

**BASIC FINANCIAL STATEMENTS  
AND SINGLE AUDIT**

**of the**

**FAYETTE METROPOLITAN  
HOUSING AUTHORITY**

**for the**

**Year Ended December 31, 2003**





**Auditor of State  
Betty Montgomery**

Board of Directors  
Fayette Metropolitan Housing Authority  
121 E. Main St.  
Washington Courthouse, OH 43160

We have reviewed the Independent Auditor's Report of the Fayette Metropolitan Housing Authority, Fayette County, prepared by Jones, Cochenour & Co., for the audit period January 1, 2003 through December 31, 2003. 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 Fayette Metropolitan Housing Authority is responsible for compliance with these laws and regulations.

*Betty Montgomery*

BETTY MONTGOMERY  
Auditor of State

August 18, 2004

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**FAYETTE METROPOLITAN HOUSING AUTHORITY  
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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Fayette Metropolitan Housing Authority  
Washington Court House, Ohio

Regional Inspector General of Audit  
Department of Housing and Urban  
Development

We have audited the accompanying basic financial statements of Fayette Metropolitan Housing Authority, as of and for the year ended December 31, 2003, as listed in the table of contents. These basic financial statements are the responsibility of the Fayette Metropolitan Housing Authority's management. Our responsibility is to express an opinion on these 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 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 Fayette Metropolitan Housing Authority, as of December 31, 2003, and the results of its operations and the cash flows of its proprietary funds activities for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1 of the basic financial statements, the Authority adopted the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – For State and Local Governments*, as of January 1, 2003. This results in a change to the Authority's format and content of the basic financial statements.

In accordance with *Government Auditing Standards*, we have also issued a report dated April 16, 2004 on our consideration of Fayette Metropolitan Housing Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. 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.

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

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the Authority taken as a whole. The supplemental data listed in the table of contents is presented for purposes of additional analysis and are not a required part of the financial statements of the Fayette Metropolitan Housing Authority. The accompanying Schedule of Federal Awards Expenditures is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Government and Non-Profit Organizations* and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "Jones, Cochenour & Co.".

Jones, Cochenour & Co.  
April 16, 2004



**FAYETTE METROPOLITAN HOUSING AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS – CONTINUED  
Year Ended December 31, 2003  
Unaudited**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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

This Management Discussion and Analysis is new, and will now be presented at the front of each year's financial statements.

Since the Management's Discussion and Analysis (MD&A) is designed to focus on the current years activities, resulting changes and currently known facts, please read it in conjunction with the Authority's financial statements (beginning on page 11).

**FINANCIAL HIGHLIGHTS**

During FY 2003, the Authority's net assets increased by \$29,485 (or 16.45%). Since the Authority engages only in business-type activities, the increase is all in the category of business-type net assets. Net Assets were \$179,222 and \$208,707 for FY 2002 and FY 2003, respectively.

The revenue increased by \$99,351 (or 8.0%) during FY 2003, and was \$1,243,146 and \$1,342,497 for FY 2002 and FY 2003, respectively.

The total expenses of the Authority increased by \$85,596 (or 6.97%). Total expenses were \$1,227,416 and \$1,313,012 for FY 2002 and FY 2003, respectively.

**FAYETTE METROPOLITAN HOUSING AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS – CONTINUED  
Year Ended December 31, 2003  
Unaudited**

**USING THIS ANNUAL REPORT**

This is a different presentation of the Authority's previous financial statements. The following graphic outlining these changes is provided for your review:

**MD&A**  
~ Management Discussion  
and Analysis (new) ~

**Basic Financial Statements**  
~ Fund Financial Statement (refocused) ~  
~ Notes to Financial Statements (expanded/restructured) ~

**Other Required Supplementary Information**  
~ Required Supplementary Information - none~  
(other than MD&A)  
(expanded)

The primary focus of the Authority's financial statement (summarized fund-type information) has been discarded. The new and clearly preferable focus is on both the Authority as a whole (Authority-wide) and the major individual funds. Both perspectives (authority-wide and major fund) allow the user to address relevant questions, broaden a basis for comparison (year to year or Authority to Authority) and enhance the Authority's accountability.

**FAYETTE METROPOLITAN HOUSING AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS – CONTINUED  
Year Ended December 31, 2003  
Unaudited**

**Authority-Wide Financial Statements**

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

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

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

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

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

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

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, 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.

**The Authority's Funds**

The Authority's financial statements include all programs that are considered to be within its administrative control. The Authority generally maintains separate accounting records for each grant program or annual contribution contract, as required by HUD. A list of more significant programs all Business Type Funds is as follows:

**HOPE for Public and Indian Housing Homeownership (HOPE I) -** To facilitate and encourage innovative homeownership opportunities through the provision of self-help housing where the homebuyer contributes a significant amount of sweat equity toward the construction of the dwellings

**Housing Choice Voucher Program (HCVP) –** Under the Housing Choice Voucher Program, the Authority administers contracts with independent landlords that own the property. The Authority subsidizes the family's rent through a Housing Assistance Payment made to the landlord. The program is administered under an Annual Contributions Contract (ACC) with HUD. HUD provides Annual Contributions Funding to enable the Authority to structure a lease that sets the participants' rent at 30% of adjusted household income.

