LICKING METROPOLITAN HOUSING AUTHORITY

BASIC FINANCIAL STATEMENTS AND SINGLE AUDIT

FOR THE YEAR ENDED DECEMBER 31, 2011

James G. Zupka, CPA, Inc.

Certified Public Accountants

Dave Yost • Auditor of State

Board of Directors
Licking Metropolitan Housing Authority
144 West Main Street
Newark, Ohio 43055

We have reviewed the *Independent Auditor's Report* of the Licking Metropolitan Housing Authority, Licking County, prepared by James G. Zupka, CPA, Inc., for the audit period January 1, 2011 through December 31, 2011. 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 Licking Metropolitan Housing Authority is responsible for compliance with these laws and regulations.

Dave Yost
Auditor of State

October 29, 2012

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FOR THE YEAR ENDED DECEMBER 31, 2011

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Licking Metropolitan Housing Authority
Newark, Ohio

Regional Inspector General of Audit
Department of Housing and Urban
Development

We have audited the accompanying financial statements of the business-type activities of the Licking Metropolitan Housing Authority, Ohio as of and for the year ended December 31, 2011, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Licking Metropolitan Housing Authority, Ohio's management. Our responsibility is to express opinions 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 financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Licking Metropolitan Housing Authority, as of December 31, 2011, and the respective changes in financial position, and cash flows, thereof 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 July 20, 2012, on our consideration of the Licking Metropolitan Housing Authority, Ohio's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during the audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Licking Metropolitan Housing Authority, Ohio's financial statements 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*, and is also not a required part of the financial statements. The Schedule of Expenditures of Federal Awards is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

The Authority has not presented the audited Financial Data Schedules (FDS) utilized by the Department of Housing and Urban Development for additional analysis, although not required to be part of the basic financial statements. The FDS are not available as HUD has not completed its review of the Schedules as of the date of this report.

James G. Zupka, CPA, Inc.

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

July 20, 2012

Licking Metropolitan Housing Authority's (LMHA) *Management 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)
d) Identify the single enterprise fund issues or concerns.

LMHA follows the guidelines of GASB No. 34. Since the MD&A is designed to focus on the current year's activities, resulting changes and currently known facts, please read it conjunction with the Authority's financial statements which follow.

Financial Highlights

• Total Revenue:	FYI 12/31/11:	$6,786,724 **decrease** of $65,543 in 2011
	FYI 12/31/10:	$6,852,267 **increase** of $387,354 in 2010
• Total Expenses:	FYI 12/31/11:	$6,630,424 **increase** of $7,418 in 2011
	FYI 12/31/10:	$6,623,006 **increase** of $254,340 in 2010

USING THIS ANNUAL REPORT

MD&A
~ Management Discussion and Analysis ~

BASIC FINANCIAL STATEMENTS
~ Statement of Net Assets
~ Statement of Revenues, Expenses and Changes in Net Assets
~ Cash Flows
~ Capital Assets at Year End
~ Change in Capital Assets
~ Notes to Financial Statements

This report focuses on LMHA as a single-enterprise fund. This format allows the user to address relevant questions, broaden a basis for comparison (year-to-year) and enhances LMHA's accountability.

BASIC FINANCIAL STATEMENTS

The basic financial statements are designed to be corporate-like in that all business type programs are consolidated into one single-enterprise fund for LMHA.

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 LMHA. The statement is presented in the format where assets, minus liabilities, equals "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 Statements of Net Assets (**the "Unrestricted Net Assets"**) is designed to represent the net available liquid (non-capital) assets, net of liabilities, for the entire LMHA. Net Assets (formerly equity) are reported in three broad categories (as applicable).

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 these 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 basic financial statements also include a **Statement of Revenues, Expenses and Changes in 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 Net Assets is the "Change in Net Assets", which is similar to Net Income or Loss.

Licking Metropolitan Housing Authority programs that are consolidated into a single-enterprise fund are as follows:

Conventional Public Housing (PH) **-** Under the Conventional Public Housing Program, LMHA rents up to 99 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 an Operating Subsidy to enable the PHA to provide the housing at a rent that is based upon 30 percent of adjusted gross household income. Rental income chargeable to the PH tenants increased by 3.6 percent from 2010 to 2011, primarily due to higher incomes (Social Security income) reported by tenants.

Capital Fund Program (CFP) - This is the current primary funding source for LMHA's physical and management improvements for PH. Funds are allocated by a formula allocation and based on size and age of the authority's units.

