

**BASIC FINANCIAL STATEMENTS
AND SINGLE AUDIT**

of the

**FAYETTE METROPOLITAN
HOUSING AUTHORITY**

for the

Year Ended December 31, 2004



**Auditor of State
Betty Montgomery**

Board of Directors
Fayette Metropolitan Housing Authority
121 East East Street
Washington Court House, Ohio 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, 2004 to December 31, 2004. 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.

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

June 20, 2005

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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, 2004, 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, 2004, 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.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 28, 2005 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 considered in assessing 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 FDS schedules are 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 black ink that reads "Jones, Cochenour & Co." with a stylized flourish at the end.

Jones, Cochenour & Co.

March 28, 2005

**FAYETTE METROPOLITAN HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended December 31, 2004
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.

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.

Financial Highlights

- During FY 2004, the Authority's net assets increased by \$52,614 (or 24.6%). Since the Authority engages only in business-type activities, the increase is all in the category of business-type net assets. Net Assets were \$214,112 and \$266,726 for FY 2003 and FY 2004 respectively.
- The revenue increased by \$46,138 (or 3.42%) during FY 2004, and was \$1,347,902 and \$1,394,040 for FY 2003 and FY 2004 respectively.
- The total expenses of the Authority increased by \$28,418 (or 2.16%). Total expenses were \$1,313,012 and \$1,341,426 for FY 2003 and FY 2004 respectively.

USING THIS ANNUAL REPORT

The Report includes three major sections, the "Management's Discussion and Analysis (MD&A)", "Basic Financial Statements", and "Other Required Supplementary Information":

<p>MD&A</p> <p>~ Management Discussion And Analysis ~</p>
--

<p>Basic Financial Statements</p> <p>~Authority-Wide Financial Statements ~ ~ Fund Financial Statement ~ ~ Notes to Financial Statements (expanded/restructured) ~</p>

FAYETTE METROPOLITAN HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended December 31, 2004
Unaudited

Other Required Supplementary Information

~ Required Supplementary Information - none~
(Other than MD&A)
(Expanded)

The primary focus of the Authority's financial statement is on the Authority as a whole (Authority-wide).

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.

**FAYETTE METROPOLITAN HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended December 31, 2004
Unaudited**

Fund Financial Statements

The Authority is accounted for as an Enterprise Fund. Enterprise funds utilize the full accrual basis of accounting.

The Enterprise method of accounting is similar to accounting utilized by the private sector.

Many of the programs maintained by the Authority are required by the Department of Housing Urban Development. Others are segregated to enhance accountability and control.

The Authority's Programs and 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 and 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.

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.

**FAYETTE METROPOLITAN HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended December 31, 2004
Unaudited**

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

	FY 2004	Restated FY 2003
Current and Other Assets	\$ 296,119	\$ 223,866
Capital Assets	<u>598,072</u>	<u>619,083</u>
Total Assets	<u>894,191</u>	<u>842,949</u>
Other Liabilities	120,180	123,715
Non-Current Liabilities	<u>507,285</u>	<u>505,122</u>
Total Liabilities	<u>627,465</u>	<u>628,837</u>
Net Assets:		
Invested in Capital Assets, Net of Related Debt	104,737	121,731
Restricted	0	0
Unrestricted	<u>161,989</u>	<u>92,381</u>
Total Net Assets	<u><u>\$266,726</u></u>	<u><u>\$214,112</u></u>

For more detailed information see the basic financial statements.

Major Factors Affecting the Statement of Net Assets

Current assets were increased by \$59,034 or 25.88% in fiscal year 2004. While, liabilities decreased by \$10,966 or 1.7% in fiscal year 2004.

Capital Assets were decreased by \$21,011. The purchase of a computer system at a cost of \$1,518 accounts for the only addition netted against the current year's depreciation of \$22,529 will account for this years decrease. For more detail see "Capital Assets and Debt Administration" later in the discussion.