**FAYETTE METROPOLITAN HOUSING AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS – CONTINUED  
Year Ended December 31, 2003  
Unaudited**

**Lower Income Housing Assistance Program-Section 8 New Construction/Substantial Rehabilitation (NC/SR) - Provides housing assistance payments to participating owners on behalf of eligible tenants to provide decent, safe and sanitary housing for very low income families at rents they can afford. Housing assistance payments are used to make up the difference between the approved rent due to the owner for the dwelling unit and the occupant family's required contribution towards rent. Assisted families must pay the highest of 30 percent of their monthly adjusted family income, 10 percent of gross family income, or the portion of welfare assistance designated for housing toward rent. This program is inactive, i.e., no new projects are being approved.**

**AUTHORITY-WIDE STATEMENT**

**Statement of Net Assets**

The Statement of Net Assets includes all assets and liabilities of the Authority using the accrual basis of accounting, which is similar to the accounting used by most private-sector institutions. 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**

	FY 2003	Restated FY 2002
<b>Current and Other Assets</b>	<b>\$ 228,085</b>	<b>\$ 243,590</b>
<b>Capital Assets</b>	<u>619,083</u>	<u>450,184</u>
<b>Total Assets</b>	<u>847,168</u>	<u>693,774</u>
<b>Current Liabilities</b>	133,339	182,704
<b>Non-Current Liabilities</b>	<u>505,122</u>	<u>331,848</u>
<b>Total Liabilities</b>	<u>638,461</u>	<u>514,552</u>
<b>Net Assets:</b>		
<b>Invested in Capital Assets,         Net of Related Debt</b>	121,731	119,652
<b>Restricted</b>	0	0
<b>Unrestricted</b>	<u>86,976</u>	<u>59,570</u>
<b>Total Net Assets</b>	<u><u>\$208,707</u></u>	<u><u>\$179,222</u></u>

For more detailed information see page 11 for the Statement of Net Assets.

**Major Factors Affecting the Statement of Net Assets**

Current assets were slightly decreased by \$4,736 in fiscal year 2003. Liabilities were increased by \$123,909 which a portion of the increase was caused by the 2 new Rental Homes bank loans.

**FAYETTE METROPOLITAN HOUSING AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS – CONTINUED  
Year Ended December 31, 2003  
Unaudited**

Capital Assets were increased by \$168,899. The addition of 2 Rental Homes purchased at a total cost of \$185,650 net against the current year's depreciation of \$16,751 will account for this years increase. For more detail see "Capital Assets and Debt Administration" below.

**TABLE 2  
CHANGE OF UNRESTRICTED NET ASSETS**

Unrestricted Net Assets 12/31/02		\$ 48,802
Results of Operations	29,485	
Adjustments:		
Depreciation (1)	16,751	
Prior Period Adjustments - Net (2)	10,768	
Retired Debt (3)	<u>(4,093)</u>	
Adjusted Results from Operations		52,911
Capital Expenditures –net of Bank Notes		<u>(14,737)</u>
Unrestricted Net Assets 12/31/03		<u><u>\$ 86,976</u></u>

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

(2) Prior period adjustments – net

HUD adjusted the FY02 year-end reports to add \$1,503 to the administrative fees earned. (SRO and Voucher Programs) The administrative fee rate increase was effective 10/1/02, which changed the last 3 months of fees earned in FY 2002.

Adjust FY02 and (\$362) to correct FSS Escrow Accounts beginning balance.

Add \$9,624 for the reclassification of deferred revenues to donations per agreement with MMRD 12 months of grant earned.

(3) The total of the 5 Rental Homes loans principal payments for FY03.

While the result of operations is 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.

**FAYETTE METROPOLITAN HOUSING AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS – CONTINUED  
Year Ended December 31, 2003  
Unaudited**

**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.

	FY 2003	Restated FY 2002
<b>Revenues</b>		
HUD PHA Operating Grants	1,337,606	1,237,151
Investment Income	4,296	5,771
Other Revenues – Fraud Recovery	595	224
<b>Total Revenue</b>	<u>1,342,497</u>	<u>1,243,146</u>
<b>Expenses</b>		
Administrative	147,254	186,469
Maintenance	0	0
General	511	312
Housing Assistance Payments	1,148,496	1,024,546
Depreciation	16,751	16,089
<b>Total Expenses</b>	<u>1,313,012</u>	<u>1,227,416</u>
<b>Net Increase/(Decrease)</b>	<u>\$ 29,485</u>	<u>\$ 15,730</u>

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

HUD PHA Grants increased due to the Authority's increase in both programs leasing rate. The largest portion of the total \$100,455 increase was from the voucher program increase in their leasing rate from 91% in FY 2002 to 97% in FY 2003.

