

SANDUSKY METROPOLITAN HOUSING AUTHORITY

Financial Condition

As of

June 30, 2005

Together with Auditors' Report



**Auditor of State
Betty Montgomery**

Board of Trustees
Sandusky Metropolitan Housing Authority
1358 Mosser Drive
Fremont, Ohio 43420

We have reviewed the *Independent Auditor's Report* of the Sandusky Metropolitan Housing Authority, Sandusky County, prepared by Kevin L. Penn, Inc., for the audit period July 1, 2004 through June 30, 2005. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

BETTY MONTGOMERY
Auditor of State

March 17, 2006

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**SANDUSKY METROPOLITAN HOUSING AUTHORITY
FREMONT, OHIO**

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Independent Auditor's Report

Board of Trustees
Sandusky Metropolitan Housing Authority
Fremont, Ohio

I have audited the accompanying financial statements of the Sandusky Metropolitan Housing Authority, as of June 30, 2005 and for the year then ended, listed in the foregoing table of contents. These financial statements are the responsibility of the Sandusky Metropolitan Housing Authority's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 in my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Sandusky Metropolitan Housing Authority, as of June 30, 2005, and the changes in net assets and revenues, expenditures and other changes, and the cash flows for the year ended June 30, 2005 in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis (MD&A) on pages 3 – 10, is not a required part of the financial statements but is supplemental information required by the Governmental Accounting Standards Board. The MD&A has been reviewed in accordance with the standards established by the American Institute of Certified Public Accountants. Such a review, however, is substantially less in scope than an audit in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, I do not express such an opinion on the MD&A information.

In accordance with *Government Auditing Standards*, I have also issued my report dated November 22, 2005 on my consideration of the Sandusky Metropolitan Housing Authority's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the result of my audit.

My audit was performed for the purpose of forming an opinion on the basic financial statements of Sandusky Metropolitan Housing Authority taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. In addition, the financial data schedule, pages 26 to 28 are presented for additional analysis as required by the U.S. Department of Housing and Urban Development. These schedules are the responsibility of management of Sandusky Metropolitan Housing Authority, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Kevin L. Penn, Inc.

November 22, 2005

Sandusky Metropolitan Housing Authority

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended June 30, 2005

The Sandusky Metropolitan Housing Authority's ("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 fund issues or concerns.

This Management Discussion and Analysis (MD&A) is new and will now be presented at the front of each year's financial statements.

Since the 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 assets by \$240,914 (or 6.8%) during 2005. In 2001 the Housing Authority began reporting under GAAP, and in 2004 implemented GASB 34. Net Assets were \$3.284 million and \$3.524 million for 2005 and 2004 respectively.
- The business-type activity revenue decreased by \$301,708 (or 17.8%) during 2005, and was \$1.388 million and \$1.690 million for 2005 and 2004 respectively.
- The total expenses of all Authority programs decreased by \$131,643 (or 7.4%). Total expenses were \$1.637 million and \$1.769 million for 2005 and 2004 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 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, equal "Net Assets", formerly known as equity. Assets and liabilities are presented in order of liquidity, and are classified as "Current" (convertible into cash within one year), and "Non-current".

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

Net Assets, Invested in Capital Assets, Net of Related Debt: This component of Net Assets consists of 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.

Authority-Wide Financial Statements (continued)

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 Debt”, or “Restricted Net Assets”. This account resembles the old operating reserves account.

The Authority-wide financial statements also include a Statement of Revenues, Expenses and Changes in Fund Net Assets (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 Fund Net Assets is the “Change in Net Assets”, which is similar to Net Income or Loss.

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

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 Funds

Business Type Funds:

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% 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.

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%, and the Housing Authority subsidizes the balance.

AUTHORITY-WIDE STATEMENT

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

	2004	2005
Current and Other Assets	\$610,145	\$388,012
Capital Assets	3,476,345	3,320,153
Total Assets	4,086,490	3,708,165
Other Liabilities	229,713	95,784
Long-Term Liabilities	332,242	328,760
Total Liabilities	561,955	424,544
Net Assets:		
Invested in Capital Assets,		
Net of Related Debt	3,140,168	2,997,177
Restricted	- 0 -	- 0 -
Unrestricted	384,367	286,444
Total Net Assets	\$3,524,535	\$3,283,621

For more detailed information see the Statement of Net Assets.

Major Factors Affecting the Statement of Net Assets

Current assets decreased by \$.222 million and liabilities decreased by \$.134 million.

Capital assets decreased from \$3.476 million to \$3.320 million.

TABLE 2
CHANGE OF UNRESTRICTED NET ASSETS

Unrestricted Net Assets 06/30/2004	\$384,367
Results of Operations	(240,914)
Adjustments:	
Depreciation (1)	180,009
Capital Expenditures	(23,818)
Retirement of Debt	(13,200)
	<hr/>
Unrestricted Net Assets 06/30/2005	<u><u>\$286,444</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

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. The Authority's unrestricted net assets increased.

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 in Business-Type Activities.

