SANDUSKY METROPOLITAN HOUSING AUTHORITY

Financial Condition

As of

June 30, 2007

Together with Auditors' Report

Mary Taylor, CPA
Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the Sandusky Metropolitan Housing Authority, Sandusky County, prepared by Kevin L. Penn, Inc., for the audit period July 1, 2006 through June 30, 2007. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

December 27, 2007

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SANDUSKY METROPOLITAN HOUSING AUTHORITY
FREMONT, OHIO

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Independent Auditor's Report

Board of Trustees
Sandusky Metropolitan Housing Authority
Fremont, Ohio

I have audited the accompanying financial statements of the Sandusky Metropolitan Housing Authority, as of June 30, 2007 and for the year then ended, listed in the foregoing table of contents. These financial statements are the responsibility of the Sandusky Metropolitan Housing Authority's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Sandusky Metropolitan Housing Authority, as of June 30, 2007, and the changes in net assets and revenues, expenditures and other changes, and the cash flows for the year ended June 30, 2007 in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis (MD&A) on pages 3 – 10, is not a required part of the financial statements but is supplemental information required by the Governmental Accounting Standards Board. The MD&A has been reviewed in accordance with the standards established by the American Institute of Certified Public Accountants. Such a review, however, is substantially less in scope than an audit in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, I do not express such an opinion on the MD&A information.

In accordance with *Government Auditing Standards*, I have also issued my report dated November 2, 2007 on my consideration of the Sandusky Metropolitan Housing Authority's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the result of my audit.

My audit was performed for the purpose of forming an opinion on the basic financial statements of Sandusky Metropolitan Housing Authority taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. In addition, the financial data schedule, pages 26 to 28 are presented for additional analysis as required by the U.S. Department of Housing and Urban Development. These schedules are the responsibility of management of Sandusky Metropolitan Housing Authority, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Kevin L. Penn, Inc.

November 2, 2007

Sandusky Metropolitan Housing Authority

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended June 30, 2007

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

This Management Discussion and Analysis (MD&A) is new and will now be presented at the front of each year's financial statements.

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

FINANCIAL HIGHLIGHTS

- The Authority's authority-wide statements reflect a decrease in total net assets of $93,309 (or 2.9%) during 2007. In 2001 the Housing Authority began reporting under GAAP, and in 2004 implemented GASB 34. Net Assets were $3.240 million and $3.147 million for 2006 and 2007 respectively.

- The business-type activity revenue increased by $58,763 (or 4.0%) during 2007, and was $1.474 million and $1.533 million for 2006 and 2007 respectively.

- The total expenses of all Authority programs decreased by $109,044 (or 7.2%). Total expenses were $1.517 million and $1.626 million for 2006 and 2007 respectively.

Authority-Wide Financial Statements

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

These statements include a Statement of Net Assets, which is similar to a Balance Sheet. The Statement of Net Assets reports all financial and capital resources for the Authority. The statement is presented in the format where assets, minus liabilities, equal "Net Assets", formerly known as equity. Assets and liabilities are presented in order of liquidity, and are classified as "Current" (convertible into cash within one year), and "Non-current".

The focus of the Statement of Net Assets (the "Unrestricted Net Assets") is designed to represent the net available liquid (non-capital) assets, net of liabilities, for the entire Authority. Net Assets (formerly equity) are reported in three broad categories:

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

Authority-Wide Financial Statements (continued)

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

Unrestricted Net Assets: Consists of Net Assets that do not meet the definition of "Net Assets Invested in Capital Assets, Net of Related Debt", or "Restricted Net Assets". This account resembles the old operating reserves account.

The Authority-wide financial statements also include a Statement of Revenues, Expenses and Changes in Fund Net Assets (similar to an Income Statement). This Statement includes Operating Revenues, such as rental income, Operating Expenses, such as administrative, utilities, and maintenance, and depreciation, and Non-Operating Revenue and Expenses, such as grant revenue, investment income and interest expense.

The focus of the Statement of Revenues, Expenses and Changes in Fund Net Assets is the "Change in Net Assets", which is similar to Net Income or Loss.

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

Fund Financial Statements

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

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

The Authority's Programs

Business Type Funds:

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

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

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

AUTHORITY-WIDE STATEMENT

Statement of Net Assets

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

TABLE 1

STATEMENT OF NET ASSETS

	2007	2006
Current and Other Assets	$525,196	$462,861
Capital Assets	3,144,024	3,325,048
Total Assets	3,669,220	3,787,909
Other Liabilities	120,867	124,501
Long-Term Liabilities	401,059	422,805
Total Liabilities	521,926	547,306
Net Assets:		
Invested in Capital Assets,		
Net of Related Debt	2,762,096	2,926,116
Restricted	- 0 -	- 0 -
Unrestricted	385,198	314,487
Total Net Assets	$3,147,294	$3,240,603

For more detailed information see the Statement of Net Assets.

Major Factors Affecting the Statement of Net Assets

Current assets increased by $62,335 and liabilities decreased by $3,634. The increase in current assets is primarily due to an increase in unrestricted cash for the Housing Choice Voucher Program and an accounts receivable from Fremont Village Apartments.