Administrative expenses decreased because the Rental Homes projects had an increase for FY 2003.

The addition in the leasing rate would have also had an effect on the Housing Assistance Payments increase of \$123,950 from last year.

Most other expenses increase moderately due to inflation. Depreciation increased because of the additions to capital assets during fiscal year 2003.

**Capital Assets and Debt Administration**

**Capital Assets**

As of 12/31/03, the Authority had \$619,082.93 invested in capital assets as reflected in the following schedule, which represents a net increase (additions, deductions and depreciation) of \$168,899 from the end of last year.

**FAYETTE METROPOLITAN HOUSING AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS – CONTINUED  
Year Ended December 31, 2003  
Unaudited**

**TABLE 4  
CAPITAL ASSETS AT YEAR-END  
(NET OF DEPRECIATION)**

	<b>Business-type Activities</b>	
	<b>FY 2003</b>	<b>FY 2002</b>
<b>Equipment – Administrative</b>	<b>\$ 26,214.48</b>	<b>\$ 40,273.48</b>
<b>Buildings – Rental Homes</b>	<b>664,450.00</b>	<b>478,800.00</b>
<b>Accumulated Depreciation</b>	<b>(71,581.55)</b>	<b>(68,889.55)</b>
<b>Total</b>	<b>\$ 619,082.93</b>	<b>\$ 450,183.93</b>

The following reconciliation summarizes the change in Capital Assets, which is presented in detail on page xx of the notes.

**TABLE 5  
CHANGE IN CAPITAL ASSETS**

	<b>Business Type Activities</b>
<b>Beginning Balance</b>	<b>\$ 450,183.93</b>
<b>Additions</b>	<b>185,650.00</b>
<b>Depreciation</b>	<b>(16,751.00)</b>
<b>Ending Balance</b>	<b>\$ 619,082.93</b>

This year's the major additions were 2 additional Rental Homes purchased:

1103 Gulfview    \$98,900  
594 Leslie Trace    86,750

**Debt Outstanding**

As of 12/31/03, the Authority had \$ 497,351 in debt (bonds, notes, etc.) outstanding compared to \$330,533 last year a \$166,818 increase.

**FAYETTE METROPOLITAN HOUSING AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS – CONTINUED  
Year Ended December 31, 2003  
Unaudited**

**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, recession and employment trends, which can affect resident incomes and therefore the amount of housing assistance**

**Inflationary pressure on utility rates, supplies and other costs**

**Financial Contact**

**The individual to be contacted regarding this report is Franco Palma; Executive Director for the Fayette Metropolitan Housing Authority, at (740) 335-7525. Specific requests may be submitted to the Authority at 121 E. East Street, Washington Court House, OH 43160.**



**FAYETTE METROPOLITAN HOUSING AUTHORITY**  
**STATEMENT OF NET ASSETS**  
**December 31, 2003**

**ASSETS**

Cash and cash equivalents	\$	119,198
Receivables - net of allowance		106,195
Prepaid expenses		2,693

	<b>TOTAL CURRENT ASSETS</b>	<b>228,086</b>
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**CAPITAL ASSETS**

	<b>619,082</b>
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	<b>TOTAL ASSETS</b>	<b>847,168</b>
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**LIABILITIES**

Accounts payable		861
Tenant security deposits		2,794
Current portion of long-term debt		6,907
Deferred revenue		122,777

	<b>TOTAL CURRENT LIABILITIES</b>	<b>133,339</b>
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**Other liabilities**

	<b>14,678</b>
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**Long term debt**

	<b>490,444</b>
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	<b>TOTAL LIABILITIES</b>	<b>638,461</b>
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**NET ASSETS**

Invested in capital assets - net of related debt		121,731
Unrestricted net assets		86,976

	<b>TOTAL NET ASSETS</b>	<b>\$ 208,707</b>
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**FAYETTE METROPOLITAN HOUSING AUTHORITY**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**Year Ended December 31, 2003**

<b>OPERATING REVENUES</b>		
HUD operating grants	\$	1,337,606
Other revenues		<u>595</u>
<b>TOTAL OPERATING REVENUES</b>		<b>1,338,201</b>
<b>OPERATING EXPENSES</b>		
Administrative		147,254
Depreciation		16,751
General		511
Housing assistance payments		<u>1,148,496</u>
<b>TOTAL OPERATING EXPENSES</b>		<b><u>1,313,012</u></b>
<b>OPERATING INCOME</b>		<b>25,189</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Interest income		<u>4,296</u>
<b>CHANGES IN NET ASSETS</b>		<b>29,485</b>
Net Assets Beginning of Year		168,453
Prior period adjustments		<u>10,769</u>
Net Assets Beginning of Year - Restated		<u>179,222</u>
<b>NET ASSETS END OF YEAR</b>		<b><u><u>\$ 208,707</u></u></b>