	2004	2005
Revenues		
Tenant Revenue – Rents and Other	\$112,134	\$83,822
Operating Subsidies and Grants	1,237,815	1,221,680
Capital Grants	106,240	27,837
Investment Income	785	1,105
Other Revenues	232,996	53,818
Total Revenue	<u>\$1,689,970</u>	<u>\$1,388,262</u>
Expenses		
Administrative	\$495,096	\$380,180
Contract Services	23,569	16,880
Utilities	11,806	13,863
Maintenance	106,698	49,322
Payments in Lieu of Taxes	12,159	6,388
General	20,888	30,596
Housing Assistance Payments	932,585	951,938
Depreciation	166,313	180,009
Total Expenses	<u>\$1,769,114</u>	<u>\$1,629,176</u>
Net Increase	<u>\$ (79,144)</u>	<u>\$(240,914)</u>

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

REVENUES: Tenant Revenue was lower due to lower occupancy and lower rent payments being made by tenants in occupancy, along with increased utility allowance payments to tenants. Operating Subsidies, Grants and Capital Grants decreased by \$16,135, or 1.3%. There was no major Capital Grant work done during the year, so fewer and lower draws were made. Other Revenue decreased as a result of SMHA no longer providing maintenance to the Fort Stephenson House after November 30, 2004, and providing less administrative management between January and June, 2005, resulting in management fee decreases. The management fees for managing Fremont Village Apartments were also less due to high vacancies (fee based on occupied units.)

EXPENSES: Administrative expenses were lower due to not replacing an administrative employee when she resigned on December 31 and also as a result of implementing cost saving measures. Contract Services were less partly as a result of fewer payments to a consultant. Utilities were higher due to higher costs and increased vacancies where SMHA had to pay utilities. Maintenance costs decreased as a result of reducing inventory (less purchasing) and implementing cost saving measures.

PILOT was less due to less rent income and higher utilities. Some of the increase in General expenses is due to an increase in the SHARP insurance premium. Housing Assistance Payments increased as a result of increased rents to landlords and lower tenant rent payments.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of year end, the Authority had \$3.320 million invested in a variety of capital assets as reflected in the following schedule, which represents a net decrease (addition, deductions and depreciation) of \$156,192 from the end of last year due to the additional Capital Fund work involving major renovations to apartments and the reclassification of accounts.

TABLE 4

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

	Business-type Activities	
	2004	2005
Land and land rights	\$ 604,704	\$ 604,764
Building and Improvements	3,799,888	3,812,156
Equipment – Administrative	274,881	286,432
Equipment – Dwelling	103,275	103,275
Accumulated Depreciation	(1,306,464)	(1,486,474)
Construction In Progress	0	0
Total	\$ 3,476,284	\$3,320,153

Debt Administration

The Authority's long term debt of \$322,976 includes mortgages for six (6) homes purchased for the Sandusky County MRDD's Capital Assisted Housing Program.

The following reconciliation summarizes the change in Capital Assets.

TABLE 5
CHANGE IN CAPITAL ASSETS

	Business Type Activities
Beginning Balance	\$ 3,476,344
Additions	23,818
Depreciation	(180,009)
Ending Balance	<u><u>\$3,320,153</u></u>

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 \$99,732 increase in unrestricted net assets.

Management fees decreased two times during the year as the result of a change in ownership of the Fort Stephenson House Apartments: the first decrease in November 2004 when the new owners took over all maintenance work, and the second on June 30, 2005, when the owners took over the administration of the office and the tenant management.

Management fees decreased from the management of the Fremont Village Apartments due to an increase in vacancies. Attempts have been made to market the property with little success; there were several properties in the area that were experiencing higher-than-normal vacancies during the fiscal year.

One employee resigned (Property Manager) at the end of 2004, and due to decreases in management fees was not replaced.

A CAHP (MRDD) home was vacated and put up for sale, but the property did not sell. New tenants were found for the unit, but in the meantime rent was lost due to the vacancy.

FINANCIAL CONTACT

If you have any questions regarding this report, you may contact Robin R. Kocher, Executive Director of the Sandusky Metropolitan Housing Authority at 419-334-4426.

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

ASSETS

Current Assets

Cash and Cash Equivalents (Note 1)	\$ 205,445
Investments – Unrestricted	94,574
Tenant Accounts Receivable (net of allowance for doubtful accounts - \$300)	1,708
Accounts Receivable – HUD	18,647
Accounts Receivable – Miscellaneous	28,846
Prepaid Insurance	17,101
Security Deposit	21,691
Total Current Assets	388,012

Non-Current Assets

Property and Equipment - Net (Note 1)	3,320,153
Total Non-Current Assets	3,320,153
TOTAL ASSETS	\$ 3,708,165

LIABILITIES AND NET ASSETS

Current Liabilities

Accounts Payable – Vendor	\$ 17,594
Accounts Payable – Government	2,617
Accrued Wages and Payroll Taxes	9,987
Security Deposits	14,632
Deferred Revenue	600
Current Portion of Long Term Debt	13,813
Amount Due To Fremont Village	35,182
Amount Due To Fort Stevenson House	1,359
Total Current Liabilities	95,784

Non-Current Liabilities

Mortgage Payable	309,163
Accrued Compensated Absences	19,597
Total Non-Current Liabilities	328,760
Total Liabilities	\$ 424,544

Net Assets

Investment in Capital Assets, Net of Related Debt	\$ 2,997,177
Unrestricted	286,444
Total Net Assets	\$ 3,283,621

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

SANDUSKY METROPOLITAN HOUSING AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2005

Operating Revenue:

HUD Operating Subsidies and Grants	\$ 1,221,680
Capital Grants	27,837
Other Revenue	53,818
Tenant Rental Income	83,822
Total Operating Revenue	1,387,157

Operating Expenses:

Housing Assistance Payments	951,938
Administrative Salaries	178,821
Compensated Absences	23,625
Employee Benefits	64,724
Other Administrative Expense	91,034
Material and Labor - Maintenance	49,322
Contract Services	16,880
Utilities	13,863
General Expenses	30,596
Payments in Lieu of Taxes	6,388
Bad Debt - Tenant Rents	1,912
Interest Expense	20,064
Depreciation Expense	180,009
Total Operating Expenses	1,629,176

Operating Income (Loss)	(242,019)
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Non-Operating Revenues (Expenses)

Investment Income - Unrestricted	1,105
Total Non-Operating Revenues (Expenses)	1,105

Change in Net Assets	(240,914)
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Net Assets - Beginning of Year	3,524,535
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Net Assets - End of Year	\$ 3,283,621
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The accompanying notes are an integral part of the financial statements.

SANDUSKY METROPOLITAN HOUSING AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2005

Cash Flows From Operating Activities:	
Cash payments to suppliers for goods and services	\$ (192,905)
Cash payments for salaries and benefits	(267,170)
Housing assistance payments	(956,464)
HUD operating subsidies and grants	1,203,478
Other receipts	165,477
Other payments	<u>(158,704)</u>
Net Cash Provided (Used) by Operating Activities	(206,288)
Cash Flows From Non-Capital Financing:	
	-
Cash Flows From Capital and Related Financing Activities:	
Repayment of Long Term Debt	<u>(13,199)</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	(13,199)
Cash Flows From Investing Activities:	
Changes in Investments	(616)
Investment Income	1,105
Change in Fixed Assets	<u>(23,817)</u>
Net Cash Provided (Used) by Investing Activities	(23,328)
Increase (Decrease) in Cash and Cash Equivalents	(242,815)
Cash and Cash Equivalents - Beginning of Year	<u>448,260</u>
Cash and Cash Equivalents – End of Year	<u>\$ 205,445</u>

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

(Continued)

SANDUSKY METROPOLITAN HOUSING AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2005

Reconciliation of Operating Loss to Net Cash Used in Operating Activities:	
Operating Income (Loss)	\$ (242,019)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	180,009
(Increase) decrease in:	
Accounts Receivable	(19,970)
Security Deposit	(1,233)
Prepaid Expenses	1,137
Increase (decrease) in:	
Accounts Payable	(2,112)
Compensated Absences	10,280
Amount Due To Fort Stevenson House	(71,638)
Amount Due To Fremont Village	(58,702)
Accrued Interest Payable	(795)
Deferred Revenue	600
Security Deposit	1,263
Accrued Expenses	(3,108)
Net cash used in operating activities	\$ (206,288)

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

**SANDUSKY METROPOLITAN HOUSING AUTHORITY
FREMONT, OHIO**

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE 1 - Summary of Significant Accounting Policies:

A. Organization

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, maintaining, 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 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 criteria was considered in determining the reporting entity.

B. Basis of Accounting

The Authority has prepared its financial statements in conformity with accounting principles generally accepted in the United States of America. Effective July 1, 2002, the Authority implement GASB Statement No. 34, Basic Financial Statements and Management’s Discussion and Analysis for State and Local Governments, Statement No. 37, Basic Financial Statements and Management’s Discussion and Analysis for State and Local Governments: Omnibus, an amendment of GASB Statements No. 21 and No. 34, and Statement No. 38, Certain Financial Statement Disclosures. These statements revise accounting and reporting standards for general purpose external financial reporting by governmental units. The Authority now follows the business-type activities reporting requirements of GASB Statement No. 34. In accordance with GASB statement No. 34, the accompanying basic financial statements are reported on an Authority-wide basis.

**SANDUSKY METROPOLITAN HOUSING AUTHORITY
NORWALK, OHIO**

**NOTES TO FINANCIAL STATEMENTS
June 30, 2005**

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

B. Basis of Accounting (continued)

Statement No. 34 requires the following, which collectively make up the Authority's basic financial statements:

Management's Discussion and Analysis

Basic Financial Statements:

Statement of Net Assets

Statement of Revenues, Expenses, and Changes in Net Assets

Statement of Cash Flows

Notes to the Financial Statements

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

C. 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 and repair costs are expensed as incurred.

Useful life of property and equipment is as follows:

Buildings	40 Years
Land & Building Improvements	15 Years
Equipment	7 Years
Autos	5 Years

Depreciation is recorded on the straight-line method. Total depreciation expense for the 2005 fiscal year was \$180,009.

**SANDUSKY METROPOLITAN HOUSING AUTHORITY
FREMONT, OHIO**

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

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

D. 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 equivalents.

E. Investments

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

F. 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.

G. Capitalization of Interest

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

H. 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.

**SANDUSKY METROPOLITAN HOUSING AUTHORITY
FREMONT, OHIO**

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE 2 – Deposits and Investments:

Legal Requirements. Monies held by the Authority are classified by State statute into two categories. Active monies means an amount of public monies determined to be necessary to meet current demands upon the Authority treasury. Active monies must be maintained either as cash in the Authority treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Monies held by the Authority which are not considered active are classified as inactive. Inactive monies may be deposited or invested in the following securities:

1. Bonds, notes, or other obligations of, or guaranteed by, the United States, or those for which the faith of the United States is pledged for the payment of principal and interest;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality;
3. Written repurchase and reverse repurchase agreements in the securities listed above;
4. Bond and other obligations of the State of Ohio, its political subdivision, or other units or agencies of this State or its political subdivisions;
5. Time certificates of deposit or savings or deposit accounts, including but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and
7. The State Treasurer's investment pool (STAR Ohio).

