

Geauga Metropolitan Housing Authority

Financial Statements

For the Year Ended December 31, 2006



Mary Taylor, CPA

Auditor of State

Board of Directors
Geauga Metropolitan Housing Authority
385 Center Street
Chardon, Ohio 44024

We have reviewed the *Independent Auditors' Report* of the Geauga Metropolitan Housing Authority, Geauga County, prepared by Salvatore Consiglio, CPA, Inc., for the audit period January 1, 2006 through December 31, 2006. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

October 8, 2007

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GEAUGA METROPOLITAN HOUSING AUTHORITY
AUDIT REPORT
FOR THE YEAR ENDED DECEMBER 31, 2006

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Independent Auditors' Report

Board of Directors
Geauga Metropolitan Housing Authority

I have audited the accompanying financial statements of the business-type activities of Geauga Metropolitan Housing Authority, Ohio, as of and for the year ended December 31, 2006, which collectively comprise the Authority basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Geauga Metropolitan Housing Authority, Ohio, management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Geauga Metropolitan Housing Authority, Ohio, as of December 31, 2006, and the respective changes in financial position and the cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued a report dated July 13, 2007, on my consideration of Geauga Metropolitan Housing Authority, Ohio'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 considered in conjunction with this report in considering the results of my audit.

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

My Audit was performed for the purpose of forming an opinion on the Basic Financial Statements taken as a whole. The schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements of the Geauga Metropolitan Housing Authority, Ohio. 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 Government and Non-Profit Organizations* and is not a required part of the Basic Financial Statements. The combining financial data schedule ("FDS") and the PHA's statement and certification of actual modernization cost are presented for purposes of additional analysis as required by the Department of Housing and Urban Development and are not a required part of the Basic Financial Statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly presented in all material respect in relation to the basic financial statements taken as a whole.

Salvatore Consiglio, CPA, Inc.

July 13, 2007

GEAUGA METROPOLITAN HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2006

UNAUDITED

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

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

FINANCIAL HIGHLIGHTS

- The Authority's net assets decreased by \$176,280 (or 1.85%) during 2006, resulting from change from Operations. Since the Authority engages only in business-type activities, the decrease is all in the category of business-type net assets. Net Assets were \$9,356,771 and \$9,533,051 for 2006 and 2005 respectively.
- The Authority's cash balance at December 31, 2006 was \$1,834,954 representing an increase of \$610,105 from December 31, 2005.
- Revenues increased by \$416,592 (or 18.5%) during 2006, and were \$2,668,061 and \$2,251,469 for 2006 and 2005 respectively.
- The total expenses of all Authority programs increased by \$191,984 (or 7.24%). Total expenses were \$2,844,341 and \$2,652,357 for 2006 and 2005 respectively.

USING THIS ANNUAL REPORT

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

| |
|--|
| MD&A ~Management's Discussion and Analysis – pgs 3-10~ |
| Basic Financial Statement ~Authority Financial Statements – pgs 11-15~ |
| Other Required Supplementary Information ~Required Supplementary Information pgs 26-30~ (other than the MD&A) |

GEAUGA METROPOLITAN HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2006

UNAUDITED

Authority Financial Statements

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

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

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

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

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

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

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

GEAUGA METROPOLITAN HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2006

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Fund Financial Statements

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.

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 an Annual Contributions Contract (ACC) with HUD. HUD provides Annual Contributions Funding to enable the Authority to structure a lease that sets the participants' rent at 30% of household income.

Capital Fund Program (CFP) – This is the current primary funding source for the Authority's physical and management improvements. While the formula funding methodology used for the CGP was revised for the CFP, funds are still provided by formula allocation and based on size and age of your units.

GEAUGA METROPOLITAN HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2006

UNAUDITED

AUTHORITY STATEMENTS

Statement of Net Assets

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

TABLE 1

STATEMENT OF NET ASSETS

| | <u>2006</u> | <u>2005</u> |
|---|----------------------------|----------------------------|
| Current and Other Assets | \$ 1,880,283 | \$ 1,280,360 |
| Capital Assets | <u>7,754,668</u> | <u>8,483,527</u> |
| Total Assets | <u>\$ 9,634,951</u> | <u>\$ 9,763,887</u> |
| | | |
| Current Liabilities | \$ 182,117 | \$ 155,220 |
| Noncurrent Liabilities | <u>96,063</u> | <u>75,616</u> |
| Total Liabilities | <u>278,180</u> | <u>230,836</u> |
| | | |
| Net Assets: | | |
| Investment in Capital Assets, net of Related Debt | 7,754,668 | 8,483,527 |
| Unrestricted Net Assets | <u>1,602,103</u> | <u>1,049,524</u> |
| Total Net Assets | <u>9,356,771</u> | <u>9,533,051</u> |
| | | |
| Total Liabilities and Net Assets | <u>\$ 9,634,951</u> | <u>\$ 9,763,887</u> |

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

GEAUGA METROPOLITAN HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2006

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Major Factors Affecting the Statement of Net Assets

During 2006, current and other assets increased by \$599,923, and total liabilities increased by \$26,897. The current and other assets, primarily cash, increased due to cash drawn from the capital fund program for the year. The increase in current liabilities is due to increase in year end accruals.