See accompanying notes to the basic financial statements

**FAYETTE METROPOLITAN HOUSING AUTHORITY**  
**STATEMENT OF CASH FLOWS**  
Year Ended December 31, 2003

**CASH FLOWS FROM OPERATING ACTIVITIES**

Cash received from tenants	\$	595
Cash received from HUD		1,300,797
Cash payments for administrative		(185,092)
Cash payments for HAP		(1,148,496)

<b>NET CASH USED BY OPERATING ACTIVITIES</b>		<b>(32,196)</b>
----------------------------------------------	--	-----------------

**CASH FLOWS FROM CAPITAL AND FINANCING ACTIVITIES**

Repayment of debt		(4,093)
Debt proceeds		170,912
Acquisition of capital assets		(185,650)

**CASH FLOWS FROM INVESTING ACTIVITIES**

Interest income		4,296
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<b>DECREASE IN CASH AND CASH EQUIVALENTS</b>		<b>(46,731)</b>
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<b>CASH AND CASH EQUIVALENTS, BEGINNING</b>		<b>165,929</b>
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<b>CASH AND CASH EQUIVALENTS, ENDING</b>	<b>\$</b>	<b>119,198</b>
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**RECONCILIATION OF OPERATING INCOME (LOSS)  
TO NET CASH (USED FOR) OPERATING ACTIVITIES**

Operating income	\$	25,189
Adjustments to reconcile operating loss to net cash used by operating activities		
Depreciation		16,751
(Increase) decrease in:		
Receivables - net of allowance		(30,402)
Prepaid expenses		(825)
Increase (decrease) in:		
Accounts payable		(42,689)
Deferred credits and other liabilities		(220)

<b>NET CASH USED BY OPERATING ACTIVITIES</b>	<b>\$</b>	<b>(32,196)</b>
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FAYETTE METROPOLITAN HOUSING AUTHORITY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
Year Ended December 31, 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Summary of Significant Accounting Policies**

The financial statements of the Fayette Metropolitan Housing Authority (the "Authority") have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Authority also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or after November 30, 1989, to its business-type activities and to its proprietary fund provided they do not conflict with or contradict GASB pronouncements. The more significant of the Authority's accounting policies are described below.

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, Basic Financial Statements – Management's Discussion and Analysis – for State and Local Governments. Certain of the significant changes in the Statement include the following:

- For the first time the financial statements include:
  - A Management Discussion and Analysis (MD&A) section providing analysis of the Authority's overall financial position and results of operations.

These and other changes are reflected in the accompanying financial statements (including notes to financial statements). The Authority has elected to implement the provisions of the Statement in the current year.

**Reporting Entity**

The Authority was created under the Ohio Revised Code, Section 3735.27. The Authority contracts with the United States Department of Housing and Urban Development (HUD) to provide low and moderate income persons with safe and sanitary housing through subsidies provided by HUD. The Authority depends on the subsidies from HUD to operate.

**Basis of Presentation**

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

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

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

**Measurement Focus**

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

**Enterprise Fund**

The Authority uses the proprietary fund to report on its financial position and the results of its operations for the Section 8 and public housing programs. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

Funds are classified into three categories: governmental, proprietary and fiduciary. The Authority uses the proprietary category for its programs.

FAYETTE METROPOLITAN HOUSING AUTHORITY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
Year Ended December 31, 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

The following are the various programs which are included in the single enterprise fund:

**Housing Choice Voucher Program (HCVP)** – 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 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.

**Lower Income Housing Assistance Program-Section 8 New Construction/Substantial Rehabilitation (N/C / S/R)** - Provides housing assistance payments to participating owners on behalf of eligible tenants to provide decent, safe and sanitary housing for very low income families at rents they can afford. Housing assistance payments are used to make up the difference between the approved rent due to the owner for the dwelling unit and the occupant family's required contribution towards rent. Assisted families must pay the highest of 30 percent of their monthly adjusted family income, 10 percent of gross family income, or the portion of welfare assistance designated for housing toward rent. This program is inactive, i.e., no new projects are being approved.

