

**LONDON METROPOLITAN HOUSING AUTHORITY
LONDON, OHIO**

BASIC FINANCIAL STATEMENTS

**FOR THE YEAR ENDED
SEPTEMBER 30, 2007**



Mary Taylor, CPA
Auditor of State

Board of Commissioners
London Metropolitan Housing Authority
179 South Main Street
London, Ohio 43140

We have reviewed the *Independent Auditors' Report* of the London Metropolitan Housing Authority, Madison County, prepared by Manning & Associates CPAs, LLC, for the audit period October 1, 2006 through September 30, 2007. 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 London Metropolitan Housing Authority is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

June 18, 2008

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LONDON METROPOLITAN HOUSING AUTHORITY
LONDON, OHIO

AUDIT REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2007

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INDEPENDENT AUDITORS' REPORT

The Board of Commissioners
London Metropolitan Housing Authority
179 South Main Street
London, Ohio

Regional Inspector General of Audit
Department of Housing & Urban Development

We have audited the accompanying basic financial statements of the London Metropolitan Housing Authority as of and for the year ended September 30, 2007, as listed in the table of contents. These financial statements are the responsibility of London Metropolitan Housing Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the London Metropolitan Housing Authority as of September 30, 2007, and the results of its operations and the cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 29, 2008 on our consideration of the London Metropolitan Housing Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the Authority taken as a whole. The schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements of the London Metropolitan Housing Authority. The combining financial data schedule (“FDS”) and cost certifications are presented for purposes of additional analysis as required by the Department of Housing and Urban Development 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 our opinion, is fairly presented in all material respects, in relation to the basic financial statements taken as a whole.

Manning & Associates CPAs, LLC
Dayton, Ohio

March 29, 2008

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**LONDON METROPOLITAN HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended September 30, 2007**

Unaudited

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

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

FINANCIAL HIGHLIGHTS

- Net assets were \$1,593,857 and \$1,789,932 for fiscal year ending September 30, 2007 and 2006, respectively. The Authority-wide statements reflect a decrease of \$196,075 during 2007. This decrease is reflective of the year's activities.
- The business-type activity revenue decreased by \$261,613 during 2007, and was \$512,543 and \$774,156 for 2007 and 2006, respectively.
- The total expenses of all Authority programs increased by \$107,483. Total expenses were \$708,618 and \$601,135 for 2007 and 2006, respectively.

USING THIS ANNUAL REPORT

The following graphic outlines the format of this report:

MD&A ~ Management Discussion and Analysis ~
Basic Financial Statements ~ Authority-wide Financial Statements ~ ~ Fund Financial Statement ~ ~ Notes to Financial Statements ~
Other Required Supplementary Information ~ Required Supplementary Information (other than MD&A) ~

The focus is on both the Authority as a whole (authority-wide) and the major individual funds. Both perspectives (authority-wide and major fund) allow the user to address relevant questions, broaden a basis for comparison (year to year or Authority to Authority) and enhance the Authority's accountability.

**LONDON METROPOLITAN HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended September 30, 2007**

Unaudited

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

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

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

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

**LONDON METROPOLITAN HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended September 30, 2007**

Unaudited

Business Type Funds:

Conventional Public Housing (PH) – 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 physical and management improvements. While the formula funding methodology used for the CGP was revised for the CFP, funds are still provided by formula allocation and based on size and age of your units.

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 – Condensed Statement of Net Assets Compared to Prior Year

	<u>2007</u>	<u>2006</u>
Current and Other Assets	\$ 90,640	\$ 195,640
Capital Assets	1,553,093	1,666,515
Total Assets	<u>\$ 1,643,733</u>	<u>\$ 1,862,155</u>
Current Liabilities	\$ 47,590	\$ 64,460
Long-Term Liabilities	2,286	7,763
Total Liabilities	<u>49,876</u>	<u>72,223</u>
Net Assets:		
Investment in Capital Assets, net of Related Debt	1,545,412	1,653,286
Unrestricted Net Assets	48,445	136,646
Total Net Assets	<u>1,593,857</u>	<u>1,789,932</u>
Total Liabilities and Net Assets	<u>\$ 1,643,733</u>	<u>\$ 1,862,155</u>

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

**LONDON METROPOLITAN HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended September 30, 2007**

Unaudited

Major Factors Affecting the Statement of Net Assets

During 2007 current assets decreased by \$105,000 and total liabilities decreased by \$22,347. The decrease in the current asset is accounted for in the cash balance on hand of \$53,220 which represent a decrease of \$112,680 due to result from operation. The decrease in total liability is due to the retirement of debt in current year of \$5,649 and less outstanding vendor invoices not paid by year end.