Capital assets also changed, decreasing from \$8,483,527 to \$7,754,668. The \$728,859 decrease may be contributed primarily to a combination of net acquisitions \$33,737, less current year depreciation and amortization \$762,596. For more detail see "Capital Assets" below.

TABLE 2

CHANGE OF UNRESTRICTED NET ASSETS

Table 2 presents details on the change in Unrestricted Net Assets

| | | |
|---------------------------------------|----|-------------------------|
| Beginning Balance - December 31, 2005 | \$ | 1,049,524 |
| Results of Operation | | (176,280) |
| Adjustments: | | |
| Current year Depreciation Expense (1) | | 762,596 |
| Capital Expenditure (2) | | <u>(33,737)</u> |
| Ending Balance - December 31, 2006 | \$ | <u><u>1,602,103</u></u> |

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

(2) Capital expenditures represent an outflow of unrestricted net assets, but are not treated as an expense against Results of Operations, and therefore must be deducted

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.

GEAUGA METROPOLITAN HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2006

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TABLE 3

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

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

| | <u>2006</u> | <u>2005</u> |
|----------------------------------|----------------------------|----------------------------|
| <u>Revenues</u> | | |
| Total Tenant Revenues | \$ 640,911 | \$ 567,214 |
| Operating Subsidies | 1,908,276 | 1,396,351 |
| Capital Grants | 17,390 | 215,958 |
| Investment Income | 61,095 | 26,115 |
| Other Revenues | 40,389 | 45,831 |
| | <u>2,668,061</u> | <u>2,251,469</u> |
| <u>Expenses</u> | | |
| Administrative | 478,127 | 490,705 |
| Utilities | 284,633 | 291,596 |
| Maintenance | 450,410 | 313,670 |
| General Expenses | 110,673 | 119,707 |
| Housing Assistance Payments | 757,902 | 681,132 |
| Depreciation | 762,596 | 755,547 |
| | <u>2,844,341</u> | <u>2,652,357</u> |
| Net Increases (Decreases) | \$ <u>(176,280)</u> | \$ <u>(400,888)</u> |

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

Total revenue increased by \$416,592 during 2006 in comparison to 2005. Total revenue increase due to the increase in Operating Subsidies for the Housing Choice Voucher Program.

GEAUGA METROPOLITAN HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2006

UNAUDITED

Total expenses increased in comparison to 2005. Total expense increase of \$191,984 was mainly due to \$136,740 change in Maintenance Costs and \$76,770 increase in Housing Assistance Payments. The increase in maintenance costs is mainly due to a correction in reporting employee benefits between administration and maintenance costs. In 2005, all benefits costs were reported as administration costs. In 2006, \$70,436 benefit costs were related to maintenance staff. The balance of the maintenance costs increase is due to increase in staff salary expenses.

The increase in the housing assistance expenses is due to the increase in rent and utility costs.

CAPITAL ASSETS

Capital Assets

As of year end, the Authority had \$7,754,668 invested in a variety of capital assets as reflected in the following schedule, which represents a net decrease (current purchases less depreciation) of \$728,859 or 9% from the end of last year.

TABLE 4

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

| | <u>2006</u> | | <u>2005</u> |
|--------------------------|-------------------------|--------|----------------------|
| Land | \$ 727,075 | \$ | 727,075 |
| Buildings | 20,384,200 | | 20,391,065 |
| Equipment | 864,726 | | 848,379 |
| Leasehold Improvements | - | | - |
| Construction in Progress | 24,255 | | - |
| Accumulated Depreciation | <u>(14,245,588)</u> | | <u>(13,482,992)</u> |
| Total | <u>\$ 7,754,668</u> | \$ | <u>8,483,527</u> |

The following reconciliation summarizes the change in Capital Assets, which presented in detail on pages 22 - 23 of the notes.

GEAUGA METROPOLITAN HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2006

UNAUDITED

TABLE 5

**CHANGE IN CAPITAL ASSETS
(IN MILLIONS)**

| | |
|---------------------------------------|----------------------------|
| Beginning Balance - December 31, 2005 | \$ 8,483,527 |
| Current year Additions | 33,737 |
| Current year Depreciation Expense | <u>(762,596)</u> |
| Ending Balance - December 31, 2006 | <u><u>\$ 7,754,668</u></u> |

Current year addition was \$33,737. The additions included the \$15,470 for purchase of a vehicle and \$18,267 of various equipment (i.e. computer equipment, washing machines and various maintenance equipment).

DEBIT

As of year-end, the Authority had no debt outstanding.

ECONOMIC FACTORS

Significant economic factors affecting the Authority are as follows:

- Federal funding provided by Congress to 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

FINANCIAL CONTACT

The individual to be contacted regarding this report is Mel Kirschnick, Executive Director of the Geauga Metropolitan Housing Authority, at (440) 286-7413. Specific requests may be submitted to the Geauga Metropolitan Housing Authority at 385 Center Street Chardon, Ohio 44024.

