

Lucas Metropolitan Housing Authority

**Financial Report
with Supplemental Information
December 31, 2007**



Mary Taylor, CPA
Auditor of State

Board of Commissioners
Lucas Metropolitan Housing Authority
435 Nebraska Avenue
P.O. Box 477
Toledo, Ohio 43604

We have reviewed the *Independent Auditor's Report* of the Lucas Metropolitan Housing Authority, Lucas County, prepared by Plante & Moran, PLLC, for the audit period January 1, 2007 through December 31, 2007. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

September 22, 2008

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Lucas Metropolitan Housing Authority

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Independent Auditor's Report

To the Board of Commissioners
Lucas Metropolitan Housing Authority

We have audited the accompanying basic financial statements of Lucas Metropolitan Housing Authority (the "Authority") as of December 31, 2007 and for the year then ended, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Lucas Metropolitan Housing Authority as of December 31, 2007 and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

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

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental information, which includes the financial data schedules and the schedule of expenditures of federal awards (under separate cover), is presented for the purpose of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements of Lucas Metropolitan Housing Authority. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

To the Board of Commissioners
Lucas Metropolitan Housing Authority

In accordance with *Government Auditing Standards*, we have also issued a report dated July 18, 2008 on our consideration of Lucas Metropolitan Housing Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grants, and other matters. The purpose of that report is to describe the scope of our testing of internal controls over financial reporting on compliance and the results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Plante & Moran, PLLC

July 18, 2008

Lucas Metropolitan Housing Authority

Management's Discussion and Analysis

Lucas Metropolitan Housing Authority's (LMHA or the "Authority") management's discussion and analysis (MD&A) is designed to (a) assist the reader in focusing on significant financial issues, (b) provide an overview of LMHA's financial activities for the year, (c) identify changes in LMHA's financial position, and (d) identify individual fund or program issues or concerns.

LMHA offers this narrative overview of its financial activities for the 12-month period ended December 31, 2007.

Since the MD&A is designed to focus on the current year's activities, resulting changes, and currently known facts, please read this discussion in conjunction with LMHA's accompanying financial statements and notes.

Mission Statement

Through its programs and partnerships, Lucas Metropolitan Housing Authority is committed to building better neighborhoods by providing comprehensive housing opportunities for qualified individuals and families through creative and professional services in partnership with the greater community.

Activity Highlights

LMHA changed its fiscal year from a June 30 year end to a December 31 year end in 2006. This was done primarily to coincide with HUD's new funding cycle. This resulted in an 18-month audit for the period ended December 31, 2006.

This year, the audit covers a 12-month reporting period. Thus, the current year for the 12-months ended December 31, 2007 will be the first to be reported on this new calendar year format. The reader should bear this in mind when reviewing comparative data.

Lucas Metropolitan Housing Authority

Management's Discussion and Analysis (Continued)

Financial Highlights

The prior year change in reporting involved an 18-month transition period that ran from July 1, 2005 through December 31, 2006. Due to this one-time-only 18-month period, many of the comparative analyses typically presented cannot be interpreted for differences in the current and prior years and have been excluded from this discussion. However, overall comparisons have been made.

- LMHA's total assets exceeded its liabilities by \$65,711,457 at December 31, 2007. This is a decrease of \$3,284,498 from the previous year, as a result of operations.
- Operating revenues decreased by \$20,327,840 (32.2 percent). Revenue was \$42,898,244 and \$63,226,084 for the reporting periods ended December 31, 2007 and December 31, 2006, respectively. The increase is mainly a result of 18 months of activity versus a 12-month year. Overall, during the fiscal period audited, other revenue includes stable HUD funding in contract year 2007 for our Low-income Public Housing Program, while grant revenue declined.
- Operating expenses decreased by \$22,444,015 (31.6 percent). Expenses were \$48,501,731 and \$70,945,746 (including depreciation) for the reporting periods ended December 31, 2007 and December 31, 2006, respectively. The increase was due mainly to reporting 18 months of activity versus a 12 month year, with no appreciable differences in ordinary expense levels.

The Authority's Programs

Financial statements of Lucas Metropolitan Housing Authority utilize the Enterprise Fund method on the full accrual basis of accounting. The Enterprise Fund method is similar to accounting used in the private sector. Many of the program funds maintained by LMHA are required by the Department of Housing and Urban Development. Others are segregated to enhance accountability and control. The Authority's significant programs are described below. Within these main programs, the Lower Income Housing Assistance Program - Voucher Program is deemed to be a major program as defined for federal award purposes under Circular A-133 for the current period ended December 31, 2007.

Lucas Metropolitan Housing Authority

Management's Discussion and Analysis (Continued)

Low-income Public Housing Program - Under this program, LMHA rents units that it owns in 34 developments and over 200 scattered sites within Lucas County to low-income households. This program is operated under an annual contributions contract (ACC) with HUD, and HUD provides operating subsidy to enable LMHA to provide housing at a cost that is based upon 30 percent of household income. LMHA currently owns and operates 3,100 subsidized units in this program.

Capital Fund Program - Under this program, LMHA receives funding from HUD for physical and management improvements to its units within the Low-Income Public Housing Program. The Capital Fund Program is operated under the annual contributions contract with HUD.

Section 8 Program - Within the Section 8 program, LMHA administers contracts with independent landlords that own and lease units within our community. LMHA subsidizes the family's rent through a housing assistance payment (HAP) made to the landlord. These programs are operated under annual contributions contracts with HUD, which enables LMHA to structure a lease that sets the participants' housing costs at 30 percent of household income. LMHA currently administers 3,748 housing choice vouchers, 150 mainstream vouchers, and 47 moderate rehabilitation units.

In addition to the programs outlined above, LMHA also maintains the following programs that are deemed to be nonmajor federal programs and other nonfederal programs:

Resident Services Grants - Includes grants funded by HUD, such as resident opportunity and self-sufficiency grant (ROSS), and smaller ABLE and other specific-purpose grants (state and local funding)

Non-HUD/Business Activities Programs - The non-HUD/business activities programs include programs such as contract administration (a consortium with other housing authorities to manage site-based properties for HUD), as well as proceeds from our old Turnkey III Homeownership Program (utilized to provide homeownership opportunities for low-income families), our Veteran's Fund (a discretionary pool of funding developed from a variety of activities), and as of 2006, the Westridge Apartment complex (a 190 unit site with 25 percent of its units leased to low-income residents), which is also now considered as a business activity of LMHA.

Lucas Metropolitan Housing Authority

Management's Discussion and Analysis (Continued)

The Authority's Financial Statements

LMHA's basic "authority-wide" accompanying audited 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 financial statements include a statement of net assets (similar to a balance sheet), which is designed to represent the available assets, net of liabilities, for the entire Authority. Net assets (formerly known as equity) are reported in three broad categories: net assets invested in capital assets (net of related debt and depreciation), restricted net assets, and unrestricted net assets.

Our authority-wide financial statements also include a statements of revenues, expenses, and changes in fund net assets (similar to an income statement). This statement includes operating revenues such as rental income, and operating expenses, including administrative, maintenance, and utilities, as well as nonoperating items, such as capital grant revenue and investment income. The focus of this statement is the "change in net assets," which is similar to net income or loss.