Protection of the Authority's deposits is provided by the Federal Deposit Insurance Corporation, by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public moneys deposited with the institution.

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.

**SANDUSKY METROPOLITAN HOUSING AUTHORITY
FREMONT, OHIO**

**NOTES TO FINANCIAL STATEMENTS
June 30, 2005**

NOTE 2 – Deposits and Investments: (continued)

At year-end, the Authority had \$70 in undeposited cash on hand which is included as part of "Pooled Cash and Cash Investments". This amount is uninsured and uncollateralized.

Deposits. At year-end, the carrying amount of the Authority's deposits was \$190,525 and the bank balance was \$193,934. Of the bank balance, \$100,000 was covered by federal depository insurance, by collateral held by the Authority, or by collateral held by a qualified third party trustee in the name of the Authority and \$93,934 was covered by collateral held by third party trustees pursuant to Section 135.181, Revised Code, in collateral pools securing all public funds on deposit with specific depository institutions.

In addition, to the above deposits, the Authority has deposits on behalf of The Fort Stephenson House and Fremont Village, with carrying amounts of \$1,359 and \$35,182 and bank balances of \$1,359 and \$40,081.

Investments. Statutory provisions require that the Authority hold all securities acquired by the Authority or deposit them with a qualified trustee pursuant to Section 135.18, Revised Code. Securities acquired under a repurchase agreement must be deposited with such a trustee unless the counterparty is a designated depository of the Authority for the current period of designation of depositories, in which case the securities may be held in trust by the depository. At the end of each day, the Authority withdraws surplus funds from the account and invests the monies in an overnight repurchase agreement. The Authority does not purchase any specific security in this manner, but the investment is collateralized by pledged securities held by a third party in the name of the bank.

GASB Statement 3 "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements" requires that local governments disclose the carrying amounts and market value of investments, classified by risk. Category 1 includes investments that are insured or registered, or securities held by the Authority or its agent in the Authority. Category 2 includes uninsured and unregistered, with securities held by the counter-party trust department or agent in the Authority. Category 3 includes uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the Authority.

	<u>Category 1</u>	<u>Fair Value</u>	<u>Market Value</u>
Repurchase Agreements	\$ 94,574	\$ 94,574	\$ 94,574
	=====	=====	=====

**SANDUSKY METROPOLITAN HOUSING AUTHORITY
FREMONT, OHIO**

**NOTES TO FINANCIAL STATEMENTS
June 30, 2005**

NOTE 3 – Capital Assets:

A summary of capital assets for the Section 8 Housing Choice Voucher at June 30, 2005, by class is as follows:

Building and Building Improvements	\$3,812,156
Land	604,764
Furniture, Equipment – Dwelling	103,275
Furniture, Equipment – Administrative	<u>286,432</u>
Total	4,806,627
Less Accumulated Depreciation	<u>(1,486,474)</u>
Net Property and Equipment	<u>\$3,320,153</u>

The following is a summary of changes:

	Balance <u>6/30/2004</u>	<u>Addition</u>	<u>Deletions</u>	Balance <u>6/30/2005</u>
Buildings & Building Improvements	\$3,799,888	\$ 12,268		\$3,812,156
Land	604,764			604,764
Furniture, Equipment – Dwelling	103,275			103,275
Furniture, Equipment – Admin.	<u>274,882</u>	<u>11,550</u>		<u>286,432</u>
Total Capital Assets	<u>\$4,782,809</u>	<u>\$ 23,818</u>	<u>\$ -0-</u>	<u>\$4,806,627</u>

NOTE 4 – Mortgage Payable and Long-Term Debt

Long-term debt consists of the following:

The Authority has a note payable to the Croghan Colonial Bank of Fremont amounting to \$46,475. The original principal of the loan was \$104,041 at a rate of 6.4% annually. Principal and interest payments of \$429.25 began in December 2001 with the final payment due on December 2016. The loan is secured by a first mortgage on the property located at 728 Nickel St., Fremont, Ohio.

\$ 41,852

The Authority has a note payable to the Croghan Colonial Bank of Fremont amounting to \$19,235. The original principal of the loan was \$54,204 at a rate of 8.75% annually. Principal and interest payments of \$252.10 began in August 1997 with the final payment due on August 2012. The loan is secured by an open-end mortgage on real estate property located at 125 Pfeiffer Ave. Clyde, Ohio 43410.

16,051

**SANDUSKY METROPOLITAN HOUSING AUTHORITY
FREMONT, OHIO**

**NOTES TO FINANCIAL STATEMENTS
June 30, 2005**

NOTE 4 – Mortgage Payable and Long-Term Debt (continued)

The Authority has a note payable to the Croghan Colonial Bank of Fremont amounting to \$68,804. The original principal of the loan was \$123,500 at a rate of 7.15% annually. Principal and interest payments of \$469.07 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 43420. 67,298

The Authority has a note payable to the Croghan Colonial Bank of Fremont amounting to \$69,024. The original principal of the loan was \$70,000 at a rate of 5.90% annually. Principal and interest payments of \$587.20 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 St. Fremont, Ohio 43420. 63,022

The Authority has a note payable to the Croghan Colonial Bank of Fremont, amounting \$97,600 at a rate of 5.50% annually. Principal and interest payments of \$671.62 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. 93,408

**SANDUSKY METROPOLITAN HOUSING AUTHORITY
FREMONT, OHIO**

**NOTES TO FINANCIAL STATEMENTS
June 30, 2005**

NOTE 4 – Mortgage Payable and Long-Term Debt (continued)

The Authority has a note payable to the Croghan Colonial Bank of Fremont amounting to \$46,021. The original principal of the loan was \$104,000 at a rate of 6.4% annually. Principal and interest payments of \$428.95 began in January 2002 with the final payment due on January 2017. The loan is secured by a first mortgage on the property located at 148 W. Drew Lane, Clyde, Ohio.