GEAUGA METROPOLITAN HOUSING AUTHORITY
Statement of Net Assets
Proprietary Funds
December 31, 2006

ASSETS

| | |
|-------------------------------|----------------------------------|
| Current assets | |
| Cash and cash equivalents | \$1,834,954 |
| Receivables, net | 21,174 |
| Inventories, net | 24,155 |
| Total current assets | <u>1,880,283</u> |
| Noncurrent assets | |
| Capital assets: | |
| Land | 727,075 |
| Building and equipment | 21,248,926 |
| Construction in Progress | 24,255 |
| Less accumulated depreciation | <u>(14,245,588)</u> |
| Total noncurrent assets | <u>7,754,668</u> |
| Total assets | <u><u>\$9,634,951</u></u> |

LIABILITIES

| | |
|--|--------------------------------|
| Current liabilities | |
| Accounts payable | \$44,123 |
| Accrued liabilities | 33,707 |
| Intergovernmental payables | 34,253 |
| Tenant security deposits | 60,256 |
| Other current liabilities | 9,778 |
| Total current liabilities | <u>182,117</u> |
| Noncurrent liabilities | |
| Accrued compensated absences non-current | <u>96,063</u> |
| Total noncurrent liabilities | <u>96,063</u> |
| Total liabilities | <u><u>\$278,180</u></u> |

The accompanying notes to the Basic Financial Statements are an integral part of these statements.

GEAUGA METROPOLITAN HOUSING AUTHORITY
Statement of Net Assets (Continued)
Proprietary Funds
December 31, 2006

NET ASSETS

| | |
|---|----------------------------------|
| Invested in capital assets, net of related debt | \$7,754,668 |
| Unrestricted net assets | <u>1,602,103</u> |
| Total net assets | <u><u>\$9,356,771</u></u> |

The accompanying notes to the Basic Financial Statements are an integral part of these statements.

GEAUGA METROPOLITAN HOUSING AUTHORITY
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended December 31, 2006

OPERATING REVENUES

| | |
|---------------------------------|-------------------------|
| Tenant Revenue | \$640,911 |
| Government operating grants | 1,908,276 |
| Other revenue | 40,389 |
| Total operating revenues | <u>2,589,576</u> |

OPERATING EXPENSES

| | |
|---------------------------------|-------------------------|
| Administrative | 478,127 |
| Utilities | 284,633 |
| Maintenance | 450,410 |
| General | 110,673 |
| Housing assistance payment | 757,902 |
| Depreciation | 762,596 |
| Total operating expenses | <u>2,844,341</u> |
| Operating income (loss) | <u>(254,765)</u> |

NONOPERATING REVENUES (EXPENSES)

| | |
|--|----------------------|
| Interest and investment revenue | <u>61,095</u> |
| Total nonoperating revenues (expenses) | <u>61,095</u> |
| Income (loss) before contributions and transfers | (193,670) |

| | |
|----------------------------------|----------------------------------|
| Capital grants | <u>17,390</u> |
| Change in net assets | (176,280) |
| Total net assets - beginning | <u>9,533,051</u> |
| Total net assets - ending | <u><u>\$9,356,771</u></u> |

The accompanying notes to the Basic Financial Statements are an integral part of these statements.

GEAUGA METROPOLITAN HOUSING AUTHORITY
Statement of Cash Flows
Proprietary Fund Type
For the Year Ended December 31, 2006

CASH FLOWS FROM OPERATING ACTIVITIES

| | |
|--|------------------|
| Operating grants received | \$1,908,276 |
| Tenant revenue received | 631,859 |
| Other revenue received | 40,389 |
| General and administrative expenses paid | (1,257,265) |
| Housing assistance payments | <u>(757,902)</u> |

| | |
|--|----------------|
| Net cash provided (used) by operating activities | <u>565,357</u> |
|--|----------------|

CASH FLOWS FROM INVESTING ACTIVITIES

| | |
|-----------------|---------------|
| Interest earned | <u>61,095</u> |
|-----------------|---------------|

| | |
|--|---------------|
| Net cash provided (used) by investing activities | <u>61,095</u> |
|--|---------------|

CASH FLOWS FROM CAPITAL AND RELATED ACTIVITIES

| | |
|----------------------------------|-----------------|
| Capital grant funds received | 17,390 |
| Property and equipment purchased | <u>(33,737)</u> |

| | |
|--|-----------------|
| Net cash provided (used) by capital and related activities | <u>(16,347)</u> |
|--|-----------------|

| | |
|---------------------------------|---------|
| Net increase (decrease) in cash | 610,105 |
|---------------------------------|---------|

| | |
|---|------------------|
| Cash and cash equivalents - Beginning of year | <u>1,224,849</u> |
|---|------------------|

| | |
|---|---------------------------|
| Cash and cash equivalents - End of year | <u><u>\$1,834,954</u></u> |
|---|---------------------------|

The accompanying notes to the Basic Financial Statements are an integral part of these statements.

GEAUGA METROPOLITAN HOUSING AUTHORITY
Statement of Cash Flows (Continued)
Proprietary Funds
For the Year Ended December 31, 2006

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES

| | |
|---|-------------|
| Net Operating Income (Loss) | (\$254,765) |
| Adjustment to Reconcile Operating Loss to Net Cash Used by Operating Activities | |
| - Depreciation | 762,596 |
| - (Increases) Decreases in Accounts Receivable | (8,166) |
| - (Increases) Decreases in Prepaid Assets | 20,985 |
| - (Increases) Decreases in Inventory | (2,637) |
| - Increases (Decreases) in Accounts Payable | 7,232 |
| - Increases (Decreases) in Accounts Payable - Intergovernmental | 7,153 |
| - Increases (Decreases) in Accrued Expenses Payable | 8,762 |
| - Increases (Decreases) in Accrued Compensated Liabilities | 27,649 |
| - Increases (Decreases) in Other Current Liabilities | (4,086) |
| - Increases (Decreases) in Tenant Security Deposits | 634 |
| Net cash provided by operating activities | \$565,357 |

The accompanying notes to the Basic Financial Statements are an integral part of these statements.

