

HENRY METROPOLITAN HOUSING AUTHORITY

Financial Condition

As of

June 30, 2005

Together with Auditors' Report



**Auditor of State
Betty Montgomery**

Board of Trustees
Henry Metropolitan Housing Authority
1044 Chelsea Avenue
Napoleon, Ohio 43545

We have reviewed the *Independent Auditor's Report* of the Henry Metropolitan Housing Authority, Henry County, prepared by Kevin L. Penn, Inc., for the audit period July 1, 2004 to June 30, 2005. 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 Henry 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

January 9, 2006

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**HENRY METROPOLITAN HOUSING AUTHORITY
NAPOLEON, OHIO**

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Independent Auditor's Report

Board of Trustees
Henry Metropolitan Housing Authority
Napoleon, Ohio

I have audited the accompanying financial statements of the Henry Metropolitan Housing Authority, as of June 30, 2005 and for the year then ended, listed in the foregoing table of contents. These financial statements are the responsibility of the Henry Metropolitan Housing Authority's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Henry Metropolitan Housing Authority, as of June 30, 2005, and the changes in net assets and revenues, expenditures and other changes, and the cash flows for the year ended June 30, 2005 in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis (MD&A) on pages 4 – 9, is not a required part of the financial statements but is supplemental information required by the Governmental Accounting Standards Board. The MD&A has been reviewed in accordance with the standards established by the American Institute of Certified Public Accountants. Such a review, however, is substantially less in scope than an audit in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, I do not express such an opinion on the MD&A information.

In accordance with *Government Auditing Standards*, I have also issued my report dated October 28, 2005 on my consideration of the Henry Metropolitan Housing Authority's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the result of my audit.

My audit was performed for the purpose of forming an opinion on the basic financial statements of Henry Metropolitan Housing Authority taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. In addition, the financial data schedule, pages 21 to 23 are presented for additional analysis as required by the U.S. Department of Housing and Urban Development. These schedules are the responsibility of management of Henry Metropolitan Housing Authority, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Kevin L. Penn, Inc.

October 28, 2005

Henry Metropolitan Housing Authority

Management's Discussion and Analysis

For the Year Ended June 30, 2005

The Henry Metropolitan Housing Authority's (the Authority's) 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 10).

FINANCIAL HIGHLIGHTS

- During FY 2005, the Authority's net assets decreased by \$8,452 (or 8.80%). Since the Authority engages only in business-type activities, the decrease is all in the category of business-type net assets. Net Assets were \$87,600 and \$96,052 for FY 2005 and FY 2004 respectively.
- The revenue increased by \$11,928 (or 1.25%) during FY 2005, and was \$965,105 and \$953,177 for FY 2005 and FY 2004 respectively.
- The total expenses of the Authority decreased by \$4,373 (or less than 1%) during FY2005 expenses were \$974,013 and \$978,386 for FY 2005 and FY 2004 respectively.

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.

Authority-Wide Financial Statements

The Authority-wide financial statements (see pages 10-12) 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, equals "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".

Authority-Wide Financial Statements (continued)

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 (see page 12) is included, which discloses net cash provided by, or used for operating activities, non-capital financing activities, and from capital and related financing activities.

Fund Financial Statements

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

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

The Authority’s Funds

Business Type Funds

Housing Choice Voucher Program – 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.

The Authority's Funds

Business Type Funds (continued)

Housing Choice Voucher Program – HUD provides Annual Contributions Funding to enable the Authority to structure a lease that sets the participants' rent at 30% of adjusted household income.

Other Non-major Funds - In addition to the major funds above, the Authority also maintains the following non-major funds. Non-major funds are defined as funds that have assets, liabilities, revenues, or expenses of at least 5% or more of the Authority's total assets, liabilities, revenues or expenses:

State/Local Activities – represents non-HUD resources developed from a variety of activities.

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

	<u>FY 2004</u>	<u>FY 2005</u>
Current and Other Assets	\$ 251,885	\$ 196,529
Capital Assets	<u>118,447</u>	<u>116,693</u>
Total Assets	<u>370,332</u>	<u>313,222</u>
Other Liabilities	187,456	136,684
Non-Current Liabilities	<u>86,824</u>	<u>88,938</u>
Total Liabilities	<u>274,280</u>	<u>225,622</u>
Net Assets:		
Invested in Capital Assets, Net of Related Debt	81,198	79,577
Unrestricted	<u>14,854</u>	<u>8,023</u>
Total Net Assets	<u>\$ 96,052</u>	<u>\$ 87,600</u>

For More detailed information see page 10 for the Statement of Net Assets.

