

**SANDUSKY METROPOLITAN
HOUSING AUTHORITY**

**BASIC FINANCIAL STATEMENTS
AND SINGLE AUDIT**

**FOR THE YEAR ENDED
JUNE 30, 2013**

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



Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the Sandusky Metropolitan Housing Authority, Sandusky County, prepared by James G. Zupka, CPA, Inc., for the audit period July 1, 2012 through June 30, 2013. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

December 19, 2013

This page intentionally left blank.

**SANDUSKY METROPOLITAN HOUSING AUTHORITY
BASIC FINANCIAL STATEMENTS AND SINGLE AUDIT
FOR THE YEAR ENDED JUNE 30, 2013**

TABLE OF CONTENTS

	<u>PAGE</u>
Independent Auditor's Report	1-3
Management's Discussion and Analysis	4-9
Basic Financial Statements:	
Statement of Net Position	10
Statement of Revenues, Expenses and Changes in Net Position	11
Statement of Cash Flows	12
Notes to the Basic Financial Statements	13-27
Schedule of Federal Awards Expenditures	28
Statement of Modernization Cost - Completed	29
Supplemental Schedules:	
Entity-Wide Balance Sheet Summary	30-31
Entity-Wide Revenue and Expense Summary	32-33
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	34-35
Report on Compliance for Each Major Program and on Internal Control over Compliance Required by OMB Circular A-133	36-37
Schedule of Findings and Questioned Costs	38
Status of Prior Year Citations and Recommendations	39

This page intentionally left blank.

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

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Sandusky Metropolitan Housing Authority
Fremont, Ohio

Regional Inspector General of Audit
Department of Housing and Urban
Development

Report on the Financial Statements

We have audited the accompanying financial statements of the of the Sandusky Metropolitan Housing Authority, Ohio (the Authority) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Sandusky Metropolitan Housing Authority, Ohio, as of June 30, 2013, and the respective changes in financial position, and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 9 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.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Sandusky Metropolitan Housing Authority, Ohio's basic financial statements. The Statements of Modernization Costs - Completed and the Financial Data Schedules are presented for purposes of additional analysis and not a required part of the basic financial statements. The 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 basic financial statements.

The Statement of Modernization Cost - Completed, the Financial Data Schedules and the Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Statement of Modernization Cost - Completed, the Financial Data Schedules, and the Schedule of Expenditures of Federal Awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 11, 2013, on our consideration of the Sandusky 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* in considering the Authority's internal control over financial reporting and compliance.



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

November 11, 2013

**SANDUSKY METROPOLITAN HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2013
(Unaudited)**

The Sandusky 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 issues or concerns.

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

FINANCIAL HIGHLIGHTS

- The Authority's authority-wide statements reflect a decrease in total net position of \$82,855 (or 3.37 percent) during 2013. Net Position was \$2.460 million and \$2.377 million for 2012 and 2013 respectively.
- The business-type activity revenue increased by \$32,305 (or 2.50 percent) during 2013, and was \$1.292 million and \$1.323 million for 2012 and 2013 respectively.
- The total expenses of all Authority programs decreased by \$71,559 (or 4.84 percent). Total expenses were \$1.478 million and \$1.407 million for 2012 and 2013 respectively.

Authority-Wide Financial Statements

The Authority-wide financial statements are designed to be corporate-like in that all business-type activities are consolidated into columns, which add to a total for the entire Authority.

These statements include a Statement of Net Position, which is similar to a Balance Sheet. The Statement of Net Position reports all financial and capital resources for the Authority. The statement is presented in the format where assets, minus liabilities, equal "Net Position", 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 Position (the "Unrestricted Net Position") is designed to represent the net available liquid (non-capital) assets, net of liabilities, for the entire Authority. Net Position (formerly equity) is reported in three broad categories:

Investment in Capital Assets: This component of Net Position 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.

**SANDUSKY METROPOLITAN HOUSING AUTHORITY
MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2013 (Continued)
(Unaudited)**

Authority-Wide Financial Statements (Continued)

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

Unrestricted Net Position: Consists of Net Position that do not meet the definition of “Net Investment in Capital Assets”, or “Restricted Net Position”. This account resembles the old operating reserves account.

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

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

Fund Financial Statements

Traditional users of governmental financial statements will find the Fund Financial Statements presentation more familiar. The focus is now on Major Funds, rather than fund types. The Authority consists of exclusively Enterprise Funds. Enterprise funds utilize the full accrual basis of accounting. The Enterprise method of accounting is similar to accounting utilized by the private sector accounting.

The Department of Housing and Urban Development requires the funds maintained by the Authority.

THE AUTHORITY’S PROGRAMS

Business-Type Activities

Conventional Public Housing - Under the Conventional Public Housing Program, the Authority rents units that it owns to low-income households. The Conventional Public Housing Program is operated under an Annual Contributions Contract (ACC) with HUD, and HUD provides Operating Subsidy to enable the PHA to provide the housing at a rent that is based upon 30 percent of adjusted gross household income.

**SANDUSKY METROPOLITAN HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED June 30, 2013 (Continued)
(Unaudited)**

Capital Fund Program (CFP) - This is the current primary funding source for the Authority's Public Housing physical and management improvements. Funds are provided by formula allocation and based on size and age of the agency's Public Housing units.

Housing Choice Voucher Program - Under the Housing Choice Voucher Program, the Authority subsidizes rents to independent landlords that own the property. The Authority subsidizes the family's rent through a Housing Assistance Payment (HAP) made to the landlord. The program is administered under an Annual Contributions Contract (ACC) with HUD. HUD provides funding to enable the Authority to structure a lease that requires the participant to pay a rent based on a percentage of their adjusted gross household income, typically 30 percent, and the Housing Authority subsidizes the balance.