Housing Choice Voucher Program (HCVP) - Under the Housing Choice Voucher Program, LMHA subsidizes rents to independent landlords who own the properties. LMHA 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 LMHA to subsidize a portion of a tenant's rent. The tenant typically pays 30 percent of their adjusted gross income toward their rent.

Other Business Activity - LMHA owns an office building/land which it purchased in 2005 for Section 8 and administrative staff. A lease agreement with the local health clinic for the rental of a portion of the administrative building continued through 2011. This agreement allows the local health clinic to provide a centralized location for their facility, and provided LMHA Business Activities with $7,200 in annual rental income.

LMHA's Financial Operations Manager also acts as the accountant for a non-profit organization, Licking County Housing, Inc. This agreement generated $1,115.23 which was in "Business Activity" revenue for 2011.

Shelter Plus Care I & II (SPC I & II) - The Shelter Plus Care Program, funded by the McKinney-Vinto Homeless Assistance Act, provide rental assistance, in connection with supportive services to homeless persons with disabilities, (primarily persons who are seriously mentally ill and/or chronic substance abuse) and their families. The programs provide assistance through tenant-based rental assistance. Administrative fees in the total amount of $14,417 were received from these programs in 2011.

STATEMENT OF NET ASSETS

Table 1 - Condensed Statement of Net Assets Compared to Prior Year

	2011	2010	Change	Percent Change
Current and Other Assets	$ 656,511	$ 641,664	$ 14,847	$ 2.31%
Capital Assets	2,121,956	2,055,024	66,932	3.26%
Total Assets	$ 2,778,467	$ 2,696,688	$ 81,779	3.03%
Current Liabilities	$ 31,911	$ 102,444	$ (70,533)	(68.85%)
Non-current Liabilities	20,659	24,647	(3,988)	(16.18%)
Total Liabilities	52,570	127,091	(74,521)	(58.64%)
Net Assets:				
Investments in Capital Assets, Net of Related Debt	2,119,776	2,055,024	64,752	3.15%
Restricted Net Assets	177,557	50,638	126,919	250.64%
Unrestricted Net Assets	428,564	463,935	(35,371)	(7.62%)
Total Net Assets	2,725,897	2,569,597	156,300	6.08%
Total Liabilities and Net Assets	$ 2,778,467	$ 2,696,688	$ 81,779	3.03%

" Restricted net assets" includes $177,557, HCV HAP equity which are funds provided by HUD to be used by LMHA to make rental assistance payments under the HCV program that had not yet been spent at year end.

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Table 2 - Statement of Revenue, Expenses and Changes in Net Assets

	2011	2010	Change	Percent Change
Revenues				
Total Tenant Revenues	$ 232,504	$ 224,425	$ 8,079	$ 3.60%
Operating Subsidies	6,388,454	6,352,001	36,453	0.57%
Capital Grants	136,121	248,626	(112,505)	(45.25%)
Investment Income	956	812	144	17.73%
Other Revenues	28,689	26,403	2,286	8.66%
Total Revenues	6,786,724	6,852,267	(65,543)	(0.96%)
Expenses				
Administrative	770,567	693,892	76,675	11.05%
Tenant Services	2,289	3,703	(1,414)	(38.19%)
Utilities	121,864	125,186	(3,322)	(2.65%)
Maintenance	176,243	224,557	(48,314)	(21.52%)
Insurance and General Expenses	37,182	43,870	(6,688)	(15.25%)
Housing Assistance Payments	5,375,566	5,400,553	(24,987)	(0.46%)
Depreciation	146,713	131,245	15,468	11.79%
Total Expenses	6,630,424	6,623,006	7,418	0.11%
Net Increases (Decreases)	$ 156,300	$ 229,261	$ (72,961)	(31.82)%

SCHEDULE OF REVENUE AND EXPENSE BY PROGRAM

LMHA experienced a net decrease (all programs) of $65,543 in total revenue from 2010 to 2011, regarding which the following may be noted:

SECTION-8 (HCV, SPC I & SPC II)

HAP Vouchers for SPC I & II are pass-through programs, whereby exact amounts of expenses are immediately drawn down by the Licking Metropolitan Housing Authority through HUD's LOCCs for reimbursement. The HAP Housing Choice Voucher (HCV) Program operates by receiving an amount defined by HUD through an annual contributions contract. Deposits are made by HUD, typically, into the LMHA's account at the beginning of each month. LMHA is then responsible for making all housing-assistance payments for the applicable period.

HCV HAP funds received from HUD for 2011 increased $68,349 from $5,248,826 in 2010 to $5,317,175 in 2011. HCV Administrative Fees received decreased $24,725 from $646,913 in 2010 to $622,188.