Finally, a statement of cash flows is included, which discloses net cash provided by or used in operating activities and capital and related financing activities.

We also include additional information which we feel will assist the reader in understanding the financial statements. This additional information will allow the user to address relevant questions, broaden the basis for comparison, and enhance LMHA's accountability.

The following statements are condensed versions of our financial statements, for the purpose of analysis and discussion. See the full financial statements for more details on results of operations.

Lucas Metropolitan Housing Authority

Management's Discussion and Analysis (Continued)

Lucas Metropolitan Authority Statement of Net Assets December 31, 2007 and 2006

The following table represents the condensed statement of net assets compared to the prior year for all of LMHA's programs combined:

	December 31, 2007	December 31, 2006	Change
Assets			
Current and other assets	\$ 18,559,897	\$ 16,207,582	\$ 2,352,315
Noncurrent assets	<u>58,558,944</u>	<u>63,216,729</u>	<u>(4,657,785)</u>
Total assets	77,118,841	79,424,311	(2,305,470)
Liabilities			
Current and other liabilities	4,697,505	3,568,700	1,128,805
Noncurrent liabilities	<u>6,709,879</u>	<u>6,859,656</u>	<u>(149,777)</u>
Total liabilities	<u>11,407,384</u>	<u>10,428,356</u>	<u>979,028</u>
Net Assets			
Invested in capital assets - Net of related debt	52,120,450	54,619,008	(2,498,558)
Unrestricted	<u>13,591,007</u>	<u>14,376,947</u>	<u>(785,940)</u>
Total net assets	<u>\$ 65,711,457</u>	<u>\$ 68,995,955</u>	<u>\$ (3,284,498)</u>

Major Factors Affecting the Statement of Net Assets

Current assets increased by \$2,352,315 due largely to increases in short-term investments, as a cautionary move, due to falling interest rates and unstable investment markets.

Noncurrent assets decreased by \$4,657,785, which is also a result of decreases in long-term investments and decreases in capital fund grants from HUD.

Total liabilities increased by \$979,028 due to an increase in accrued expenses from the prior year.

Please refer to the full financial statements for more detailed information on these accounts.

Lucas Metropolitan Housing Authority

Management's Discussion and Analysis (Continued)

Lucas Metropolitan Housing Authority Revenues and Expenses by Programs 12 Months Ended December 31, 2007 and 18 Months Ended December 31, 2006

The following schedule compares the revenues and expenses for the current and previous fiscal periods for all LMHA programs:

	12 Months Ended December 31, 2007	18 Months Ended December 31, 2006	Change
Revenue			
Conventional Public Housing (LIPH)	\$ 16,215,755	\$ 23,055,971	\$ (6,840,216)
Section 8 Programs	22,524,088	35,277,251	(12,753,163)
Capital Fund Program (CFP)	1,726,142	2,555,662	(829,520)
Non-HUD/Other business activities	1,060,720	1,247,116	(186,396)
Resident service grants	246,285	260,954	(14,669)
Westridge Apartments (Non-HUD)	1,125,254	829,130	296,124
Total revenue	<u>\$ 42,898,244</u>	<u>\$ 63,226,084</u>	<u>\$ (20,327,840)</u>
Expenses			
Conventional Public Housing (LIPH)	\$ 23,026,591	\$ 33,848,333	\$ (10,821,742)
Section 8 Programs	22,440,827	33,403,471	(10,962,644)
Capital Fund Program (CFP)	1,031,857	1,682,259	(650,402)
Non-HUD/Other business activities	521,613	712,500	(190,887)
Resident service grants	240,298	256,559	(16,261)
Westridge Apartments (Non-HUD)	1,240,545	1,042,624	197,921
Total expenses	<u>\$ 48,501,731</u>	<u>\$ 70,945,746</u>	<u>\$ (22,444,015)</u>

Please refer to the full financial statements for more detailed information on these accounts.

Lucas Metropolitan Housing Authority

Management's Discussion and Analysis (Continued)

Lucas Metropolitan Housing Authority Revenues and Expenses 12 Months Ended December 31, 2007 and 18 Months Ended December 31, 2006

The results of operations for LMHA for the current and previous fiscal periods are presented below:

	12 Months Ended December 31, 2007	18 Months Ended December 31, 2006	Change
Operating Revenues			
HUD and other grants	\$ 35,395,625	\$ 53,230,312	\$ (17,834,687)
Rental income	5,979,653	8,441,893	(2,462,240)
Other income	887,937	949,255	(61,318)
Interest income	635,029	604,624	30,405
Total operating revenues	42,898,244	63,226,084	(20,327,840)
Operating Expenses			
Housing assistance payments	20,187,427	30,375,837	(10,188,410)
Administrative salaries and benefits	5,676,419	8,436,173	(2,759,754)
Utilities	4,974,376	7,555,077	(2,580,701)
Maintenance - Material and labor	4,451,528	6,252,416	(1,800,888)
Sundry administration	1,567,157	1,912,208	(345,051)
Contract services	1,573,558	2,138,978	(565,420)
Resident services	943,389	1,318,344	(374,955)
General	1,517,334	2,232,275	(714,941)
Nonroutine maintenance	15,073	(91,609)	106,682
Protective service	92,422	65,791	26,631
Interest	351,588	273,229	78,359
Depreciation	7,151,460	10,477,027	(3,325,567)
Total operating expenses	48,501,731	70,945,746	(22,444,015)
Operating Loss	(5,603,487)	(7,719,662)	2,116,175
Nonoperating Income (Expense)			
Net increase in the fair value of investments	8,692	44,684	(35,992)
(Loss) gain on sale of property and equipment	(17,507)	18,624	(36,131)
Total nonoperating (expense) income	(8,815)	63,308	(72,123)
Loss Before Contributions	(5,612,302)	(7,656,354)	2,044,052
Contributions - Capital grants	2,327,804	3,178,864	(851,060)
Change in Net Assets	(3,284,498)	(4,477,490)	1,192,992
Net Assets - Beginning of year	68,995,955	73,473,445	(4,477,490)
Net Assets - End of year	<u>\$ 65,711,457</u>	<u>\$ 68,995,955</u>	<u>\$ (3,284,498)</u>

