

**SANDUSKY METROPOLITAN HOUSING AUTHORITY**

Financial Condition

As of

June 30, 2006

Together with Auditors' Report





Mary Taylor, CPA  
Auditor of State

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, 2005 through June 30, 2006. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

*Mary Taylor*

Mary Taylor, CPA  
Auditor of State

March 30, 2007

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**SANDUSKY METROPOLITAN HOUSING AUTHORITY  
FREMONT, OHIO**

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Kevin L.  
Penn, Inc.

Certified Public Accountant  
11811 Shaker Boulevard, Suite 421  
Cleveland, Ohio 44120  
(216)421-1000  
Fax:(216)421-1001  
Email: klpenncpa@aol.com

## **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, 2006 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, 2006, and the changes in net assets and revenues, expenditures and other changes, and the cash flows for the year ended June 30, 2006 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 16, 2006 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 16, 2006

# Sandusky Metropolitan Housing Authority

## MANAGEMENT'S DISCUSSION AND ANALYSIS

**For the Year Ended June 30, 2006**

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 of \$43,018 (or 1.3%) during 2006. In 2001 the Housing Authority began reporting under GAAP, and in 2004 implemented GASB 34. Net Assets were \$3.240 million and \$3.284 million for 2006 and 2005 respectively.
- The business-type activity revenue increased by \$85,685 (or 6.1%) during 2006, and was \$1.474 million and \$1.388 million for 2006 and 2005 respectively.
- The total expenses of all Authority programs decreased by \$112,211 (or 6.9%). Total expenses were \$1.516 million and \$1.629 million for 2006 and 2005 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 Programs**

#### 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

	2005	2006
Current and Other Assets	\$388,012	\$462,861
Capital Assets	3,320,153	3,325,048
Total Assets	3,708,165	3,787,909
Other Liabilities	95,784	124,501
Long-Term Liabilities	328,760	422,805
Total Liabilities	424,544	547,306
Net Assets:		
Invested in Capital Assets,		
Net of Related Debt	2,997,177	3,268,257
Restricted	- 0 -	- 0 -
Unrestricted	286,444	(27,654)
Total Net Assets	\$3,283,621	\$3,240,603

For more detailed information see the Statement of Net Assets.

### Major Factors Affecting the Statement of Net Assets

Current assets increased by \$74,849 and liabilities increased by \$751,565. The increase in current assets is primarily due to an increase in Public Housing unrestricted investments and an accounts receivable from Fremont Village Apartments.

The liabilities increased as a result of two new mortgages for MRDD home purchases (\$127,000) and an increase in the amount due from Fremont Village Apartments of \$25,000.

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**TABLE 2**  
**CHANGE OF UNRESTRICTED NET ASSETS**

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Unrestricted Net Assets 06/30/2005	\$286,444
Results of Operations	(43,018)
Adjustments:	
Depreciation (1)	187,186
Capital Assets Deleted	(54,704)
Gain on Sale of Property	(13,554)
Capital Expenditures	(231,700)
Retirement of Debt	(158,308)
	<hr/>
Unrestricted Net Assets 06/30/2006	<u><u>(\$27,654)</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

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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.

	2005	2006
Revenues		
Tenant Revenue – Rents and Other	\$83,822	\$79,353
Operating Subsidies and Grants	1,221,680	1,200,551
Capital Grants	27,837	26,463
Investment Income	1,105	3,484
Other Revenues	53,818	164,096
Total Revenue	<u>\$1,388,262</u>	<u>\$1,473,947</u>
Expenses		
Administrative	\$380,180	\$408,752
Contract Services	16,880	14,358
Utilities	13,863	12,918
Maintenance	49,332	99,128
Payments in Lieu of Taxes	6,388	14,771
General	30,596	29,102
Housing Assistance Payments	951,938	750,750
Depreciation	180,009	187,186
Total Expenses	<u>\$ 1,629,176</u>	<u>\$1,516,965</u>
Net Increase	<u>\$ (240,914)</u>	<u>\$ (43,018)</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 \$22,503, or 1.8%. There was no major Capital Grant work done during the year, so fewer and lower draws were made. Other Revenues increased as a result of funds received from the State Board of MR/DD for the purchase of two homes (\$127,912).