GEAUGA METROPOLITAN HOUSING AUTHORITY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Summary of Significant Accounting Policies

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

Reporting Entity

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

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

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

The definition of the reporting entity is based primarily on the notion of financial accountability. A primary government is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's government body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the primary government. A primary government may also be financially accountable for governmental organizations that are fiscally dependent on it.

GEAUGA METROPOLITAN HOUSING AUTHORITY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

Basis of Presentation

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

Fund Accounting

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

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

Proprietary Fund Types

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

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

GEAUGA METROPOLITAN HOUSING AUTHORITY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus/Basis of Accounting

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

Description of programs

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

A. Public Housing Program

The public housing program is designed to provide low-cost housing within the Geauga 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 housing.

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.

Investments

The provisions of the HUD Regulations restrict investments. Investments are valued at market value. Interest income earned in fiscal year ending December 31, 2006 totaled \$61,095.

GEAUGA METROPOLITAN HOUSING AUTHORITY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

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 \$1,000 or more per unit. Depreciation is calculated using the straight-line method over the estimated useful lives of three years to forty years. Expenditures for repairs and maintenance are charged directly to expense as they are incurred. Expenditures determined to represent additions or betterments are capitalized.

Net Assets

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

Operating Revenues and Expenses

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

Capital Contributions

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

Cash and Cash Equivalents

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

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

GEAUGA METROPOLITAN HOUSING AUTHORITY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

the maximum amount allowed as a termination payment. All employees who meet the termination policy of the Authority for years of service 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 are attributable to services already rendered and are not contingent on a specific event that is outside the control of the employer and employee. (2) It is probable that the employer will compensate the employees for the benefits through paid time off or some other means, such as cash payments at termination or retirement.

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

Budgetary Accounting

The Authority is required by contractual agreements to adopt annual operating budgets for all its HUD funded programs. The budget for its programs are prepared on a HUD basis, which is materially consistent with accounting principles generally accepted in the United States of America. All annual appropriations lapse at fiscal year end. The Board of Commissioners adopts the budget through passage of a budget resolution.

Accounting and Reporting for Non-exchange Transactions

The Authority accounts for non-exchange transactions in accordance with Governmental Accounting Standards Board (GASB) Statement No. 33, Accounting and Financial Reporting for Non-exchange Transactions. Non-exchange transactions occur when the Authority receives (or gives) value without directly giving (or receiving) equal value in return.

Estimates

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

GEAUGA METROPOLITAN HOUSING AUTHORITY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 2: DEPOSITS AND INVESTMENTS

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

- A. 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 withdrawal on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.
- B. Inactive deposits are public deposits that the Authority has identified as not required for use within the current two period of designation of depositories. Inactive deposits must either be evidenced by certificate of deposits maturing not later than the end of the current period of designation of the depositories, or by savings or deposit accounts including, but not limited to passbook accounts.
- C. 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 end of the current period of designation of depositories. Interim deposits must be evidenced by time certificate of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

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

At fiscal year end December 31, 2006, the carrying amount of the Authority's deposits totaled \$1,834,954 and its bank balance was \$1,854,292. Based on the criteria described in GASB Statement No. 40, "Deposit and Investment Risk Disclosure," as of December 31, 2006, \$1,654,292 was exposed to custodial risk as discussed below, while \$200,000 was covered by the Federal Depository Insurance Corporation.

Custodial credit risk is the risk that in the event of bank failure, the Authority will not be able to recover the deposits. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits.

**GEAUGA METROPOLITAN HOUSING AUTHORITY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006**

NOTE 2: DEPOSITS AND INVESTMENTS (Continued)

Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at the Federal Reserve Banks or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the Authority.

NOTE 3: RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year ending December 31, 2006 the Authority maintains comprehensive insurance coverage with private carriers for health, real property, building contents and vehicles. Vehicle policies include liability coverage for bodily injury and property damage.

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

NOTE 4: CAPITAL ASSETS

The following is a summary of changes:

| | Balance 12/31/05 | Adjust | Additions | Deletion | Balance 12/31/06 |
|---|-----------------------------|---------------|------------------|-----------------|-----------------------------|
| Capital Assets Not Being Depreciated: | | | | | |
| Land | \$727,075 | \$0 | \$0 | \$0 | \$727,075 |
| Construction in Progress | 0 | 0 | 24,255 | 0 | 24,255 |
| Total Capital Assets Not Being Depreciated | 727,075 | 0 | 24,255 | 0 | 751,330 |