**FAYETTE METROPOLITAN HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended December 31, 2004
Unaudited**

TABLE 2

Change of Unrestricted Net Assets

Unrestricted Net Assets 12/31/03	\$ 86,976
Results of Operations	52,614
Adjustments:	
Depreciation (1)	22,529
Prior Period Adjustments - Net (2)	5,405
Retired Debt (3)	<u>(4,017)</u>
Adjusted Results from Operations	76,531
Capital Expenditures –net of Bank Notes	<u>(1,518)</u>
Unrestricted Net Assets 12/31/04	<u><u>\$ 161,989</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 FY03 year-end reports to deduct \$4,219 for the recapture of administrative fees earned in excess of the 5% rule.

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 FY04.

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
Year Ended December 31, 2004
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 2004	Restated FY 2003
Revenues		
HUD PHA Operating Grants	\$ 1,389,934	\$ 1,333,387
Investment Income	3,957	4,296
Other Revenues – Fraud Recovery	149	10,219
Total Revenue	1,394,040	1,347,902
Expenses		
Administrative	118,803	147,254
Maintenance	-	-
General	10,112	511
Housing Assistance Payments	1,189,982	1,148,496
Depreciation	22,529	16,751
Total Expenses	1,341,426	1,313,012
Net Increase/(Decrease)	\$ 52,614	\$ 34,890

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

HUD PHA Grants increased \$56,547 due to the Authority's increase in both programs leasing rate and new HUD fees for Homeownership programs. However, HUD's Administrative fees are decreasing.

Administrative expenses decreased because the Rental Homes projects had an increase for FY 2004. Also items classified differently for 2004 then in 2003.

The addition in the leasing rate would have also had an effect on the Housing Assistance Payments increase of \$41,486 from last year.

Depreciation increased because of the additions to capital assets during fiscal year 2003 and 2004.

Capital Assets and Debt Administration

Capital Assets

As of 12/31/04, the Authority had \$104,737 invested in capital assets as reflected in the following schedule, which represents a net decrease (additions, deductions and depreciation) of \$21,011 from the end of last year.

**FAYETTE METROPOLITAN HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended December 31, 2004
Unaudited**

Table 4

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

	Business-type Activities	
	FY 2004	FY 2003
Equipment – Administrative	\$ 27,732	\$ 26,214
Buildings – Rental Homes	664,451	664,451
Accumulated Depreciation	(94,111)	(71,582)
Total	\$ 598,072	\$ 619,083

The following reconciliation summarizes the change in Capital Assets, which is presented in detail in the footnotes.

Table 5

Change in Capital Assets

	Business Type Activities
Beginning Balance	\$ 619,083
Additions	1,518
Depreciation	(22,529)
Ending Balance	\$ 598,072

This year's the only addition was a computer system for Rental Housing for a total cost of \$1,518.

Debt Outstanding

As of 12/31/04, the Authority had \$ 493,334 debt (bonds, notes, etc.) outstanding compared to \$497,351 last year for a \$4,017 decrease. The debt was a result of buying houses for low-income housing purposes.

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

**FAYETTE METROPOLITAN HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended December 31, 2004
Unaudited**

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, 2004

ASSETS

Cash and cash equivalents	\$	162,615
Receivables - net of allowance		<u>133,504</u>
TOTAL CURRENT ASSETS		296,119

CAPITAL ASSETS

Other capital assets - net		<u>598,072</u>
TOTAL ASSETS		894,191

LIABILITIES

Accounts payable		107
Accounts payable - HUD		109
Tenant security deposits		2,794
Current portion of long-term debt		4,017
Deferred revenue		<u>113,153</u>
TOTAL CURRENT LIABILITIES		120,180

FSS liability		17,967
Long term debt		<u>489,318</u>
TOTAL LIABILITIES		<u>627,465</u>

NET ASSETS

Invested in capital assets - net of related debt		104,737
Unrestricted net assets		<u>161,989</u>
TOTAL NET ASSETS	\$	<u><u>266,726</u></u>

See accompanying notes to the basic financial statements

FAYETTE METROPOLITAN HOUSING AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
Year Ended December 31, 2004