**EXPENSES:** Maintenance expenses increased as a result of current SMHA programs absorbing personnel related costs from the former management and maintenance of the Fort Stephenson House, which ended June 30, 2005. As a result of the increased expenses, one maintenance employee position was eliminated as of June 30, 2006. Payment in lieu of taxes (PILOT) increased as a result of tax payments made for two new MRDD residences. Housing Assistance Payments decreased as a result of fewer Voucher units under contract.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

As of year end, the Authority had \$3.325 million invested in a variety of capital assets as reflected in the following schedule, which represents a net increase (addition, deductions and depreciation) of \$4,895 from the end of last year.

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**TABLE 4**  
**CAPITAL ASSETS AT YEAR-END**  
**(NET OF DEPRECIATION)**

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	Business-type Activities	
	2005	2006
Land and land rights	\$ 604,764	\$ 604,764
Building and Improvements	3,812,156	3,989,151
Equipment – Administrative	286,432	286,432
Equipment – Dwelling	103,275	103,275
Accumulated Depreciation	(1,486,474)	(1,658,574)
Construction In Progress	<u>0</u>	<u>0</u>
Total	\$ 3,320,153	\$3,325,048

### *Debt Administration*

The Authority's long term debt of \$455,000 includes mortgages for seven (7) homes purchased for the Sandusky County MRDD's Capital Assisted Housing Program.

The following reconciliation summarizes the change in Capital Assets.

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**TABLE 5**  
**CHANGE IN CAPITAL ASSETS**

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	Business Type Activities
Beginning Balance	\$ 3,320,153
Additions	231,700
Deletions	(39,619)
Depreciation	(187,186)
	<hr/>
Ending Balance	<u><u>\$3,325,048</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 \$314,098 decrease in unrestricted net assets.

Occupancy at Fremont Village Apartments continued to be low, resulting in lower management fees. In June severe storms caused storm sewers to back up and flood one third of the property (40 units). Twenty-seven families were displaced as a result. Some were moved to vacant units, and others chose to move permanently from the property, increasing the number of vacancies at the end of the fiscal year.

Two employees, the Housekeeper and the Assistant Occupancy Specialist, were terminated, and neither position was refilled due to decreased income.

The CAHP (MRDD) home located at 125 Pfeiffer, Clyde, was sold, and two new homes were purchased (3695 CR 175, Clyde, and 408 S. Pennsylvania, Fremont).

## **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, 2006

ASSETS

**Current Assets**

Cash and Cash Equivalents (Note 1)	\$ 260,759
Investments – Unrestricted	157,546
Tenant Accounts Receivable	46
Accounts Receivable - Miscellaneous (net of allowance for doubtful accounts)	17,176
Prepaid Insurance	3,314
Security Deposit	24,020
Total Current Assets	462,861

**Other Assets**

Property and Equipment - Net (Note 3)	3,325,048
Total Other Assets	3,325,048
TOTAL ASSETS	\$ 3,787,909

LIABILITIES AND NET ASSETS

**Current Liabilities**

Accounts Payable – Vendor	\$ 12,899
Accounts Payable – Government	2,681
Accrued Wages and Payroll Taxes	7,477
Security Deposits	16,641
Deferred Revenue	654
Other Current Liabilities	9,702
Current Portion of Long Term Debt	19,086
Amount Due To Fremont Village	60,634
Total Current Liabilities	129,774

**Non-Current Liabilities**

Mortgage Payable	379,846
Accrued Compensated Absences	37,686
Total Non-Current Liabilities	417,532
Total Liabilities	\$ 547,306

**Net Assets**

Investment in Capital Assets, Net of Related Debt	\$ 3,268,257
Unrestricted	(27,654)
Total Net Assets	\$ 3,240,603

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, 2006

**Operating Revenue:**

HUD Operating Subsidies and Grants	\$1,200,551
Tenant Rental Income	79,353
Other Revenue	151,940
Total Operating Revenue	<u>1,431,844</u>

**Operating Expenses:**

Housing Assistance Payments	750,750
Administrative Salaries	175,775
Compensated Absences	18,089
Employee Benefits	84,805
Other Administrative Expense	52,342
Material and Labor – Maintenance	99,128
Contract Services	14,358
Utilities	12,918
General Expenses	29,102
Payments in Lieu of Taxes	14,771
Bad Debt Expense	51,530
Depreciation Expense	187,186
Total Operating Expenses	<u>1,490,754</u>