SPC Administrative Fees received of $14,417 shows an increase from 2010 when $9,193 was earned.

HCV and SPC Program operating expenses increased by $47,081, with $569,993 in 2010 and $617,074 in 2011. Contributing to this increase was $10,548 spent on HUD-specific training expenses for newly-hired employees, and spending of $18,385 on several building maintenance projects.

A comparison of 2010 and 2011 utilities for the HCV/SPC Program is as follows:

HCV/SPC Utility	2011	2010
Water	$ 632	$ 634
Electric	5,381	5,070
Gas	2,661	3,707
Total	$ 8,674	$ 9,411

A slight reduction of $737 was seen from 2010 to 2011. A large, gas water heater was replaced with a new, smaller energy-efficient water heater, and a mild winter occurred in 2011.

PUBLIC HOUSING - LOW-RENT PROGRAM

The Public Housing, Low-Rent Program, operating subsidy decreased from $242,648 in 2010 to $226,835 in 2011. Tenant revenue increased $8,079 from $224,425 in 2010 to $232,504 in 2011, due primarily to increases in tenant social security income.

Public Housing utility expenses decreased by $2,585 in 2011, primarily due to a milder winter in 2011, and benefits stemming from the new windows installed at Terrace Garden's Apartments.

PH Utility	2011	2010
Water	$ 25,289	$ 25,562
Electric	60,197	54,827
Gas	27,704	35,386
Total	$ 113,190	$ 115,775

Total operating expenses for the Public Housing Program decreased by $18,962 in 2011 from $502,429 in 2010 to $483,467 in 2011. Reductions were seen in contract cleaning, outside accounting services, employee benefit insurance - fewer health-care reimbursements, and maintenance on equipment.

In 2011, LMHA spent $136,121, in capital fund grants for various capital improvement projects. In 2010, it spent $248,626. (In 2010, the grants included $130,199 for the ARRA Fund Grant.)

Management would also like to make note regarding the Basic Financial Statements and Single Audit for the year ended December 31, 2011, "Schedule of Expenditures of Federal Awards for the Year Ended December 31, 2011". Grant amounts received *include administrative fees*. The "Expenditures for the year Ended" does not represent the exact amount of payments made for the "Section 8 Rental Voucher" Program during the year but rather represents program revenue.

DEBT

LMHA debt was limited to $2,180 related to a lease of a copier - to be paid in full in 2012, at which time LMHA will own the equipment.

CAPITAL ASSETS

As of 2011 year end, the Authority had $2,121,956 invested in a variety of capital assets as reflected in the following schedule which represents a net increase (addition, deductions and depreciation) of $66,932 from the end of 2010. See tables 3 & 4.

Table 3 - Condensed Statement of Changes in Capital Assets

	2011	2010	Change	Percent Change
Land	$ 276,250	$ 276,250	$ 0	0%
Buildings	5,781,868	5,614,224	167,644	3%
Equipment	262,292	216,291	46,001	21%
Accumulated Depreciation	(4,198,454)	(4,051,741)	(146,713)	(4%)
Total Capital Assets, Net	$ 2,121,956	$ 2,055,024	$ 66,932	3%

Table 4 - Changes in Capital Assets

Beginning Balance - December 31, 2010	$ 2,055,024
Current Year Additions	213,645
Current Year Depreciation Expense	(146,713)
Ending Balance - December 31, 2011	$ 2,121,956

Additions in capital assets for the HCV Program included the following purchases:

- Equipment - new server, new fire walls for main servers, scanners, iPAD for inspections, a laptop computer, locked storage cabinet for servers;
- Administrative Office improvements - awnings, gas water heater, new asphalt, new sidewalks, non-slip flooring.

Additions in capital assets for the Public Housing Hi-Rise included the following purchases:

- Major Terrace Renovation - (removed second-story terrace concrete structure and finished exposed areas);
- Boiler overhaul;
- Perimeter fence repair/replacement;
- Equipment - firewall for server and scanners.

ECONOMIC FACTORS

Significant economic factors affecting the Authority are as follows:

- Federal funding from the Department of Housing and Urban Development
- Local labor supply and demand, which can effect 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

MANAGEMENT NOTES AND CONCLUSIONS:

A large increase can be seen in the Restricted Net Assets for the HCV Program, primarily because a large portion of HCV Housing Assistance Payments (HAP) funds were received in late 2011. LMHA reacted to the additional funds as quickly as possible by attempting to increase its units leased on the HCV Program, but most of these increases were effective in January and February 2012.