The liabilities decreased as a result of a decrease in Accounts Payable for the Capital Fund Program and MRDD Program and a decrease in Other Current Liabilities for the Housing Choice Voucher Program.

TABLE 2

CHANGE OF UNRESTRICTED NET ASSETS

Unrestricted Net Assets 06/30/2006	$314,487
Results of Operations	(93,309)
Adjustments:	
Depreciation (1)	181,016
Capital Assets Deleted	8
Retirement of Debt	(17,004)
Unrestricted Net Assets 06/30/2007	$385,198

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

While the results of operations are a significant measure of the Authority's activities, the analysis of the changes in Unrestricted Net Assets provides a clearer change in financial well being. The Authority's unrestricted net assets increased.

TABLE 3

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

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

	2007	2006
Revenues		
Tenant Revenue – Rents and Other	$89,762	$79,353
Operating Subsidies and Grants	1,257,730	1,200,551
Capital Grants	26,511	26,463
Investment Income	7,144	3,484
Other Revenues	151,553	164,096
Total Revenue	$1,532,700	$1,473,947
Expenses		
Administrative	$454,828	$408,752
Contract Services	12,338	14,358
Utilities	13,928	12,918
Maintenance	148,279	99,128
Payments in Lieu of Taxes	13,423	14,771
General	18,455	29,102
Housing Assistance Payments	783,742	750,750
Depreciation	181,016	187,186
Total Expenses	$ 1,626,009	$1,516,965
Net Increase	$ (93,309)	$ (43,018)

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

REVENUES: Tenant Revenue was higher in 2007 than in 2006. Operating Subsidy was approximately $20,000 more than in 2006, and Capital Grants increased by $37,348. Other revenue decreased as a result of no funds being received from the State Board of MRDD for home purchases. (In 2006, funds were received for two home purchases for a total of $127,912).

EXPENSES: Total Expenses were approximately $110,000 more in 2007 than in 2006. Administrative salaries and related benefits and Maintenance increased as a result of absorbing personnel related costs from Fremont Village Apartments. Housing Assistance Payments increased as a result of increase the fair market rent and utility allowance.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of year end, the Authority had $3.144 million invested in a variety of capital assets as reflected in the following schedule, which represents a net decrease (addition, deductions and depreciation) of $181,024 from the end of last year.

TABLE 4

CAPITAL ASSETS AT YEAR-END (NET OF DEPRECIATION)

	Business-type Activities	
	2007	2006
Land and land rights	$ 604,764	$ 604,764
Building and Improvements	3,989,152	3,989,151
Equipment – Administrative	286,423	286,432
Equipment – Dwelling	103,275	103,275
Accumulated Depreciation	(1,839,590)	(1,658,574)
Construction In Progress	0	0
Total	$ 3,144,024	$3,325,048

Debt Administration

The Authority's long term debt of $361,588 includes mortgages for seven (7) homes purchased for the Sandusky County MRDD's Capital Assisted Housing Program.

The following reconciliation summarizes the change in Capital Assets.

TABLE 5

CHANGE IN CAPITAL ASSETS

	Business Type Activities
Beginning Balance	$ 3,325,048
Additions	0
Deletions	(8)
Depreciation	(181,016)
Ending Balance	$3,144,024

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 $70,711 increase in unrestricted net assets.

Occupancy at Fremont Village Apartments continued to be low, resulting in lower management fees to the SHMA Board. Severe storms in June 2006 (just prior to the start of the fiscal year being audited) caused storm sewers to back up and flood one third of the property (40 units). Twenty-seven families were displaced as a result. Some were moved to vacant units, and others chose to move permanently from the property, increasing the number of vacancies at the beginning of the fiscal year. The cash flow for the property was not good enough to obtain a FEMA/SBA loan to make repairs, so the process of getting units repaired and back on line has been slow, resulting in low occupancy.

Less income from the Fremont Village Management fee, Public Housing Subsidy, and Housing Choice Vouchers administrative fees resulted in not being able to replace two positions that were vacant at the beginning of the fiscal year and one position vacated in April 2007.

FINANCIAL CONTACT

If you have any questions regarding this report, you may contact Robin R. Kocher, Executive Director of the Sandusky Metropolitan Housing Authority at 419-334-4426.

SANDUSKY METROPOLITAN HOUSING AUTHORITY
STATEMENT OF NET ASSETS
JUNE 30, 2007

ASSETS	
Current Assets	
Cash and Cash Equivalents (Note 1)	$ 326,411
Investments - Unrestricted	126,958
Tenant Accounts Receivable (net of allowance for doubtful accounts)	3,979
Accounts Receivable - HUD	10,970
Accounts Receivable - Miscellaneous (net of allowance for doubtful accounts)	23,417
Prepaid Insurance	10,390
Security Deposit	23,071
Total Current Assets	525,196
Other Assets	
Property and Equipment - Net (Note 3)	3,144,024
Total Other Assets	3,144,024
TOTAL ASSETS	$ 3,669,220
LIABILITIES AND NET ASSETS	
Current Liabilities	
Accounts Payable - Vendor	$ 33,190
Accrued Wages and Payroll Taxes	6,641
Security Deposits	15,580
Other Current Liabilities	9,267
Current Portion of Long Term Debt	17,800
Amount Due To Fremont Village	38,389
Total Current Liabilities	120,867
Non-Current Liabilities	
Mortgage Payable	364,128
Accrued Compensated Absences	36,931
Total Non-Current Liabilities	401,059
Total Liabilities	$ 521,926
Net Assets	
Investment in Capital Assets, Net of Related Debt	$ 2,762,096
Unrestricted	385,198
Total Net Assets	$ 3,147,294