Capital assets net change between 2007 and 2006 was a decrease of \$113,422. This is reflected by the current year capital improvements less depreciation expense. See Table 5 for detail of current additions.

Table 2 - Changes of Unrestricted Net Assets

Beginning Balance - September 30, 2006	\$	136,646
Results of Operation		(196,075)
Adjustments:		
Current year Depreciation Expense (1)		162,960
Net Assets used for Capital Expenditure (2)		(49,536)
Retirement of Debt		(5,548)
Rounding Adjustment		(2)
		(2)
Ending Balance - September 30, 2007	\$	48,445

Table 2a - Changes in Investment in Fixed Assets

Beginning Balance - September 30, 2006	\$	1,653,286
Results of Operation		-
Adjustments:		
Current year Depreciation Expense (1)		(162,960)
Net Assets used for Capital Expenditure (2)		49,536
Retirement of Debt		5,548
Rounding Adjustment		2
		2
Ending Balance - September 30, 2007	\$	1,545,412

Statement of Revenue, Expenses and Change 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.

**LONDON METROPOLITAN HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended September 30, 2007**

Unaudited

Table 3 - Statement of Revenue, Expenses & Changes in Net Assets

	<u>2007</u>	<u>2006</u>
<u>Revenues</u>		
Total Tenant Revenues	\$ 199,388	\$ 186,212
Operating Subsidies	270,984	300,698
Capital Grants	36,041	280,611
Investment Income	1,312	1,377
Other Revenues	4,818	5,258
	<hr/>	<hr/>
Total Revenues	\$ 512,543	\$ 774,156
	<hr/>	<hr/>
<u>Expenses</u>		
Administrative	169,849	147,511
Utilities	151,758	140,537
Tenant Services	0	500
Maintenance	185,383	130,187
General and Interest Expenses	38,668	31,397
Depreciation	162,960	151,003
	<hr/>	<hr/>
Total Expenses	\$ 708,618	\$ 601,135
	<hr/>	<hr/>
Net Increases (Decreases)	\$ (196,075)	\$ 173,021
	<hr/> <hr/>	<hr/> <hr/>

Major Factors Affecting the Statement of Revenue, Expenses and Changes in Net Assets

Tenant revenue increased by \$13,176 over 2006 tenant revenue. This increase was primarily due to the change in family income of tenants renting the units and occurred in spite of a decrease of 83 total unit months (unit months leased in 2007 was 1,101 and 1,184 in 2006).

Operating Grants increased modestly and Capital Grants decreased by \$244,570. This decrease was primarily due to closing of Capital Fund Grants from the previous year applied to operations. The agency utilized the capital grants this year primarily for capital projects.

Overall expenses increased moderately, while employee benefits and maintenance expenses increased sharply. Employees' benefits increased by \$12,448 due to increases in health insurance, an increase in employer share of retirement contributions, and the six month payment of Ohio Unemployment for a former employee. The Authority experienced an increase of \$55,196 in maintenance expenses for the year. Contract labor was utilized due to the loss of one maintenance employee during a time of extraordinary maintenance requirements. Maintenance materials also increased due to this extraordinary maintenance.

**LONDON METROPOLITAN HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended September 30, 2007**

Unaudited

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of year-end, the Authority had \$1,553,093 invested in a variety of capital assets as reflected in the following schedule, which represents a net decrease (addition, deductions and depreciation) of \$113,422 from the end of last year.

Table 4 - Condensed Statement of Changes in Capital Assets

	<u>2007</u>	<u>2006</u>
Land and Land Rights	\$ 340,739	340,739
Buildings	3,310,538	3,310,538
Equipment	235,418	221,922
Leasehold Improvements	415,522	25,456
Construction in Progress	184,185	538,211
Accumulated Depreciation	(2,933,309)	(2,770,351)
Total	<u>\$ 1,553,093</u>	<u>1,666,515</u>

Table 5 - Changes in Capital Assets

Beginning Balance - September 30, 2006	\$ 1,666,515
Current year Additions	49,536
Current year Depreciation Expense	(162,960)
Rounding Adjustment	2
Ending Balance - September 30, 2007	<u>\$ 1,553,093</u>

Current year additions are summarized as follows:

Ranges and refrigerators	8,334
ADT Security Camera System	2,731
17" Floor Machine	757
2,400 PSI Pressure Washer	400
30 Gal Water Heater	295
Toro Snowblower	979
Leasehold Improvement	36,041
Rounding Adjustment	(1)
Total Current Year Additions	<u>\$ 49,536</u>

**LONDON METROPOLITAN HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended September 30, 2007**

Unaudited

Debt Outstanding

As of year-end, the Authority had \$7,681 in debt outstanding compared to \$13,229 for prior year.