**GEAUGA METROPOLITAN HOUSING AUTHORITY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006**

NOTE 4: CAPITAL ASSETS (Continued)

| | Balance 12/31/05 | Adjust | Additions | Deletion | Balance 12/31/06 |
|--|-----------------------------|---------------|--------------------|-----------------|-----------------------------|
| Capital Assets Being Depreciated: | | | | | |
| Buildings | 20,391,065 | (6,865) | 0 | 0 | 20,384,200 |
| Furnt, Mach. and Equip. | 848,379 | 6,865 | 9,482 | 0 | 864,726 |
| Total Capital Assets Being Depreciated | 21,239,444 | 0 | 9,482 | 0 | 21,248,926 |
| Accumulated Depreciation: | | | | | |
| Buildings | (12,704,027) | 0 | (750,564) | 0 | (13,454,591) |
| Furnt, Mach. and Equip. | (778,966) | 0 | (12,031) | 0 | (790,997) |
| Accumulated Depreciation | (13,482,993) | 0 | (762,595) | 0 | (14,245,588) |
| Total Capital Assets Being Depreciated, Net | 7,756,451 | 0 | (753,113) | 0 | 7,003,338 |
| Total Capital Assets, Net | \$8,483,526 | \$0 | (\$728,858) | \$0 | \$7,754,668 |

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

All full-time employees of Authority participate in the Ohio Public Employees Retirement System (OPERS), a cost-sharing multiple-employer public employee retirement system administered by the Public Employees Retirement Board. OPERS provide basic retirement, disability and survivor benefits, based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 145 of the Ohio Revised Code. OPERS issue a publicly available financial report that includes financial statements and required supplementary information for OPERS. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 466-2085 or (800) 222-PERS.

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

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

GEAUGA METROPOLITAN HOUSING AUTHORITY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

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

2. The Member-Direct Plan – A defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the Member-Direct Plan, members accumulate retirement assets equal to the value of member and (vested) employer contributions, plus any investment earnings.
3. The Combined Plan – A cost sharing, multiple-employer defined pension plan. Under the Combined Plan, OPERS invests employer contributions to provide a formula retirement benefits similar in nature to the Traditional Pension Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.

Plan members are required to contribute 9.0 percent of their annual covered salary to fund pension obligations. The 2006 employer pension contribution rate for Authority was 13.70 percent. Contributions are authorized by state statute. The contribution rates are determined actuarially. The Authority's contribution for the years ended December 31, 2006, 2005, and 2004 amounted to \$64,567, \$57,430 and \$55,414 respectively. Ninety-Two percent has been contributed for 2006. All required contributions for the two previous years have been paid.

NOTE 6: POSTEMPLOYMENT BENEFITS PUBLIC EMPLOYEES
RETIREMENT SYSTEM

The Public Employees Retirement System of Ohio (OPERS) provides post-employment health care benefits to age and service retirees with ten or more years of qualifying Ohio service credit and to primary survivor recipients of such retirees. Health care coverage for disability recipients is also available. The health care coverage provided by the OPERS is considered an Other Post-employment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to the OPERS is set aside for the funding of post retirement health care. The Ohio Revised Code provides statutory Authority requiring public employers to fund post-employment health care through their contributions to the OPERS. The portion of the 2006 employer contribution rate (identified above) that was used to fund health care for the year ended December 31, 2006 was 4.0 percent of covered payroll, which amounted to \$18,852. The significant actuarial assumptions and

GEAUGA METROPOLITAN HOUSING AUTHORITY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 6: POSTEMPLOYMENT BENEFITS PUBLIC EMPLOYEES
RETIREMENT SYSTEM (Continued)

calculations relating to post-employment health care benefits were based on the OPERS' latest actuarial review performed as of December 31, 2005. An entry age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of unfunded actuarial accrued liability. All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach assets are adjusted annually to reflect 25 percent of unrealized market appreciation or depreciation on investment assets. The investment assumption rate for 2005 was 6.5 percent. An annual increase of 4.0 percent compounded annually is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.0 percent base increase, were assumed to range from 0.50 percent to 6.3 percent. Health care costs were assumed to increase at a project wage inflation rate plus an additional factor ranging from .5% to 6% for the next 9 years. In subsequent years (10 and beyond), health care costs were assumed to increase at 4% (the projected wage inflation rate).

Benefits are advanced-funded on an actuarially determined basis. The number of active contributing participants was 369,214. The actuarial value of the OPERS' net assets available for OPEB at December 31, 2006 was \$11.1 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$31.3 billion and \$20.2 billion, respectively.

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

NOTE 7: NOTE TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES

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

Geauga Metropolitan Housing Authority
Combining FDS Schedule Submitted To REAC
Propriety Fund Type- Enterprise Fund
December 31, 2006