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

SANDUSKY METROPOLITAN HOUSING AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2007

Operating Revenue:	
HUD Operating Subsidies and Grants	$ 1,257,730
Tenant Rental Income	89,762
Other Revenue	151,553
Total Operating Revenue	1,499,045
Operating Expenses:	
Housing Assistance Payments	783,742
Administrative Salaries	179,323
Compensated Absences	13,879
Employee Benefits	113,538
Other Administrative Expense	50,349
Material and Labor - Maintenance	148,279
Contract Services	12,338
Utilities	13,928
General Expenses	18,455
Payments in Lieu of Taxes	13,423
Bad Debt Expense	72,814
Depreciation Expense	181,016
Total Operating Expenses	1,601,084
Operating Income (Loss)	(102,039)
Non-Operating Revenues (Expenses)	
Interest Expense	(24,925)
Investment Income - Unrestricted	7,144
Total Non-Operating Revenues (Expenses)	(17,781)
Income (Loss) before Capital Grant	(119,820)
Capital Grants	26,511
Change in Net Assets	(93,309)
Net Assets - Beginning of Year	3,240,603
Net Assets - End of Year	$ 3,147,294

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

SANDUSKY METROPOLITAN HOUSING AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2007

Cash Flows From Operating Activities:	
Cash payments to suppliers for goods and services	$ (227,279)
Cash payments for salaries and benefits	(415,414)
Cash payments housing assistance payments	(783,742)
Cash received HUD operating subsidies and grants	1,257,730
Cash received from other sources	225,458
Cash payment for other operating expenses	(13,423)
Net Cash Provided (Used) by Operating Activities	43,330
Cash Flows From Non-Capital Financing:	-
Cash Flows From Capital and Related Financing Activities:	
Capital Grant	26,511
Deletion of Fixed Assets	8
Repayment of Long Term Debt	(17,004)
Net Cash Provided (Used) by Capital and Related Financing Activities	9,515
Cash Flows From Investing Activities:	
Changes in Investments	30,588
Interest Expense	(24,925)
Investment Income	7,144
Net Cash Provided (Used) by Investing Activities	12,807
Increase (Decrease) in Cash and Cash Equivalents	65,652
Cash and Cash Equivalents - Beginning of Year	260,759
Cash and Cash Equivalents - End of Year	$ 326,411

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

SANDUSKY METROPOLITAN HOUSING AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2007

Reconciliation of Operating Loss to Net Cash Used in Operating Activities:	
Operating Income (Loss)	$ (102,039)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	181,016
(Increase) decrease in:	
Accounts Receivable	(21,144)
Security Deposit	949
Prepaid Expenses	(7,076)
Increase (decrease) in:	
Accounts Payable	17,175
Compensated Absences	(755)
Amount Due To Fremont Village	(22,245)
Security Deposit	(1,061)
Deferred Revenue	(654)
Accrued Expenses	(836)
Net cash used in operating activities	$ 43,330

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

SANDUSKY METROPOLITAN HOUSING AUTHORITY
FREMONT, OHIO

NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE 1 - Summary of Significant Accounting Policies:

A. Organization

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

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

B. Basis of Accounting

The Authority has prepared its financial statements in conformity with accounting principles generally accepted in the United States of America. Effective July 1, 2002, the Authority implement GASB Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments, Statement No. 37, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus, an amendment of GASB Statements No. 21 and No. 34, and Statement No. 38, Certain Financial Statement Disclosures. These statements revise accounting and reporting standards for general purpose external financial reporting by governmental units. The Authority now follows the business-type activities reporting requirements of GASB Statement No. 34. In accordance with GASB statement No. 34, the accompanying basic financial statements are reported on an Authority-wide basis.

NOTE 1 - Summary of Significant Accounting Policies: (continued)

B. Basis of Accounting (continued)

Statement No. 34 requires the following, which collectively make up the Authority's basic financial statements:

- Management's Discussion and Analysis
- Basic Financial Statements:
  - Statement of Net Assets
  - Statement of Revenues, Expenses, and Changes in Net Assets
  - Statement of Cash Flows
- Notes to the Financial Statements

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

C. Property and Equipment

Property and equipment is recorded at cost. Costs that materially add to the productive capacity or extend the life of an asset are capitalized, while maintenance are repair costs are expensed as incurred.

Useful life of property and equipment is as follows:

Buildings	40 Years
Land & Building Improvements	15 Years
Equipment	7 Years
Autos	5 Years

Depreciation is recorded on the straight-line method. Total depreciation expense for the 2007 fiscal year was $181,016.

NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE 1 - Summary of Significant Accounting Policies: (continued)

D. Cash and Cash Equivalents

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

E. Investments

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

F. Use of Estimates

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

G. Capitalization of Interest

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

H. Financial Statement Format and Content

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

NOTE 2 – Deposits and Investments:

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

A. Deposits

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

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

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

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

At year-end, the carrying amount of the Authority's deposits was $476,440 (including $311,023 of unrestricted funds, $126,958 of repurchase agreements, $70 of petty cash, and $38,389 of deposits held on behalf of Fremont Village) and the bank balance was $479,466.

Custodial Credit Risk

Custodial Credit Risk is the risk that, in the event of a bank failure, the Authority's deposits may not be returned. The Authority's policy is to place deposits with major local banks approved by the Board. Multiple financial institution collateral pools that insure public deposits must maintain collateral in excess of 105 percent of deposits, as permitted by Chapter 135 of the Ohio Revised Code. As of year-end, deposits totaling $100,000 were covered by Federal Depository Insurance and deposits totaling $379,466 were uninsured and collateralized with securities held by the financial institution's trust department or agent, but not in the Authority's name.

NOTE 2 – Deposits and Investments:

B. Investments

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

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

Interest Rate Risk

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

Credit Risk

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

Concentration of Credit Risk

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

NOTE 2 – Deposits and Investments:

Foreign Currency Risk

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

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

	Cash and Cash Equivalents *	Investments
Per Statement of Net Assets	$ 349,482	$ 126,958
Repurchase Agreement	126,958	(126,958)
Per GASB Statement No. 3	$ 476,440	$ 0

* Includes Petty Cash.

NOTE 3 – Capital Assets:

A summary of capital assets at June 30, 2007, by class is as follows:

Building and Building Improvements	$3,989,152
Land	604,764
Furniture, Equipment – Dwelling	103,275
Furniture, Equipment – Administrative	286,423
Total	4,983,614
Less Accumulated Depreciation	(1,839,590)
Net Property and Equipment	$3,144,024

The following is a summary of changes:

	Balance 6/30/2006	Addition	Deletions	Balance 6/30/2007
Buildings & Building Improvements	$3,989,152	$	$	$3,989,152
Land	604,764			604,764
Furniture, Equipment – Dwelling	103,275			103,275
Furniture, Equipment – Admin.	286,431		8	286,423
Total Capital Assets	$4,983,622	$	$ 8	$4,983,614

NOTE 4 – Mortgage Payable and Long-Term Debt

Long-term debt consists of the following:

The Authority has a note payable to the Croghan Colonial Bank of Fremont amounting to $36,650. The original principal of the loan was $104,041 at a rate of 6.4% annually. Principal and interest payments of $429.25 began in December 2001 with the final payment due on December 2016. The loan is secured by a first mortgage on the property located at 728 Nickel St., Fremont, Ohio.	$ 36,650
The Authority has a note payable to the Croghan Colonial Bank of Fremont amounting to $24,762. The original principal of the loan was $87,250 at a rate of 7.125% annually. Principal and interest payments of $1,018.73 began in February 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 Ave. & 1107 W. State Street, Fremont, Ohio.	24,762
The Authority has a note payable to the Croghan Colonial Bank of Fremont amounting to $65,547. The original principal of the loan was $123,500 at a rate of 7.15% annually. Principal and interest payments of $469.07 began in October 2002 with the final payment due on July 2032. The loan is secured by an open-end mortgage on real estate property located at 562 Crestwood, Fremont, Ohio 43420.	65,547
The Authority has a note payable to the Croghan Colonial Bank of Fremont amounting to $55,979. The original principal of the loan was $70,000 at a rate of 5.90% annually. Principal and interest payments of $587.20 began in March 2003 with the final payment due on March 2018. The loan is secured by an open-end mortgage on real estate property located at 114 S. Jefferson St. Fremont, Ohio 43420.	55,979

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

The Authority has a note payable to the Croghan Colonial Bank of Fremont, amounting $87,246 at a rate of 5.50% annually. Principal and interest payments of $671.62 began in January 2004 with the final payment due on December 2023. The loan is secured by an open-end mortgage on real estate located at 1407 Rosewood Street, Fremont, Ohio 43420.	87,246
The Authority has a note payable to the Croghan Colonial Bank of Fremont amounting to $75,621. The original principal of the loan was $147,000 at a rate of 6.75% annually. Principal and interest payments of $1,118.11 began in November 2005 with the final payment due on October 2025. The loan is secured by an open-end mortgage on real estate property located at 3695 CR 175, Clyde, Ohio & 1107 W. State Street, Fremont, Ohio.	75,621
The Authority has a note payable to the Croghan Colonial Bank of Fremont amounting to $36,122. The original principal of the loan was $104,000 at a rate of 6.4% annually. Principal and interest payments of $428.95 began in January 2002 with the final payment due on January 2017. The loan is secured by a first mortgage on the property located at 148 W. Drew Lane, Clyde, Ohio.	36,122
Subtotal	$381,927
Less: Current Portion	(20,339)
Total Long-Term Debt	$361,588

The aggregate amounts of long-term debt maturities for the five years following 2007 are as follows:

Year	Principal	Interest	Total
2008	$ 20,339	$ 24,744	$ 45,083
2009	$ 21,743	$ 23,340	$ 45,083
2010	$ 23,212	$ 21,871	$ 45,083
2011	$ 25,121	$ 19,962	$ 45,083
2012	$ 27,898	$ 17,185	$ 45,083
Thereafter	$263,614	$200,250	$463,864
Total	$381,927	$307,352	$689,279

NOTE 5 – Allocation of Costs:

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

NOTE 6: Pension Plan

Ohio Public Employees Retirement System

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

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

Ohio Public Employees Retirement System

PERS provides retirement, disability, survivor, and death benefits and annual cost of living adjustments to members of both the Traditional Pension and the Combined plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by State statute per Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6701 or 1-800-222-7377.