**HOPE for Public and Indian Housing Homeownership (HOPE I)** - To facilitate and encourage innovative homeownership opportunities through the provision of self-help housing where the homebuyer contributes a significant amount of sweat equity toward the construction of the dwellings

**Accounting and Reporting for Nonexchange Transactions**

The Authority adopted GASB 33 effective for the year ended December 31, 2001. Nonexchange transactions occur when the Public Housing Authority (PHA) receives (or gives) value without directly giving equal value in return. GASB 33 identifies four classes of nonexchange transactions as follows:

- **Derived tax revenues:** result from assessments imposed on exchange transactions (i.e., income taxes, sales taxes and other assessments on earnings or consumption).
- **Imposed nonexchange revenues:** result from assessments imposed on nongovernmental entities, including individuals, other than assessments on exchange transactions (i.e. property taxes and fines).
- **Government-mandated nonexchange transactions:** occur when a government at one level provides resources to a government at another level and requires the recipient to use the resources for a specific purpose (i.e., federal programs that state or local governments are mandated to perform).
- **Voluntary nonexchange transactions:** result from legislative or contractual agreements, other than exchanges, entered into willingly by the parties to the agreement (i.e., certain grants and private donations).

PHA grants and subsidies will be defined as a government-mandated or voluntary nonexchange transactions.

GASB 33 establishes two distinct standards depending upon the kind of stipulation imposed by the provider.

- **Time requirements** specify (a) the period when resources are required to be used or when use may begin (for example, operating or capital grants for a specific period) or (b) that the resources are required to be maintained intact in perpetuity or until a specified date or event has occurred (for example, permanent endowments, term endowments, and similar agreements). Time requirements affect the timing of recognition of nonexchange transactions.
- **Purpose restrictions** specify the purpose for which resources are required to be used. (i.e. capital grants used for the purchase of capital assets). Purpose restrictions do not affect when a nonexchange transaction is recognized. However, PHAs that receive resources with purpose restrictions should report resulting net assets, equity, or fund balance as restricted.

The PHA will recognize assets (liabilities) when all applicable eligibility requirements are met or resources received whichever is first. Eligibility requirements established by the provider may stipulate the qualifying characteristics of recipients, time requirements, allowable costs, and other contingencies.

**FAYETTE METROPOLITAN HOUSING AUTHORITY**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**Year Ended December 31, 2003**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

The PHA will recognize revenues (expenses) when all applicable eligibility requirements are met. For transactions that have a time requirement for the beginning of the following period, PHAs should record resources received prior to that period as deferred revenue and the provider of those resources would record an advance.

The PHA receives government-mandated or voluntary nonexchange transactions, which do not specify time requirements. Upon award, the entire subsidy should be recognized as a receivable and revenue in the period when applicable eligibility requirements have been met.

**Deferred Revenue**

Deferred revenue arises when revenues are received before revenue recognition criteria have been satisfied.

**Prepaid expenses**

Payments made to vendors for services that will benefit periods beyond December 31, 2003, are recorded as prepaid expenses using the consumption method. A current asset for the amount is recorded at the time of the purchase and expense is reported in the year in which the services are consumed.

**Investments**

Investments are restricted by the provisions of the HUD Regulations (See Note 2). Investments are valued at market value. Interest income earned in fiscal year 2003 for both programs totaled \$4,296. The interest income earned on the general fund investments in the Section 8 Program is required to be returned to HUD, and this amount was \$674 for the year ended December 31, 2003.

**Capital Assets**

Fixed assets are stated at cost and depreciation is computed using the straight line method over an estimated useful life of the assets. The cost of normal maintenance and repairs, that do not add to the value of the asset or materially extend the asset life, are not capitalized. The capitalization policy is \$500. The following are the useful lives used for depreciation purposes:

Buildings – residential	27.5
Buildings – non residential	40
Building improvements	15
Furniture – dwelling	7
Furniture – non-dwelling	7
Equipment – dwelling	5
Equipment – non-dwelling	7
Autos and trucks	5
Computer hardware	7
Computer software	3
Leasehold improvements	15

**Due From/To Other Programs**

On the basic financial statements, receivables and payables resulting from the short-term interprogram loans are classified as due to/due from other programs.

**Accrued Liabilities**

All payables and accrued liabilities are reported in the basic financial statements.

**Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets – net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are recorded as restricted when there are limitations imposed on their use either by internal or external restrictions.

**FAYETTE METROPOLITAN HOUSING AUTHORITY**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**Year Ended December 31, 2003**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

**Operating Revenues and Expenses**

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the Authority, these revenues are tenant revenues, operating grants from HUD and other miscellaneous revenue. Operating expenses are those expenses that are generated from the primary activity of the proprietary fund.

**Cash and Cash Equivalents**

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

**Budgetary Accounting**

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

**Estimates**

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

**Receivables – net of allowance**

Bad debts are provided on the allowance method based on management's evaluation of the collectability of outstanding tenant receivable balances at the end of the year. The allowance for receivables was \$0.00 at December 31, 2003.

**2. CASH AND INVESTMENTS**

**Cash**

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.

Protection of Authority's deposits is provided by the Federal Deposit Insurance Corporation (FDIC) by eligible securities pledged by the financial institution as security for repayment, but 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 with securities held by the pledging institution, or by its trust department or safekeeping agent, but not in

**FAYETTE METROPOLITAN HOUSING AUTHORITY**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
Year Ended December 31, 2003

the Authority's name.