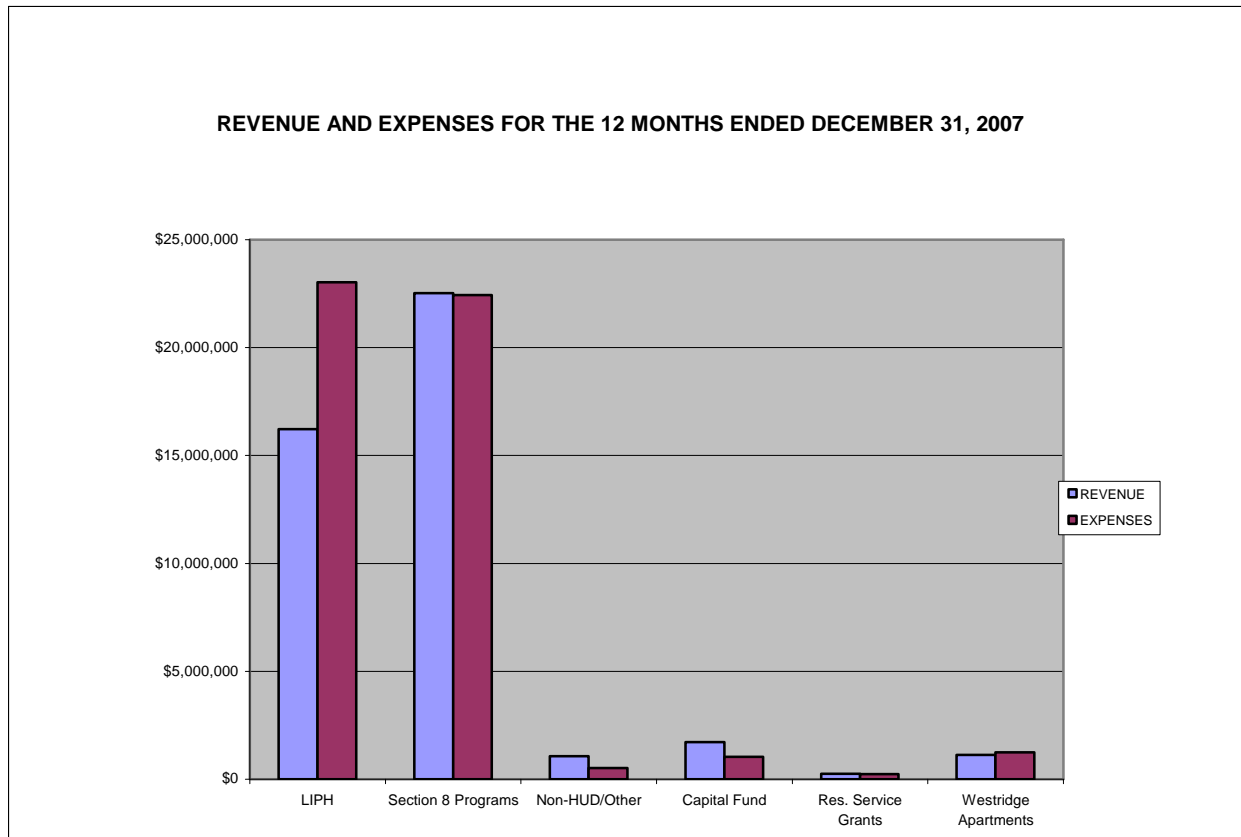
Lucas Metropolitan Housing Authority

Management's Discussion and Analysis (Continued)

Lucas Metropolitan Housing Authority Revenues and Expenses 12 Months Ended December 31, 2007

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

Increases in revenues and expenses are due mainly to the 18-month period of the transition to a calendar year.



Please refer to the full financial statements for more detailed information on these accounts.

Lucas Metropolitan Housing Authority

Management's Discussion and Analysis (Continued)

Lucas Metropolitan Housing Authority Comparison of Capital Assets at Period End - Net of Depreciation December 31, 2007 and 2006

	December 31, 2007	December 31, 2006	Change
Land	\$ 7,765,528	\$ 7,783,214	\$ (17,686)
Buildings	161,388,899	157,434,600	3,954,299
Equipment	3,556,395	3,462,393	94,002
Accumulated depreciation	<u>(122,478,948)</u>	<u>(115,485,264)</u>	<u>(6,993,684)</u>
Subtotal	50,231,874	53,194,943	(2,963,069)
Work in progress	<u>7,653,861</u>	<u>9,310,297</u>	<u>(1,656,436)</u>
Total	<u>\$ 57,885,735</u>	<u>\$ 62,505,240</u>	<u>\$ (4,619,505)</u>

During the 12-month period ended December 31, 2007, the net change in capital assets amounted to a decrease of \$4,619,505. The above table represents the changes in the asset accounts by category as follows:

- Land decreased slightly and buildings increased by almost \$4 million; these changes are due mainly to the closeout of the work in progress balances of capital grants that closed in the prior year.
- Equipment values increased by \$94,002 due to replacement of obsolete equipment and vehicles during the year.
- Accumulated depreciation increased by \$6,993,684, which represents the current year depreciation expense during the 12-month period ended December 31, 2007.
- Work in progress decreased by \$1,656,436 from the prior year. This reflects decreased funding from HUD for the ongoing renovations and improvements to various public housing developments during the year.

Lucas Metropolitan Housing Authority

Statement of Net Assets December 31, 2007

Assets

Current Assets

Cash and cash equivalents	\$ 11,706,868
Investments (Note 2)	3,606,281
Grants receivable	1,070,707
Tenant receivables - Net of allowance for doubtful accounts of \$39,205	137,965
Notes receivable	829,802
Interest receivable	18,495
Inventory	572,271
Development costs	107,916
Prepaid expenses	509,592

Total current assets 18,559,897

Noncurrent Assets

Restricted cash (Note 2)	673,209
Property and equipment - Net of accumulated depreciation of \$122,478,948 (Note 3)	57,885,735

Total assets \$ 77,118,841

Liabilities and Net Assets

Current Liabilities

Accounts payable	\$ 1,834,479
Accounts payable - HUD	117,152
Security and other trust deposits	351,455
Accrued wages and payroll taxes	679,544
Compensated absences - Current portion (Note 6)	372,830
Notes payable - Current portion (Note 9)	73,873
Other current liabilities	1,268,172

Total current liabilities 4,697,505

Noncurrent Liabilities

Notes payable - Net of current portion (Note 9)	5,691,412
Compensated absences - Net of current portion (Note 6)	1,018,467

Total liabilities 11,407,384

Net Assets

Unrestricted	13,591,006
Invested in capital assets - Net of related debt	52,120,450

Total net assets 65,711,457

Total liabilities and net assets \$ 77,118,841

Lucas Metropolitan Housing Authority

Statement of Revenues, Expenses, and Changes in Net Assets Year Ended December 31, 2007

Operating Revenues	
HUD and other grants	\$ 35,395,625
Rental income	5,979,653
Interest income	635,029
Other income	887,937
	<hr/>
Total operating revenues	42,898,244
Operating Expenses	
Housing assistance payments	20,187,427
Administrative salaries and benefits	5,676,419
Utilities	4,974,376
Maintenance - Material and labor	4,451,528
Sundry administration	1,567,157
Contract services	1,573,558
Resident services	943,389
General	1,517,334
Nonroutine maintenance	15,073
Protective service	92,422
Interest expense	351,588
Depreciation	7,151,460
	<hr/>
Total operating expenses	48,501,731
Operating Loss	(5,603,487)
Nonoperating Income (Expense)	
Net increase in the fair value of investments	8,692
Loss on sale of property and equipment	(17,507)
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Total nonoperating expense	(8,815)
Loss Before Contributions	(5,612,302)
Contributions - Capital grants	2,327,804
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Change in Net Assets	(3,284,498)
Net Assets - Beginning of year	68,995,955
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Net Assets - End of year	\$ 65,711,457

Lucas Metropolitan Housing Authority

Statement of Cash Flows Year Ended December 31, 2007

Cash Flows from Operating Activities

Cash received from HUD operating subsidies and grants	\$ 37,113,442
Cash received from tenants	5,916,704
Other receipts	1,627,935
Cash payments for housing assistance	(20,202,219)
Cash payments for administrative expenses	(17,649,732)
Cash payments for other operating expenses	(1,519,736)
Cash payments for resident and other services	(1,144,051)
Interest and other investment activity	(562,362)
Other payments	<u>379,389</u>