OPERATING REVENUES	
HUD operating grants	\$ 1,389,934
Fraud recovery	<u>149</u>
TOTAL OPERATING REVENUES	1,390,083
 OPERATING EXPENSES	
Administrative	89,886
Depreciation	22,529
Interest expense	28,917
General	10,112
Housing assistance payments	<u>1,189,982</u>
TOTAL OPERATING EXPENSES	<u>1,341,426</u>
OPERATING INCOME	48,657
 NONOPERATING REVENUES (EXPENSES)	
Interest income	<u>3,957</u>
CHANGE IN NET ASSETS	52,614
Net Assets Beginning of Year	208,707
Prior period adjustments	<u>5,405</u>
Net Assets Beginning of Year - Restated	<u>214,112</u>
NET ASSETS END OF YEAR	<u><u>\$ 266,726</u></u>

See accompanying notes to the basic financial statements

FAYETTE METROPOLITAN HOUSING AUTHORITY
STATEMENT OF CASH FLOWS
Year Ended December 31, 2004

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from tenants	\$ 149
Cash received from HUD	1,378,257
Cash payments for administrative	(143,429)
Cash payments for HAP	<u>(1,189,982)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	44,995
 CASH FLOWS FROM CAPITAL AND FINANCING ACTIVITIES	
Repayment of debt	(4,017)
Acquisition of capital assets	(1,518)
 CASH FLOWS FROM INVESTING ACTIVITIES	
Investment activity	<u>3,957</u>
INCREASE IN CASH AND CASH EQUIVALENTS	43,417
CASH AND CASH EQUIVALENTS, BEGINNING	<u>119,198</u>
CASH AND CASH EQUIVALENTS, ENDING	<u><u>\$ 162,615</u></u>
 RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH (USED FOR) OPERATING ACTIVITIES	
Operating income	\$ 48,657
Adjustments to reconcile operating loss to net cash used by operating activities	
Depreciation	22,529
Prior period adjustments affecting residual receipts	5,405
(Increase) decrease in:	
Receivables - net of allowance	(27,309)
Prepaid expenses	2,693
Increase (decrease) in:	
Accounts payable	(645)
Deferred credits and other liabilities	<u>(6,335)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ 44,995</u></u>

See accompanying notes to the basic financial statements

FAYETTE METROPOLITAN HOUSING AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2004

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 before 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.

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.

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.

FAYETTE METROPOLITAN HOUSING AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Section 8 New Construction Program – 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 previously adopted GASB 33. 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 transaction.

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.

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.

FAYETTE METROPOLITAN HOUSING AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Deferred Revenue

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

Deferred revenue represents funds provided to the authority by MRDD to be used for MRDD clients and housing purposes.

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 2004 for both programs totaled \$3,957. 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 \$929 for the year ended December 31, 2004.

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

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.

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.

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.

FAYETTE METROPOLITAN HOUSING AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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 at December 31, 2004.

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 the Authority's name.

Deposits: The carrying amount of the Authority's deposits totaled \$162,615 (includes tenant security deposit). The corresponding bank balances totaled \$166,026.

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

Category 1:	\$100,000 was covered by federal depository insurance
Category 2:	\$66,026 was covered by specific collateral pledged by the financial institution in the name of the Authority.

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.

FAYETTE METROPOLITAN HOUSING AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2004

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 12/31/2003</u>	<u>Additions / Deletions</u>	<u>Balance 12/31/2004</u>
CAPITAL ASSETS, BEING DEPRECIATED			
Buildings and Improvements	\$ 664,450	\$ -	\$ 664,450
Furniture and equipment	<u>26,214</u>	<u>1,518</u>	<u>27,732</u>
Totals at Historical Costs	690,664	1,518	692,182
Less: Accumulated Depreciation	<u>(71,581)</u>	<u>(22,529)</u>	<u>(94,110)</u>
TOTAL CAPITAL ASSETS, NET, BEING DEPRECIATED	<u>\$ 619,083</u>	<u>\$ (21,011)</u>	<u>\$ 598,072</u>

The depreciation expense for the year then ended December 31, 2004 was \$22,529.

6. FDS SCHEDULE SUBMITTED TO HUD

For the fiscal year ended December 31, 2004, the Authority electronically submitted an unaudited version of the balance sheet, statement of revenues, expenses and changes in net asset and other data to HUD as required on the GAAP basis. The FDS schedules are on pages 19 – 20. The schedules are presented in the manner prescribed by Housing and Urban Development.