Operating Income (Loss)	(58,910)
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**Non-Operating Revenues (Expenses)**

Gain on Sale of Capital Assets	12,156
Interest Expense	(26,211)
Investment Income – Unrestricted	3,484
Total Non-Operating Revenues (Expenses)	<u>(10,571)</u>

Income (Loss) before Capital Grant	(69,481)
Capital Grants	<u>26,463</u>

Change in Net Assets	(43,018)
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Net Assets - Beginning of Year	<u>3,283,621</u>
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Net Assets - End of Year	<u><u>\$3,240,603</u></u>
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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, 2006

Cash Flows From Operating Activities:	
Cash payments to suppliers for goods and services	\$ (210,702)
Cash payments for salaries and benefits	(278,669)
Cash payments housing assistance payments	(750,750)
Cash received HUD operating subsidies and grants	1,242,118
Cash received from other sources	231,293
Cash payment for other operating expenses	<u>(14,771)</u>
Net Cash Provided (Used) by Operating Activities	218,519
Cash Flows From Non-Capital Financing:	
	-
Cash Flows From Capital and Related Financing Activities:	
Capital Grant	26,463
Acquisition of Fixed Assets	(231,700)
Debt Proceeds	234,250
Repayment of Long Term Debt	<u>(158,308)</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	(129,295)
Cash Flows From Investing Activities:	
Changes in Investments	(62,972)
Interest Expense	(26,211)
Investment Income	3,484
Proceeds from Sale of Capital Assets	<u>51,789</u>
Net Cash Provided (Used) by Investing Activities	(33,910)
Increase (Decrease) in Cash and Cash Equivalents	55,314
Cash and Cash Equivalents - Beginning of Year	<u>205,445</u>
Cash and Cash Equivalents - End of Year	<u>\$ 260,759</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, 2006

Reconciliation of Operating Loss to Net Cash Used in Operating Activities:	
Operating Income (Loss)	\$ (58,910)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	187,186
(Increase) decrease in:	
Accounts Receivable	31,979
Security Deposit	(2,329)
Prepaid Expenses	13,787
Increase (decrease) in:	
Accounts Payable	(4,631)
Compensated Absences	18,089
Amount Due To Fort Stevenson House	(1,359)
Amount Due To Fremont Village	25,452
Security Deposit	2,009
Deferred Revenue	54
Accrued Expenses	7,192
Net cash used in operating activities	<u><u>\$ 218,519</u></u>

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

**SANDUSKY METROPOLITAN HOUSING AUTHORITY  
FREMONT, OHIO**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2006**

**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. The Authority is a political subdivision with no component units.

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, 2006**

**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 \$187,186.

**SANDUSKY METROPOLITAN HOUSING AUTHORITY  
FREMONT, OHIO**

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2006**

**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, 2006**

**NOTE 2 – Deposits and Investments:**

In 2005, the Authority adopted the provisions of GASB Statement No. 40, *Deposit and Investment Risk Disclosures*. This new standard revised the existing requirements regarding disclosure of custodial credit risk and establishes requirements for disclosures regarding credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. Adoption of GASB Statement No. 40 had no effect on net assets and change in net assets in the prior or current year.

**A. Deposits**

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

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

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

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

At year-end, the carrying amount of the Authority's deposits was \$442,325 (including \$223,966 of unrestricted funds, \$157,546 of repurchase agreements, \$70 of petty cash, and \$60,634 of deposits held on behalf of Fremont Village) and the bank balance was \$463,446.

**Custodial Credit Risk**

Custodial Credit Risk is the risk that, in the event of a bank failure, the Authority's deposits may not be returned. The Authority's policy is to place deposits with major local banks approved by the Board. Multiple financial institution collateral pools that insure public deposits must maintain collateral in excess of 105 percent of deposits, as permitted by Chapter 135 of the Ohio Revised Code. As of year-end, deposits totaling \$100,000 were covered by Federal Depository Insurance and deposits totaling \$363,445 were uninsured and collateralized with securities held by the financial institution's trust department or agent, but not in the Authority's name.