Net cash provided by operating activities 3,959,370

Cash Flows from Capital and Related Financing Activities

Repayment of notes payable	(71,403)
Payments from notes receivable	15,752
Purchase of property and equipment	<u>(2,566,845)</u>

Net cash used in capital and related financing activities (2,622,496)

Net Increase in Cash and Cash Equivalents 1,336,874

Cash and Cash Equivalents - Beginning of period 11,043,203

Cash and Cash Equivalents - End of period **\$ 12,380,077**

Cash and Cash Equivalents Reconciliation

Cash and cash equivalents	\$ 11,706,868
Restricted cash	<u>673,209</u>

Total cash and cash equivalents **\$ 12,380,077**

Lucas Metropolitan Housing Authority

Statement of Cash Flows (Continued) Year Ended December 31, 2007

Reconciliation of Operating Loss to Net Cash from Operating Activities

Operating loss	\$ (3,284,498)
Adjustments to reconcile operating loss to net cash from operating activities:	
Depreciation	7,151,460
Bad debts	(62,949)
Loss on sale of property and equipment	17,507
Unrealized loss on investments	8,692
(Increase) decrease in operating assets:	
Receivables	(604,443)
Inventory	(77,589)
Investments	(562,362)
Prepaid expenses and other assets	323,122
Increase (decrease) in operating liabilities:	
Accounts payable	1,144,132
Compensated absences	(63,507)
Other liabilities	3,710
Security and other trust deposits	<u>(33,905)</u>
Net cash provided by operating activities	<u>\$ 3,959,370</u>

Lucas Metropolitan Housing Authority

Notes to Financial Statements December 31, 2007

Note I - Summary of Significant Accounting Policies

Organization and Reporting Entity - Lucas Metropolitan Housing Authority (LMHA or the "Authority") was created under Ohio Revised Code Section 3735.27 to engage in the acquisition, development, leasing, and administration of a low-rent housing program. An annual contributions contract (ACC) was signed by Lucas Metropolitan Housing Authority and the U.S Department of Housing and Urban Development (HUD), under the provisions of the ACC and all applicable 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 that are detrimental to the public peace, health, safety, morals, or welfare by purchasing, acquiring, constructing, maintaining, operating, improving, extending, and repairing housing facilities.

The nucleus of the financial reporting entity as defined by the Governmental Accounting Standards Board (GASB) Statement No. 14 is the "primary government." A fundamental characteristic of a primary government is that it is 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 appointment of a voting majority plus the ability of the primary government to impose its will upon the potential component unit. These criteria were considered in determining the reporting entity. The Authority has included as a business activity the operations of Westridge Apartments Development Corporation (WADC) as a blended component unit for the 12-month period ended December 31, 2007.

WADC was established as a wholly owned for-profit corporation of the Authority in January 2006 primarily for the purposes of owning and operating a mixed-income apartment complex in Toledo, Ohio.

Basis of Accounting - The basic financial statements of the Authority have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units.

The Governmental Accounting Standards Board is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Pursuant to GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Authority follows GASB guidance as applicable to proprietary funds.

Lucas Metropolitan Housing Authority

Notes to Financial Statements December 31, 2007

Note I - Summary of Significant Accounting Policies (Continued)

The Authority applies applicable Governmental Accounting Standards Board (GASB) pronouncements, as well as all Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB) issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. After November 30, 1989, the Authority only applies GASB announcements.

The Authority's basic financial statements consist of a statement of net assets, a statement of revenues, expenses, and changes in net assets, and a statement of cash flows. The Authority uses a single Enterprise Fund to maintain its financial records on an accrual basis. The Authority considers all revenue and expenses to be operating except for capital funding, which is considered nonoperating income as required by HUD.

Cash and Cash Equivalents - Cash and cash equivalents consist of cash on hand and all highly liquid investments purchased with an original maturity of three months or less.

Tenant Receivables - Recognition of Bad Debts - Bad debts are provided on the allowance method based on management's evaluation of the collectibility of outstanding tenant receivable balances at the end of the year.

Inventories - Inventories and materials are stated at average cost, which approximates market.

Property and Equipment - Property and equipment are recorded at cost. Costs in excess of \$500 that materially add to the productive capacity and extend the life of an asset longer than one year are capitalized, while maintenance and repair costs are expensed as incurred. Property and equipment are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	20-40 years
Land and improvements	10-20 years
Furniture and fixtures, equipment, and moving vehicles	5-7 years

Work in Progress - Work in progress consists of capital projects in progress funded primarily by the comprehensive and capital grants programs.

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. Fair value of government securities, commercial papers, and the Star Ohio investments is determined using amounts confirmed by the investment institutions and adjusting amounts as necessary for discounts, premiums, and/or interest income. Investment income or loss (including realized and unrealized gains and losses on investments, interest, and dividends) is included in the statement of revenues, expenses, and changes in net assets.

Lucas Metropolitan Housing Authority

Notes to Financial Statements December 31, 2007

Note 1 - Summary of Significant Accounting Policies (Continued)

Restricted Cash and Investments - Restricted cash represents amounts held in FSS escrow, other tenants' escrow accounts, and employee Section 125 withholding accounts. Restricted investments consist of amounts whose use is restricted only by HUD requirements and approval.

Revenue Recognition - The Authority receives funds from certain federal and other agencies under various grant programs. Receivables are recorded based upon amounts expended for the various programs for which funds have not been received, to the extent grant limits have not been exceeded. The Authority leases properties to tenants under various rental arrangements. Recoveries from tenants are recognized as revenue in the period during which the associated costs are incurred.

Note 2 - Deposits and Investments

The Authority's deposits and investments are included at their carrying values on the statement of net assets under the following classifications:

Cash and cash equivalents	\$ 11,706,868
Investments	3,606,281
Restricted cash	<u>673,209</u>
Total	<u>\$ 15,986,358</u>

The above amounts are classified by Governmental Accounting Standards Board Statement No. 3 in the following categories:

Bank deposits (checking accounts, savings accounts, and certificates of deposit)	\$ 11,398,256
Investments in securities, bank investment pools, interlocal investment pools, commercial paper, and mutual funds	4,586,702
Petty cash or cash on hand	<u>1,400</u>
Total	<u>\$ 15,986,358</u>

Deposits

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the Authority's treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts. Inactive deposits are public deposits that the Authority has identified as not required for use within the current two-year period of designation of depositories.

Lucas Metropolitan Housing Authority

Notes to Financial Statements December 31, 2007

Note 2 - Deposits and Investments (Continued)

Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

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

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

The Authority's deposits are categorized to give an indication of the level of risk assumed by the entity at year end. Category 1 includes deposits that are insured or collateralized with securities held by the Authority or its safekeeping agent in the Authority's name.

Category 2 includes uninsured deposits collateralized with securities held by the pledging financial institution's trust department or safekeeping agent in the Authority's name.

Category 3 includes uninsured and uncollateralized deposits, including any bank balance that is collateralized with securities held by the pledging institution, or by its trust department or safekeeping agent, but not in the Authority's name.

The bank balances of the Authority's deposits are \$12,378,678 at December 31, 2007.