	41,345
Subtotal	\$322,976
Less: Current Portion	(13,813)
Total Long-Term Debt	\$309,163

The aggregate amounts of long-term debt maturities for the five years following 2005 are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 13,813	\$ 20,245	\$ 34,058
2007	\$ 15,058	\$ 19,000	\$ 34,058
2008	\$ 16,042	\$ 18,016	\$ 34,058
2009	\$ 17,119	\$ 16,939	\$ 34,058
2010	\$ 18,256	\$ 15,802	\$ 34,058
Thereafter	\$242,688	\$122,444	\$365,132
Total	\$322,976	\$212,446	\$535,422

NOTE 5 – Administrative Fee:

The Authority receives and “administrative fee” as part of the annual contributions from HUD to cover the costs (including overhead) of administering the Section 8 Housing Assistance Payments (HAP) Programs. The fee is a percentage of a HUD determined based rate for each unit per month under HAP contracts.

NOTE 6 – 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.

**SANDUSKY METROPOLITAN HOUSING AUTHORITY
FREMONT, OHIO**

**NOTES TO FINANCIAL STATEMENTS
June 30, 2005**

NOTE 7: PENSION PLAN

Ohio Public Employees Retirement System

All Authority full-time employees participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans, as described below:

- The Traditional Pension Plan (TP) - a cost-sharing multiple-employer defined benefit pension plan;
- The Member-Directed Plan (MD) - a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20 percent per year). Under the Member-Directed Plan, members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings;
- The Combined Plan (CO) - a cost-sharing multiple-employer defined benefit pension plan. Under the Combined Plan employer contributions are invested by the retirement system to provide a formula retirement benefit 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.

PERS provides retirement, disability, survivor, and death benefits and annual cost of living adjustments to members of both the Traditional Pension and the Combined plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by State statute per Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6701 or 1-800-222-7377.

The Ohio Revised Code provides statutory authority for member and employer contributions. For 2004, member and employer contribution rates were consistent across all three plans (TP, MD, and CO). Plan members are required to contribute 8.5 percent of their annual covered salary to fund pension obligations. The employer pension contribution rate for the Authority was 13.55 percent of covered payroll. The Authority's required contributions to OPERS for the years ended June 30, 2005, 2004, and 2003 were \$46,208, \$43,388 and \$43,886, respectively.

NOTE 8: POST-EMPLOYMENT BENEFITS

Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides post-retirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available with both the Traditional and the Combined Plan; however, health care benefits are not statutorily guaranteed. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage. The health care coverage provided by the retirement system is considered an Other Post-Employment Benefit (OPEB) as described in GASB Statement No.12.

**SANDUSKY METROPOLITAN HOUSING AUTHORITY
FREMONT, OHIO**

**NOTES TO FINANCIAL STATEMENTS
June 30, 2005**

NOTE 8: POST-EMPLOYMENT BENEFITS (continued)

Ohio Public Employees Retirement System

A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The 2005 employer contribution rate was 13.55 percent of covered payroll, 4 percent was the portion that was used to fund health care for 2005.

Benefits are advance-funded using the entry age normal actuarial cost method of valuation. Significant actuarial assumptions, based on OPERS' latest actuarial review performed as of December 31, 2003, include a rate of return on investments of 8 percent, an annual increase in active employee total payroll of 4 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.30 percent based on additional annual pay increases. Health care costs were assumed to increase at the projected wage inflation rate plus an additional factor ranging from 1 percent to 6 percent for the next 8 years. In subsequent years (9 and beyond) health care costs were assumed to increase at 4 percent (the projected wage inflation rate).

All investments are carried at market. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted to reflect 25 percent of unrealized market appreciation or depreciation on investment assets.

At December 31, 2004, the number of active contributing participants in the Traditional Pension and Combined Plans totaled 369,885. The actual contribution and the actuarially required contribution amounts are the same. OPERS' net assets available for payment of benefits at December 31, 2003 (the latest information available) were \$10.5 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$26.9 billion and \$16.4 billion, respectively.

On September 9, 2004 the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to skyrocketing health care costs.

Under the HCPP, retirees eligible for health care coverage will receive a graded monthly allocation based on their years of service at retirement. The Plan incorporates a cafeteria approach, offering a broad range of health care options that allow benefit recipients to use their monthly allocation to purchase health care coverage customized to meet their individual needs. If the monthly allocation exceeds the cost of the options selected, the excess is deposited into a Retiree Medical Account that can be used to fund future health care expenses.

NOTE 9 – 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 (80) hours of service. Unused sick leave may not be accumulated in excess of one hundred sixty (160) hours. At the time of retirement, employees shall be paid the value of (20) days of unused sick leave. All permanent employees will earn vacation hours accumulated based on length of service. All vacation time accumulated will be limited to (10) days and paid upon separation.