| Line Item No. | Account Description | Low Rent Public Housing | Housing Choice Vouchers | Public Housing Capital Fund Program | Total |
|---------------|--|-------------------------|-------------------------|-------------------------------------|----------------|
| 111 | Cash - Unrestricted | \$566,784 | \$73,175 | \$0 | \$639,959 |
| 113 | Cash - Other Restricted | \$0 | \$0 | \$0 | \$0 |
| 114 | Cash - Tenant Security Deposits | \$61,531 | \$0 | \$0 | \$61,531 |
| 100 | Total Cash | \$628,315 | \$73,175 | \$0 | \$701,490 |
| 126 | Accounts Receivable - Tenants - Dwelling Rents | \$23,527 | \$0 | \$0 | \$23,527 |
| 126.1 | Allowance for Doubtful Accounts - Dwelling Rents | (\$2,353) | \$0 | \$0 | (\$2,353) |
| 120 | Total Receivables, net of allowances for doubtful accounts | \$21,174 | \$0 | \$0 | \$21,174 |
| 131 | Investments - Unrestricted | \$1,133,464 | \$0 | \$0 | \$1,133,464 |
| 143 | Inventories | \$24,155 | \$0 | \$0 | \$24,155 |
| 143.1 | Allowance for Obsolete Inventories | \$0 | \$0 | \$0 | \$0 |
| 144 | Interprogram Due From | \$23,832 | \$0 | \$0 | \$23,832 |
| 150 | Total Current Assets | \$1,830,940 | \$73,175 | \$0 | \$1,904,115 |
| 161 | Land | \$727,075 | \$0 | \$0 | \$727,075 |
| 162 | Buildings | \$20,384,200 | \$0 | \$0 | \$20,384,200 |
| 163 | Furniture, Equipment & Machinery - Dwellings | \$401,519 | \$0 | \$0 | \$401,519 |
| 164 | Furniture, Equipment & Machinery - Administration | \$459,732 | \$3,475 | \$0 | \$463,207 |
| 165 | Leasehold Improvements | \$0 | \$0 | \$0 | \$0 |
| 166 | Accumulated Depreciation | (\$14,242,389) | (\$3,199) | \$0 | (\$14,245,588) |
| 167 | Construction In Progress | \$0 | \$0 | \$24,255 | \$24,255 |
| 160 | Total Fixed Assets, Net of Accumulated Depreciation | \$7,730,137 | \$276 | \$24,255 | \$7,754,668 |
| 190 | Total Assets | \$9,561,077 | \$73,451 | \$24,255 | \$9,658,783 |
| 312 | Accounts Payable <= 90 Days | \$44,123 | \$0 | \$0 | \$44,123 |
| 321 | Accrued Wage/Payroll Taxes Payable | \$14,016 | \$0 | \$0 | \$14,016 |
| 322 | Accrued Compensated Absences - Current Portion | \$19,691 | \$0 | \$0 | \$19,691 |
| 333 | Accounts Payable - Other Government | \$34,253 | \$0 | \$0 | \$34,253 |
| 341 | Tenant Security Deposits | \$60,256 | \$0 | \$0 | \$60,256 |
| 345 | Other Current Liabilities | \$9,778 | \$0 | \$0 | \$9,778 |
| 347 | Interprogram Due To | \$0 | \$23,832 | \$0 | \$23,832 |
| 310 | Total Current Liabilities | \$182,117 | \$23,832 | \$0 | \$205,949 |

Geauga Metropolitan Housing Authority
Combining FDS Schedule Submitted To REAC
Propriety Fund Type- Enterprise Fund
December 31, 2006

| Line Item No. | Account Description | Low Rent Public Housing | Housing Choice Vouchers | Public Housing Capital Fund Program | Total |
|---------------|---|-------------------------|-------------------------|-------------------------------------|-------------|
| 354 | Accrued Compensated Absences - Non Current | \$96,063 | \$0 | \$0 | \$96,063 |
| 350 | Total Noncurrent Liabilities | \$96,063 | \$0 | \$0 | \$96,063 |
| 300 | Total Liabilities | \$278,180 | \$23,832 | \$0 | \$302,012 |
| 508.1 | Invested in Capital Assets, Net of Related Debt | \$7,730,137 | \$276 | \$24,255 | \$7,754,668 |
| 511.1 | Restricted Net Assets | \$0 | \$0 | \$0 | \$0 |
| 512.1 | Unrestricted Net Assets | \$1,552,760 | \$49,343 | \$0 | \$1,602,103 |
| 513 | Total Equity/Net Assets | \$9,282,897 | \$49,619 | \$24,255 | \$9,356,771 |
| 600 | Total Liabilities and Equity/Net Assets | \$9,561,077 | \$73,451 | \$24,255 | \$9,658,783 |
| 703 | Net Tenant Rental Revenue | \$627,325 | \$0 | \$0 | \$627,325 |
| 704 | Tenant Revenue - Other | \$13,586 | \$0 | \$0 | \$13,586 |
| 705 | Total Tenant Revenue | \$640,911 | \$0 | \$0 | \$640,911 |
| 706 | HUD PHA Operating Grants | \$553,011 | \$855,753 | \$499,512 | \$1,908,276 |
| 706.1 | Capital Grants | \$0 | \$0 | \$17,390 | \$17,390 |
| 711 | Investment Income - Unrestricted | \$60,482 | \$613 | \$0 | \$61,095 |
| 714 | Fraud Recovery | \$3,489 | \$0 | \$0 | \$3,489 |
| 715 | Other Revenue | \$36,900 | \$0 | \$0 | \$36,900 |
| 720 | Investment Income - Restricted | \$0 | \$0 | \$0 | \$0 |
| 700 | Total Revenue | \$1,294,793 | \$856,366 | \$516,902 | \$2,668,061 |
| 911 | Administrative Salaries | \$185,429 | \$59,037 | \$13,862 | \$258,328 |
| 912 | Auditing Fees | \$4,662 | \$1,165 | \$0 | \$5,827 |
| 914 | Compensated Absences | \$38,297 | \$1,840 | \$0 | \$40,137 |
| 915 | Employee Benefit Contributions - Administrative | \$61,147 | \$27,184 | \$2,995 | \$91,326 |
| 916 | Other Operating - Administrative | \$65,044 | \$10,583 | \$6,882 | \$82,509 |
| 931 | Water | \$57,724 | \$0 | \$0 | \$57,724 |
| 932 | Electricity | \$78,755 | \$0 | \$0 | \$78,755 |
| 933 | Gas | \$63,816 | \$0 | \$0 | \$63,816 |
| 938 | Other Utilities Expense | \$84,338 | \$0 | \$0 | \$84,338 |
| 941 | Ordinary Maintenance and Operations - Labor | \$213,617 | \$0 | \$0 | \$213,617 |
| 942 | Ordinary Maintenance and Operations - Materials and Other | \$90,713 | \$0 | \$0 | \$90,713 |
| 943 | Ordinary Maintenance and Operations - Contract Costs | \$75,644 | \$0 | \$0 | \$75,644 |