In 2010, a one-time grant for the ARRA Capital Grant Funds was received. This helps to explain the $112,505 reduction in Capital Funds received in 2011.

Cash for 2011 was reduced by $113,575 on the entity-wide balance sheet. As mentioned previously, December invoices were paid in December in 2011, unlike 2010 when they were paid in January. The capital improvements mentioned above also reduced the cash position at year end for 2011. This also explains the variance in the accounts payable.

FINANCIAL CONTACT

If you have any questions regarding this report, you may contact Jody Hull-Arthur, Executive Director of the LMHA 740-349-8069 Ext. 224, or Cynthia Beers, Financial Operations Manager, Ext. 229.

Cynthia Beers
Financial Operations Manager
740-349-8069 Ext. 229

LICKING METROPOLITAN HOUSING AUTHORITY
STATEMENT OF NET ASSETS
DECEMBER 31, 2011

ASSETS	
Current Assets	
Cash and Cash Equivalents	$ 451,136
Restricted Cash and Cash Equivalents	187,335
Receivables, Net	6,103
Prepaid Expenses	11,937
Total Current Assets	656,511
Noncurrent Assets	
Non-depreciable Capital Assets	276,250
Depreciable Capital Assets, Net	1,845,706
Total Noncurrent Assets	2,121,956
TOTAL ASSETS	$ 2,778,467
LIABILITIES AND NET ASSETS	
Current Liabilities	
Accounts Payable	$ 9,088
Current Portion of Capital Lease Obligation	2,180
Tenant Security Deposits	9,778
Intergovernmental Payable	10,865
Total Current Liabilities	31,911
Noncurrent Liabilities	
Accrued Compensated Absences	20,659
Total Noncurrent Liabilities	20,659
Total Liabilities	52,570
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	2,119,776
Unrestricted Net Assets	428,564
Restricted Net Assets	177,557
Total Net Assets	2,725,897
TOTAL LIABILITIES AND NET ASSETS	$ 2,778,467

See accompanying notes to the basic financial statements.

LICKING METROPOLITAN HOUSING AUTHORITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2011

Operating Revenues	
Government Grants	$ 6,388,454
Tenant Revenue	232,504
Other Revenue	28,689
Total Operating Revenues	6,649,647
Operating Expenses	
Administrative	770,567
Tenant Services	2,289
Utilities	121,864
Maintenance	176,243
General	37,182
Housing Assistance Payments	5,375,566
Total Operating Expenses Before Depreciation	6,483,711
Income (Loss) Before Depreciation	165,936
Depreciation	146,713
Operating Income (Loss)	19,223
Non-Operating Revenues (Expenses)	
Interest and Investment Revenue	956
Total Non-Operating Revenues (Expenses)	956
Income (Loss) Before Capital Grants	20,179
Capital Grants	136,121
Change in Net Assets	156,300
Total Net Assets, Beginning of Year	2,569,597
Net Assets, End of Year	$ 2,725,897

See accompanying notes to the basic financial statements.

LICKING METROPOLITAN HOUSING AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2011

Cash Flows from Operating Activities	
Cash Received from Government Grants	$ 6,390,053
Cash Received From Tenants	232,504
Cash Payments for Housing Assistance	(5,375,566)
Cash Payments for Administrative Expenses	(785,142)
Cash Payments for Other Operating Expenses	(395,767)
Cash Received - Other	29,163
Net Cash (Provided) by Operating Activities	95,245
Cash Flows from Capital and Related Financing Activities	
Acquisition of Capital Assets	(213,645)
Capital Grants Received	136,121
Payments on Capital Lease Obligation	(4,258)
Net Cash Provided by Capital and Other Related Financing Activities	(81,782)
Cash Flows from Investing Activities	
Interest and Investment Income Received	956
Net Cash Provided by Investing Activities	956
Net Increase (Decrease) in Cash and Cash Equivalents	14,419
Cash and Cash Equivalents, Beginning	624,052
Cash and Cash Equivalents, Ending	$ 638,471
Reconciliation of Operating Loss to Net Cash Provided by Operating Activities	
Net Operating (Loss)	$ 19,223
Adjustments to Reconcile Operating Loss to	
Net Cash Provided by Operating Activities	
Depreciation	146,713
(Increase) Decrease in:	
Accounts Receivable - HUD	1,599
Accounts Receivable - Other	(601)
Prepaid Expenses	(1,426)
Increase (Decrease) in:	
Accounts Payable	(56,763)
Accrued Compensated Absences	(1,676)
Tenants' Security Deposits	1,075
Accrued Wages and Payroll Taxes	(12,899)
Net Cash Used by Operating Activities	$ 95,245

See accompanying notes to the basic financial statements.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Reporting Entity

The Licking Metropolitan Housing Authority (LMHA) is a political subdivision of the State of Ohio, located in Newark, 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 LMHA 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 construction, maintenance, operating, improving, extending, and repairing housing facilities.