AUTHORITY-WIDE STATEMENTS

Statement of Net Position

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

Table 1 - Statement of Net Position

	2013	2012
<u>Assets</u>		
Current and Other Assets	\$ 267,840	\$ 281,261
Capital Assets	2,537,835	2,681,577
Total Assets	<u>\$ 2,805,675</u>	<u>\$2,962,838</u>
<u>Liabilities</u>		
Current Liabilities	\$ 116,772	\$ 108,851
Long-term Liabilities	311,793	394,022
Total Liabilities	<u>428,565</u>	<u>502,873</u>
<u>Net Position</u>		
Net Investment in Capital Assets	2,183,446	2,282,405
Restricted	87,919	146,551
Unrestricted	105,745	31,009
Total Net Position	<u>2,377,110</u>	<u>2,459,965</u>
Total Liabilities and Net Position	<u>\$ 2,805,675</u>	<u>\$ 2,962,838</u>

For more detail information, see Statement of Net Position presented on page 9.

**SANDUSKY METROPOLITAN HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2013 (Continued)
(Unaudited)**

Major Factors Affecting the Statement of Net Position:

Current assets decreased by \$13,421 and total liabilities decreased by \$74,308. The decrease in current assets was primarily due to the change in net position. The decrease in current liabilities is due to a decrease in amounts payable at year end.

Table 2- Change of Unrestricted Net Position

Unrestricted Net Position, June 30, 2012	\$ 31,009
Results of Operations	(82,855)
Adjustments:	
Depreciation (1)	184,767
Capital Expenditures	(41,025)
Debt Principal Payments	(44,783)
Transfer from Restricted Net Position	58,632
Unrestricted Net Position, June 30, 2013	<u>\$ 105,745</u>

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

While the results of operations are a significant measure of the Authority's activities, the analysis of the changes in Unrestricted Net Position provides a clearer change in financial well being. The Authority's unrestricted net position increased \$74,736.

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

Table 3 - Statement of Revenues, Expenses, and Changes in Net Position

	2013	2012
Revenues		
Tenant Revenues - Rents and Other	\$ 87,832	\$ 73,198
Operating Subsidies and Grants	1,117,629	1,160,513
Capital Grants	41,025	13,490
Investment Income	117	136
Other Revenues	77,206	44,167
Total Revenues	<u>1,323,809</u>	<u>1,291,504</u>
Expenses		
Administrative	179,926	219,646
Utilities	16,253	14,645
Maintenance	109,154	71,005
General and Interest	29,357	20,173
Housing Assistance Payments	887,207	975,378
Depreciation	184,767	177,376
Total Expenses	<u>1,406,664</u>	<u>1,478,223</u>
Net Increases (Decreases) in Net Position	<u>\$ (82,855)</u>	<u>\$ (186,719)</u>

**SANDUSKY METROPOLITAN HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2013 (Continued)
(Unaudited)**

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

REVENUES: Operating Subsidies, Grants and Capital Grants decreased by \$15,349, or 1 percent. The majority of the decrease was due to HUD's offset of voucher funding and their proration for funding agencies.

EXPENSES: Administrative expenses decreased due to reduction in Administrative Personnel and hours worked. Maintenance expenses increased as a result of increase in contract costs.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of year end, the Authority had \$2.538 million invested in a variety of capital assets as reflected in the following schedule. This represents a net decrease (addition, deductions and depreciation) of \$143,742 from the end of last year.

**Table 4 - Capital Assets at Year-End
(Net of Depreciation)**

	<u>2013</u>	<u>2012</u>
Land	\$ 604,764	\$ 604,764
Building and Improvements	4,490,944	4,449,919
Equipment	398,039	413,184
Accumulated Depreciation	<u>(2,955,912)</u>	<u>(2,786,290)</u>
Total	<u><u>\$ 2,537,835</u></u>	<u><u>\$ 2,681,577</u></u>

**SANDUSKY METROPOLITAN HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2013 (Continued)
(Unaudited)**

The following reconciliation summarizes the change in Capital Assets, which is presented in detail in Note 3 of the financial statements.

Table 5 - Change in Capital Assets

Beginning Balance, June 30, 2012	\$2,681,577
Additions	41,025
Depreciation	<u>(184,767)</u>
Ending Balance, June 30, 2013	<u>\$ 2,537,835</u>

Debt Administration

The Authority's long term debt of \$256,786 includes mortgages for seven (7) homes purchased for the Sandusky County MRDD's Capital Assisted Housing Program.

Additional information on long-term debt can be found in Note 4 of the financial statements.

Economic Factors

Significant economic factors affecting the Authority are as follows:

- Federal funding of the Department of Housing and Urban Development
- Local labor supply and demand, which can affect salary and wage rates
- Local inflationary, recessionary and employment trends, which can affect resident incomes and therefore the amount of rental income
- Inflationary pressure on utility rates, supplies and other costs

IN CONCLUSION

The Authority had a \$82,855 decrease in net assets in fiscal year 2013.

FINANCIAL CONTACT

If you have any questions regarding this report, you may contact Ralph Chamberlain, Executive Director of the Sandusky Metropolitan Housing Authority at (419) 334-4426.