**SANDUSKY METROPOLITAN HOUSING AUTHORITY  
FREMONT, OHIO**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2006**

**NOTE 2 – Deposits and Investments:**

**B. Investments**

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

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

**Interest Rate Risk**

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

**Credit Risk**

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

**Concentration of Credit Risk**

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

**SANDUSKY METROPOLITAN HOUSING AUTHORITY  
FREMONT, OHIO**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2006**

**NOTE 2 – Deposits and Investments:**

*Foreign Currency Risk*

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

Reconciliation of cash and cash equivalents and investments is as follows:

	Cash and Cash	
	Equivalents *	Investments
Per Statement of Net Assets	\$ 248,779	\$ 157,546
Repurchase Agreement	<u>157,546</u>	<u>( 157,546)</u>
Per GASB Statement No. 3	<u>\$ 442,325</u>	<u>\$ 0</u>

\* Includes Petty Cash.

**NOTE 3 – Capital Assets:**

A summary of capital assets at June 30, 2006, by class is as follows:

Building and Building Improvements	\$3,989,152
Land	604,764
Furniture, Equipment – Dwelling	103,275
Furniture, Equipment – Administrative	<u>286,431</u>
Total	4,983,622
Less Accumulated Depreciation	<u>(1,658,574)</u>
Net Property and Equipment	<u>\$3,325,048</u>

The following is a summary of changes:

	Balance 6/30/2005	Addition	Deletions	Balance 6/30/2006
Buildings & Building Improvements	\$3,812,156	\$231,700	\$54,704	\$3,989,152
Land	604,764			604,764
Furniture, Equipment – Dwelling	103,275			103,275
Furniture, Equipment – Admin.	<u>286,431</u>			<u>286,431</u>
Total Capital Assets	<u>\$4,806,626</u>	<u>\$231,700</u>	<u>\$54,704</u>	<u>\$4,983,622</u>

**SANDUSKY METROPOLITAN HOUSING AUTHORITY  
FREMONT, OHIO**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2006**

**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 \$39,305. 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. \$ 39,305

The Authority has a note payable to the Croghan Colonial Bank of Fremont amounting to \$26,761. The original principal of the loan was \$87,250 at a rate of 7.125% annually. Principal and interest payments of \$1,018.73 began in February 2006 with the final payment due on January 2016. The loan is secured by an open-end mortgage on real estate property located at 408 S. Pennsylvania Ave. & 1107 W. State Street, Fremont, Ohio. 26,761

The Authority has a note payable to the Croghan Colonial Bank of Fremont amounting to \$66,454. 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. 66,454

The Authority has a note payable to the Croghan Colonial Bank of Fremont amounting to \$59,604. 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. 59,604

**SANDUSKY METROPOLITAN HOUSING AUTHORITY  
FREMONT, OHIO**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2006**

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

The Authority has a note payable to the Croghan Colonial Bank of Fremont, amounting \$90,412 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. 90,412

The Authority has a note payable to the Croghan Colonial Bank of Fremont amounting to \$77,628. The original principal of the loan was \$147,000 at a rate of 6.75% annually. Principal and interest payments of \$1,118.11 began in November 2005 with the final payment due on October 2025. The loan is secured by an open-end mortgage on real estate property located at 3695 CR 175, Clyde, Ohio & 1107 W. State Street, Fremont, Ohio. 77,628

The Authority has a note payable to the Croghan Colonial Bank of Fremont amounting to \$38,768. 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. 38,768

Subtotal	\$398,932
Less: Current Portion	( <u>19,086</u> )
<b>Total Long-Term Debt</b>	<b><u>\$379,846</u></b>

The aggregate amounts of long-term debt maturities for the five years following 2006 are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 19,086	\$ 25,997	\$ 45,083
2008	\$ 20,339	\$ 24,744	\$ 45,083
2009	\$ 21,743	\$ 23,340	\$ 45,083
2010	\$ 23,212	\$ 21,871	\$ 45,083
2011	\$ 25,121	\$ 19,962	\$ 45,083
Thereafter	<u>\$290,431</u>	<u>\$208,623</u>	<u>\$499,054</u>
<b>Total</b>	<b><u>\$398,932</u></b>	<b><u>\$324,537</u></b>	<b><u>\$724,469</u></b>

**SANDUSKY METROPOLITAN HOUSING AUTHORITY  
FREMONT, OHIO**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2006**

**NOTE 5 – Allocation of Costs:**

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

**NOTE 6: 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.

**Ohio Public Employees Retirement System**

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, 2006, 2005, and 2004 were \$45,254, \$46,208 and \$43,388 respectively.