Table 6 - Condensed Statement of Changes in Debt Outstanding

Beginning Balance - September 30, 2006	\$ 13,229
Current Year Principal Payments	<u>(5,548)</u>
Ending Balance - September 30, 2007	<u><u>\$ 7,681</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

London Metropolitan Housing Authority takes great pride in its financial management and is pleased to report on the sound financial condition of the Authority.

FINANCIAL CONTACT

The individual to be contacted regarding this report is Diana Bell, Executive Director of the London Metropolitan Housing Authority. Specific requests may be submitted to Diana Bell, Executive Director, London Metropolitan Housing Authority, 179 S Main Street, London, OH 43140.

LONDON METROPOLITAN HOUSING AUTHORITY
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2007

ASSETS

CURRENT ASSETS

Cash and Cash Equivalents	\$ 73,143
Account Receivables - HUD	11,221
Tenant Receivables - Net of \$24,453 Allowance For Doubtful Accounts	3,170
Prepaid Expenses	3,106
TOTAL CURRENT ASSETS	\$ 90,640

Property and Equipment - Net of \$2,933,309 Accumulated Depreciation	1,553,093
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TOTAL ASSETS	\$ 1,643,733
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LIABILITIES

CURRENT LIABILITIES

Accounts Payable	\$ 14,880
Tenant Security Deposits	13,652
Accrued Wages and Payroll Taxes	5,801
Accrued Compensated Absences	3,990
Other Current Liabilities	3,719
Current Portion of Long-term Debt	5,548
TOTAL CURRENT LIABILITIES	\$ 47,590

NON-CURRENT LIABILITIES

Long-term Debt, net of current	\$ 2,133
Compensated Absences-long term	153
	<u>2,286</u>

TOTAL LIABILITIES	\$ 49,876
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NET ASSETS

Invested in Capital Assets, Net of Related Debt	\$ 1,545,412
Unrestricted	48,445
TOTAL NET ASSETS	\$ 1,593,857

See accompanying notes to the basic financial statements.

**LONDON METROPOLITAN HOUSING AUTHORITY
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED SEPTEMBER 30, 2007**

<u>REVENUE</u>	
HUD Grants	\$ 270,984
Rental Income	199,388
Other Income	<u>4,818</u>
 TOTAL REVENUE	 \$ <u>475,190</u>
 <u>EXPENSES</u>	
Administrative Salaries	\$ 75,899
Employee Benefits	49,834
Auditing Fees	3,545
Sundry Administration	40,571
Utilities	151,758
Material & Labor	185,383
Depreciation	162,960
General	<u>38,668</u>
 TOTAL EXPENSES	 \$ <u>708,618</u>
 OPERATING INCOME	 \$ <u>(233,428)</u>
 <u>NON-OPERATING REVENUES</u>	
Interest Income	\$ 1,312
HUD Capital Grants	<u>36,041</u>
TOTAL NON-OPERATING REVENUES	\$ <u>37,353</u>
 CHANGE IN NET ASSETS	 \$ (196,075)
 NET ASSETS - OCTOBER 1, 2006	 <u>1,789,932</u>
 NET ASSETS - SEPTEMBER 30, 2007	 \$ <u><u>1,593,857</u></u>

See accompanying notes to the basic financial statements.

**LONDON METROPOLITAN HOUSING AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 2007**

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from HUD	\$ 259,763
Cash received from Tenants & Other	196,453
Cash Payments Operating Expenses	<u>(551,165)</u>
 NET CASH (USED) PROVIDED FOR OPERATING ACTIVITIES	 \$ <u>(94,949)</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Capital Grants received for Capital Assets	\$ 36,041
Acquisition of Property and Equipment	(49,536)
Payment on Note Payable - Ohio Edison	<u>(5,548)</u>
NET CASH (USED) PROVIDED BY FINANCING ACTIVITIES	\$ <u>(19,043)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Investment Income	\$ <u>1,312</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	\$ <u>1,312</u>

NET INCREASE IN CASH AND CASH EQUIVALENTS	\$ (112,680)
CASH AND CASH EQUIVALENTS AT OCTOBER 1, 2006	<u>165,900</u>
CASH AND CASH EQUIVALENTS AT SEPTEMBER 30, 2007	<u><u>53,220</u></u>

RECONCILIATION OF OPERATING INCOME TO NET CASH

USED BY OPERATING ACTIVITIES:

Net Operating Income (Loss)	\$ (233,428)
Adjustments to Reconcile Net Loss to Net Cash Provided by Operating Activities:	
Depreciation	162,960
Changes in Operating Assets and Liabilities that Increase/Decrease Cash Flows:	
Receivables	(8,332)
Prepaid Expenses	652
Accounts Payable	(12,315)
Accrued Wages and Payroll Taxes	1,590
Other Current Liabilities	(9,797)
Tenant Security Deposits	3,650
Compensated Absences-long term	<u>71</u>
 NET CASH PROVIDED BY OPERATING ACTIVITIES	 \$ <u><u>(94,949)</u></u>

See accompanying notes to the basic financial statements.