The Ohio Revised Code provides statutory authority for member and employer contributions. For 2004, member and employer contribution rates were consistent across all three plans (TP, MD, and CO). Plan members are required to contribute 9.0 (July 1, 2006 to December 31, 2006) and 9.5 (January 1, 2007 to June 30, 2007) percent of their annual covered salary to fund pension obligations. The employer pension contribution rate for the Authority was 13.55 (July 1, 2006 to December 31, 2006) and 13.77 (January 1, 2007 to June 30, 2007) percent of covered payroll. The Authority's required contributions to OPERS for the years ended June 30, 2007, 2006, and 2005 were $41,069, $45,254 and $46,208 respectively.

NOTE 7: Post–Employment Benefits

Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides post-retirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available with both the Traditional and the Combined Plan; however, health care benefits are not statutorily guaranteed. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage. The health care coverage provided by the retirement system is considered an Other Post-Employment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The 2007 employer contribution rate was 13.77 percent of covered payroll, 4 percent was the portion that was used to fund health care for 2007. The rate changed to 13.70 percent effective January 1, 2007.

Benefits are advance-funded using the entry age normal actuarial cost method of valuation. Significant actuarial assumptions, based on OPERS' latest actuarial review performed as of December 31, 2005, include a rate of return on investments of 6.50 percent, an annual increase in active employee total payroll of 4 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.30 percent based on additional annual pay increases. Health care costs were assumed to increase at the projected wage inflation rate plus an additional factor ranging from .50 percent to 6 percent for the next 8 years. In subsequent years (9 and beyond) health care costs were assumed to increase at 4 percent (the projected wage inflation rate).

Ohio Public Employees Retirement System

All investments are carried at market. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted to reflect 25 percent of unrealized market appreciation or depreciation on investment assets.

At December 31, 2005, the number of active contributing participants in the Traditional Pension and Combined Plans totaled 376,214. The actual contribution and the actuarially required contribution amounts are the same. OPERS' net assets available for payment of benefits at December 31, 2005 (the latest information available) were $11.1 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were $31.3 billion and $20.2 billion, respectively.

On September 9, 2004 the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to skyrocketing health care costs.

Under the HCPP, retirees eligible for health care coverage will receive a graded monthly allocation based on their years of service at retirement. The Plan incorporates a cafeteria approach, offering a broad range of health care options that allow benefit recipients to use their monthly allocation to purchase health care coverage customized to meet their individual needs. If the monthly allocation exceeds the cost of the options selected, the excess is deposited into a Retiree Medical Account that can be used to fund future health care expenses.

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 8 hours of sick leave per month. Unused sick leave may not be accumulated in excess of one hundred sixty (160) hours. At the time of retirement, employees shall be paid the value of (20) days of unused sick leave. All permanent employees will earn vacation hours accumulated based on length of service. All vacation time accumulated will be limited to (10) days and paid upon separation.

NOTE 9 – Insurance Coverage and Risk Retention:

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

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

NOTE 10 – Schedule of Expenditures of Federal Awards:

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

SANDUSKY METROPOLITAN HOUSING AUTHORITY

Balance Sheet

June 30, 2007

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

FDS Line Item No.	Account Description	Section 8	Public Housing	C.I.A.P	State/Local	Total
	ASSETS					
111	Cash – Unrestricted	$ 255,618	$ 23,443	$ 2,375	$ 6,586	$ 288,022
114	Cash - Tenant Security Deposit	-	16,852	-	6,219	23,071
100	**TOTAL CASH**	255,618	40,295	2,375	12,805	311,093
122	Accounts Receivable – HUD	-	5,778	5,192	-	10,970
125	Accounts Receivable - Miscellaneous – Net	-	-	-	23,417	23,417
126	Accounts Receivable - Tenants - Dwelling Units	-	4,375		260	4,635
126.1	Allowance for Doubtful Accounts - Dwelling Rents	-	(656)	-	-	(656)
120	**TOTAL ACCOUNTS RECEIVABLE**	-	9,497	5,192	23,677	38,366
131	Investments – Unrestricted	-	126,958	-	-	126,958
142	Prepaid Expenses	3,546	6,220	-	624	10,390
144	Interprogram Due From	46,161	-	-	5,155	51,316
150	**TOTAL CURRENT ASSETS**	305,325	182,970	7,567	42,261	538,123
161	Land	8,114	596,650	-	-	604,764
162	Buildings	-	2,795,367	188,536	1,005,249	3,989,152
163	Furniture, Equipment & Machinery – Dwellings	-	99,207	-	4,068	103,275
164	Furniture, Equipment & Machinery – Administration	50,697	224,176	11,550	-	286,423
166	Accumulated Depreciation	(50,038)	(1,529,452)	(56,407)	(203,693)	(1,839,590)
160	**TOTAL FIXED ASSETS, NET**	8,773	2,185,948	143,679	805,624	3,144,024
190	**TOTAL ASSETS**	$ 314,098	$ 2,368,918	$ 151,246	$ 847,885	$ 3,682,147
	LIABILITIES					
312	Accounts Payable	$ 4,710	$ 8,377	$ 7,567	$ 12,536	$ 33,190
321	Accrued Wage/Payroll Taxes Payable	-	-	-	6,641	6,641
322	Accrued Compensated Absences - Current Portion	3,235	2,499	-	1,049	6,783
333	Accounts Payable - Other Government	-	2,406	-	-	2,406
341	Tenant Security Deposits	-	9,475	-	6,105	15,580
343	Current Portion of Long-term Debt - Capital Projects/Mortgage Revenue Bond	-	-	-	17,800	17,800
345	Other Current Liabilities	-	78	-	-	78
347	Interprogram Due To	-	-	-	51,316	51,316
310	**TOTAL CURRENT LIABILITIES**	7,945	22,835	7,567	95,447	133,794
351	Long-term Debt, Net of Current - Capital Projects/Mortgage Revenue Bond	-	-	-	364,128	364,128
354	Accrued Compensated Absences - Non Current	12,939	19,795	-	4,197	36,931
	TOTAL NON-CURRENT LIABILITIES	12,939	19,795	-	368,325	401,059
	TOTAL LIABILITIES	20,884	42,630	7,567	463,772	534,853
508.1	Invested in Capital Assets, Net of Related Debt	8,773	2,185,948	143,679	423,697	2,762,097
512	Retained Earnings	284,441	140,340	-	(39,584)	385,197
	TOTAL EQUITY/NET ASSETS	293,214	2,326,288	143,679	384,113	3,147,294
	TOTAL LIABILITIES AND EQUITY/NET ASSETS	$ 314,098	$ 2,368,918	$ 151,246	$ 847,885	$ 3,682,147

SANDUSKY METROPOLITAN HOUSING AUTHORITY

Statement of Revenue, Expenses and Changes in Equity

For the Year Ended June 30, 2007

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

FDS Line Item No.	Account Description	Section 8	Public Housing	C.I.A.P	State/Local	Total
	Revenue:					
703	Net Tenant Rental Revenue	$ -	$ 17,263	$ -	$ 72,499	$ 89,762
706	HUD PHA Operating Grant	1,094,322	126,108	37,300	-	1,257,730
706.1	Capital Grants	-	-	26,511	-	26,511
711	Investment Income – Unrestricted	344	6,684	-	116	7,144
714	Fraud Recovery	929	2,457	-	-	3,386
715	Other Revenues	-	-	-	148,167	148,167
700	Total Revenue	1,095,595	152,512	63,811	220,782	1,532,700
	Expenses:					
911	Administrative Salaries	68,908	54,080	10,700	45,635	179,323
912	Audit Fees	3,133	4,800	-	51	7,984
914	Compensated Absences	6,236	6,673	-	970	13,879
915	Employee Benefit Contributions - Administrative	25,727	21,750	3,287	7,085	57,849
916	Other Operating – Administrative	14,572	8,183	16,807	2,803	42,365
931	Water	-	2,562	-	56	2,618
932	Electricity	-	6,384	-	93	6,477
933	Gas	-	4,440	-	393	4,833
941	Ordinary Maintenance and Operations - Labor	-	40,696	-	67,978	108,674
942	Ordinary Maintenance and Operations - Materials and Other	-	13,683	14,073	5,933	33,689
943	Ordinary Maintenance and Operations - Contract Costs	6,533	5,562	-	243	12,338
945	Employee Benefit Contributions - Ordinary Maitenance	-	16,367	-	39,322	55,689
951	Protective Services – Labor	-	5,916		-	5,916
961	Insurance Premiums	5,948	11,226	-	1,281	18,455
963	Payments in Lieu of Taxes	98	2,406	-	10,919	13,423
964	Bad Debt Expense	-	2,562	-	70,252	72,814
967	Interest Expense	-	-	-	24,925	24,925
969	Total Operating Expenses	131,155	207,290	44,867	277,939	661,251
970	Excess Operating Revenue over Expenses	964,440	(54,778)	18,944	(57,157)	871,449
	Other Expenses					
973	Housing Assistance Payments	783,742	-	-	-	783,742
974	Depreciation Expense	400	129,609	16,216	34,791	181,016
900	Total Expenses	915,297	336,899	61,083	312,730	1,626,009
1001	Operating Transfer In	-	-	-	-	-
1002	Operating Transfer Out	-	-	-	-	-
1010	Total Other Financing Sources (Uses)	-	-	-	-	-
1000	Excess of Operating Revenue Over Expenses	180,298	(184,387)	2,728	(91,948)	(93,309)
1103	Beginning Equity	122,213	2,500,429	160,945	457,016	3,240,603
1104	Prior Period Adjustments	(9,297)	10,246	(19,994)	19,045	-
	Ending Equity	$ 293,214	$ 2,326,288	$ 143,679	$ 384,113	$ 3,147,294