**SANDUSKY METROPOLITAN HOUSING AUTHORITY  
FREMONT, OHIO**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2006**

**NOTE 7: 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. 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. The rate changed to 13.70 percent effective January 1, 2006.

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, 2004, 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).

**Ohio Public Employees Retirement System**

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, 2005, the number of active contributing participants in the Traditional Pension and Combined Plans totaled 376,109. The actual contribution and the actuarially required contribution amounts are the same. OPERS' net assets available for payment of benefits at December 31, 2004 (the latest information available) were \$10.8 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$29.5 billion and \$18.7 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.

**SANDUSKY METROPOLITAN HOUSING AUTHORITY  
FREMONT, OHIO**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2006**

**NOTE 8 – Compensated Absences:**

Vacation and sick leave policies are established by the Board of Authority based on local and state laws. All permanent employees will earn 4.6 hours of sick leave per (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.

**Note 9 - Change in Accounting Principles**

For the year ended June 30, 2006, the Authority has implemented GASB Statement No. 40, "Deposit and Investment Risk Disclosures".

GASB Statement No. 40 establishes and modified disclosure requirements related to investment risks: credit risk (including custodial credit risk and concentrations of credit risk) and interest rate risk. This statement also establishes and modified disclosure requirements for custodial credit risk on deposits.

The implementation of GASB Statement No. 40 did not have an effect on the financial statements of the Authority.

**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, 2006

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

FDS Line		Public				
Item No.	Account Description	Section 8	Housing	C.F.P.	State/Local	Total
<b>ASSETS</b>						
111	Cash – Unrestricted	\$ 96,532	\$ 37,301	\$ 1,050	\$ 65,242	\$ 200,125
114	Cash - Tenant Security Deposit	-	18,253	-	5,767	24,020
100	<b>TOTAL CASH</b>	96,532	55,554	1,050	71,009	224,145
125	Accounts Receivable – Miscellaneous	-	-	-	17,176	17,176
126	Accounts Receivable - Tenants - Dwelling Units	-	46	-	-	46
120	<b>TOTAL ACCOUNTS RECEIVABLE</b>	-	46	-	17,176	17,222
131	Investments – Unrestricted	-	157,546	-	-	157,546
142	Prepaid Expenses	1,027	2,114	-	173	3,314
144	Interprogram Due From	46,160	6,700	-	25,963	78,823
150	<b>TOTAL CURRENT ASSETS</b>	143,719	221,960	1,050	114,321	481,050
161	Land	8,114	596,650	-	-	604,764
162	Buildings	-	2,795,367	188,536	1,005,249	3,989,152
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	(49,638)	(1,399,843)	(40,191)	(168,902)	(1,658,574)
160	<b>TOTAL FIXED ASSETS, NET</b>	9,181	2,315,557	159,895	840,415	3,325,048
190	<b>TOTAL ASSETS</b>	<u>\$ 152,900</u>	<u>\$ 2,537,517</u>	<u>\$ 160,945</u>	<u>\$ 954,736</u>	<u>\$ 3,806,098</u>
<b>LIABILITIES</b>						
312	Accounts Payable	\$ 4,146	\$ 7,845	\$ -	\$ 908	\$ 12,899
321	Accrued Wage/Payroll Taxes Payable	-	-	-	7,477	7,477
333	Accounts Payable - Other Government	-	2,681	-	-	2,681
341	Tenant Security Deposits	-	10,941	-	5,700	16,641
343	Current Portion of Long-term Debt - Capital Projects/Mortgage Revenue Bond	-	-	-	19,086	19,086
345	Other Current Liabilities	-	-	-	10,356	10,356
347	Interprogram Due To	16,603	-	-	62,220	78,823
310	<b>TOTAL CURRENT LIABILITIES</b>	20,749	21,467	-	105,747	147,963
351	Long-term Debt, Net of Current - Capital Projects/Mortgage Revenue Bond	-	-	-	379,846	379,846
354	Accrued Compensated Absences - Non Current	9,938	15,621	-	12,127	37,686
	<b>TOTAL NON-CURRENT LIABILITIES</b>	9,938	15,621	-	391,973	417,532
	<b>TOTAL LIABILITIES</b>	30,687	37,088	-	497,720	565,495
508.1	Invested in Capital Assets, Net of Related Debt	9,181	2,315,557	159,895	783,624	3,268,257
512	Retained Earnings	113,032	184,872	1,050	(326,608)	(27,654)
	<b>TOTAL EQUITY/NET ASSETS</b>	122,213	2,500,429	160,945	457,016	3,240,603
	<b>TOTAL LIABILITIES AND EQUITY/NET ASSETS</b>	<u>\$ 152,900</u>	<u>\$ 2,537,517</u>	<u>\$ 160,945</u>	<u>\$ 954,736</u>	<u>\$ 3,806,098</u>