LONDON METROPOLITAN HOUSING AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Reporting Entity

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

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

Basis of Presentation

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

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

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

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

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

Measurement Focus and Basis of Accounting

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

LONDON METROPOLITAN HOUSING AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Measurement Focus and Basis of Accounting (continued)

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

Estimates

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

Cash and Cash Equivalents

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

Restricted Cash

Restricted cash represents amounts held in FSS escrow and IDA accounts on behalf of tenants.

Prepaid Expenses

Payments made to vendors for services that will benefit periods beyond September 30, 2007, are recorded as prepaid expenses using the consumption method. A current asset for the amount is recorded at the time of the purchase and expense is reported in the year in which the services are consumed.

Investments

The provisions of the HUD Regulations restrict investments. Investments are stated at fair value. Cost based measures were applied to nonnegotiable certificates of deposit and money market investments. Interest income earned in fiscal year ended September 30, 2007 totaled \$1,312.

LONDON METROPOLITAN HOUSING AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Tenant Receivables – Recognition of Bad Debts

Bad debts are provided on the allowance method based on management's evaluation of the collectibility of outstanding tenant receivable balances at the end of the year. The allowance of uncollectible receivable was \$24,453 at September 30, 2007.

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.

Depreciation is recorded on the straight-line method.

Long-Term Debt/HUD Contributions

To provide for the development and modernization of low-rent housing units, LMHA issued New Housing Authority Bonds and Permanent Notes – F.F.B. These bonds and notes are payable by HUD and secured by annual contributions. The bonds and notes do not constitute a debt by the Authority and accordingly have not been reported in the accompanying financial statements.

Budgetary Accounting

The Authority annually prepares its budget as prescribed by the Department of Housing and Urban Development. This budget is submitted to the Department of Housing and Urban Development and once approved is adopted by the Board of the Housing Authority.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Authority or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Compensated Absences

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

All employees who meet the termination policy of the Authority for years of service are included in the calculation of the compensated absence accrual amount.

Vacation leave and other compensated absences with similar characteristics are accrued as a liability as the benefits are earned by the employees if both of the following conditions are met: (1) the employees' rights to receive

LONDON METROPOLITAN HOUSING AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2007

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

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

Due From/To Other Programs

Interprogram receivables and payables on the FDS Schedule on pages 23-24 are eliminated on the Statement of Net Assets.

Deferred Revenue

Deferred revenue represents rental receipts received before the first of the month when due.

NOTE 2 – CASH AND CASH EQUIVALENTS

Cash

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

Active deposits are public deposits necessary to meet current 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.

Protection of Authority's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), 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 monies deposited with the institution.

The Authority's deposits are categorized to give an indication of the level of risk assumed by the entity at year-end. Category 1 includes deposits that are insured or collateralized with securities held by the Authority or its safekeeping agent in the Authority's name. Category 2 includes uninsured deposits collateralized with securities held by the pledging financial institution's trust department or safekeeping agent in the Authority's name. Category 3 includes uninsured and uncollateralized deposits, including any bank balance that is collateralized with securities held by the pledging institution, or by its trust department or safekeeping agent, but not in the Authority's name.

LONDON METROPOLITAN HOUSING AUTHORITY
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 SEPTEMBER 30, 2007

The carrying amount of the Authority's deposits was \$53,220 at September 30, 2007. The corresponding bank balances were \$53,220.

The following show the Authority's deposits (bank balance) in each category:

Category 1. \$53,220 was covered by federal depository insurance.

NOTE 2 – CASH AND CASH EQUIVALENTS (continued)

Collateral is required for demand deposits and certificates of deposit at 110 percent of all deposits not covered by federal deposit insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies and obligations of the State and its municipalities, school districts, and district corporations. Obligations pledged to secure deposits must be delivered to a bank other than the institution in which the deposit is made. Written custodial agreements are required.

Investments

HUD, State Statute and Board Resolutions authorize the Authority to invest in obligations of U.S. Treasury, agencies and instrumentalities, certificates of deposit, repurchase agreements, money market deposit accounts, municipal depository fund, 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. For purposes of GASB No. 3, the Authority has no investments at September 30, 2007.