SANDUSKY METROPOLITAN HOUSING AUTHORITY
STATEMENT OF NET POSITION
JUNE 30, 2013

ASSETS

Current Assets

Cash and Cash Equivalents	\$ 130,349
Restricted Cash and Cash Equivalents	105,579
Receivables, Net	16,963
Prepaid Expenses and Other Assets	3,790
Inventory	<u>11,159</u>
Total Current Assets	<u>267,840</u>

Capital Assets

Non-Depreciable Capital Assets	604,764
Depreciable Capital Assets, Net	<u>1,933,071</u>
Total Capital Assets	<u>2,537,835</u>

TOTAL ASSETS **\$ 2,805,675**

LIABILITIES AND NET POSITION

Current Liabilities

Accounts Payable	\$ 14,660
Accrued Liabilities	8,428
Tenant Security Deposits	17,676
Note Payable - Operating	30,000
Current Portion - Mortgages Payable	<u>46,008</u>
Total Current Liabilities	<u>116,772</u>

Noncurrent Liabilities

Mortgages Payable	308,381
Note Payable - Operating	2,500
Accrued Compensated Absences - Non-Current	<u>912</u>
Total Noncurrent Liabilities	<u>311,793</u>
Total Liabilities	<u>428,565</u>

NET POSITION

Net Investment in Capital Assets	2,183,446
Restricted	87,919
Unrestricted	<u>105,745</u>
Total Net Position	<u>2,377,110</u>

TOTAL LIABILITIES AND NET POSITION **\$ 2,805,675**

See accompanying notes to the basic financial statements.

SANDUSKY METROPOLITAN HOUSING AUTHORITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2013

<u>Operating Revenues</u>	
Tenant Rental Income	\$ 87,832
Government Operating Grants	1,117,629
Other Revenue	<u>77,206</u>
Total Operating Revenues	<u>1,282,667</u>
<u>Operating Expenses</u>	
Administrative	179,926
Utilities	16,253
Maintenance	109,154
General	13,409
Housing Assistance Payment	887,207
Depreciation Expense	<u>184,767</u>
Total Operating Expenses	<u>1,390,716</u>
Operating Income (Loss)	<u>(108,049)</u>
<u>Non-Operating Revenues (Expenses)</u>	
Interest and Investment Revenue	117
Interest Expense	<u>(15,948)</u>
Total Non-Operating Revenues (Expenses)	<u>(15,831)</u>
Income (Loss) Before Capital Grants	(123,880)
Capital Grants	<u>41,025</u>
Change in Net Position	<u>(82,855)</u>
Total Net Position, Beginning of Year	<u>2,459,965</u>
Net Position, End of Year	<u>\$ 2,377,110</u>

See accompanying notes to the basic financial statements.

SANDUSKY METROPOLITAN HOUSING AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2013

Cash Flows from Operating Activities

Cash Received - HUD Operating Subsidies and Grants	\$ 1,134,902
Cash Received from Tenants and Other Sources	151,902
Cash Payments for Housing Assistance Payments	(887,207)
Cash Payments for Administrative Costs	(182,811)
Cash Payment for Other Operating Expenses	<u>(135,395)</u>
Net Cash Used in by Operating Activities	<u>81,391</u>

Cash Flows from Capital and Related Financing Activities

Capital Additions	(41,025)
Capital Grant	41,025
Interest Expense	(15,948)
Proceeds from Note Payable	60,000
Repayment of Mortgage and Note	<u>(72,283)</u>
Net Cash Provided (Used) by Capital and Other Related Financing Activities	<u>(28,231)</u>

Cash Flows from Investing Activities

Investment Income	<u>117</u>
Net Cash Provided (Used) by Investing Activities	<u>117</u>
Net Increase (Decrease) in Cash and Cash Equivalents	53,277

Cash and Cash Equivalents, Beginning	<u>182,651</u>
--------------------------------------	----------------

Cash and Cash Equivalents, Ending	<u><u>\$ 235,928</u></u>
--	--------------------------

Reconciliation of Operating Loss to Net

Cash Provided by Operating Activities

Net Operating (Loss)	\$ (108,049)
Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities:	
Depreciation	184,767
(Increase) Decrease in:	
Accounts Receivable	4,094
Prepaid Expenses	2,199
Inventory	405
Increase (Decrease) in:	
Accounts Payable	817
Compensated Absences	(2,727)
Security Deposit	43
Accrued Wages and Payroll Taxes	<u>(158)</u>
Net Cash Provided (Used) by Operating Activities	<u><u>\$ 81,391</u></u>

See accompanying notes to the basic financial statements.

SANDUSKY METROPOLITAN HOUSING AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

NOTE 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Organization and Reporting Entity

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

Pursuant to GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance, Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, the Authority follows GASB guidance as applicable to enterprise funds.

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

SANDUSKY METROPOLITAN HOUSING AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013
(CONTINUED)

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 position, 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 position. The statement of changes in net position presents increases (i.e., revenues) and decreases (i.e., expenses) in total net position. 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.

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 repair costs are expensed as incurred.

Useful life of property and equipment is as follows:

Buildings	40 years
Land and Building Improvements	15 years
Equipment	7 years
Autos	5 years

Depreciation is recorded on the straight-line method. Total depreciation expense for the 2013 fiscal year was \$184,767.

SANDUSKY METROPOLITAN HOUSING AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013
(CONTINUED)

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 nonnegotiable certificates of deposit and money market investments.

Restricted Net Position

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

Net Position

Net position represents the difference between assets and liabilities. Net investment in capital assets 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 position 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. Restricted net position includes the 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 and was \$87,919 at June 30, 2013.

The Authority applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position 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.

SANDUSKY METROPOLITAN HOUSING AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013
(CONTINUED)

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

Budgetary Accounting

SMHA annually prepares funding requests as prescribed by HUD. After HUD approval of these requests, a budget is adopted by the Board of SMHA.

Capitalization of Interest

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

Financial Statement Format and Content

The format and content of the financial statements included in this report conforms to the format and content submitted to U.S. Department of Housing and Urban Development, via the Real Estate Assessment Center.