7. RESTATEMENT OF PRIOR YEAR'S FUND EQUITY

Prior Period Adjustment

	<u>Total</u>	<u>Invested in Capital Assets</u>	<u>Unrestricted net assets</u>
Net assets, beginning of year	\$ 208,707	\$ 121,731	\$ 86,976
HUD adjustment - Sec 8 adm fee recap.	(4,219)	-	(4,219)
MMRD earned portion of down payment	<u>9,624</u>	<u>-</u>	<u>9,624</u>
Net assets, beginning of year, restated	214,112	121,731	92,381
Capital asset additions/repayment debt	5,535	5,535	-
Current year activity	<u>47,079</u>	<u>(22,529)</u>	<u>69,608</u>
Net assets, end of year	<u>\$ 266,726</u>	<u>\$ 104,737</u>	<u>\$ 161,989</u>

**FAYETTE METROPOLITAN HOUSING AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2004**

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.

9. LONG-TERM DEBT

The Authority has interest bearing notes that are payable to Merchants National Bank. The interest rates average 5.38% to 6.75% and are due in monthly installments.

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

Interest Rate	6.25%	6.25%	5.38%	6.00%	6.75%	5.38%	6.75%	
	364 Carolyn Road	834 Lincoln Drive	1029 South Fayette Street	1120 South Fayette Street	842 Lincoln Avenue	594 Leslie Trace	1103 Golfview Drive	Total
2005	\$ 967	\$ 967	\$ 354	\$ -	\$ 453	\$ 1,276	\$ -	\$ 4,017
2006	69,185	69,185	88,472	16,955	76,764	5,765	6,765	333,091
2007	-	-	-	-	-	5,838	6,838	12,676
2008	-	-	-	-	-	8,986	9,986	18,972
2009	-	-	-	-	-	9,250	10,275	19,525
2010	-	-	-	-	-	50,972	54,082	105,054
	70,152	70,152	88,826	16,955	77,217	82,087	87,946	493,335
	LESS CURRENT PORTION							<u>(4,017)</u>
	LONG TERM DEBT							<u><u>\$ 489,318</u></u>

To avoid the final balloon payments, it is the intent of the Authority to refinance the debt. The authority pays interest only on some of the accounts.

**FAYETTE METROPOLITAN HOUSING AUTHORITY
BALANCE SHEET
FDS SCHEDULE SUBMITTED TO HUD
PROPRIETARY FUND TYPE
ENTERPRISE FUND
December 31, 2004**

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
ASSETS					
111	Cash - unrestricted	\$ 88,341	\$ 74,274	\$ -	\$ 162,615
100	TOTAL CASH	88,341	74,274	-	162,615
122	Accounts receivable - HUD other proj	61,496	-	-	61,496
125	Accounts receivable - miscellaneous	72,000	-	-	72,000
129	Accrued interest receivable	8	-	-	8
120	TOTAL ACCOUNTS RECEIVABLE	133,504	-	-	133,504
150	TOTAL CURRENT ASSETS	221,845	74,274	-	296,119
162	Buildings	664,450	-	-	664,450
164	Furniture and equipment - admin	27,732	-	-	27,732
166	Accumulated depreciation	(94,110)	-	-	(94,110)
160	TOTAL FIXED ASSETS, NET	598,072	-	-	598,072
180	TOTAL NON-CURRENT ASSETS	598,072	-	-	598,072
190	TOTAL ASSETS	\$ 819,917	\$ 74,274	\$ -	\$ 894,191
LIABILITIES					
312	Accounts payable <=90 days	\$ 107	\$ -	\$ -	\$ 107
331	Accounts payable - HUD PHA programs	-	109	-	109
341	Tenant security deposits	2,794	-	-	2,794
342	Deferred Revenues	113,153	-	-	113,153
343	Current Portion of Long Term Debt	4,017	-	-	4,017
310	TOTAL CURRENT LIABILITIES	120,071	109	-	120,180
351	Long Term Debt	489,318	-	-	489,318
353	Noncurrent liabilities - other	17,967	-	-	17,967
350	TOTAL NONCURRENT LIABILITIES	507,285	-	-	507,285
300	TOTAL LIABILITIES	627,356	109	-	627,465
513	TOTAL EQUITY	192,561	74,165	-	266,726
600	TOTAL LIABILITIES AND EQUITY	\$ 819,917	\$ 74,274	\$ -	\$ 894,191