The following shows the Authority's deposits (bank balances) in each category:

Category 1 \$100,000 was covered by federal depository insurance at December 31, 2007.

Category 3 \$12,278,678 was covered by collateral held by the pledging financial institution, but not in the name of the Authority, at December 31, 2007.

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

Lucas Metropolitan Housing Authority

Notes to Financial Statements December 31, 2007

Note 2 - Deposits and Investments (Continued)

Investments

HUD, the State Senate, 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 fund, super NOW accounts, sweep accounts, bonds and other obligations of this state, and the state treasurer's investment pool. Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling is also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the Authority, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions.

Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

The Authority's investments are categorized to give an indication of the level of risk assumed by the entity at year end. Category A includes investments that are insured or registered or for which the securities are held by the Authority or its agent in the Authority's name. Category B includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the Authority's name. Category C includes uninsured and unregistered investments for which securities are held by the counterparty or its trust department but not in the Authority's name. The Authority's investment in STAR Ohio (State Treasury Asset Reserve, managed by the Treasurer of the State of Ohio) is not subject to credit risk categorization since it is not evidenced by securities that exist in physical or book entry form. The Authority's investments, except STAR Ohio, are all Category A and consist of the following at December 31, 2007:

Government securities	\$ 3,505,002
Merrill Lynch	101,279
STAR Ohio	980,421
Total investments	<u>\$ 4,586,702</u>

Lucas Metropolitan Housing Authority

Notes to Financial Statements December 31, 2007

Note 2 - Deposits and Investments (Continued)

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Authority's investment policy does not restrict investment maturities. The Authority has \$3,505,002 of government agency securities with an average weighted maturity of 1.92 years.

Credit Risk

The Authority has \$3,505,002 of government agency securities that are not rated.

Concentration of Credit Risk

The Authority places no limit on the amount which may be invested in any one issuer. All of the Authority's investments are in Freddie Mac, Fannie Mae, and Federal Home Loan securities, which are government-sponsored agencies, of which the principal and interest are guaranteed by the United States government.

Note 3 - Property and Equipment

A summary of property and equipment by class is as follows:

	Balance January 1, 2007	Additions	Adjustments	Balance December 31, 2007
Capital assets:				
Buildings and improvements	\$ 157,434,600	\$ 3,954,299	\$ -	\$ 161,388,899
Land and improvements	7,783,214	9,300	(26,986)	7,765,528
Furniture and fixtures, equipment, and moving vehicles	3,462,393	114,754	(20,752)	3,556,395
Work in progress	9,310,297	-	(1,656,436)	7,653,861
Total capital assets	177,990,504	4,078,353	(1,704,174)	180,364,683
Accumulated depreciation:				
Buildings and improvements	112,547,252	6,891,019	-	119,438,271
Furniture and fixtures, equipment, and moving vehicles	2,938,012	260,446	(157,781)	3,040,677
Total accumulated depreciation	115,485,264	7,151,465	(157,781)	122,478,948
Net capital assets	<u>\$ 62,505,240</u>	<u>\$ (3,073,112)</u>	<u>\$ (1,546,393)</u>	<u>\$ 57,885,735</u>

Lucas Metropolitan Housing Authority

Notes to Financial Statements December 31, 2007

Note 4 - Administrative Fee

The Authority receives an administrative fee as part of the annual contribution from HUD to cover the costs (including overhead) of administering the Section 8 Housing Assistance Payments (HAP) programs. Except for housing choice vouchers, this fee is calculated as a percentage of a HUD-determined base rate per leased unit per month under HAP contracts. The rates are as follows:

a. Moderate Rehabilitation Program (OH006MR0004)	\$50.33/unit
b. Five-year Mainstream Voucher Program (OH006DV003)	50.33/unit
c. New Construction Program - (OH006NCO003, 010, 044, 019, and 004)	30.67/unit
d. Housing Choice Vouchers (OH006AF001-012)	*

* Administrative fees for the Housing Choice Voucher Program are calculated by HUD based on historical usage patterns and available funding and distributed as a consolidated monthly amount.

The total administrative fees received for the period ended December 31, 2007 were \$2,344,464.

Note 5 - Retirement and Other Benefit Plans

The employees of the Authority are covered by the Public Employees' Retirement System of Ohio (PERS), a statewide, cost-sharing, multiple-employer defined benefit pension plan. PERS provides postretirement healthcare and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. The authority to establish and amend benefits is provided by State Statute per Chapter 145 of the Ohio Revised Code. PERS issues a publicly available financial report. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, OH 43215-4642, visiting the OPERS website at www.OPERS.org, or by calling (614) 466-2085.

The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rate is 9.50 percent of qualifying wages for all employees. The 2007 employer contribution rate was 13.85 percent. Required employer contributions are equal to 100 percent of the dollar amount billed to each employer and must be extracted from the employer's records.

The Authority's contributions to PERS for the period ended December 31, 2007 was \$1,492,671. All required contributions were made prior to year end.

Lucas Metropolitan Housing Authority

Notes to Financial Statements December 31, 2007

Note 5 - Retirement and Other Benefit Plans (Continued)

The Public Employees' Retirement System of Ohio provides postretirement healthcare coverage to age and service retirees with 10 or more years of qualifying Ohio service credit and to primary survivor recipients of such retirees. Healthcare coverage for disability recipients is available. The healthcare coverage provided by the retirement system is considered an other postemployment benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to PERS is set aside for the funding of postretirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The 2007 employer contribution rates were 13.85 percent of covered payroll; 4.00 percent was the portion that was used to fund health care for 2005. OPEB is financed through employer contributions and investment earnings thereon. The contributions allocated to retiree health and Medicare, along with investment income on allocated assets and periodic adjustments in healthcare provisions, are expected to be sufficient to sustain the program indefinitely.

As of December 31, 2007, the estimated net assets available for future OPEB payments totaled \$61.3 billion per the latest actuarial review. The number of active contributing participants was 382,177.

The Authority may participate in a statewide deferred compensation plan created in accordance with Internal Revenue Code Section 457. Participation is on a voluntary payroll deduction basis. The plan permits deferral of compensation until future years. According to the plan, the deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. The plan agreement states that the Authority and the Ohio Public Employees' Deferred Compensation Board have no liability for losses under the plan, with the exception of fraud or wrongful taking.

Note 6 - Compensated Absences

Vacation and sick leave policies are established by agreement between the Authority and the American Federation of State, County and Municipal Employees, AFL-CIO, for members of the bargaining unit, and by personnel policy for management employees not covered by the labor agreement.

For both union and nonunion employees, these agreements provide for two weeks of paid vacation after one year of service, with an additional week for every five years of service thereafter, to a maximum of six weeks per year. Vacation time relating to a maximum of two years of service may be accumulated before it is lost.

For union personnel, the labor agreement provides for sick leave pay to be credited at a rate of eight hours per month, up to a maximum of 249 days. By limiting the use of sick leave during the fiscal year, an employee may elect to receive either bonus attendance time, to a maximum of five days, or an incentive bonus, to a maximum of \$500. Nonunion personnel have the same provisions under the personnel policies.