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

Basis of Presentation

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

The Authority has elected under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Activities That Use Proprietary Fund Accounting*, to apply all applicable GASB pronouncements as well as any applicable pronouncements of the Financial Accounting Standards Board, the Accounting Principles Board, or any Accounting Research Bulletins issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements. The Authority has elected not to follow FASB guidance issued after November 30, 1989.

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.

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

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

Enterprise fund reporting focuses on the determination of the changes in net 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 needs of its enterprise activity.

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

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

Description of Programs

The Authority's programs that are consolidated into a single enterprise fund are as follows:

Public Housing (PH) - The PH program is designed to provide low-cost housing within the County. Under this program, HUD provides funding via an annual contributions contract. These funds, combined with rental income received from tenants, are available solely to meet the operating expenses of the program.

Capital Fund Program (CFP) - The CFP provides funds annually, via a formula, to PH Agencies for capital and management activities, including modernization and development housing.

Housing Choice Voucher Program (HCVP) - The HCVP was authorized by Section 8 of the National Housing Act and provides housing assistance payments to private, not-for-profit or public landlords to subsidize rentals for low-income persons.

Shelter Plus Care (SPC) - The SPC Program provides rental assistance, in connection with supportive services funded from sources other than this program to homeless persons with disabilities (primarily persons who are seriously mentally ill; have chronic problems with alcohol, drugs, or both, or have acquired immunodeficiency syndrome and related diseases) and their families. The program provides assistance through Tenant-based Rental Assistance (TRA).

Business Activities (BA) - Business Activities represents other services that the PHA provides to Licking Metropolitan Housing Authority for a fee and services that the PHA provides to the County. The revenue and expenses for these services are identified and tracked separate from the HUD activities.

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

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

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

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

Property and Equipment
Property and equipment are 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. The Authority's capitalization threshold is $500. Depreciation is recorded on the straight-line method under the following lives:

Buildings	27.5 years
Building Improvements	15 years
Equipment	7 years
Autos	5 years

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 borrowings used for the acquisition, construction or improvement of those assets. Net assets are recorded as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Authority or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Restricted Net Assets include what is known as Housing Choice Voucher Program HAP Equity. That is funding provided to the Agency by HUD for the purpose of making rental assistance payments on behalf of program participants that has yet to be expended.

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

Net Assets (Continued)
The Authority applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

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

Budgetary Accounting
LMHA annually prepares funding requests as prescribed by HUD. Operating budgets are adopted for all Authority's programs by the Authority's Board.

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

NOTE 2: **DEPOSITS AND INVESTMENTS**

Cash of Hand
At December 31, 2011, the carrying amount of the Authority's deposits was $638,471 (including $187,335 of restricted funds, and $200 of petty cash).

At December 31, 2011, the bank balance of the Authority's cash deposits was $701,649. Based on criteria described in GASB Statement No. 40, *Deposits and Investments Risk Disclosures*, as of December 31, 2011, deposits totaling $528,295 were covered by Federal Depository Insurance and deposits totaling $173,354 were uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the Authority's name.

Custodial credit is the risk that, in the event of a bank failure, the Authority's deposits may not be returned. The Authority's policy is to place deposits with major local banks approved by the Board. Multiple financial institution collateral pools that insure public deposits must maintain collateral in excess of 110 percent of deposits. All deposits, except for deposits held by fiscal and escrow agents, are collateralized with eligible securities in amounts equal to at least 110 percent of the carrying value of the deposits. Such collateral, as permitted by Chapter 135 of the Ohio Revised Code, is held in financial institution pools at Federal Reserve banks, or at member banks of the Federal Reserve system in the name of the respective depository bank, and pledged as a pool of collateral against all of the public deposits it holds, or as specific collateral held at a Federal Reserve bank in the name of the Authority.

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

Investments

The Authority has a formal investment policy. The Authority follows GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investments Pools*, and records all its investments at fair value. At December 31, 2011, the Authority had no investments.

Interest Rate Risk

As a means of limiting its exposure to fair value of losses caused by rising interest rates, the Authority's investment policy requires that operating funds be invested primarily in short-term investments maturing within 2 years from the date of purchase and that its investment portfolio be structured so that securities mature to meet cash requirements for ongoing operations and/or long-term debt payments. The stated intent of the policy is to avoid the need to sell securities prior to maturity.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Authority has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the controller or qualified trustee.