SANDUSKY METROPOLITAN HOUSING AUTHORITY  
Statement of Revenue, Expenses and Changes in Equity  
For the Year Ended June 30, 2006

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.F.P.</u>	<u>State/Local</u>	<u>Total</u>
Revenue:						
703	Net Tenant Rental Revenue	\$ -	\$ 14,575	\$ -	\$ 64,778	\$ 79,353
706	HUD PHA Operating Grant	1,068,657	131,894	-	-	1,200,551
706.1	Capital Grants	-	-	26,463	-	26,463
711	Investment Income – Unrestricted	125	3,243	-	116	3,484
715	Other Revenues	-	4,267	-	147,673	151,940
716	Gain/Loss on Sale of Fixed Assets	-	-	-	12,156	12,156
700	Total Revenue	<u>1,068,782</u>	<u>153,979</u>	<u>26,463</u>	<u>224,723</u>	<u>1,473,947</u>
Expenses:						
911	Administrative Salaries	88,532	59,846	8,678	18,719	175,775
912	Audit Fees	4,045	4,000	-	100	8,145
914	Compensated Absences	3,987	6,251	-	7,851	18,089
915	Employee Benefit Contributions – Administrative	31,354	23,418	2,840	7,789	65,401
916	Other Operating – Administrative	14,874	9,200	16,298	3,825	44,197
931	Water	-	1,798	-	105	1,903
932	Electricity	-	6,082	-	329	6,411
933	Gas	-	4,172	-	432	4,604
941	Ordinary Maintenance and Operations – Labor	-	44,934	-	4,540	49,474
942	Ordinary Maintenance and Operations - Materials and Other	10	11,143	22,451	16,050	49,654
943	Ordinary Maintenance and Operations - Contract Costs	2,589	8,128	-	2,247	12,964
945	Employee Benefit Contributions - Ordinary Maintenance	-	17,583	-	1,821	19,404
951	Protective Services – Labor	-	1,394	-	-	-
961	Insurance Premiums	10,411	17,426	-	1,265	29,102
963	Payments in Lieu of Taxes	99	2,681	-	11,991	14,771
964	Bad Debt Expense	-	-	-	51,530	51,530
967	Interest Expense	-	-	-	26,211	26,211
969	Total Operating Expenses	<u>155,901</u>	<u>218,056</u>	<u>50,267</u>	<u>154,805</u>	<u>579,029</u>
970	Excess Operating Revenue over Expenses	912,881	(64,077)	(23,804)	69,918	894,918
Other Expenses						
973	Housing Assistance Payments	750,750	-	-	-	750,750
974	Depreciation Expense	400	135,371	16,216	35,199	187,186
900	Total Expenses	<u>907,051</u>	<u>353,427</u>	<u>66,483</u>	<u>190,004</u>	<u>1,516,965</u>
1001	Operating Transfer In	-	-	-	-	-
1002	Operating Transfer Out	-	-	-	-	-
1010	Total Other Financing Sources (Uses)	-	-	-	-	-
1000	Excess of Operating Revenue Over Expenses	161,731	(199,448)	(40,020)	34,719	(43,018)
1103	Beginning Equity	(45,559)	2,688,371	212,471	428,338	3,283,621
1104	Prior Period Adjustments	6,041	11,506	(11,506)	(6,041)	-
	Ending Equity	<u>\$ 122,213</u>	<u>\$ 2,500,429</u>	<u>\$ 160,945</u>	<u>\$ 457,016</u>	<u>\$ 3,240,603</u>