SANDUSKY METROPOLITAN HOUSING AUTHORITY

Additional Information Required by HUD

Year Ended June 30, 2007

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

FDS Line Item No.	Account Description	Section 8	Public Housing	C.I.A.P	State/Local	Total
1117	Administrative Fee Equity	$ 32,263	$ -	$ -	$ -	$ 32,263
1118	Housing Assistance Payments Equity	$ 261,522	$ -	$ -	$ -	$ 261,522
1120	Unit Months Available	4,008	576		120	4,704
1121	Number of Unit Months Leased	2,525	490		116	3,131

SANDUSKY METROPOLITAN HOUSING AUTHORITY

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2007

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Program Award Amount	Federal Expenditures
U.S. Department of Housing and Urban Development			
Direct Program:			
Section 8 Tenant Based Cluster:			
Housing Choice Voucher	14.871	$1,094,322	$1,094,322
Low Rent Public Housing Program	14.850	$126,108	$126,108
Public Housing Capital Fund Program	14.872	$26,511	$26,511
TOTAL FEDERAL FINANCIAL ASSISTANCE			$1,246,941

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

Kevin L. Penn, Inc.

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Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

Board of Trustees
Sandusky Metropolitan Housing Authority
Fremont, Ohio

I have audited the financial statements of Sandusky Metropolitan Housing Authority as of and for the year ended June 30, 2007, and have issued my report thereon dated November 2, 2007. I conducted my audit in accordance with generally accepted auditing standards in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

My 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 over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, I identified certain deficiencies in internal control over financial reporting that I consider to be significant deficiencies.

A control deficiency exists when the design or operation of control does not allow management of 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 Sandusky Metropolitan Housing Authority'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 Sandusky Metropolitan Housing Authority's financial statements that is more than inconsequential will not be prevented or detected by Sandusky Metropolitan Housing Authority's internal control. I consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting. 2007-1; 2007-2 and 2007-3.

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 Sandusky Metropolitan Housing Authority's internal control.

My consideration of 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 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, I believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Sandusky Metropolitan Housing Authority's 's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and questioned costs as items 2007-1, 2007-2 and 2007-3.

Sandusky Metropolitan Housing Authority's response to the findings identified in my audit is described in the accompanying schedule of findings and questioned costs. I did not audit Sandusky Metropolitan Housing Authority's response and, accordingly, I express no opinion on it.

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

Kevin L. Penn, Inc.

November 2, 2007

Kevin L.
Penn, Inc.

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Independent Auditor's Report on Compliance with Requirements Applicable to each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133

Board of Trustees
Sandusky Metropolitan Housing Authority
Fremont, Ohio

Compliance

I have audited the compliance of Sandusky Metropolitan Housing Authority with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. Sandusky Metropolitan Housing Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Sandusky Metropolitan Housing Authority's management. My responsibility is to express an opinion on Sandusky Metropolitan Housing Authority's compliance based on my audit.

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

In my opinion, Sandusky Metropolitan Housing Authority complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007. However, the results of my auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2007-1 and 2007-2.

Internal Control Over Compliance

The management of Sandusky Metropolitan Housing Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing my audit, I considered Sandusky Metropolitan Housing Authority's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of Sandusky Metropolitan Housing Authority’s internal control over compliance.

My 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 over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, I identified certain deficiencies in internal control over financial reporting that I consider to be significant deficiencies.

A control deficiency in an entity’s internal control over compliance exist 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 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. I consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2007-1 and 2007-2 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more that 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. I do not consider any of the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses.

Sandusky Metropolitan Housing Authority’s response to the findings identified in my audit is described in the accompanying schedule of findings and questioned costs. I did not audit Sandusky Metropolitan Housing Authority’s response and, accordingly, I express no opinion on it.

This report is intended solely for the information and use of management, and the Department of Housing and Urban Development and is not intended to be and should not be used by anyone other than these specified parties.

Kevin L. Penn, Inc.

November 2, 2007

Sandusky Metropolitan Housing Authority
Schedule of Findings and Questioned Costs
June 30, 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?	No
Significant deficiency(ies) identified not considered to be material weaknesses?	Yes
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified not considered to be material weaknesses?	Yes
Type of auditor's report issued on compliance for major program:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	Yes
Identification of major programs:	
14.871	Housing Choice Voucher Program
Dollar threshold used to distinguish between Type A and Type B programs:	$300,000 (Type A)
Auditee qualified as low-risk auditee?	No

Sandusky Metropolitan Housing Authority
Schedule of Findings and Questioned Costs
June 30, 2007

Section II - Financial Statement Findings

2007-1

Department of Housing and Urban Development
Housing Choice Voucher Program (CFDA #14.871)
Low Rent Public Housing Program (CFDA # 14.850)
Public Housing Capital Fund Program (CFDA # 14.872)

Cost Allocation

Condition:

During the testing of cash disbursements, there were several instances noted, whereby the amount charged to the various programs were either overstated or understated. As a result, federal programs were not properly charged during the 2007 fiscal year.