**2. CASH AND INVESTMENTS- CONTINUED**

**Deposits:** The carrying amount of the Authority's deposits totaled \$119,198, which includes \$300 petty cash and security deposits. The corresponding bank balances totaled \$121,432.

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

Category 1:	\$100,000 was covered by federal depository insurance
Category 2:	\$21,432 was covered by specific collateral pledged by the financial institution in the name of the Authority.

The Authority had no investments at December 31, 2003.

**3. NOTE TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES**

The accompanying schedule of federal awards expenditures is a summary of the activity of the Authority's federal award programs. The schedule has been prepared on the accrual basis of accounting.

**4. RISK MANAGEMENT**

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

**5. CAPITAL ASSETS**

The following is a summary of capital assets:

	<u>Balance 12/31/2002</u>	<u>Additions / Deletions</u>	<u>Balance 12/31/2003</u>
<b>CAPITAL ASSETS, BEING DEPRECIATED</b>			
Buildings and Improvements	\$ 478,800	\$ 185,650	\$ 664,450
Furniture and equipment	40,274	(14,060)	26,214
Totals at Historical Costs	<u>519,074</u>	<u>171,590</u>	<u>690,664</u>
Less: Accumulated Depreciation	<u>(68,890)</u>	<u>(2,692)</u>	<u>(71,582)</u>
<b>TOTAL CAPITAL ASSETS, NET, BEING DEPRECIATED</b>	<u><u>\$ 450,184</u></u>	<u><u>\$ 168,898</u></u>	<u><u>\$ 619,082</u></u>

The depreciation expense for the year then ended December 31, 2003 was \$16,751.

**6. FDS SCHEDULE SUBMITTED TO HUD**

For the fiscal year ended December 31, 2003, the Authority electronically submitted an unaudited version of the balance sheet, statement of revenues, expenses and changes in net assets and other data to HUD as required on the GAAP basis. The FDS schedules are on pages 21 - 22. The schedules are presented in the manner prescribed by Housing and Urban Development.



**FAYETTE METROPOLITAN HOUSING AUTHORITY**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
Year Ended December 31, 2003

**7. CHANGES IN ACCOUNTING PRINCIPLES, RECLASSIFICATIONS AND RESTATEMENT OF PRIOR YEAR'S FUND EQUITY**

**Changes in Accounting Principles**

For fiscal year 2003, the Authority implemented GASB 34. The implementation had no effect on the total enterprise fund equity, however, it did effect the classification of the equity. See the following for the reclassification and restatement.

	<u>Total</u>	<u>Undesignated Retained Earnings</u>	<u>Invested in Capital Assets- Net of Debt</u>	<u>Unrestricted net assets</u>
Net Assets, Beginning of Year	\$ 168,453	\$ 168,453	\$ -	\$ -
Reclassification - GASB 34	-	(168,453)	119,652	48,801
HUD corrections on Section 8 year end reports/other	<u>10,769</u>	<u>-</u>	<u>-</u>	<u>10,769</u>
Net Assets, Beginning of Year, Restated	179,222	-	119,652	59,570
Net capital asset activities	-	-	18,830	(18,830)
Current year income (depreciation)	<u>29,485</u>	<u>-</u>	<u>(16,751)</u>	<u>46,236</u>
Net Assets, End of Year	<u>\$ 208,707</u>	<u>\$ -</u>	<u>\$ 121,731</u>	<u>\$ 86,976</u>

**8. CONTRACT SERVICES**

The authority contracts with:

- Fayette County to provide financial services for the housing authority. The authority does not have any employees; instead, services are subcontracted from Fayette County.
- Highland Metropolitan Housing Authority to provide management and financial reporting services. Compensation shall be based on the amount allowed by HUD for performing these services.
- Fayette County Board of Mental Retardation and Developmental Disabilities (MRDD) to provide a rent subsidy program for persons with mental retardation or other developmental disabilities. To provide these services, the authority acquired two residential houses on behalf of the MRDD. The MRDD will maintain a legal interest in the property acquired with community assistance funds and will compensate the authority for housing expenses when vacancies occur in the properties.

**FAYETTE METROPOLITAN HOUSING AUTHORITY**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**Year Ended December 31, 2003**

**9. LONG-TERM DEBT**

The Authority has interest bearing notes that are payable to Merchants National Bank. The interest rates average 6.75% and are due in monthly installments.