Lucas Metropolitan Housing Authority

Notes to Financial Statements December 31, 2007

Note 6 - Compensated Absences (Continued)

For union personnel, in the event of voluntary termination of employment after 10 consecutive years of service, or due to retirement, such employees are entitled to receive payment for one-half of their accumulated sick leave (maximum of 204 days accumulated, with a maximum payout of 102 days). All terminated employees are entitled to receive payment for any accrued and unused vacation time. In the event of the death of an employee, the designated beneficiary shall receive such payments.

For employees not covered under the labor agreement, in the event of voluntary termination of employment after five consecutive years of service, or due to retirement, such employees are entitled to receive payment for one-half of their accumulated sick leave (maximum of 249 days accumulated, with a maximum payout of 124.5 days). All terminated employees are entitled to receive payment for any accrued and unused vacation time. In the event of the death of an employee, the designated beneficiary shall receive such payments.

All employees hired prior to December 1, 2001 become eligible for longevity pay at the end of five years of service, at which time longevity pay begins to accrue from their anniversary date. Union personnel hired on December 1, 2001 and thereafter will not be eligible for longevity pay. Union personnel receive longevity pay at their 1995 pay levels at the rate of 2 percent, 4 percent, 6 percent, and 8 percent for five years, 10 years, 15 years, and 20 years, respectively, of service. All nonunion personnel are eligible for longevity pay and receive longevity pay at their current pay levels at the rate of 1 percent, 2 percent, 3 percent, and 4 percent for five years, 10 years, 15 years, and 20 years, respectively, of service. At December 31, 2007, \$1,391,297 of vested vacation, sick leave, and longevity was accrued by the Authority for both union and nonunion personnel. Nonvested amounts are not material to the financial statements and have not been accrued.

Note 7 - Insurance

The Authority maintains comprehensive insurance coverage with private carriers for health, real property, building contents, and vehicles. Vehicle policies include liability coverage for bodily injury and property damage.

No insurance settlements have exceeded coverage in any of the past three fiscal years and there has not been any significant reduction in insurance coverage in the current year.

Lucas Metropolitan Housing Authority

Notes to Financial Statements December 31, 2007

Note 8 - Commitments and Contingencies

Grants - The Authority received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Authority. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Authority at December 31, 2007.

Commitments - The Authority is obligated to complete modernization phases to renovate various facilities. At December 31, 2007, there were three open phases totaling \$8,445,081 for which the Authority has approved funding from HUD to complete.

Litigation and Claims - In the normal course of operations, the Authority may be subject to litigation and claims. At December 31, 2007, the Authority was involved in several such matters. While the outcome of the above matters cannot presently be determined, management believes that their ultimate resolution will not have a material effect on the financial statements.

Note 9 - Long-term Debt

Westridge Apartments Development Corporation has a note payable to Red Mortgage Capital, Inc. payable in monthly installments of \$35,249, including interest at 5.99 percent. A lump-sum payment of principal is due in March 2016.

Future minimum payments on long-term debt over the next five years ending December 31 and thereafter are as follows:

2008	\$	73,873
2009		79,488
2010		84,453
2011		89,727
2012		94,386
Thereafter		<u>5,343,358</u>
Total	\$	<u>5,765,285</u>

Supplemental Information

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Lucas Metropolitan Housing Authority

	Low Rent	Section 8 Program	Comprehensive Grant Program	Resident Service Grants
Assets				
Current Assets				
Cash and cash equivalents	\$ 4,175,196	\$ 3,766,983	\$ -	\$ -
Investments	1,101,278	-	-	-
Grants receivable	4,993	158,566	877,916	29,232
Due from other programs	432,285	-	-	6,430
Tenant receivables - Net of allowance for doubtful accounts of \$39,205	128,322	-	-	-
Notes receivable	-	-	-	-
Interest receivable	4,308	-	-	-
Inventory	572,271	-	-	-
Development costs	-	-	107,916	-
Prepaid expenses	130,239	-	-	-
Total current assets	6,548,892	3,925,549	985,832	35,662
Noncurrent Assets				
Restricted cash	309,814	309,663	-	-
Work in progress	-	-	7,388,789	-
Property and equipment - Net of accumulated depreciation of \$122,478,948	42,520,568	3,410	-	-
Total assets	\$ 49,379,274	\$ 4,238,622	\$ 8,374,621	\$ 35,662
Liabilities and Net Assets				
Current Liabilities				
Accounts payable	\$ 743,447	\$ 14,679	\$ 1,040,621	\$ 19,093
Accounts payable - HUD	-	117,152	-	-
Security and other trust deposits	294,036	3,300	-	-
Due to other programs	6,431	326,996	6,612	-
Accrued wages and payroll taxes	633,028	36,788	-	-
Compensated absences - Current portion	307,176	52,928	-	-
Notes payable - Current portion	-	-	-	-
Other current liabilities	121,562	905,179	-	6,187
Total current liabilities	2,105,680	1,457,022	1,047,233	25,280
Noncurrent Liabilities				
Notes payable - Net of current portion	-	-	-	-
Compensated absences - Net of current portion	850,687	152,732	-	-
Total liabilities	2,956,367	1,609,754	1,047,233	25,280
Net Assets				
Unrestricted	3,902,339	2,625,458	(61,401)	10,382
Invested in capital assets - Net of related debt	42,520,568	3,410	7,388,789	-
Total liabilities and net assets	\$ 49,379,274	\$ 4,238,622	\$ 8,374,621	\$ 35,662

**Financial Data Schedule of Net Assets by Program
December 31, 2007**

<u>Other Non-HUD</u>	<u>WADC</u>	<u>Veterans Fund</u>	<u>Elimination of Combined Program Activity</u>	<u>Total</u>
\$ 3,494,086	\$ 148,412	\$ 122,191	\$ -	\$ 11,706,868
2,505,003	-	-	-	3,606,281
-	-	250,000	(250,000)	1,070,707
50,000	-	-	(488,715)	-
-	9,643	-	-	137,965
829,802	-	-	-	829,802
14,187	-	-	-	18,495
-	-	-	-	572,271
-	-	-	-	107,916
178,527	170,826	30,000	-	509,592
<u>7,071,605</u>	<u>328,881</u>	<u>402,191</u>	<u>(738,715)</u>	<u>18,559,897</u>
-	53,732	-	-	673,209
265,072	-	-	-	7,653,861
36,660	7,642,213	29,023	-	50,231,874
<u>\$ 7,373,337</u>	<u>\$ 8,024,826</u>	<u>\$ 431,214</u>	<u>\$ (738,715)</u>	<u>\$ 77,118,841</u>
\$ 2,364	\$ 14,134	\$ 141	\$ -	\$ 1,834,479
-	-	-	-	117,152
500	53,619	-	-	351,455
95,716	300,679	2,281	(738,715)	-
9,728	-	-	-	679,544
12,726	-	-	-	372,830
-	73,873	-	-	73,873
29,750	205,494	-	-	1,268,172
<u>150,784</u>	<u>647,799</u>	<u>2,422</u>	<u>(738,715)</u>	<u>4,697,505</u>
-	5,691,412	-	-	5,691,412
15,048	-	-	-	1,018,467
<u>165,832</u>	<u>6,339,211</u>	<u>2,422</u>	<u>(738,715)</u>	<u>11,407,384</u>
6,905,773	(191,313)	399,769	-	13,591,007
301,732	1,876,928	29,023	-	52,120,450
<u>\$ 7,373,337</u>	<u>\$ 8,024,826</u>	<u>\$ 431,214</u>	<u>\$ (738,715)</u>	<u>\$ 77,118,841</u>