NOTE 3 – CAPITAL ASSETS

The following is a summary of the Authority's capital assets.

	<u>2007</u>
<u>Capital Assets Not Depreciated</u>	
Land and Land Improvements	\$340,739
Construction in Progress	<u>184,185</u>
Total Capital Assets Not Depreciated	<u>\$524,924</u>
<u>Capital Assets Being Depreciated</u>	
Buildings and Building Improvements	\$3,700,604
Furniture and Fixtures, Equipment and Moving Vehicles	<u>260,874</u>
Total Capital Assets Being Depreciated	3,961,478
Less: Accumulated Depreciation	<u>(2,933,309)</u>
Subtotal Capital Assets Being Depreciated	<u>1,028,169</u>
Total Capital Assets	<u>\$1,553,093</u>

LONDON METROPOLITAN HOUSING AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2007

NOTE 3 – CAPITAL ASSETS – (continued)

A summary of changes in capital assets at September 30, **2007, and 2006** is as follows:

	Sept 30, 2006	<u>Restatements & Reclasses</u>	Additions	Sept 30, 2007
<u>Capital Assets Not Depreciated</u>				
Land and Land Improvements	\$ 340,739		0	340,739
Construction in Progress	538,211	(390,066)	36,040	184,185
Total Capital Assets Not Depreciated	878,950	(390,066)	36,040	524,924
<u>Capital Assets Being Depreciated</u>				
Buildings and Building Improvements	\$ 3,310,538	390,066	0	\$ 3,700,604
Furniture and Fixtures, Equipment and Moving Vehicles	247,378		13,496	260,874
Total Capital Assets Being Depreciated	\$ 3,557,916	390,066	13,496	\$ 3,961,478
<u>Accumulated Depreciation</u>				
Buildings and Improvements	(2,576,426)		(148,259)	(2,724,685)
Furniture and Fixtures, Equipment and Moving Vehicles	(193,925)		(14,699)	(208,624)
Total Accumulated Depreciation	(2,770,351)		(162,958)	(2,933,309)
Depreciable Assets, Net	787,565	390,066	(149,462)	1,028,169
Total Capital Assets, Net	\$ 1,666,515	\$ 0	\$(113,422)	\$ 1,553,093

NOTE 4 – RETIREMENT AND OTHER BENEFIT PLANS

All employees of the Authority participate in the Ohio Public Employees Retirement System (OPERS), a cost-sharing multiple-employer defined benefit pension plan. The OPERS provides basic retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Chapter 145 of the Ohio Revised Code provides statutory authority to establish and amend benefits. OPERS issues a stand-alone financial report that includes financial statements and required supplementary information for the OPERS. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling 1-800-222-7377, or on the web at www.opers.org.

The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rate is 9% of qualifying gross wages for all employees. The total 2007 employer contribution rate was 13.54% of covered payroll, 9.04 percent to fund pension and 4.5 percent to fund health care. Required employer contributions are equal to 100% of the dollar amount billed to each employer and must be extracted from the employer's records. The Authority's contributions to OPERS for the years ended September 30, 2007, 2006 and 2005 were \$19,004, \$18,295 and \$15,492, respectively.

LONDON METROPOLITAN HOUSING AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2007

NOTE 4 – RETIREMENT AND OTHER BENEFIT PLANS – (continued)

OPERS provides post-retirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit and to primary survivor recipients of such retirees. Health care coverage for disability recipients is available. 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 PERS is set aside for the funding of post retirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The 2007 employer contribution rate for state employers was 13.85% of covered payroll: 5% was the portion that was used to fund health care for the year, under the new calculation methodology. The number of active contributing participants was 369,214 as of September 30, 2006.

The significant actuarial assumptions and calculations relating to postemployment health care benefits were based on the OPERS latest actuarial review performed as of December 31, 2005. An entry age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of unfunded actuarial accrued liability. All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach assets are adjusted annually to reflect 25 percent of unrealized market appreciation or depreciation on investment assets. The investment assumption rate for 2005 was 6.50 percent. An annual increase of 4.00 percent compounded annually is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.00 percent base increase, were assumed to range from 0.50 percent to 6.3 percent. Health care costs were assumed to increase 4.00 percent annually.

As of December 31, 2005, the audited estimated net assets available for future OPEB payments were \$11.1 billion. The actuarial accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used were \$31.3 billion and \$20.2 billion, respectively.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board is effective January 1, 2007. OPERS took additional actions to improve the solvency of the Health care fund in 2005 by creating a separate investment pool for health care assets. Member and employer contribution rates increased as of January 1, 2007, and January 1, 2007, which will allow additional funds to be allocated to the health care plan.