Restricted Cash

The restricted cash balance of $187,335 on the financial statements represents the following:

Excess cash advanced to the Housing Choice Voucher Program by HUD for Housing Assistance Payments (Restricted Net Assets)	$ 177,557
Tenant Security Deposits Liability	9,778
Total	$ 187,335

NOTE 3: **CAPITAL ASSETS**

Following is a summary of capital assets:

	Balance 12/31/2010	Additions	Deletions	Balance 12/31/2011
Capital Assets Not Being Depreciated				
Land	$ 276,250	$ 0	$ 0	$ 276,250
Total Capital Assets Not Being Depreciated	276,250	0	0	276,250
Capital Assets Being Depreciated				
Buildings and Improvements	5,614,224	167,644	0	5,781,868
Furniture and Equipment	216,291	46,001	0	262,292
Subtotal Capital Assets Being Depreciated	5,830,515	213,645	0	6,044,160
Accumulated Depreciation - Buildings and Improvements	(3,874,391)	(127,096)	0	(4,001,487)
Accumulated Depreciation - Furniture and Equipment	(177,350)	(19,617)	0	(196,967)
Subtotal Accumulated Depreciation	(4,051,741)	(146,713)	0	(4,198,454)
Depreciable Assets, Net	1,778,774	66,932	0	1,845,706
Total Capital Assets, Net	$ 2,055,024	$ 66,932	$ 0	$ 2,121,956

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NOTE 4: CAPITAL LEASE OBLIGATIONS

The Authority entered into a capital lease for a copier in July, 2007. The lease calls for monthly payments of $367 through June, 2012. The total cost for the asset under the lease was $20,317; accumulated amortization totaled $18,137 as of December 31, 2011.

Future minimum lease payments under this lease are as follows as of December 31, 2011,

2012	$ 2,202
Total	2,202
Less Amount Representing Interest	22
Current Portion of Capital Lease Obligation	2,180
Capital Lease Obligation, Less Current Portion	$ 0

Below is a summary of changes in long-term debt in the period:

Beginning Balance	Additions	Deletions	Ending Balance	Current Portion
$ 6,438	$ 0	$ 4,258	$ 2,180	$ 2,180

NOTE 5: ALLOCATION OF COSTS

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

NOTE 6: DEFINED BENEFIT PENSION PLAN

Ohio Public Employees Retirement System

All full-time Authority 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 benefit 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 the member and (vested) employer contributions plus any investments earnings.

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

Ohio Public Employees Retirement System (Continued)

- 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.

OPERS provides retirement, disability, survivor, 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) 222-5601 or 1-800-222-7377 or by using the OPERS website at www.opers.org.

The Ohio Revised Code provides statutory authority for member and employer contributions. For 2011, member and employer contribution rates were consistent across all three plans (TP, MD, and CO). Plan members are required to contribute 10 percent of their annual covered salary to fund pension obligations. The employer pension contribution rate for the Authority was 14 percent of covered payroll. The Authority's required contributions to the OPERS for the years ended December 31, 2011, 2010, and 2009, were $63,009, $60,165, and $61,066, respectively. One hundred percent has been contributed for 2011. All required contributions for the two previous years have been paid.

NOTE 7: **POST-EMPLOYMENT BENEFITS**

A. **Plan Description**

The Ohio Public Employees Retirement System (OPERS) administers three separate pension plans; the Traditional Pension Plan - a cost-sharing, multiple-employer defined benefit pension plan; the Member-Directed Plan - a defined contribution plan; and the Combined Plan - a cost sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

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

A. **Plan Description** (Continued)

OPERS maintains a cost-sharing, multiple-employer defined benefit post-employment health care plan, which includes a medical plan, prescription drug program, and Medicare Part B premium reimbursement, to qualifying members of both the Traditional Pension and the Combined plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage.

In order to qualify for post-employment health care coverage, age and service retirees under the Traditional Pension and Combined plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post-Employment Benefit (OPEB) as described in GASB Statement No. 45.

The Ohio Revised Code permits, but does not mandate, OPERS to provide OPEB benefits to its eligible members and beneficiaries. Authority to established and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

OPERS issues a stand-alone financial report. Interested parties may obtain a copy by writing OPERS, 277 East Town Street, Columbus, OH 43215-4642, or by calling 614-222-5601 or 1-800-222-7377.