Lucas Metropolitan Housing Authority

	<u>Low Rent</u>	<u>Section 8 Program</u>	<u>Comprehensive Grant Program</u>	<u>Resident Service Grants</u>
Operating Revenues				
HUD and other grants	\$ 11,086,339	\$ 22,336,859	\$ 1,726,142	\$ 246,285
Rental income	4,848,695	-	-	-
Interest income	225,231	88,174	-	-
Other income	55,490	99,055	-	-
Total operating revenues	16,215,755	22,524,088	1,726,142	246,285
Operating Expenses				
Administrative salaries and benefits	3,162,123	1,666,000	460,852	-
Contract services	1,568,035	-	1,839	-
Maintenance - Material and labor	3,856,361	-	384,186	-
Utilities	4,654,505	264,772	-	-
Housing assistance payments	-	20,184,577	-	-
Interest expense	-	-	-	-
Protective service	91,638	408	-	-
General	1,187,787	101,677	-	-
Sundry administration	942,302	217,088	171,214	-
Resident services	689,325	-	13,766	240,298
Depreciation	6,874,515	6,305	-	-
Total operating expenses	23,026,591	22,440,827	1,031,857	240,298
Operating (Loss) Income	(6,810,836)	83,261	694,285	5,987
Nonoperating Income (Expense)				
Net increase in fair value of investments	4,298	-	-	-
(Loss) gain on sale of property and equipment	(30,433)	-	-	-
Total nonoperating (expense) income	(26,135)	-	-	-
(Loss) Income Before Contributions and Transfers	(6,836,971)	83,261	694,285	5,987
Contributions and Transfers				
Capital grants	-	-	2,327,804	-
Operating transfer in	694,285	92,025	(694,285)	-
Operating transfer out	-	-	-	-
Change in Net Assets - End of year	\$ (6,142,686)	\$ 175,286	\$ 2,327,804	\$ 5,987

**Financial Data Schedule of Revenues, Expenses,
and Changes in Net Assets by Program
Year Ended December 31, 2007**

Other Non- HUD	WADC	Veterans Fund	Total
\$ -	\$ -	\$ -	\$ 35,395,625
22,596	1,108,362	-	5,979,653
313,628	2,339	5,657	635,029
<u>616,094</u>	<u>14,553</u>	<u>102,745</u>	<u>887,937</u>
952,318	1,125,254	108,402	42,898,244
377,990	9,454	-	5,676,419
2,328	636	720	1,573,558
135	210,846	-	4,451,528
3,212	51,887	-	4,974,376
-	2,850	-	20,187,427
-	351,588	-	351,588
30	346	-	92,422
7,533	235,410	-	1,532,407
90,702	122,481	23,370	1,567,157
-	-	-	943,389
<u>10,695</u>	<u>255,047</u>	<u>4,898</u>	<u>7,151,460</u>
<u>492,625</u>	<u>1,240,545</u>	<u>28,988</u>	<u>48,501,731</u>
459,693	(115,291)	79,414	(5,603,487)
4,394	-	-	8,692
<u>12,926</u>	<u>-</u>	<u>-</u>	<u>(17,507)</u>
<u>17,320</u>	<u>-</u>	<u>-</u>	<u>(8,815)</u>
477,013	(115,291)	79,414	(5,612,302)
-	-	-	2,327,804
-	-	(92,025)	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>\$ 477,013</u>	<u>\$ (115,291)</u>	<u>\$ (12,611)</u>	<u>\$ (3,284,498)</u>

Lucas Metropolitan Housing Authority

Schedule of Units Under Management

LMHA had the following units under management at December 31, 2007 (in units):

LMHA-owned housing - OH00600106	3,100
Moderate rehabilitation - OH006-MR-004	47
Voucher - OH006-V0 - Mainstream HCV	<u>3,748</u>
Total	<u><u>6,895</u></u>
Non-HUD units under management - Westridge Apartments	<u><u>190</u></u>

**Actual Comprehensive Grant
Cost Certificate**
Comprehensive Grant Program (CGP)

U.S. Department of Housing
and Urban Development
Office of Public and Indian Housing

OMB Approval No. 2577-0157
(Exp. 11/30/2008)

PHA/IHA Name Lucas Metropolitan Housing Authority	Comprehensive Grant Number OH12P00650104
	FFY of Grant Approval 2004

The PHA/IHA hereby certifies to the Department of Housing and Urban Development as follows:

1. That the total amount of Modernization Cost (herein called the "Actual Modernization Cost") of the Comprehensive Grant, is as shown below:

A. Original Funds Approved	\$ 5,654,189.00
B. Revised Funds Approved	\$ 5,654,189.00
C. Funds Advanced	\$ 5,654,189.00
D. Funds Expended (Actual Modernization Cost)	\$ 5,654,189.00
E. Amount to be Recaptured (A-D)	\$ -0-
F. Excess of Funds Advanced (C-D)	\$ -0-

- That all modernization work in connection with the Comprehensive Grant has been completed;
- That the entire Actual Modernization Cost or liabilities therefor incurred by the PHA have been fully paid;
- That there are no undischarged mechanics', laborers', contractors', or material-men's 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; and
- That the time in which such liens could be filed has expired.

I hereby certify that all the information stated herein, as well as any information provided in the accompaniment herewith, is true and accurate.

Warning: HUD will prosecute false claims and statements. Conviction may result in criminal and/or civil penalties. (18 U.S.C. 1001, 1010, 1012; 31 U.S.C. 3729, 3802)

Signature <i>Linnie B. Willis</i> Linnie B. Willis, Executive Director	Date 06-09-2008
--	--------------------

For HUD Use Only	
The Cost Certificate is approved for audit.	
Approved for Audit (Director, Public Housing Division) <i>[Signature]</i>	Date 6/20/08
The audited costs agree with the costs shown above. Verified (Director, Public Housing Division)	Date
Approved (Field Office Manager)	Date

Lucas Metropolitan Housing Authority

**Federal Awards
Supplemental Information
December 31, 2007**

Lucas Metropolitan Housing Authority

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Independent Auditor's Report

To the Board of Commissioners
Lucas Metropolitan Housing Authority

We have audited the basic financial statements of Lucas Metropolitan Housing Authority for the year ended December 31, 2007 and have issued our report thereon dated July 18, 2008. Those basic financial statements are the responsibility of the management of Lucas Metropolitan Housing Authority. Our responsibility was to express an opinion on those basic 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 basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic 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.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of Lucas Metropolitan Housing Authority taken as a whole. The accompanying schedule of expenditures of federal awards is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The information in this schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

July 18, 2008

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*

To the Board of Commissioners
Lucas Metropolitan Housing Authority

We have audited the financial statements of Lucas Metropolitan Housing Authority as of and for the year ended December 31, 2007 and have issued our report thereon dated July 18, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal controls. We consider the control deficiencies described in the accompanying schedule of findings and questioned costs as items Findings 2007-1 and 2007-2 to be significant deficiencies in internal control over financial reporting.

To the Board of Commissioners
Lucas Metropolitan Housing Authority

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lucas Metropolitan Housing Authority'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*.