The benefit recipients will be free to select the option that best meets their needs. Recipients will fund health care costs in excess of their monthly health care benefit. The Plan will also offer a spending account feature, enabling the benefit recipient to apply their allowance toward specific medical expenses, much like a medical spending account.

NOTE 5 – COMPENSATED ABSENCES

The Board of Commissioners establishes vacation and sick leave policies.

Annual vacation and sick leave is given to all full time permanent employees at varying rates each year, based upon years of service of each respective employee. Certain portions of such leave may be accrued if not taken currently each year, but none of which may be paid to the employee except upon permanent termination, provided the employee is not dismissed for cause. At September 30, 2007, the Authority has accrued vacation and sick leave in the amount of \$153, long-term and \$3,990 current portion.

LONDON METROPOLITAN HOUSING AUTHORITY
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 SEPTEMBER 30, 2007

NOTE 6 – NOTE PAYABLE

The Authority financed the purchase of outside lighting with Ohio Edison in the amount of \$18,777, payable in monthly installments of \$462 per month including interest at .28% over 3.4 years. Final payment due February 2009. Four year maturities are as follows:

September 30	Principal	Interest	Total
2008	5,534	14	5,548
2009	<u>2,129</u>	<u>4</u>	<u>2,133</u>
Total	<u>\$7,663</u>	<u>\$ 18</u>	<u>\$ 7,681</u>

NOTE 7 – INSURANCE

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

NOTE 8 – FDS SCHEDULE SUBMITTED TO HUD

For the fiscal year ended September 30, 2007, the Authority electronically submitted an unaudited version of the combining balance sheet, statement of revenues, expenses and charges in retained earnings and other data to HUD as required on the GAAP basis. The audited version of the FDS schedules is on pages 23 and 24. The schedules are presented in the manner prescribed by Housing and Urban Development. These schedules can be used to tie the total assets and liabilities into the combined statements

NOTE 9 – CONTINGENCIES

Grants

The Authority received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Authority. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Authority at September 30, 2007.

Commitments and Contingencies

The authority has, under its normal operations, entered into commitments for the purchase of maintenance, cleaning, and other services. Such commitments are monthly or annually.

The Authority is exposed to various risks of loss related to torts; theft to, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. At September 30, 2007, the Authority was not involved in any such matters.

LONDON METROPOLITAN HOUSING AUTHORITY
BALANCE SHEET
FDS SCHEDULE SUBMITTED TO HUD
SEPTEMBER 30, 2007

FDS LINE NO.	Account Description	14.850 Low Rent Public Hsg	14.872 Public Hsg Capital Fund	Total
ASSETS				
111	Cash - unrestricted	\$ 39,568	\$ 0	\$ 39,568
114	Cash - Tenant Security	13,652	0	13,652
100	Total Cash	<u>53,220</u>	<u>0</u>	<u>53,220</u>
122	Accounts receivable - HUD Other Projects	0	11,221	0
125	Accounts receivable - Misc	0	0	0
126	Accounts receivable - Tenant	27,623	0	0
126.1	Allowance for doubtful accounts - tenant	(24,453)	0	0
126.2	Allowance for doubtful accounts - other	0	0	0
129	Accrued interest receivable	0	0	0
120	TOTAL RECEIVABLES - NET	<u>3,170</u>	<u>11,221</u>	<u>0</u>
131	Investments - Unrestricted	19,923	0	19,923
142	Prepaid Expenses and Other	3,106	0	3,106
144	Interprogram Due From	11,221	0	11,221
150	Total Current Assets	<u>90,640</u>	<u>11,221</u>	<u>101,861</u>
161	Land	340,739	0	340,739
162	Buildings	3,310,538	0	3,310,538
163	Furniture and equipment - Dwelling	108,525	0	108,525
164	Furniture and equipment - Admin	114,760	12,133	126,893
165	Leasehold improvements	415,522	0	415,522
166	Accumulated depreciation	(2,927,243)	(6,066)	(2,933,309)
167	Construction in Progress	0	184,185	184,185
180	TOTAL NON-CURRENT ASSETS	<u>1,362,841</u>	<u>190,252</u>	<u>1,553,093</u>
190	TOTAL ASSETS	<u>\$ 1,453,481</u>	<u>\$ 201,473</u>	<u>\$ 1,654,954</u>
LIABILITIES AND RETAINED EARNINGS				
312	Accounts payable <=90 days	\$ 14,880	\$ 0	\$ 14,880
321	Accrued Wage/Payroll taxes payable	5,801	0	5,801
322	Accrued Compensated Absences	3,990	0	3,990
333	Accounts payable - other Gov	2,841	0	2,841
341	Tenant Security Deposits	13,652	0	13,652
342	Deferred Revenue	878	0	878
343	Current Portion of Long-Term Debt	5,548	0	5,548
347	Interprogram Due	0	11,221	11,221
310	TOTAL CURRENT LIABILITIES	<u>47,590</u>	<u>11,221</u>	<u>58,811</u>
353	Noncurrent liabilities - other	2,133	0	2,133
354	Accrued Compensated Absences-non current	153	0	153
350	TOTAL NONCURRENT LIABILITIES	<u>2,286</u>	<u>0</u>	<u>2,286</u>
300	TOTAL LIABILITIES	<u>49,876</u>	<u>11,221</u>	<u>61,097</u>
508.1	Invested in Capital Assets, Net of Debt	1,355,160	190,252	1,545,412
512.1	Unrestricted Net Assets	48,445	0	48,445
513	TOTAL EQUITY/NET ASSETS	<u>1,403,605</u>	<u>190,252</u>	<u>1,593,857</u>
600	TOTAL LIABILITIES AND EQUITY NET ASSETS	<u>\$ 1,453,481</u>	<u>\$ 201,473</u>	<u>\$ 1,654,954</u>