B. **Funding Policy**

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

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2011, the Authority contributed at a rate of 14.00 percent of covered payroll. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14.00 percent of covered payroll for state and local employer units. Active members do not make contributions to the OPEB Plan.

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

B. **Funding Policy** (Continued)

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2011, the Authority contributed at a rate of 14.00 percent of covered payroll. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14.00 percent of covered payroll for state and local employer units. Active members do not make contributions to the OPEB Plan.

OPERS' Post-Employment Health Care Plan was established under, and is administered in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post-employment health care benefits. The portion of employer contributions allocated to health care for members in the Traditional Plan was 4.0 percent for calendar year 2011 and allocated to health care for members in the Combined Plan was 6.05 percent for calendar year 2011. The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care coverage by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. Actual Authority contributions for the years ended December 31, 2011, 2010 and 2009, which were used to fund post-employment benefits were $18,003, $21,925 and $23,853, respectively.

On September 9, 2004, the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. Member and employer contribution rates increased as of January 1, 2006, January 1, 2007 and January 2, 2008, which allowed additional funds to be allocated to the health care plan.

NOTE 8: **COMPENSATED ABSENCES**

Vacation and sick leave are established by the Board of Commissioners based on local and state laws.

All permanent employees earn 5 hours of sick leave per 86.66 hours of service. Unused sick leave may be accumulated without limit. Accrued sick time is not payable to the employee upon their separation from employment.

NOTE 8: **COMPENSATED ABSENCES** (Continued)

All permanent employees will earn vacation hours accumulated based on length of service. Unused vacation time may be accumulated up to 240 hours. All vacation time accumulated will be paid to an employee upon separation of employment. At December 31, 2011 $20,659 was accrued for unused vacation.

A summary of changes in compensated absences follows:

Beginning Balance	Additions	Used	End Balance
$ 22,335	22,619	24,295	$20,659

None of the balance is considered to be current because no pay-outs at separation are anticipated in the coming period, and it is expected that leave earned in the period is what will be used in the period.

NOTE 9: **RISK MANAGEMENT**

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

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

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NOTE 10: **CONTINGENCIES**

Grants

Amounts grantor agencies pay to the Authority are subject to audit and adjustments by the grantor, principally the federal government. Grantors may require refunding any disallowed costs or excess reserve balances. Management cannot presently determine amounts grantors may disallow or recapture. However, based on prior experience, management believes any such disallowed claims or recaptured amounts would not have a material adverse effect on the overall financial position of the Authority at December 31, 2011.

Litigations and Claims

In the normal course of operations the PHA may be subject to litigations and claims. At December 31, 2011 the PHA was not aware of any such matters.

NOTE 11: **SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Licking Metropolitan Housing Authority and is presented on the accrued basis of accounting. The information is this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations.*

LICKING METROPOLITAN HOUSING AUTHORITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2011

Federal Grantor/ Pass Through Grantor/ Program Title	**Federal CFDA Number**	**Expenditures**
U.S. Department of Housing and Urban Development		
Direct Programs:		
Public Housing Programs		
Low Rent Public Housing Program	14.850	$ 226,835
Capital Fund Program	14.872	161,815
Total Public Housing Programs		388,650
Section 8 Tenant Based Programs		
Section 8 Housing Choice Voucher Program	14.871	5,939,363
Shelter Plus Care Program	14.238	196,562
Total Section 8 Tenant Based Programs		6,135,925
Total U.S. Department of Housing and Urban Development		6,524,575
Total Federal Expenditures		$ 6,524,575

This schedule is prepared on the accrual basis of accounting.

JAMES G. ZUPKA, C.P.A., INC.
Certified Public Accountants
5240 East 98th Street
Garfield Hts., Ohio 44125

Member American Institute of Certified Public Accountants (216) 475 - 6136 Ohio Society of Certified Public Accountants

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

Board of Directors
Licking Metropolitan Housing
Newark, Ohio

Regional Inspector General for Audit
Department of Housing and Urban Development

We have audited the financial statements of the business-type activities of the Licking Metropolitan Housing Authority, Ohio, as of and for the year ended December 31, 2011, which collectively comprise the Licking Metropolitan Housing Authority, Ohio's basic financial statements and have issued our report thereon dated July 20, 2012. 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

Management of the Licking Metropolitan Housing Authority, Ohio, is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Licking Metropolitan Housing Authority, Ohio's 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 Licking Metropolitan Housing Authority, Ohio's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Licking Metropolitan Housing Authority, Ohio's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Licking Metropolitan Housing Authority, Ohio's 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

James G. Zupka, CPA, Inc.