NOTE 2: **DEPOSITS AND INVESTMENTS**

The Authority follows the provisions of GASB Statement No. 40, *Deposit and Investment Risk Disclosures*. This new standard revised the existing requirement regarding disclosure of custodial credit risk and establishes requirements for disclosures regarding credit risk, concentration of credit risk, interest rate risk, and foreign currency risk.

Deposits

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

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

Inactive deposits are public deposits that the Authority had 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.

SANDUSKY METROPOLITAN HOUSING AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013
(CONTINUED)

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

Deposits (Continued)

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

At June 30, 2013, the Authority had undeposited cash on hand (petty cash) of \$120.

At June 30, 2013, the carrying amount of the Authority's cash deposits was \$235,808 and the bank balance was \$233,055. Based on criteria described in GASB Statement No. 40, *Deposits and Investments Risk Disclosures*, as of June 30, 2013, deposits totaling \$233,055 were covered by Federal Depository Insurance.

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 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.

Investments

HUD, State Statute, and Board resolutions authorize the Authority to invest in obligations of the U.S. Treasury, agencies and instrumentalities, certificates of deposit, repurchase agreements, money market deposit accounts, municipal depository funds, super NOW accounts, sweep accounts, separate trading of registered interest and principal of securities, mutual funds, bonds and other obligations of this State, and the

State Treasurer's investment pool. Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives 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

SANDUSKY METROPOLITAN HOUSING AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013
(CONTINUED)

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

Investments (Continued)

with the exception that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

The Authority has a formal investment policy. The objective of this policy shall be to maintain liquidity and protection of principal while earning investment interest. Safety of principal is the primary objective of the investment program. The Authority follows GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, and records all its investments at fair value. At June 30, 2013 the Authority has 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 those funds which are not operating reserve funds to be invested in investments with a maximum term of one year or the Authority's operating cycle. For investments of the Authority's operating reserve funds, the maximum term can be up to three years. The intent of the policy is to avoid the need to sell securities prior to maturity.

Credit Risk

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

Concentration of Credit Risk

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

Foreign Currency Risk

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

SANDUSKY METROPOLITAN HOUSING AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013
(CONTINUED)

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

Restricted Cash

Restricted cash is composed of the following restricted:

Restricted HAP Equity	\$ 87,919
Tenant Security Deposit	<u>17,660</u>
Total	<u>\$ 105,579</u>

NOTE 3: **CAPITAL ASSETS**

A summary of capital assets at June 30, 2013, by class is as follows:

Building and Building Improvements	\$ 4,490,944
Land	604,764
Furniture, Equipment - Dwelling	84,062
Furniture, Equipment - Administrative	<u>313,977</u>
Total	5,493,747
Less Accumulated Depreciation	<u>(2,955,912)</u>
Net Property and Equipment	<u>\$ 2,537,835</u>

A summary of changes in capital assets during the year is as follows:

	Balance <u>06/30/12</u>	Adjustments	Additions	Deletions	Balance <u>06/30/13</u>
Capital Assets not being Depreciated					
Land	\$ 604,764	\$ 0	\$ 0	\$ 0	\$ 604,764
Total Capital Assets not being Depreciated	<u>604,764</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>604,764</u>
Capital Assets being Depreciated					
Buildings and Improvements	4,449,918	1	41,025	0	4,490,944
Furniture, Equipment, Machinery - Dwelling	99,207	0	0	(15,145)	84,062
Furniture, Equipment, Machinery - Administrative	<u>313,978</u>	<u>(1)</u>	<u>0</u>	<u>0</u>	<u>313,977</u>
Subtotal Capital Assets being Depreciated	<u>4,863,103</u>	<u>0</u>	<u>41,025</u>	<u>(15,145)</u>	<u>4,888,983</u>
Less Accumulated Depreciation					
Buildings and Improvements	(2,387,371)	(1,242)	(180,652)	0	(2,569,265)
Furniture and Equipment	<u>(398,919)</u>	<u>1,242</u>	<u>(4,115)</u>	<u>15,145</u>	<u>(386,647)</u>
Total Accumulated Depreciation	<u>(2,786,290)</u>	<u>0</u>	<u>(184,767)</u>	<u>15,145</u>	<u>(2,955,912)</u>
Total Capital Assets being Depreciated, Net	<u>2,076,813</u>	<u>0</u>	<u>(143,742)</u>	<u>0</u>	<u>1,933,071</u>
Total Capital Assets, Net	<u>\$2,681,577</u>	<u>\$ 0</u>	<u>\$ (143,742)</u>	<u>\$ 0</u>	<u>\$2,537,835</u>

SANDUSKY METROPOLITAN HOUSING AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013
(CONTINUED)

NOTE 4: LONG-TERM LIABILITIES

The changes in the Authority's long-term liabilities during the year were as follows:

	Restated Balance <u>06/30/12</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>06/30/13</u>	Amounts Due <u>in One Year</u>
<u>Business-Type Activities</u>					
Mortgages Payable	\$ 399,172	\$ 0	\$ (44,783)	\$ 354,389	\$ 46,008
Compensated Absences	11,307	796	(3,523)	8,580	7,668
Total Business-Type Long-Term Liabilities	<u>\$ 410,479</u>	<u>\$ 796</u>	<u>\$ (48,306)</u>	<u>\$ 362,969</u>	<u>\$ 53,676</u>

Mortgages payable consist of the following:

The Authority has a note payable to the Croghan Colonial Bank of Fremont amounting to \$24,203. The original principal of the loan was \$104,041 and the current rate is 7.25 percent annually. Principal and interest payments, currently \$445.90 began in December 2001 with the final payment due on December 2016. The loan is secured by the first mortgage on the property located at 728 Nickel St., Fremont, Ohio. \$ 16,383

The Authority has a note payable to the Croghan Colonial Bank of Fremont amounting to \$16,852. The original principal of the loan was \$87,250 and the current rate is 7.125 percent annually. Principal and interest payments, currently \$320.01, began in February, 2007 with the final payment due on January, 2016. The loan is secured by an open-end mortgage on real estate property located at 408 S. Pennsylvania Avenue and 1007 W. State Street, Fremont, Ohio. 9,285

The Authority has a note payable to the Croghan Colonial Bank of Fremont amounting to \$60,896. The original principal of the loan was \$123,500 and the current rate is 6.15 percent annually. Principal and interest payments, currently \$430.06 began in October 2002 with the final payment due on July, 2032. The loan is secured by an open-end mortgage on real estate property located at 562 Crestwood, Fremont, Ohio. 57,902

The Authority has a note payable to the Croghan Colonial Bank of Fremont amounting to \$39,530. The original principal of the loan was \$70,000 and the current rate is 6.60 percent annually. Principal and interest payments, currently \$606.05, began in March, 2003 with the final payment due on March, 2018. The loan is secured by an open-end mortgage on real estate property located at 114 S. Jefferson Street, Fremont, Ohio. 29,528

The Authority has a note payable to the Croghan Colonial Bank of Fremont, amounting to \$97,600 at a current rate of 5.50 percent annually. Principal and interest payments of \$671.62 began in January, 2004 with the final payment due on December, 2023. The loan is secured by an open-end mortgage on real estate located at 1407 Rosewood Street, Fremont, Ohio 43420. 64,154

SANDUSKY METROPOLITAN HOUSING AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013
(CONTINUED)

NOTE 4: **LONG-TERM LIABILITIES** (Continued)

The Authority has a note payable to the Croghan Colonial Bank of Fremont amounting to \$83,435. The original principal of the loan was \$147,000 and the current rate is 5.75 percent annually. Principal and interest payments, currently \$563.74, began in November 2005 with the final payment due on October, 2025. The loan is secured by an open-end mortgage on real estate property located at 3695 CR 175, Clyde, Ohio & 1107 W. State Street, Fremont, Ohio. 59,668

The Authority has a note payable to the Croghan Colonial Bank of Fremont amounting to \$24,063. The original principal of the loan was \$104,000 and the current rate is 7.40 percent annually. Principal and interest payments, currently \$439.56, began in January 2002 with the final payment due in January, 2017. The loan is secured by a first mortgage on the property located at 148 W. Drew Lane, Clyde, Ohio. 16,454

Subtotal 253,374

The PHA has entered into contractual agreements with the Ohio Department of Developmental Disabilities through which the agency received funds for the acquisition and/or renovation of properties. Upon receipt of the funding, the Agency is restricted to using the property as a residential facility for DODD clients for 15 years. In the event the Agency complies with this restriction, the amount of the loan is amortized at 0 percent interest by 1/180th for each month of each agreement. A summary of this debt with Ohio DODD is as follows:

Property	Original		Interest	Life	Balance
<u>Description</u>	<u>Amount</u>	<u>Period</u>			
728 Nickle Street	\$ 54,041	2002-2017	0%	180 mo	\$ 12,609
408 S. Pennsylvania Ave.	59,874	2005-2020	0%	180 mo	29,271
562 Crestwood	54,020	2002-2017	0%	180 mo	14,406
3695 CR 175	68,038	2005-2020	0%	180 mo	32,129
148 W Drew Lane	54,000	2002-2017	0%	180 mo	<u>12,600</u>
Sub-Total Ohio DODD Debt					<u>101,015</u>
Total Debt					<u>354,389</u>
Less: Current Portion					<u>(46,008)</u>
Total Long-Term Mortgages Payable					<u><u>\$308,381</u></u>

SANDUSKY METROPOLITAN HOUSING AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013
(CONTINUED)

NOTE 4: **LONG-TERM LIABILITIES** (Continued)

The following is a summary of the Authority's future debt service requirements as of June 30, 2013:

<u>For the Year</u> <u>Ended June, 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u> <u>Payments</u>
2014	\$ 46,008	\$ 14,751	\$ 60,759
2015	48,130	12,924	61,054
2016	48,769	10,983	59,752
2017	43,237	9,181	52,418
2018	36,779	7,932	44,711
2019-2023	76,938	27,345	104,283
2024-2028	35,911	9,661	45,572
2029-2033	<u>18,617</u>	<u>2,484</u>	<u>21,101</u>
Totals	<u>\$ 354,389</u>	<u>\$ 95,261</u>	<u>\$ 449,650</u>

Additional information on compensated absences is detailed in Note 8 of the financial statements.

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.

This space intentionally left blank.

SANDUSKY METROPOLITAN HOUSING AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013
(CONTINUED)

NOTE 6: **PENSION PLAN**

Ohio Public Employees Retirement System

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

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

OPERS provides retirement, disability, survivor and death benefits, and annual cost of living adjustments to members of both the Traditional Pension and Combined plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 E. Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6701 or 1-800-222-7377 or by using the OPERS website at www.opers.org.

SANDUSKY METROPOLITAN HOUSING AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013
(CONTINUED)

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

Ohio Public Employees Retirement System (Continued)

The Ohio Revised Code provides statutory authority for member and employer contributions. For 2012 - 2013, 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 14.00 percent of covered payroll. The Authority's required contributions to OPERS for the years ended June 30, 2013, 2012, and 2011 were \$16,372, \$21,542, and \$20,507, respectively. The full amount has been contributed for 2013, 2012, and 2011. The Authority had no employees in the Member-Directed Plan or Combined Plan for the years noted above.