**SANDUSKY METROPOLITAN HOUSING AUTHORITY
FREMONT, OHIO**

**NOTES TO FINANCIAL STATEMENTS
June 30, 2005**

NOTE 10 – Insurance Coverage and Risk Retention:

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 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.

SANDUSKY METROPOLITAN HOUSING AUTHORITY

Balance Sheet

June 30, 2005

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

FDS Line Item No.	Account Description	Section 8	Public Housing	C.I.A.P	State/Local	Total
ASSETS						
111	Cash - Unrestricted	\$ 20,785	\$ 76,753	\$ 36,360	\$ 35,006	\$ 168,904
114	Cash - Tenant Security Deposit	-	17,559	-	4,132	21,691
100	TOTAL CASH	20,785	94,312	36,360	39,138	190,595
122	Accounts Receivable - HUD	18,647	-	-	-	18,647
125	Accounts Receivable - Miscellaneous	-	-	-	28,846	28,846
126	Accounts Receivable - Tenants - Dwelling Units	-	2,008	-	-	2,008
126.1	Allowance for Doubtful Accounts - Dwelling Rents	-	(300)	-	-	(300)
120	TOTAL ACCOUNTS RECEIVABLE	18,647	1,708	-	28,846	49,201
131	Investments - Unrestricted	-	94,574	-	-	94,574
142	Prepaid Expenses	6,123	10,805	-	173	17,101
144	Interprogram Due From	55,120	66,701	-	93,773	215,594
150	TOTAL CURRENT ASSETS	100,675	268,100	36,360	161,930	567,065
161	Land	8,114	596,650	-	-	604,764
162	Buildings	-	2,795,367	188,536	828,253	3,812,156
163	Furniture, Equipment & Machinery - Dwellings	-	99,207	-	4,068	103,275
164	Furniture, Equipment & Machinery - Administration	50,705	224,176	11,550	-	286,431
166	Accumulated Depreciation	(49,238)	(1,264,472)	(23,975)	(148,788)	(1,486,473)
160	TOTAL FIXED ASSETS, NET	9,581	2,450,928	176,111	683,533	3,320,153
190	TOTAL ASSETS	\$ 110,256	\$ 2,719,028	\$ 212,471	\$ 845,463	\$ 3,887,218
LIABILITIES						
312	Accounts Payable	\$ 5,000	\$ 5,227	\$ -	\$ 924	\$ 11,151
321	Accrued Wage/Payroll Taxes Payable	-	3,061	-	6,926	9,987
325	Accrued Interest Payable	-	-	-	-	-
331	Accounts Payable - HUD PHA Programs	-	-	-	-	-
333	Accounts Payable - Other Government	-	2,617	-	-	2,617
341	Tenant Security Deposits	-	10,382	-	4,250	14,632
343	Current Portion of Long-term Debt	-	-	-	13,813	13,813
345	Other Current Liabilities	-	-	-	7,043	7,043
347	Interprogram Due To	144,864	-	-	70,730	215,594
310	TOTAL CURRENT LIABILITIES	149,864	21,287	-	103,686	274,837
351	Long-term Debt, Net of Current	-	-	-	309,163	309,163
354	Accrued Compensated Absences - Non Current	5,951	9,370	-	3,498	18,819
	TOTAL NON-CURRENT LIABILITIES	5,951	9,370	-	313,439	328,760
	TOTAL LIABILITIES	155,815	30,657	-	417,125	603,597
508.1	Invested in Capital Assets, Net of Related Debt	9,581	2,450,928	176,111	372,810	3,045,790
512	Retained Earnings	(55,140)	237,443	36,360	55,528	237,831
	TOTAL EQUITY/NET ASSETS	(45,559)	2,688,371	212,471	428,338	3,283,621
	TOTAL LIABILITIES AND EQUITY/NET ASSETS	\$ 110,256	\$ 2,719,028	\$ 212,471	\$ 845,463	\$ 3,887,218

SANDUSKY METROPOLITAN HOUSING AUTHORITY
Statement of Revenue, Expenses and Changes in Equity
For the Year Ended June 30, 2005