Geauga Metropolitan Housing Authority
Combining FDS Schedule Submitted To REAC
Propriety Fund Type- Enterprise Fund
December 31, 2006

| Line Item No. | Account Description | Low Rent Public Housing | Housing Choice Vouchers | Public Housing Capital Fund Program | Total |
|---------------|--|-------------------------|-------------------------|-------------------------------------|-------------|
| 945 | Employee Benefit Contributions - Ordinary Maintenance | \$70,436 | \$0 | \$0 | \$70,436 |
| 961 | Insurance Premiums | \$62,853 | \$0 | \$0 | \$62,853 |
| 963 | Payments in Lieu of Taxes | \$34,254 | \$0 | \$0 | \$34,254 |
| 964 | Bad Debt - Tenant Rents | \$13,566 | \$0 | \$0 | \$13,566 |
| 969 | Total Operating Expenses | \$1,200,295 | \$99,809 | \$23,739 | \$1,323,843 |
| 970 | Excess Operating Revenue over Operating Expenses | \$94,498 | \$756,557 | \$493,163 | \$1,344,218 |
| 973 | Housing Assistance Payments | \$0 | \$757,902 | \$0 | \$757,902 |
| 974 | Depreciation Expense | \$762,412 | \$184 | \$0 | \$762,596 |
| 900 | Total Expenses | \$1,962,707 | \$857,895 | \$23,739 | \$2,844,341 |
| 1001 | Operating Transfers In | \$475,773 | \$0 | \$0 | \$475,773 |
| 1002 | Operating Transfers Out | \$0 | \$0 | (\$475,773) | (\$475,773) |
| 1010 | Total Other Financing Sources (Uses) | \$475,773 | \$0 | (\$475,773) | \$0 |
| 1000 | Excess (Deficiency) of Operating Revenue Over (Under) Expenses | (\$192,141) | (\$1,529) | \$17,390 | (\$176,280) |
| 1103 | Beginning Equity | \$8,860,760 | \$51,148 | \$621,143 | \$9,533,051 |
| 1104 | Prior Period Adjustments, Equity Transfers and Correction of Errors | \$614,278 | \$0 | (\$614,278) | \$0 |
| | Ending Equity | \$9,282,897 | \$49,619 | \$24,255 | \$9,356,771 |
| 1113 | Maximum Annual Contributions Commitment (Per ACC) | \$0 | \$855,753 | \$0 | \$855,753 |
| 1114 | Prorata Maximum Annual Contributions Applicable to a Period of less than Twelve Months | \$0 | \$0 | \$0 | \$0 |
| 1115 | Contingency Reserve, ACC Program Reserve | \$0 | \$0 | \$0 | \$0 |
| 1116 | Total Annual Contributions Available | \$0 | \$855,753 | \$0 | \$855,753 |
| 1120 | Unit Months Available | 2,916 | 2,040 | 0 | 4,956 |
| 1121 | Number of Unit Months Leased | 2,340 | 1,998 | 0 | 4,338 |
| 1117 | Administrative Fee Equity | \$0 | (\$8,087) | \$0 | (\$7,474) |
| 1118 | Housing Assistance Payments Equity | \$0 | \$57,706 | \$0 | \$57,093 |

Geauga Metropolitan Housing Authority
PHA's Statement and Certification of Actual Modernization Cost
December 31, 2006

Capital Fund Program Number OH12P04250104

1. The Program Costs are as follows:

| | |
|---------------------------------------|----------------|
| Funds Approved | \$359,659 |
| Funds Expended | <u>359,659</u> |
| Excess (Deficiency) of Funds Approved | <u>\$ -0-</u> |
| | |
| Funds Advanced | \$359,659 |
| Funds Expended | <u>359,659</u> |
| Excess (Deficiency) of Funds Advanced | <u>\$ -0-</u> |

2. All costs have been paid and there are no outstanding obligations.
3. The Final Financial Status Report was signed and filed on September 21, 2006.
4. The final costs on the certification agree to the Authority's records.