The summary of maturities of long-term debt for the seven homes purchased are as follows:

	<u>364 Carolyn Road</u>	<u>834 Lincoln Drive</u>	<u>1029 South Fayette Street</u>	<u>1120 South Fayette Street</u>	<u>842 Lincoln Avenue</u>	<u>594 Leslie Trace</u>	<u>1103 Golfview Drive</u>	<u>Total</u>
2004	\$ 931	\$ 931	\$ 1,138	\$ 2,538	\$ 1,000	\$ 5,685	\$ 6,685	\$ 18,908
2005	1,004	1,004	88,042	2,659	77,670	5,758	6,758	182,895
2006	69,184	69,184	-	2,783	-	5,765	6,765	153,681
2007	-	-	-	7,607	-	5,838	6,838	20,283
2008	-	-	-	-	-	8,986	9,986	18,972
2009	-	-	-	-	-	52,901	49,711	102,612
	<u>71,119</u>	<u>71,119</u>	<u>89,180</u>	<u>15,587</u>	<u>78,670</u>	<u>84,933</u>	<u>86,743</u>	<u>497,351</u>
								<u>(6,907)</u>
								<u><u>\$ 490,444</u></u>

To avoid the final balloon payments, it is the intent of the Authority to refinance the debt before the Year 2005.

**Fayette Metropolitan Housing Authority**  
**Balance Sheet**  
**FDS Schedule Submitted to HUD**  
**Proprietary Fund Type**  
**Enterprise Fund**  
**December 31, 2002**

FDS Line Item No.	Account Description	14.871 Sect. 8 Hsg Choice VO	14.182 Sect. 8 N/C S/R	14.858 HOPE I	TOTAL
<b>ASSETS</b>					
111	Cash - unrestricted	\$ 46,930	\$ 71,803	\$ 465	\$ 119,198
100	TOTAL CASH	46,930	71,803	465	119,198
122	Accounts receivable - HUD other proj	71,489	1,575	-	73,064
125	Accounts Receivable - Miscellaneous	33,119	-	-	33,119
129	Accrued Interest Receivable	12	-	-	12
120	TOTAL ACCOUNTS RECEIVABLE	104,620	1,575	-	106,195
142	Prepaid expenses and other assets	2,693	-	-	2,693
150	TOTAL CURRENT ASSETS	154,243	73,378	465	228,086
162	Buildings	664,450	-	-	664,450
164	Furniture and equipment - admin	26,214	-	-	26,214
166	Accumulated depreciation	(71,582)	-	-	(71,582)
160	TOTAL FIXED ASSETS, NET	619,082	-	-	619,082
180	TOTAL NON-CURRENT ASSETS	619,082	-	-	619,082
190	TOTAL ASSETS	\$ 773,325	\$ 73,378	\$ 465	\$ 847,168
<b>LIABILITIES</b>					
312	Accounts payable <=90 days	\$ 861	\$ -	\$ -	\$ 861
331	Accounts payable - HUD PHA programs	-	-	-	-
341	Tenant security deposits	2,794	-	-	2,794
342	Deferred Revenues	122,777	-	-	122,777
343	Current Portion of Long Term Debt	6,907	-	-	6,907
310	TOTAL CURRENT LIABILITIES	133,339	-	-	133,339
351	Long Term Debt	490,444	-	-	490,444
353	Noncurrent liabilities - other	14,678	-	-	14,678
350	TOTAL NONCURRENT LIABILITIES	505,122	-	-	505,122
300	TOTAL LIABILITIES	638,461	-	-	638,461
513	TOTAL EQUITY	134,864	73,378	465	208,707
600	TOTAL LIABILITIES AND EQUITY	\$ 773,325	\$ 73,378	\$ 465	\$ 847,168

See independent auditors' report

**FAYETTE METROPOLITAN HOUSING AUTHORITY**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN EQUITY**  
**FDS SCHEDULE SUBMITTED TO HUD**  
**PROPRIETARY FUND TYPE**  
**ENTERPRISE FUND**  
**Year Ended December 31, 2003**

FDS Line Item No.	Account Description	14.871 Sect. 8 Hsg Choice VO	14.182 Sect. 8 N/C S/R	14.858 HOPE I	TOTAL
	<b>REVENUE</b>				
706	PHA HUD grants	\$ 1,283,231	\$ 54,375	\$ -	\$ 1,337,606
711	Investment income - unrestricted	3,622	674	-	4,296
714	Fraud recovery	595	-	-	595
	<b>TOTAL REVENUE</b>	<b>1,287,448</b>	<b>55,049</b>	<b>-</b>	<b>1,342,497</b>
	<b>EXPENSES</b>				
911	Administrative salaries	75,487	4,090	-	79,577
912	Auditing fees	3,035	165	-	3,200
915	Employee benefit contribution - admin	20,207	1,095	-	21,302
916	Other operating - administrative	40,956	2,219	-	43,175
961	Insurance premiums	485	26	-	511
969	<b>TOTAL OPERATING EXPENSES</b>	<b>140,170</b>	<b>7,595</b>	<b>-</b>	<b>147,765</b>
970	<b>EXCESS OPERATING REVENUE OVER EXPENSES</b>	<b>1,147,278</b>	<b>47,454</b>	<b>-</b>	<b>1,194,732</b>
973	Housing Assistance Payments	1,102,786	45,710	-	1,148,496
974	Depreciation expense	16,751	-	-	16,751
900	<b>TOTAL EXPENSES</b>	<b>1,259,707</b>	<b>53,305</b>	<b>-</b>	<b>1,313,012</b>
	<b>EXCESS OF REVENUE OVER EXPENSES</b>	<b>27,741</b>	<b>1,744</b>	<b>-</b>	<b>29,485</b>
1103	Beginning equity	96,430	71,558	465	168,453
1104	Prior period adj/equity transfers	10,693	76	-	10,769
	<b>ENDING EQUITY</b>	<b>\$ 134,864</b>	<b>\$ 73,378</b>	<b>\$ 465</b>	<b>208,707</b>