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.

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 establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

SANDUSKY METROPOLITAN HOUSING AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013
(CONTINUED)

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

A. **Plan Description** (Continued)

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 fiscal year ending 2013, 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 from January 1, 2011 through December 31, 2012, and 1.0 percent from January 1, 2013 through June 30, 2013.

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 year ended June 30, 2013, 2012, and 2011 which were used to fund post-employment benefits were \$1,822, \$6,155, and \$6,592, 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 1, 2008, which allowed additional funds to be allocated to the health care plan.

SANDUSKY METROPOLITAN HOUSING AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013
(CONTINUED)

NOTE 8: COMPENSATED ABSENCES

Vacation and sick leave policies are established by the Board of Authority based on local and state laws. All permanent employees will earn 4.6 hours of sick leave per eighty (80) hours of service. Unused sick leave may accumulate without limit. At the time of retirement, employees shall be paid the value of twenty-five percent of unused sick leave subject to a maximum payment equal to 120 days of sick leave. All permanent employees will earn vacation hours accumulated based on length of service. Employees will be paid for all unused vacation time upon their separation from service.

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. There was no significant reduction in coverage and no settlements exceeded insurance coverage, during the past three years.

NOTE 10: CONTINGENCIES

The Authority is party to various legal proceedings which seek damages or injunctive relief generally incidental to its operations and pending projects. The Authority's management is of the opinion that the ultimate disposition of various claims and legal proceedings will not have a material effect, if any, on the financial condition of the Authority.

The Authority has received several Federal and state grants for specific purposes which are subject to review and audit by the grantor agencies. Such audits could lead to requests for reimbursements to grantor agencies for expenditures disallowed under the terms of the grant. Based upon prior experience, management believes such disallowances, if any, will be immaterial.

NOTE 11: SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

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

SANDUSKY METROPOLITAN HOUSING AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013
(CONTINUED)

NOTE 12: **NOTE PAYABLE- OPERATING**

The Sandusky Metropolitan Housing Authority borrowed \$60,000 from the Erie Metropolitan Housing Authority with the funds transferring in July, 2012. The loan has a term of 24 months at an interest rate of 0.5 percent with monthly installments starting in August, 2012. The funds were used to cover shortfalls in the Housing Choice Voucher Program. This loan was approved by the Department of Housing and Urban Development (HUD).

**SANDUSKY METROPOLITAN HOUSING AUTHORITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2013**

Federal Grantor/ Pass Through Grantor/ Program Title	Federal CFDA Number	Expenditures
<u>U.S. Department of Housing and Urban Development</u>		
<i>Direct Programs:</i>		
Low Rent Public Housing Program	14.850	\$ <u>168,265</u>
Capital Fund Program	14.872	<u>89,517</u>
Section 8 Housing Choice Voucher Program	14.871	<u>900,872</u>
Total U.S. Department of Housing and Urban Development		<u>1,158,654</u>
Total Federal Expenditures		<u>\$ 1,158,654</u>

This schedule is prepared on the accrual basis of accounting.

**SANDUSKY METROPOLITAN HOUSING AUTHORITY
STATEMENT OF MODERNIZATION COST - COMPLETED
FOR THE YEAR ENDED JUNE 30, 2013**

Annual Contributions Contract C-5506

1. The total amount of modernization costs of the Capital Fund Program grant is shown below:

OH12P054501-10

Funds Approved	\$ 70,571
Funds Expended	<u>70,571</u>

Excess (Deficiency) of Funds Approved	\$ <u>0</u>
---------------------------------------	-------------

Funds Advanced	\$ 70,571
Funds Expended	<u>70,571</u>

Excess (Deficiency) of Funds Advanced	\$ <u>0</u>
---------------------------------------	-------------

2. All modernization work in connection with the Capital Fund Program has been completed.
3. The entire actual modernization cost or liabilities incurred by the Authority have been fully paid.
4. There are no discharged mechanics, laborers, contractors, or material-mens liens against such modernization work on file in any public office where the same should be filed in order to be valid against such modernization work.

Annual Contributions Contract C-5506

1. The total amount of modernization costs of the Capital Fund Program grant is shown below:

OH12P054501-11

Funds Approved	\$ 60,029
Funds Expended	<u>60,029</u>

Excess (Deficiency) of Funds Approved	\$ <u>0</u>
---------------------------------------	-------------

Funds Advanced	\$ 60,029
Funds Expended	<u>60,029</u>

Excess (Deficiency) of Funds Advanced	\$ <u>0</u>
---------------------------------------	-------------

2. All modernization work in connection with the Capital Fund Program has been completed.
3. The entire actual modernization cost or liabilities incurred by the Authority have been fully paid.
4. There are no discharged mechanics, laborers, contractors, or material-mens liens against such modernization work on file in any public office where the same should be filed in order to be valid against such modernization work.