SANDUSKY METROPOLITAN HOUSING AUTHORITY

Additional Information Required by HUD

Year Ended June 30, 2006

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.F.P.</u>	<u>State/Local</u>	<u>Total</u>
1113	Maximum Annual Contributions Commitment (Per ACC)	\$ 1,085,852	\$ -	\$ -	\$ -	\$ 1,085,852
1115	Contingency Reserve, ACC Program Reserve	\$ 305,162	\$ -	\$ -	\$ -	\$ 305,162
1116	Total Annual Contributions Available	\$ 1,391,014	\$ -	\$ -	\$ -	\$ 1,391,014
1120	Unit Months Available	4,008	576		106	4,690
1121	Number of Unit Months Leased	2,519	502		106	3,127

SANDUSKY METROPOLITAN HOUSING AUTHORITY

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2006

Federal Grantor/Pass-through <u>Grantor/Program Title</u>	Federal CFDA <u>Number</u>	Program Award <u>Amount</u>	Federal <u>Expenditures</u>
U.S. Department of Housing and Urban Development			
Direct Program:			
Section 8 Tenant Based Cluster:			
Housing Choice Voucher	14.871	\$1,068,657	\$1,068,657
Low Rent Public Housing Program	14.85	\$131,894	\$131,894
Public Housing Capital Fund Program	14.872	\$26,463	<u>\$26,463</u>
TOTAL FEDERAL FINANCIAL ASSISTANCE			<u><u>\$1,227,014</u></u>

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



Certified Public Accountant  
11811 Shaker Boulevard, Suite 421  
Cleveland, Ohio 44120  
(216)421-1000  
Fax:(216)421-1001  
Email: klpenncpa@aol.com

**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, 2006, and have issued my report thereon dated November 16, 2006. 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 2006-1.

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 2006-1 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 2006-1. 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 16, 2006.

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 16, 2006



Certified Public Accountant  
11811 Shaker Boulevard, Suite 421  
Cleveland, Ohio 44120  
(216)421-1000  
Fax:(216)421-1001  
Email: klpenncpa@aol.com

**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, 2006. 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, 2006.

### 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 16, 2006

**Sandusky Metropolitan Housing Authority**  
 Schedule of Findings and Questioned Costs  
 June 30, 2006

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, 2006

Section II - Financial Statement Findings

2006-1

**Financial Statement Presentation**

Condition:

The Authority purchased two buildings, during the fiscal year, which were not recorded at the historical cost. The costs of the buildings were recorded, based on the mortgage note payable. In addition, the funds received, for the purchase of the buildings were not recorded, resulting in an understatement of revenue. As a result, fixed assets; mortgage payable and revenues were not properly classified or stated. 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 the purchase of buildings to be recorded at the historical costs and that revenues should be recorded when earned.

Effect:

Resulted in the building acquisitions not being recorded at the historical cost and revenues being understated by \$127,912.

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. Building acquisitions should be recorded at historical costs and revenues should be recorded when earned.

Section III - Federal Award Findings and Questioned Costs

None

**Sandusky Metropolitan Housing Authority**  
Summary Schedule of Prior Audit Findings  
Year Ended June 30, 2006

2005-1

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

**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.

Current Status:

The finding will be repeated in the 2006 audit.



## 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, 2006

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, 2006.

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

Audit Period: June 30, 2006.

The findings from the June 30, 2006 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

2006-1

#### **Financial Statement Presentation**

Recommendation:

The financial statements should be prepared in accordance with generally accepted accounting principles. Building acquisitions should be recorded at historical costs and revenues should be recorded when earned.

Auditee's Response:

The financial statements will be prepared in accordance with generally accepted accounting principles (GAAP), and future building acquisitions will be recorded at their historical cost 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



**Mary Taylor, CPA**  
Auditor of State

**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**  
**APRIL 12, 2007**