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

July 20, 2012

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

Certified Public Accountants
5240 East 98th Street
Garfield Hts., Ohio 44125

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REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Directors
Licking Metropolitan Housing Authority
Newark, Ohio

Regional Inspector General of Audit
Department of Housing and Urban
Development

Compliance

We have audited the compliance of the Licking Metropolitan Housing Authority, Ohio, with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Licking Metropolitan Housing Authority, Ohio's major federal programs for the year ended December 31, 2011. The Licking Metropolitan Housing Authority, Ohio'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 the Licking Metropolitan Housing Authority, Ohio's management. Our responsibility is to express an opinion on the Licking Metropolitan Housing Authority, Ohio's compliance based on our audit.

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

In our opinion, the Licking Metropolitan Housing Authority, Ohio, complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying Schedule of Findings and Questioned Costs as **Item 2011-01**.

Internal Control Over Compliance

The management of the Licking Metropolitan Housing Authority, Ohio, is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Licking Metropolitan Housing Authority, Ohio's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance, and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Licking Metropolitan Housing Authority, Ohio's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as described above. However, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency as described in the accompanying Schedule of Findings and Questioned Costs as **Item 2011-01**. A significant deficiency in internal control over compliance is a deficiency or a combination of deficiencies in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

The Licking Metropolitan Housing Authority, Ohio's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Responses. We did not audit the Licking Metropolitan Housing Authority, Ohio's response and, accordingly, we express no opinion on it.

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

James G. Zupka, CPA, Inc.

James G. Zupka CPA, Inc.
Certified Public Accountants

July 20, 2012

LICKING METROPOLITAN HOUSING AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 & .505
DECEMBER 31, 2011

1. SUMMARY OF AUDITOR'S RESULTS

2011(i)	Type of Financial Statement Opinion	Unqualified
2011(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
2011(ii)	Were there any significant deficiencies in internal control reported at the financial statements level (GAGAS)?	No
2011(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
2011(iv)	Were there any material internal control weakness conditions reported for major Federal programs?	No
2011(iv)	Were there any other significant deficiency conditions reported for major Federal programs?	Yes
2011(v)	Type of Major Programs' Compliance Opinion	Unqualified
2011(vi)	Are there any reportable findings under .510?	Yes
2011(vii)	Major Programs (list): Housing Choice Voucher Program - CFDA #14.871 Public Housing - CFDA #14.850	
2011(viii)	Dollar Threshold: Type A\B Programs	Type A: >$300,000 Type B: all others
2011(ix)	Low Risk Auditee?	Yes

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

None.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

Compliance Finding and Significant Deficiency in Controls over Compliance

Item 2011-01: Re-examine Family Income and Composition

Identification of the Federal Program
Department of Housing and Urban Development - CFDA #14.850 - Public Housing

Criteria
Public Housing program regulations require that family income and composition must be re-examined at least once every 12 months, and the tenant rent be adjusted as determined in the re-examination. In addition, Public Housing program regulations require that families be selected for participation in the program pursuant to Authority policy and HUD regulations.

Condition
In our review of the Public Housing program, we noted the Authority failed to re-examine family income and composition at least once every 12 months and adjust the tenant rent as necessary. In addition, we noted families were not always selected for participation in the program as set forth in the Authority' policy and HUD regulations.

Cause/Effect
Controls over the review of tenant files were lacking which allowed for the Authority to not detect the failure to re-examine the family income calculation. This situation caused tenants to be charged incorrect rental amounts.

Recommendation
We recommend the Authority establish controls to ensure the required re-examinations of family income and composition, and the corresponding changes in tenant rental amounts of tenants in the Public Housing program, be performed at least once every twelve months. Further, we recommend the Authority establish controls to ensure families are selected for participation in the program as set forth in the Authority's policy and HUD regulations.

Auditee Response
An in-house detailed audit of Licking Metropolitan Housing Authority's only Public Housing units was conducted in 2011. The audit uncovered issues of noncompliance with the tenant files, HUD required reporting and bookkeeping. All applicable parties to include HUD and LMHA's Board of Commissioners were promptly made aware of what was found in completing this audit. Staff responsible for these issues is no longer employed by LMHA. New management re-certified every tenant and brought every file into compliance with HUD requirements. All was completed by December, 2011. Additional controls are now in place to ensure compliance.

The prior audit report, as of December 31, 2010, included no citations or management letter comments.

Dave Yost • Auditor of State

LICKING METROPOLITAN HOUSING AUTHORITY

LICKING 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
NOVEMBER 8, 2012

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