11210 Number of Unit Months Leased	569	2,539	96	3,204		3,204

**SANDUSKY METROPOLITAN HOUSING AUTHORITY
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

Federal Grantor/Program/Title	Federal CFDA Number	Expenditures
<u>U.S. Department of Housing and Urban Development</u>		
<i>Direct Programs</i>		
Low Rent Public Housing	14.850	\$ 163,764
Capital Fund Program	14.872	57,359
Section 8 Housing Choice Voucher Program	14.871	949,418
Total U.S. Department of Housing and Urban Development		1,170,541
TOTAL EXPENDITURES OF FEDERAL AWARDS		\$ 1,170,541

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

To the Members of the Board of
Sandusky Metropolitan Housing Authority
Fremont, Ohio

Regional Inspector General of Audit
Department of Housing and Urban
Development

We have audited, in accordance with the 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, the financial statements of the business-type activities of the Sandusky Metropolitan Housing Authority, Ohio, (the Authority) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated November 15, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Sandusky Metropolitan Housing Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Sandusky Metropolitan Housing Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Sandusky Metropolitan Housing Authority's internal control.

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 Sandusky Metropolitan Housing Authority's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Sandusky Metropolitan Housing Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Sandusky Metropolitan Housing Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



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

November 15, 2016

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

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**REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE
UNIFORM GUIDANCE**

To the Members of the Board of
Sandusky Metropolitan Housing Authority
Fremont, Ohio

Regional Inspector General of Audit
Department of Housing and Urban
Development

We have audited the Sandusky Metropolitan Housing Authority, Ohio's (the Authority) compliance with the types of compliance requirements described in the OMB Compliance Supplement that could have a direct and material effect on the Sandusky Metropolitan Housing Authority's major federal program for the year ended June 30, 2016. The Sandusky Metropolitan Housing Authority's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Sandusky Metropolitan Housing Authority's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Sandusky Metropolitan Housing Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the Sandusky Metropolitan Housing Authority's compliance.

Opinion on Each Major Federal Program

In our opinion, the Sandusky Metropolitan Housing Authority, Ohio, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2016.

Report on Internal Control over Compliance

Management of the Sandusky Metropolitan Housing Authority, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Sandusky Metropolitan Housing Authority's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Sandusky Metropolitan Housing Authority's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *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 type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



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

November 15, 2016

**SANDUSKY METROPOLITAN HOUSING AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2016**

1. SUMMARY OF AUDITOR'S RESULTS

2016(i)	Type of Financial Statement Opinion	Unmodified
2016(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
2016(ii)	Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
2016(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS?)	No
2016(iv)	Were there any material internal control weaknesses reported for major federal programs?	No
2016(iv)	Were there any other significant deficiencies in internal control reported for major federal programs?	No
2016(v)	Type of Major Programs' Compliance Opinion	Unmodified
2016(vi)	Any there any reportable findings under 2 CFR 200.516(a)?	No
2016(vii)	Major Programs (list): CFDA #14.871 - Housing Choice Voucher Program	
2016(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$750,000 Type B: all others
2016(ix)	Low Risk Auditee?	Yes

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

None.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.

SANDUSKY METROPOLITAN HOUSING AUTHORITY
SCHEDULE PRIOR YEAR CITATIONS AND RECOMMENDATIONS
JUNE 30, 2016

The previous year had no citations or recommendations. Management letter recommendations have been corrected, or procedures instituted to prevent occurrences in this audit report.

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Dave Yost • Auditor of State

SANDUSKY COUNTY METROPOLITAN HOUSING AUTHORITY

SANDUSKY 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
JANUARY 31, 2017**