LONDON METROPOLITAN HOUSING AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
NET ASSETS
FDS SCHEDULE SUBMITTED TO HUD
SEPTEMBER 30, 2007

DS LINE ITEM NO.	Account Description	14.850 Low Rent Public Hsg	14.872 Public Hsg Capital Fund	Total
	REVENUE			
703	Net Tenant Revenue	\$ 199,388	\$ 0	\$ 199,388
704	Net Tenant Revenue	<u>0</u>	<u>0</u>	<u>0</u>
705	Total Tenant Revenue	199,388	0	199,388
706	HUD PHA Operating Grants	253,873	17,111	270,984
706.1	Capital Grants	0	36,041	36,041
711	Investment income	1,312	0	1,312
715	Other Revenue	<u>4,818</u>	<u>0</u>	<u>4,818</u>
700	TOTAL REVENUE	<u>459,391</u>	<u>53,152</u>	<u>512,543</u>
	EXPENSES			
911	Administrative Salaries	70,788	5,111	75,899
912	Auditing fees	3,545	0	3,545
914	Compensated Absences	(87)	0	(87)
915	Employee Benefit Admin	49,921	0	49,921
916	Other Operating - Admin	40,571	0	40,571
921	Tenant Services - Other	0	0	0
931	Water	39,652	0	39,652
932	Electric	11,030	0	11,030
933	Gas	101,076	0	101,076
941	Ordinary Mtce & Op. Labor	61,717	0	61,717
942	Ordinary Mtce & Op. Materials	29,096	0	29,096
943	Ordinary Mtce & Op. Contract Costs	53,978	0	53,978
945	Employee Benefit Contr. Mtce	40,592	0	40,592
961	Insurance Premiums	19,797	0	19,797
962	Other General Expenses	0	0	0
963	Payments in Lieu of Taxes	2,841	0	2,841
964	Bad Debt - Tenant Rent	<u>16,030</u>	<u>0</u>	<u>16,030</u>
969	TOTAL OPERATING EXPENSE	<u>540,547</u>	<u>5,111</u>	<u>545,658</u>
970	Excess operating revenue over expenses	(81,156)	48,041	(33,115)
	OTHER EXPENSES			
974	Depreciation expense	<u>160,912</u>	<u>2,048</u>	<u>162,960</u>
900	TOTAL EXPENSES (Acct. 969, 973,974)	<u>701,459</u>	<u>7,159</u>	<u>708,618</u>
1001	Operating Transfers In	12,000	0	12,000
1002	Operating Transfers Out	<u>0</u>	<u>12,000</u>	<u>12,000</u>
1010	Total Other Financing Sources(Uses)	12,000	12,000	24,000
1000	Excess of Operating Revenue over Expenses	(230,068)	33,993	(196,075)
1103	Beginning Equity	<u>1,243,607</u>	<u>546,325</u>	<u>1,789,932</u>
1104	Prior Period Adjustments, Equity Transfers and Correction on Errors	<u>390,066</u>	<u>(390,066)</u>	<u>0</u>
	ENDING EQUITY	<u>\$ 1,403,605</u>	<u>\$ 190,252</u>	<u>\$ 1,593,857</u>

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

The Board of Commissioners
London Metropolitan Housing Authority
London, Ohio

Regional Inspector General of Audit
Department of Housing and Urban
Development

We have audited the financial statements of London Metropolitan Housing Authority, as of and for the year ended September 30, 2007, and have issued our report thereon dated March 29, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered London Metropolitan Housing Authority internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the London Metropolitan Housing Authority internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the London Metropolitan Housing Authority internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the London Metropolitan Housing Authority ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the London Metropolitan Housing Authority financial statements that is more than inconsequential will not be prevented or detected by the London Metropolitan Housing Authority internal control.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether London Metropolitan Housing Authority financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed 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 2007-1 and 2007-2.