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

FDS Line			Public			
<u>Item No.</u>	<u>Account Description</u>	<u>Section 8</u>	<u>Housing</u>	<u>C.I.A.P</u>	<u>State/Local</u>	<u>Total</u>
Revenue:						
703	Net Tenant Rental Revenue	\$ -	\$ 27,402	\$ -	\$ 56,420	\$ 83,822
706	HUD PHA Operating Grant	1,087,157	134,523	-		1,221,680
706.1	Capital Grants	-		27,837		27,837
711	Investment Income - Unrestricted	72	970	-	63	1,105
715	Other Revenues	<u>11</u>	<u>8,190</u>	<u>-</u>	<u>45,617</u>	<u>53,818</u>
700	Total Revenue	1,087,240	171,085	27,837	102,100	1,388,262
Expenses:						
911	Administrative Salaries	70,497	67,734	12,658	27,932	178,821
912	Audit Fees	9,117	8,796	1,000	-	18,913
914	Compensated Absences	3,504	5,508	-	1,278	10,290
915	Employee Benefit Contributions - Administrative	24,947	25,238	4,430	10,109	64,724
916	Other Operating - Administrative	28,808	15,758	26,045	1,510	72,121
931	Water	-	2,576	-	102	2,678
932	Electricity	-	5,992	-	103	6,095
933	Gas	-	4,466	-	202	4,668
938	Other Utilities Expense	-	422	-	-	422
941	Ordinary Maintenance and Operations - Labor	-	31,329	-	2,366	33,695
942	Ordinary Maintenance and Operations - Materials and Other	-	14,000	-	1,627	15,627
943	Ordinary Maintenance and Operations - Contract Costs	1,342	8,744	-	4,440	14,526
945	Employee Benefit Contributions - Ordinary Maintenance	-	11,877	-	1,458	13,335
951	Protective Services - Labor	-	2,354	-	-	2,354
961	Insurance Premiums	10,422	17,170	-	3,004	30,596
963	Payments in Lieu of Taxes	42	2,617	-	3,729	6,388
964	Bad Debt - Tenant Rents	-	1,912	-	-	1,912
967	Interest Expense	<u>-</u>	<u>-</u>	<u>-</u>	<u>20,064</u>	<u>20,064</u>
969	Total Operating Expenses	<u>148,679</u>	<u>226,493</u>	<u>44,133</u>	<u>77,924</u>	<u>497,229</u>
970	Excess Operating Revenue over Expenses	938,561	(55,408)	(16,296)	24,176	891,033
Other Expenses						
973	Housing Assistance Payments	951,938	-	-	-	951,938
974	Depreciation Expense	<u>400</u>	<u>135,371</u>	<u>13,563</u>	<u>30,675</u>	<u>180,009</u>
900	Total Expenses	<u>1,101,017</u>	<u>361,864</u>	<u>57,696</u>	<u>108,599</u>	<u>1,637,471</u>
1001	Operating Transfer In	-	-	71,252	-	71,252
1002	Operating Transfer Out	<u>-</u>	<u>(71,252)</u>	<u>-</u>	<u>-</u>	<u>(71,252)</u>
1010	Total Other Financing Sources (Uses)	-	(71,252)	71,252	-	-
1000	Excess of Operating Revenue Over Expenses	(13,777)	(270,444)	41,393	(6,499)	(240,914)
1103	Beginning Equity	24,381	2,950,402	171,078	378,674	3,524,535
1104	Prior Period Adjustments	<u>(56,163)</u>	<u>-</u>	<u>-</u>	<u>56,163</u>	<u>-</u>
	Ending Equity	<u>\$ (45,559)</u>	<u>\$ 2,688,371</u>	<u>\$ 212,471</u>	<u>\$ 428,338</u>	<u>\$ 3,247,261</u>

SANDUSKY METROPOLITAN HOUSING AUTHORITY

Additional Information Required by HUD

Year Ended June 30, 2005

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

FDS Line			Public			
<u>Item No.</u>	<u>Account Description</u>	<u>Section 8</u>	<u>Housing</u>	<u>C.I.A.P</u>	<u>State/Local</u>	<u>Total</u>
1113	Maximum Annual Contributions Commitment (Per ACC)	1,085,852	-	-	-	1,085,852
1114	Applicable to a Period of Less Than Twelve Months	-	-	-	-	-
1115	Contingency Reserve, ACC Program Reserve	305162	-	-	-	305,162
1116	Total Annual Contributions Available	1391014	-	-	-	1,391,014
1120	Unit Months Available	3120	576	-	108	3,804
1121	Number of Unit Months Leased	3031	455	-	100	3,586

SANDUSKY METROPOLITAN HOUSING AUTHORITY
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2005

Federal Grantor/Program Title	Federal CFDA Number	Contract Number	Grant Amount Received	Federal Expenditures
U.S. Department of Housing and Urban Development				
Direct Program:				
Section 8 Tenant Based Cluster:				
Housing Choice Voucher	14.871	C-10004	\$1,087,157	\$ 1,087,157
Low Rent Public Housing Program	14.850	C-5506	\$ 134,523	\$ 134,523
Public Housing Capital Fund Program	14.872	OH12P05450104	\$ 27,837	<u>\$ 27,837</u>
TOTAL FEDERAL FINANCIAL ASSISTANCE				<u><u>\$ 1,249,517</u></u>

The notes to the financial statements are an integral part of this statement.



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Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

Board of Trustees
Sandusky Metropolitan Housing Authority
Fremont, Ohio

I have audited the financial statements of Sandusky Metropolitan Housing Authority as of and for the year ended June 30, 2005, and have issued my report thereon dated November 22, 2005. I conducted my audit in accordance with generally accepted auditing standards in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Sandusky Metropolitan Housing Authority's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, I noted certain matters involving the internal control over financial reporting and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect Sandusky Metropolitan Housing Authority's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2005-1.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, I consider item 2005-1 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Sandusky Metropolitan Housing Authority's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and questioned costs as items 2005-1. I also noted certain immaterial instances of noncompliance, which I have reported to management of Sandusky Metropolitan Housing Authority in a separate letter dated November 22, 2005.

This report is intended solely for the information and use of the audit committee, management, and the Department of Housing and Urban Development and is not intended to be and should not be used by anyone other than these specified parties.

Kevin L. Penn, Inc.

November 22, 2005



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Independent Auditor's Report on Compliance with Requirements Applicable to each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133

Board of Trustees
Sandusky Metropolitan Housing Authority
Fremont, Ohio

Compliance

I have audited the compliance of Sandusky Metropolitan Housing Authority with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. Sandusky Metropolitan Housing Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Sandusky Metropolitan Housing Authority's management. My responsibility is to express an opinion on Sandusky Metropolitan Housing Authority'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 Sandusky Metropolitan Housing Authority'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 Sandusky Metropolitan Housing Authority's compliance with those requirements.