Lucas Metropolitan Housing Authority's response to the significant deficiencies identified in our audit and described in the accompanying schedule of findings and questioned costs has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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

Plante & Moran, PLLC

July 18, 2008

Report on Compliance with Requirements Applicable to Each Major Program
and on Internal Control Over Compliance in Accordance with OMB Circular A-133

To the Board of Commissioners
Lucas Metropolitan Housing Authority

Compliance

We have audited the compliance of Lucas Metropolitan Housing Authority with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended December 31, 2007. The major federal programs of Lucas Metropolitan Housing Authority 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 Lucas Metropolitan Housing Authority's management. Our responsibility is to express an opinion on Lucas Metropolitan Housing Authority'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 Lucas Metropolitan Housing Authority'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 on Lucas Metropolitan Housing Authority's compliance with those requirements.

In our opinion, Lucas Metropolitan Housing Authority complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2007.

To the Board of Commissioners
Lucas Metropolitan Housing Authority

Internal Control Over Compliance

The management of Lucas Metropolitan Housing Authority is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Lucas Metropolitan Housing Authority's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 entity's internal control over compliance.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

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

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

Plante & Moran, PLLC

July 18, 2008

Lucas Metropolitan Housing Authority

Schedule of Expenditures of Federal Awards Year Ended December 31, 2007

Federal Agency/Pass-through Agency/Program Title	CFDA Number	Pass-through Entity Project/Grant Number	Award Amount	Federal Expenditures
<u>U.S. Department of Housing and Urban Development</u>				
Direct Programs:				
Low Income Public Housing	14.850	C-5005	\$ 11,086,339	\$ 11,086,339
Lower Income Housing Assistance Program - Voucher Mainstream Program	14.871	C-5035	19,746,540	19,746,540
	14.871	C-5035	699,712	699,712
Lower Income Section 8 Project-based Cluster - Lower Income Housing Assistance Program:				
Moderate Rehabilitation	14.856	C-5035	222,471	222,471
New Construction	14.182	C-5035	1,707,178	<u>1,707,178</u>
Total Lower Income Section 8 Project-based Cluster				1,929,649
Public Housing Capital Fund Program Grant Program:				
Public Housing Capital Fund Program 2004	14.872	OH12P006501-04	5,654,189	11,971
Public Housing Capital Fund Program 2005	14.872	OH12P006501-05	5,400,036	1,460,479
Public Housing Capital Fund Program 2006	14.872	OH12P006501-06	5,246,780	2,451,526
Public Housing Capital Fund Program 2007	14.872	OH12P006501-07	4,982,100	39,396
Public Housing Capital Fund Program 2003	14.872	OH12R006501-03	107,971	<u>100,550</u>
Total Public Housing Capital Fund Program Grant				4,063,922
Resident Opportunities and Support Services:				
Resident Opportunities and Support Services	14.870	OH006RFS087A004	48,481	2,891
Resident Opportunities and Support Services	14.870	OH006RFS008A005	99,400	49,127
ROSS Homeownership Grant - 2004	14.870	OH006RHH036A003	350,000	66,760
ROSS Neighborhood Network	14.870	OH006RNN029A003	100,000	36,031
ROSS - Hope House	14.870	OH006REF052A005	350,000	<u>88,751</u>
Total Resident Opportunities and Support Services				<u>243,560</u>
Total federal assistance				<u>\$ 37,769,722</u>

Lucas Metropolitan Housing Authority

Notes to Schedule of Expenditures of Federal Awards Year Ended December 31, 2007

Note 1 - Significant Accounting Policies

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Lucas Metropolitan Housing Authority (the "Authority") and is presented on the same basis of accounting as the basic financial statements. 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*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 2 - Subrecipient Awards

Of the federal expenditures presented in the schedule of expenditures of federal awards, federal awards were provided to subrecipients as follows:

Federal Program Title	CFDA Number	Amount Provided to Subrecipients
Lower Income Housing Assistance Program New Construction	14.182	\$ 1,707,178

Lucas Metropolitan Housing Authority

Schedule of Findings and Questioned Costs Year Ended December 31, 2007

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes None reported

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major program(s):

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes None reported

Type of auditor's report issued on compliance for major program(s): Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? Yes No

Identification of major program(s):

CFDA Number(s)	Name of Federal Program or Cluster
14.850	Low Income Public Housing
14.872	Capital Fund Program Grant

Dollar threshold used to distinguish between type A and type B programs: \$1,133,092

Auditee qualified as low-risk auditee? Yes No

Lucas Metropolitan Housing Authority

Schedule of Findings and Questioned Costs (Continued) Year Ended December 31, 2007

Section II - Financial Statement Audit Findings

Reference Number	Findings
2007-1	<p>Bank Reconciliations for Master and Section 8 Accounts</p> <p>Finding Type - Significant deficiency</p> <p>Criteria - Bank reconciliations for the master and Section 8 accounts should be prepared on a timely basis.</p> <p>Condition - The Authority did not prepare timely bank reconciliations for the master and Section 8 accounts.</p> <p>Context - The bank reconciliations for the master and Section 8 accounts were not prepared timely on a continuous basis throughout the fiscal year.</p> <p>Cause and Effect - The Authority did not prepare bank reconciliations timely for the master and Section 8 accounts due to lack of staff. As a result, there was a breakdown of internal controls over the preparation of bank reconciliations.</p> <p>Recommendation - In order to maintain adequate internal control, timely bank reconciliations of the Authority's master and Section 8 accounts should be prepared. We recommend, and Lucas Metropolitan Housing Authority concurs, that timely bank reconciliations be prepared in the future.</p> <p>Views of Responsible Officials and Planned Corrective Actions - Management and the Board of Commissioners agree to reconcile the bank accounts on a monthly basis.</p>

Lucas Metropolitan Housing Authority

Schedule of Findings and Questioned Costs (Continued) Year Ended December 31, 2007

Section II - Financial Statement Audit Findings (Continued)

Reference Number	Findings
2007-2	<p>Information Technology - Segregation of Duties</p> <p>Finding Type - Significant deficiency</p> <p>Criteria - It was noted in our review of the controls over the IT environment that there is no segregation of access to financial applications from the IT supervisors.</p> <p>Condition - The IT supervisors have full administrative access to network and application systems, which includes posting.</p> <p>Context - There is no segregation of access to financial applications from the IT supervisors.</p> <p>Cause and Effect - The Authority does not have a segregation of access to financial applications from the IT supervisors. As a result, there is a potential for breakdown of internal controls over the financial system.</p> <p>Recommendation - Management should consider restricting individuals with administrative access on the network from access to post transactions in the financial systems. This allows for proper segregation of duties and ensures that user access and accountability controls are not compromised. If it is necessary, due to lack of staff, to allow a user to have access to both, the activities should be logged and independently reviewed.</p> <p>Views of Responsible Officials and Planned Corrective Actions - Management and the Board of Commissioners agree with the finding and will discuss with their IT department ways to segregate the access.</p>

Section III - Federal Program Audit Findings

Reference Number	Findings
	None



Mary Taylor, CPA
Auditor of State

LUCAS METROPOLITAN HOUSING AUTHORITY

LUCAS 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
OCTOBER 2, 2008**