We noted certain matters that we reported to management of London Metropolitan Housing Authority, in a separate letter dated March 29, 2008.

London Metropolitan Housing Authority response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit London Metropolitan Housing Authority response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Firm's signature

City, State

March 29, 2008

Schedule of Findings and Questioned Costs
OMB Circular A-133 § .505

London Metropolitan Housing Authority
September 30, 2007

1. SUMMARY OF AUDITORS' RESULTS	
Type of Financial Statement Opinion	Unqualified
Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	NO
Was there any reported material non-compliance at the financial statement level (GAGAS)?	NO

LONDON METROPOLITAN HOUSING AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2007

SCHEDULE OF FINDINGS

<p>1. FINDING RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</p>

FINDING NUMBER 2007-001

Noncompliance Citation/Reportable Condition

Ohio Rev. Code, Section 135.18, requires that the Treasurer of a political subdivision must require a depository to provide a security in an amount equal to the funds on deposit at all times. Such security may consist of federal deposit insurance, surety company bonds, or pledged securities.

We were unable to determine whether the Authority's deposits at The Huntington National Bank were adequately covered by collateral during 2006, since we could not obtain collateral agreements from either the Authority or Bank. Uncollateralized deposits in 2006 ranged from a low of \$13,890 in August and a high of \$99,573 in November.

Failure to adequately collateralize deposits can result in loss of funds. The Authority should implement procedures to verify that depository balances are adequately secured by eligible collateral at all times.

Response: The Authority will maintain depository a depository agreement to cover funds in the accounts.

FINDING NUMBER 2007-002

Significant Deficiencies / Internal Control Deficiency

Internal control deficiencies were noted with respect to documenting and monitoring of work completed by service organization.

London Metropolitan Housing Authority has engaged an outside service organization to provide administrative services for the Accounting and Financial reporting functions. The services provided include, the processing of monthly bill payments, payroll, bank reconciliations, fixed asset tracking, and financial statement preparation. These services are significant to the overall administration of the Housing Authority.

During the audit documentation related to the service agent's internal controls were unavailable for review, and there appeared to be a lack of oversight by the commissioners of the Housing Authority.

As a result, the Housing Authority's financial statements could be misstated for an unreasonable period of time.

FINDING NUMBER 2007-002 (Continued)

RECOMMENDATION

Obtaining a SAS 70 Audit Report

The Authority should revise their third-party administrator contract to include a requirement for an annual Tier II SAS 70 audit. A SAS 70 audit should be conducted in accordance with American Institute of Certified Public Accountants' (AICPA) standards by a firm registered and considered in "good standing" with the Accountancy Board of the respective State. The Authority should be provided with a copy of the SAS 70 report and then review the report's content. This report gives the user entity insight to the controls and their operating effectiveness at the service organization. The failure to obtain this type of report prevents the user entity from knowing if significant deficiencies in the control system exist at the third party administrator. The Authority should take steps to address any user control considerations identified in the report.

RESPONSE

(CLMHA)-Commissioners London Metropolitan Housing Authority

Commissioners of London Metropolitan Housing Authority (CLMHA) have addressed and implemented review processes as they relate to the service organization.

- 1 - The service organization has provided LMHA with its policies and procedures, in particular related its internal controls, which have been reviewed and accepted by the CLMHA.
- 2 - CLMHA has the ongoing internal control of a Commissioner co-signing ALL checks, which are presented by the Director after his/her signing along with the original invoices.
- 3 - CLMHA has implemented an internal monitoring control of a monthly review of Invoices Paid by a Commissioner. The Commissioner performing this check will vary monthly, and invoices with supporting documentation will be chosen randomly.
- 4 - CLMHA will not require its Fee Accountant service organization to provide a Tier II SAS 70 at this time, as there is currently no HUD requirement for Fee Accountants to have a SAS 70 audit.

SECTION III – Findings and Questioned Costs – Major Federal Award Programs Audit

None



Mary Taylor, CPA
Auditor of State

LONDON METROPOLITAN HOUSING AUTHORITY

MADISON 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
JULY 1, 2008**