Criteria:

The allocation of expenditures to the various federal programs should be based on the number of unit/voucher assigned to each federal program.

Effect:

Resulted in the following misstatement of each federal program:

	Overstated	Understated
Public Housing	$1,807.02	
Section 8		$ 755.56
MRDD	$ 98.90	
FVA		$1,150.36

Cause:

Oversight by management.

Recommendation:

I recommend that the allocation of expenditures for federal programs, follow the guidelines established by management, as it relates to the number of units/vouchers assigned to various federal program. By performing this procedure, the risk of incurring questioned costs will be significantly reduced.

2007-2

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

Issuance of Vouchers

Condition:

In 13 out of 25 tenant files tested for the Housing Choice Voucher Program, the "Voucher" (Form HUD-52646), was issued after the expiration date.

Criteria:

"Voucher" (Form HUD-52646), issued for the Housing Choice Voucher Program must be issued by prior to expiration date.

Effect:

Vouchers were issued after the expiration date.

Cause:

Oversight by management.

Recommendation:

I recommend that the "Voucher" (Form HUD-52646), be issued for the Housing Choice Voucher Program prior to expiration date.

2007-3

Vacation and Sick Leave

Condition:

The ending balances for vacation and sick leave were not properly stated as a result of not recording the actual hours used. In addition, there were several “Request for Leave” forms which could not be located for sick leave.

Criteria:

The actual vacation and sick leave requested by the employee should be used to determine the employee’s ending balance.

2007-3

Vacation and Sick Leave (continued)

Effect:

The ending balances for vacation and sick leave were not properly stated.

Cause:

Vacation leave was reduced by comp. time.

Recommendation:

I recommend that the actual hours requested and approved on the "Request for Leave" for each employee, be used to determine ending balances for each employee.

Section III - Federal Award Findings and Questioned Costs

See 2007-1 and 2007-2.

2006-1

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

Financial Statement Presentation

Recommendation:

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

Auditee's Response:

The financial statements will be prepared in accordance with generally accepted accounting principles (GAAP), and future building acquisitions will be recorded at historical costs, and revenues will be recorded when earned.

Current Status:

The finding has been corrected.

SANDUSKY METROPOLITAN HOUSING AUTHORITY

1358 MOSSER DRIVE, FREMONT, OH 43420
PHONE: (419) 334-4426 FAX: (419) 334-6933 EMAIL: INFO@SANDUSKYMHA.ORG

CORRECTIVE ACTION PLAN

June 30, 2007

Oversight Agency for Audit: U. S. Department of Housing and Urban Development

Sandusky Metropolitan Housing Authority respectfully submits the following corrective action plan for the year ended June 30, 2007.

Name and address of Independent Public Accounting firm: Kevin L. Penn, Inc., 11811 Shaker Blvd., Suite 421, Cleveland, OH 44120.

Audit Period: June 30, 2007.

The significant deficiencies for the June 30, 2007, schedule of significant deficiencies and questioned costs are discussed below. The significant deficiencies are numbered consistently with the numbers assigned in the schedule.

SIGNIFICANT DEFICIENCIES – FINANCIAL STATEMENT AUDIT

2007-1

Cost Allocation

Recommendation:

I recommend that the allocation of expenditures for federal programs, follow the guidelines established by management, as it relates to the number of units/vouchers assigned to various federal programs. By performing this procedure, the risk of incurring questioned costs will be significantly reduced.

Auditee's Response:

Costs will be allocated as described in the Cost Allocation Plan. In addition, where the service or product is not evenly distributed among all programs (example: cell phone used only for maintenance related issues; therefore no cell phone costs are charged to the Housing Choice Voucher program), a calculator tape will be attached to each voucher showing the allocation.

Equal Housing Opportunity

2007-2

Issuance of Vouchers

Recommendation:

I recommend that the "Voucher" (Form HUD-52646), be issued for the Housing Choice Voucher Program prior to expiration date.

Auditee's Response:

Sandusky MHA's policy is to allow a Voucher to be "active" for up to the maximum time allowed, 120 days. In the past the agency permitted a Voucher to remain active if the Voucher holder had exceeded the 120 days but was very close to going under lease and contract for rental assistance. In the future applicants with active Vouchers will be informed that a Lease and Housing Assistance Payment (HAP) Contract must be signed no later than the 120th day (or last day) the Voucher is active. If no Lease and HAP Contract is in effect by that date, the Voucher will expire and the applicant will have to reapply for placement on the waiting list for Voucher program assistance.

2007-3

Vacation and Sick Leave

Recommendation:

I recommend that the actual hours requested and approved on the "Request for Leave" for each employee, be used to determine ending balances for each employee.

Auditee's Response:

Employees who call in "ill" are completing *Request for Leave* forms when they return to work. Other leave requested (vacation, comp time) will be charged in the same amount as requested on the request form.

If there are any questions regarding this plan, please contact me at 419-334-4426.

Sincerely,

Robin R. Kocher

Robin R. Kocher
Executive Director

Mary Taylor, CPA
Auditor of State

SANDUSKY METROPOLITAN HOUSING AUTHORITY

SANDUSKY COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
JANUARY 10, 2008

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