See independent auditors' report

FAYETTE METROPOLITAN HOUSING AUTHORITY
STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS
FDS SCHEDULE SUBMITTED TO HUD
PROPRIETARY FUND TYPE
ENTERPRISE FUND
Year Ended December 31, 2004

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
	REVENUE				
706	PHA HUD grants	\$ 1,336,043	\$ 53,891	\$ -	\$ 1,389,934
711	Investment income - unrestricted	3,504	453	-	3,957
714	Fraud recovery	149	-	-	149
	TOTAL REVENUE	1,339,696	54,344	-	\$ 1,394,040
	EXPENSES				
911	Administrative salaries	65,339	4,003	-	69,342
912	Auditing fees	3,145	169	-	3,314
915	Employee benefit contribution - admin	14,855	800	-	15,655
916	Other operating - administrative	(754)	2,329	-	1,575
961	Insurance premiums	9,595	517	-	10,112
967	Interest expense	28,917	-	-	28,917
969	TOTAL OPERATING EXPENSES	121,097	7,818	-	128,915
970	EXCESS OPERATING REVENUE OVER EXPENSES	1,218,599	46,526	-	1,265,125
973	Housing Assistance Payments	1,144,243	45,739	-	1,189,982
974	Depreciation expense	22,529	-	-	22,529
900	TOTAL EXPENSES	1,287,869	53,557	-	1,341,426
	EXCESS OF REVENUE OVER EXPENSES	51,827	787	-	52,614
1103	Beginning equity	134,864	73,378	465	208,707
1104	Prior period adj/equity transfers	5,870	-	(465)	5,405
	ENDING EQUITY	\$ 192,561	\$ 74,165	\$ -	266,726

See independent auditors' report

**FAYETTE METROPOLITAN HOUSING AUTHORITY
SCHEDULE OF FEDERAL AWARDS EXPENDITURES
December 31, 2004**

	FEDERAL CFDA NUMBER	FUNDS EXPENDED
<u>FROM U.S. DEPARTMENT OF HUD</u>		
<u>DIRECT PROGRAMS</u>		
Housing Assistance Payments:		
Annual Contribution -		
Section 8 Housing Choice Vouchers	14.871	1,336,043
Section 8 - NC/SR	14.182	53,891
Total - All Programs		\$ 1,389,934

See independent auditors' report



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

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

Regional Inspector General of Audit
Department of Housing and Urban
Development

We have audited the financial statements of Fayette Metropolitan Housing Authority as of and for the year ended December 31, 2004, and have issued our report thereon dated March 28, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered 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.

Compliance and Other Matters

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*.

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.

Jones, Cochenour & Co.
March 28, 2005



**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 Courthouse, 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, 2004. 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, 2004.

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 stylized flourish at the end.

Jones, Cochenour & Co.
March 28, 2005

**Summary of Auditors'
Results and Schedules of Findings
OMB Circular A-133 § .505**

**Fayette Metropolitan Housing Authority
December 31, 2004**

1. SUMMARY OF AUDITORS' RESULTS
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Type of Financial Statement Opinion	Unqualified
Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
Were there any material internal control weakness conditions reported for major federal programs?	No
Were there any other reportable internal control weakness conditions reported for major federal programs?	No
Type of Major Programs' Compliance Opinion	Unqualified
Are there any reportable findings under § .510?	No
Major Programs (list):	14.781 and 14.182 – Section 8 Programs
Dollar Threshold: Type A/B Programs	\$300,000
Low Risk Auditee?	Yes

**Summary of Auditors'
Results and Schedules of Findings
OMB Circular A-133 § .505 - Continued**

**Fayette Metropolitan Housing Authority
December 31, 2004**

2. FINDINGS RELATED TO FINANCIAL STATEMENTS

There are no findings or questioned costs for the year ended December 31, 2004.

3. FINDINGS RELATED TO FEDERAL AWARDS

There are no findings or questioned costs for the year ended December 31, 2004.



**Auditor of State
Betty Montgomery**

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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
JULY 5, 2005**