Geauga Metropolitan Housing Authority
 Schedule of Expenditures of Federal Award
 For the Year Ended December 31, 2006

| FEDERAL GRANTOR / PASS THROUGH GRANTOR PROGRAM TITLES | CFDA NUMBER | EXPENDITURES |
|--|------------------------|---------------------------|
| U.S. Department of Housing and Urban Development Direct Program | | |
| Low Rent Public Housing | 14.850 | \$553,011 |
| Housing Choice Vouchers | 14.871 | 855,753 |
| Public Housing Capital Fund Program | 14.872 | <u>516,902</u> |
| TOTAL AWARDS | | <u>\$1,925,666</u> |



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

Board of Directors
Geauga Metropolitan Housing Authority

I have audited the financial statements of the business-type activities of the Geauga Metropolitan Housing Authority, Ohio, as of and for the year ended December 31, 2006, which collectively comprise the Geauga Metropolitan Housing Authority basic financial statements and have issued my report thereon dated July 13, 2007. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Geauga Metropolitan Housing Authority, Ohio's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but no for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the entity's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the authority's financial statements that is more than inconsequential will not be prevented or detected by the authority's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the authority's internal control.

My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Geauga Metropolitan Housing Authority financial statements are free of material misstatement, I performed tests of its compliance with certain provision of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statements 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 result 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 have reported to management of Geauga Metropolitan Housing Authority in a separate letter dated July 13, 2007.

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

Salvatore Consiglio, CPA, Inc.

July 13, 2007



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

Board of Directors
Geauga Metropolitan Housing Authority

Compliance

I have audited the compliance of the Geauga Metropolitan Housing Authority, Ohio, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended December 31, 2006. Geauga Metropolitan Housing Authority, Ohio major federal programs are identified in the summary of auditor's result section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Geauga Metropolitan Housing Authority, Ohio's management. My responsibility is to express an opinion on Geauga Metropolitan Housing Authority, Ohio's compliance based on my audit.

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

In my opinion, Geauga Metropolitan Housing Authority, Ohio, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2006. However, the result of my audit procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item GMHA-2006-1.

Internal Control Over Compliance

The management of Geauga Metropolitan Housing Authority, Ohio is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing my audit, I considered Geauga Metropolitan Housing Authority, Ohio's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of the entity's internal control over compliance.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Gauga Metropolitan Housing Authority, Ohio response to the findings identified in my audit is described in the accompanying schedule of findings and questioned costs. I did not audit Geauga Metropolitan Housing Authority, Ohio response and, accordingly, I express no opinion on it.

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

Salvatore Consiglio, CPA, Inc.

July 13, 2007

Geauga Metropolitan Housing Authority
 Schedule of Findings and Questioned Costs
 OMB Circular A-133 § .505
 December 31, 2006

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| 1. SUMMARY OF AUDITOR'S RESULTS |
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|--|---|
| Type of Financial Statement Opinion | Unqualified |
| Were there any material control weakness conditions reported at the financial statement level (GAGAS)? | No |
| Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)? | No |
| Was there any reported material non-compliance at the financial statement level (GAGAS)? | No |
| Were there any material internal control weakness conditions reported for major federal programs? | No |
| Were there any other reportable internal control weakness conditions reported for major federal programs? | No |
| Type of Major Programs' Compliance Opinion | Unqualified |
| Are there any reportable findings under § .510? | Yes |
| Major Programs (list): | CFDA # 14.872 – Capital Fund Program |
| Dollar Threshold: Type A/B Programs | Type A: > \$300,000 Type B: All Others |
| Low Risk Auditee? | Yes |

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| 2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS |
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There are no Findings or questioned costs for the year ended December 31, 2006.

Geauga Metropolitan Housing Authority
Schedule of Findings and Questioned Costs
OMB Circular A-133 § .505
December 31, 2006

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| 3. FINDINGS RELATED TO FEDERAL AWARDS |
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|----------------|-------------|
| FINDING NUMBER | GMHA-2006-1 |
|----------------|-------------|

Negative Administrative Fee Equity

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

U.S. Department of Housing and Urban Development notice PIH 2006-03 issued on January 11, 2006 states:

“Starting January 1, 2005, excess budget authority disbursed to PHAs that is not utilized to pay Housing Assistance Payments (HAP) will become part of the undesignated fund balance account in accordance with GAAP and may only be used to assist additional families up to the number of units under contract...”

Analysis of current year Housing Choice Voucher Program expenses revealed that the PHA reported a negative Administration Fee Equity of \$8,087. It is believed that this negative equity was covered with housing assistance money received from HUD. As noted above notice PIH 2006-03 specifically states that HAP money can only be used to cover expenses for providing Housing Assistance. Therefore, Geauga Metropolitan Housing Authority did not comply with the above notice and HAP reserve balance must be reimbursed \$8,087 to cover the over expenditure in the administrative funds incurred in fiscal year 2006.

Recommendation: Geauga Metropolitan Housing Authority must reimburse the \$8,087 over expenditure in the administrative funds incurred in fiscal year 2006. In addition, Geauga Metropolitan Housing Authority must review its administration expenses for the voucher program and take appropriate action to ascertain that expenses are within the funding provided by HUD.

PHA Response:

GMHA will take appropriate action to ascertain that the Voucher Program is administered within the funds provided by HUD and will take appropriate action to reimburse the HAP reserve from future administration funds received.

Geauga Metropolitan Housing Authority
Schedule of Prior Audit Findings
December 31, 2006

The audit report for the fiscal year ending December 31, 2005 contained not audit finding.



Mary Taylor, CPA
Auditor of State

GEAUGA METROPOLITAN HOUSING AUTHORITY

GEAUGA 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
OCTOBER 18, 2007**