SANDUSKY METROPOLITAN HOUSING AUTHORITY
ENTITY-WIDE BALANCE SHEET SUMMARY
JUNE 30, 2013

	Project Total	14.871 Housing Choice Vouchers	14.885 Formula Capital Fund Stimulus Grant	State/Local	Subtotal	ELIM	Total
111 Cash - Unrestricted	66,020	61,855		2,474	130,349		130,349
113 Cash - Other Restricted		87,919			87,919		87,919
114 Cash - Tenant Security Deposits	12,110			5,550	17,660		17,660
100 Total Cash	78,130	149,774	-	8,024	235,928	-	235,928
125 Accounts Receivable - Miscellaneous	3,670	1,197		1,009	5,876		5,876
126 Accounts Receivable - Tenants	7,599			3,733	11,332		11,332
126.1 Allowance for Doubtful Accounts - Tenants	-278			-	-278		-278
129 Accrued Interest Receivable	22			11	33		33
120 Total Receivables, Net of Allowances for Doubtful Accounts	11,013	1,197	-	4,753	16,963	-	16,963
142 Prepaid Expenses and Other Assets	3,188	113		489	3,790		3,790
143 Inventories	8,770	315		2,074	11,159		11,159
144 Inter Program Due From	69,280			26,968	96,248	-96,248	-
150 Total Current Assets	170,381	151,399	-	42,308	364,088	-96,248	267,840
161 Land	596,650	8,114			604,764		604,764
162 Buildings	3,254,774			1,236,170	4,490,944		4,490,944
163 Furniture, Equipment & Machinery - Dwellings	84,062				84,062		84,062
164 Furniture, Equipment & Machinery - Administration	259,212	50,697		4,068	313,977		313,977
166 Accumulated Depreciation	-2,425,222	-50,697		-479,993	-2,955,912		-2,955,912
160 Total Capital Assets, Net of Accumulated Depreciation	1,769,476	8,114	-	760,245	2,537,835	-	2,537,835
180 Total Non-Current Assets	1,769,476	8,114	-	760,245	2,537,835	-	2,537,835
190 Total Assets	1,939,857	159,513	-	802,553	2,901,923	-96,248	2,805,675

SANDUSKY METROPOLITAN HOUSING AUTHORITY
ENTITY-WIDE BALANCE SHEET SUMMARY
JUNE 30, 2013

	Project Total	14.871 Housing Choice Vouchers	14.885 Formula Capital Fund Stimulus Grant	State/Local	Subtotal	ELIM	Total
312 Accounts Payable <= 90 Days	484	1,673		12,503	14,660		14,660
321 Accrued Wage/Payroll Taxes Payable				626	626		626
322 Accrued Compensated Absences - Current Portion	6,060	1,608			7,668		7,668
341 Tenant Security Deposits	12,126			5,550	17,676		17,676
343 Current Portion of Long-term Debt - Capital Projects/Mortgage Revenue Bonds				26,676	26,676		26,676
344 Current Portion of Long-term Debt - Operating Borrowings		30,000			30,000		30,000
345 Other Current Liabilities	26			108	134		134
347 Inter Program - Due To	7,128	3,055		86,065	96,248	-96,248	-
348 Loan Liability - Current				19,332	19,332		19,332
310 Total Current Liabilities	25,824	36,336	-	150,860	213,020	-96,248	116,772
351 Long-term Debt, Net of Current - Capital Projects/Mortgage Revenue				308,381	308,381		308,381
352 Long-term Debt, Net of Current - Operating Borrowings		2,500			2,500		2,500
354 Accrued Compensated Absences - Non Current				912	912		912
350 Total Non-Current Liabilities	-	2,500	-	309,293	311,793	-	311,793
300 Total Liabilities	25,824	38,836	-	460,153	524,813	-96,248	428,565
508.1 Invested In Capital Assets, Net of Related Debt	1,769,476	8,114		405,856	2,183,446		2,183,446
511.1 Restricted Net Assets		87,919			87,919		87,919
512.1 Unrestricted Net Assets	144,557	24,644	-	-63,456	105,745		105,745
513 Total Equity/Net Assets	1,914,033	120,677	-	342,400	2,377,110	-	2,377,110
600 Total Liabilities and Equity/Net Assets	1,939,857	159,513	-	802,553	2,901,923	-96,248	2,805,675

**SANDUSKY METROPOLITAN HOUSING AUTHORITY
ENTITY-WIDE REVENUE AND EXPENSE SUMMARY
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

	Project Total	14.871 Housing Choice Vouchers	14.885 Formula Capital Fund Stimulus Grant	State/Local	Subtotal	ELIM	Total
70300 Net Tenant Rental Revenue	10,378			73,854	84,232		84,232
70400 Tenant Revenue - Other				3,600	3,600		3,600
70500 Total Tenant Revenue	10,378	-	-	77,454	87,832	-	87,832
70600 HUD PHA Operating Grants	216,757	900,872			1,117,629		1,117,629
70610 Capital Grants	41,025				41,025		41,025
71100 Investment Income - Unrestricted	34	37		6	77		77
71400 Fraud Recovery		90			90		90
71500 Other Revenue	16,172	41,099		19,845	77,116		77,116
72000 Investment Income - Restricted		40			40		40
70000 Total Revenue	284,366	942,138	-	97,305	1,323,809	-	1,323,809
91100 Administrative Salaries	25,215	15,128		2,520	42,863		42,863
91200 Auditing Fees	8,625	1,800		1,800	12,225		12,225
91300 Management Fee	40,040	7,800		4,160	52,000		52,000
91310 Book-keeping Fee	5,460	1,974			7,434		7,434
91400 Advertising and Marketing	93	17		17	127		127
91500 Employee Benefit contributions - Administrative	9,302	5,993		312	15,607		15,607
91600 Office Expenses	3,642	2,779		3,531	9,952		9,952
91700 Legal Expense	2,595	94		94	2,783		2,783
91800 Travel	1,486	7		230	1,723		1,723
91900 Other	13,814	17,304		4,094	35,212		35,212
91000 Total Operating - Administrative	110,272	52,896	-	16,758	179,926	-	179,926
93100 Water	2,238				2,238		2,238
93200 Electricity	10,545				10,545		10,545
93300 Gas	3,470				3,470		3,470
93000 Total Utilities	16,253	-	-	-	16,253	-	16,253
94100 Ordinary Maintenance and Operations - Labor	52,514			5,733	58,247		58,247
94200 Ordinary Maintenance and Operations - Materials and Other	10,540	1,839		684	13,063		13,063
94300 Ordinary Maintenance and Operations Contracts	16,549	957		6,628	24,134		24,134
94500 Employee Benefit Contributions - Ordinary Maintenance	10,778			2,932	13,710		13,710
94000 Total Maintenance	90,381	2,796	-	15,977	109,154	-	109,154