See independent auditors' report

**FAYETTE METROPOLITAN HOUSING AUTHORITY  
 SCHEDULE OF FEDERAL AWARDS EXPENDITURES  
 December 31, 2003**

	<b>FEDERAL CFDA NUMBER</b>	<b>FUNDS EXPENDED</b>
<b><u>FROM U.S. DEPARTMENT OF HUD</u></b>		
<b><u>DIRECT PROGRAMS</u></b>		
<b>Housing Assistance Payments:</b>		
<b>Annual Contribution -</b>		
Section 8 Housing Choice Vouchers	14.871	1,283,231
Section 8 - NC/SR	14.182	54,375
<b>Total - All Programs</b>		<b>\$ 1,337,606</b>

See independent auditors' report



**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 Directors  
Fayette Metropolitan Housing Authority  
Washington Court House, Ohio

Regional Inspector General of Audit  
Department of Housing and Urban  
Development

We have audited the basic financial statements of Fayette Metropolitan Housing Authority as of and for the year ended December 31, 2003, and have issued our report thereon dated April 16, 2004. The Authority adopted the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – For State and Local Governments*, as of January 1, 2003. This results in a change to the Authority’s format and content of the basic financial statements. 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.

**Compliance**

As part of obtaining reasonable assurance about whether Fayette 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 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 our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Fayette Metropolitan Housing Authority’s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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

Jones, Cochenour & Co.  
April 16, 2004



**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH  
MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN  
ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Directors  
Fayette Metropolitan Housing Authority  
Washington Court House, Ohio

Regional Inspector General of Audit  
Department of Housing and Urban  
Development

**Compliance**

We have audited the compliance of Fayette Metropolitan Housing Authority with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133* that are applicable to each of its major federal programs for the year ended December 31, 2003. Fayette Metropolitan Housing Authority's major federal programs are identified in the summary of auditors' 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 Fayette Metropolitan Housing Authority's management. Our responsibility is to express an opinion on Fayette 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; 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 Fayette 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 Fayette Metropolitan Housing Authority's compliance with those requirements.

In our opinion, Fayette 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, 2003.

**Internal Control Over Compliance**

The management of Fayette 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 our audit, we considered Fayette 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 our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

A handwritten signature in black ink that reads "Jones, Cochenour & Co." with a period at the end. The signature is written in a cursive, flowing style.

Jones, Cochenour & Co.  
April 16, 2004



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

**Fayette Metropolitan Housing Authority  
December 31, 2003**

<b>1. SUMMARY OF AUDITORS' RESULTS</b>
----------------------------------------

<b>Type of Financial Statement Opinion</b>	<b>Unqualified</b>
<b>Were there any material control weakness conditions reported at the financial statement level (GAGAS)?</b>	<b>No</b>
<b>Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?</b>	<b>No</b>
<b>Was there any reported material non-compliance at the financial statement level (GAGAS)?</b>	<b>No</b>
<b>Were there any material internal control weakness conditions reported for major federal programs?</b>	<b>No</b>
<b>Were there any other reportable internal control weakness conditions reported for major federal programs?</b>	<b>No</b>
<b>Type of Major Programs' Compliance Opinion</b>	<b>Unqualified</b>
<b>Are there any reportable findings under § .510?</b>	<b>No</b>
<b>Major Programs (list):</b>	<b>Section 8 Housing Choice Vouchers CFDA#14.871 Section 8 NC/SR CFDA #14.182</b>
<b>Dollar Threshold: Type A/B Programs</b>	<b>\$300,000</b>
<b>Low Risk Auditee?</b>	<b>Yes</b>

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

**Fayette Metropolitan Housing Authority  
December 31, 2003**

**2. FINDINGS RELATED TO FINANCIAL STATEMENTS**

**There are no findings or questioned costs for the year ended December 31, 2003.**

**3. FINDINGS RELATED TO FEDERAL AWARDS**

**There are no findings or questioned costs for the year ended December 31, 2003.**



**Auditor of State  
Betty Montgomery**

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800-282-0370  
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**FAYETTE METROPOLITAN HOUSING AUTHORITY**

**FAYETTE 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  
AUGUST 31, 2004**