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

Internal Control Over Compliance

The management of Sandusky Metropolitan Housing Authority 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 Sandusky Metropolitan Housing Authority's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

My consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over compliance and its operation that I consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee, management, and the Department of Housing and Urban Development and is not intended to be and should not be used by anyone other than these specified parties.

Kevin L. Penn, Inc.

November 22, 2005

Sandusky Metropolitan Housing Authority
 Schedule of Findings and Questioned Costs
 June 30, 2005

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
Material weakness(es) identified?	Yes
Reportable condition(s) identified not considered to be material weaknesses?	No
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over financial reporting:	
Material weakness(es) identified?	No
Reportable condition(s) identified not considered to be material weaknesses?	No
Type of auditor's report issued on compliance for major program:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	Yes
Identification of major programs:	
14.871	Housing Choice Voucher Program
Dollar threshold used to distinguish between Type A and Type B programs:	\$300,000 (Type A)
Auditee qualified as low-risk auditee?	No

Sandusky Metropolitan Housing Authority
Schedule of Findings and Questioned Costs
June 30, 2005

Section II - Financial Statement Findings

2005-1

Department of Housing and Urban Development
Housing Choice Voucher Program (CFDA #14.871)

Financial Statement Presentation

Condition:

Various revenues were netted against the receivables resulting in an understatement of management fees. There was no receivable established for the management fee. As a result, revenues earned for the management fees have not been properly classified. Therefore, the financial statements were not recorded in accordance with generally accepted accounting principles in the United States of America.

Criteria:

Generally accepted accounting principles in the United States of America, requires that revenues should be recorded when earned.

Effect:

Resulted in revenues being understated by \$41,375.

Cause:

Oversight by management, during the monthly review of the general ledger.

Recommendation:

The financial statements should be prepared in accordance with generally accepted accounting principles. Revenues should be recorded when earned. By performing this procedure, revenues and receivables will be properly stated, during the fiscal year.

Section III - Federal Award Findings and Questioned Costs

None

Sandusky Metropolitan Housing Authority
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2005

2004-1

Department of Housing and Urban Development
Housing Choice Voucher Program (CFDA #14.871)

Tenant Files

Recommendation:

I recommend that prior to and individual receiving federal assistance, that the family and owner submit a standard form lease, and that the HUD prescribed tenancy addendum be included in the lease word-for-word. In addition income should be properly verified and documented in order ensure the proper HAP payment, and the family report should be signed by the tenant. Furthermore, these documents should be maintained in the tenant's file. By performing this procedure, the risk of incurring questioned costs, will be significantly reduced.

Auditee's Response:

This condition is repeated from last year, and the problems found were much fewer than in 2003 (4 problems in 2004 as opposed to approximately 15 problems in 2003). Improvements have been made in maintaining tenant files. Efforts to improve the files are ongoing and were not complete at the time of the audit, partly due to the timing of the two file reviews. The 2003 files were reviewed in January 2004, and the 2004 files were reviewed in mid-August 2004, only seven month later. Any tenants not undergoing a recertification between January and August may not have had files reviewed by SMHA staff by the time the August review was conducted for 2004.

Three (3) of the five (5) problems found in 2004 pertained to documents not being "maintained" in the file. There is a possibility the documents were in the office and had not yet been filed as was the case with at least one of the problems found in the 2003 audit; however, there is no way to prove that at this time.

Since the review was completed for 2003, a checklist has been added to each tenant file at the tenant's next recertification. The checklist shows all steps to be taken and documents to be completed for each file. As steps are completed and/or completed documents are placed in the file, the staff person responsible must initial and date that item on the checklist. No initials or dates are to be entered beside a step or document if it is not complete.

Within a another month or two all files will have been reviewed since the January 2004 review, and all files should be complete.

Current Status:

The finding has been corrected.



SANDUSKY METROPOLITAN HOUSING AUTHORITY

1358 MOSSER DRIVE, FREMONT, OH 43420
PHONE/TDD: (419) 334-4426 FAX: (419) 334-6933 EMAIL: INFO@SANDUSKYMHA.ORG

CORRECTIVE ACTION PLAN

June 30, 2005

Oversight Agency for Audit: Department of Housing and Urban Development

Sandusky Metropolitan Housing Authority, respectfully submits the following corrective action plan for the year ended June 30, 2005.

Name and address of independent public accounting firm: Kevin L. Penn, Inc. 11811 Shaker Blvd. Suite 421
Cleveland, Ohio 44120.

Audit Period: June 30, 2005.

The findings from the June 30, 2005 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

FINDINGS - FINANCIAL STATEMENT AUDIT

REPORTABLE CONDITIONS

2005-1

Financial Statement Presentation

Recommendation:

The financial statements should be prepared in accordance with generally accepted accounting principles. Revenues should be recorded when earned. By performing this procedure, revenues and receivables will be properly stated, during the fiscal year.

Auditee's Response:

The financial statements will be prepared in accordance with generally accepted accounting principles (GAAP), and revenues will be recorded when earned.

If there any questions regarding this plan, please call Robin R. Kocher, Executive Director at (419) 334-4426.

Sincerely

Robin R. Kocher, Executive Director



**Auditor of State
Betty Montgomery**

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SANDUSKY 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
MARCH 30, 2006**