**SANDUSKY METROPOLITAN HOUSING AUTHORITY
ENTITY-WIDE REVENUE AND EXPENSE SUMMARY
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

	Project Total	14.871 Housing Choice Vouchers	14.885 Formula Capital Fund Stimulus Grant	State/Local	Subtotal	ELIM	Total
96110 Property Insurance	6,445			1,313	7,758		7,758
96120 Liability Insurance	639	189		116	944		944
96130 Workmen's Compensation	298	91		58	447		447
96140 All Other Insurance	1,951				1,951		1,951
96100 Total Insurance Premiums	9,333	280	-	1,487	11,100	-	11,100
96200 Other General Expenses	3,065				3,065		3,065
96210 Compensated Absences	-1,690	-290		-746	-2,726		-2,726
96300 Payments in Lieu of Taxes				449	449		449
96400 Bad debt - Tenant Rents	1,521				1,521		1,521
96000 Total Other General Expenses	2,896	-290	-	-297	2,309	-	2,309
96710 Interest of Mortgage (or Bonds) Payable				15,948	15,948		15,948
96700 Total Interest Expense and Amortization Cost	-	-	-	15,948	15,948	-	15,948
96900 Total Operating Expenses	229,135	55,682	-	49,873	334,690	-	334,690
97000 Excess of Operating Revenue over Operating Expenses	55,231	886,456	-	47,432	989,119	-	989,119
97300 Housing Assistance Payments		849,540			849,540		849,540
97350 HAP Portability-In		37,667			37,667		37,667
97400 Depreciation Expense	143,105			41,662	184,767		184,767
90000 Total Expenses	372,240	942,889	-	91,535	1,406,664	-	1,406,664
10000 Excess (Deficiency) of Total Revenue Over (Under) Total	-87,874	-751	-	5,770	-82,855	-	-82,855
11030 Beginning Equity	2,001,907	121,428	-	336,630	2,459,965		2,459,965
11170 Administrative Fee Equity		32,758			32,758		32,758
11180 Housing Assistance Payments Equity		87,919			87,919		87,919
11190 Unit Months Available	576	2,640		108	3,324		3,324
11210 Number of Unit Months Leased	560	2,418		108	3,086		3,086
11270 Excess Cash	116,985				116,985		116,985
11620 Building Purchases	41,025				41,025		41,025

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
Sandusky Metropolitan Housing Authority
Fremont, Ohio

Regional Inspector General for Audit
Department of Housing and Urban
Development

We have audited, in accordance with the 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, the financial statements of the Sandusky Metropolitan Housing Authority, Ohio, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated November 11, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Sandusky Metropolitan Housing Authority, Ohio's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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 Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A deficiency in internal control 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 and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Sandusky Metropolitan Housing Authority, Ohio's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



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

November 11, 2013

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 COMPLIANCE FOR EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY
OMB CIRCULAR A-133**

Board of Directors
Sandusky Metropolitan Housing Authority
Fremont, Ohio

Regional Inspector General of Audit
Department of Housing and Urban
Development

Report on Compliance for Each Major Federal Program

We have audited the Sandusky Metropolitan Housing Authority, Ohio's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on the Authority's major federal program for the year ended June 30, 2013. The Authority's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Authority's major federal program based on our audit of the types of compliance requirements referred to above. 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 Authority's compliance with those requirements and performing such other procedures as we consider necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for its major federal program. However, our audit does not provide a legal determination of the Authority's compliance.

Opinion on Each Major Federal Program

In our opinion, the Sandusky Metropolitan Housing Authority, Ohio, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2013.

Report on Internal Control Over Compliance

Management of the Authority, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program 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 Authority'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. *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.

Our consideration of 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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



James G. Zupka CPA, Inc.
Certified Public Accountants

November 11, 2013

**SANDUSKY METROPOLITAN HOUSING AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 & .505
JUNE 30, 2013**

1. SUMMARY OF AUDITOR'S RESULTS

2013(i)	Type of Financial Statement Opinion	Unmodified
2013(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
2013(ii)	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
2013(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
2013(iv)	Were there any material internal control weaknesses reported for major Federal programs?	No
2013(iv)	Were there any significant deficiencies in internal control reported for major Federal programs?	No
2013(v)	Type of Major Programs' Compliance Opinion	Unmodified
2013(vi)	Are there any reportable findings under .510(a)?	No
2013(vii)	Major Programs (list): CFDA #14.871 - Housing Choice Voucher Program	
2013(viii)	Dollar Threshold: Type A\B Programs	Type A: >\$300,000 Type B: all others
2013(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

None.

**SANDUSKY METROPOLITAN HOUSING AUTHORITY
STATUS OF PRIOR CITATIONS AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2013**

The prior audit report as of June 30, 2012 had no audit findings.

Management letter recommendations have been corrected, or procedures instituted to prevent occurrences in this audit report.

This page intentionally left blank.



Dave Yost • Auditor of State

SANDUSKY METROPOLITAN HOUSING AUTHORITY

SANDUSKY COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
DECEMBER 31, 2013**