Major Factors Affecting the Statement of Net Assets

Current assets (primarily cash and investments) were decreased by \$55,356 in fiscal year 2005 and liabilities decreased by \$48,658.

For more detail see "Capital Assets and Debt Administration" below.

Table 2 presents details on the change in Unrestricted Net Assets.

TABLE 2**CHANGE OF UNRESTRICTED NET ASSETS**

Unrestricted Net Assets 6/30/2004		\$ 14,854
Results of Operations	(8,908)	
Adjustments:		
Depreciation (1)	12,684	
Adjusted Results from Operations		(18,630)
Capital Expenditures		(10,930)
Retirement of Debt		(2,596)
Prior Period Adjustment		456
Retirement of Capital		2,463
		<hr/>
Unrestricted Net Assets 6/30/05		<u>\$ 8,023</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 Adjustment – double payment of Anthem Health Insurance for FY04 was incorrectly coded to State taxes found during FY05.

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.

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.

	<u>FY 2004</u>	<u>FY 2005</u>
Revenues		
HUD PHA Operating Grants	\$ 796,482	759,293
Investment Income	2,816	3,410
Gain/Loss on Sale of Fixed Assets	0	3,716
Other Revenues – Service Income	140,225	168,971
Other Revenues-Port Admin Fees	12,716	27,669
Other Revenues – Fraud Recovery	938	2,046
Total Revenue	<u>953,177</u>	<u>965,105</u>
Expenses		
Administrative	260,439	266,933
Maintenance	15,543	11,509
General	10,288	8,458
Housing Assistance Payments	680,401	674,429
Depreciation	11,715	12,684
Total Expenses	<u>978,386</u>	<u>974,013</u>
Net Increase/ (Decrease)	<u>\$ (25,209)</u>	<u>\$ (8,908)</u>

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

HUD PHA Grants decreased due to the changes in HUD funding. The Authority’s leasing unit months decreased by 72 with a total of 2,610 (96% leasing rate) in FY05 and 2,648 (979%) in FY04.

The Authority at the request of HUD helped Hancock MHA out of an under leasing problem and has ported units leased in Henry paid for by Hancock MHA. The Authority receives a port admin fee of 80% of the current rate. These fees are reflected in Other Revenues – Port Admin fees.

Annual increases and staffing changes during the fiscal year 2005 contributed to the increase of \$4,013 in the Administrative Expense category.

Most other expenses increase moderately due to inflation. Depreciation changed because of the additions to capital assets during fiscal year 2005.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of 6/30/05, the Authority had \$116,693 invested in capital assets as reflected in the following schedule, which represents a net increase (addition, deductions and depreciation).

TABLE 4

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

	Business-type Activities	
	FY 2004	FY 2005
Land/Building	\$ 84,511	\$ 84,511
Equipment – Administrative	51,021	55,179
Building Improvements	51,974	51,974
Accumulated Depreciation	(69,059)	(74,971)
Total	<u>\$ 118,447</u>	<u>\$116,693</u>

The following reconciliation summarizes the change in Capital Assets, which is presented in detail on page 17 of the notes.

TABLE 5

CHANGE IN CAPITAL ASSETS

Beginning Balance	\$118,447
Additions	10,930
Disposition	(0)
Depreciation	<u>(12,684)</u>
Ending Balance	<u><u>\$ 116,693</u></u>

This year's major additions are:

Ricoh copy machine in the amount of \$10,930.

Debt Outstanding

As of 6/30/05 the Authority had \$34,653 in debt (mortgage) outstanding as compared to \$37,249 last year, a \$2,596 decrease.

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 Marsha K. Inscho, Finance Manager for the Henry Metropolitan Housing Authority, at (419) 592-1735. Specific requests may be submitted to the Authority at 1044 Chelsea Ave., Napoleon, OH 43545-1202.

HENRY METROPOLITAN HOUSING AUTHORITY
STATEMENT OF NET ASSETS
JUNE 30, 2005

ASSETS

Current Assets

Cash and Cash Equivalents (Note 1)	\$ 103,096
Investments – Unrestricted	68,318
Fraud Recovery	17,883
Accounts Receivable - Other	50
Interest Receivable	275
Prepaid Expenses	6,887
Total Current Assets	196,509

Non-Current Assets

Property and Equipment - Net (Note 1)	116,693
Deposits	20
Total Non-Current Assets	116,713
TOTAL ASSETS	\$ 313,222

LIABILITIES AND NET ASSETS

Current Liabilities

Accounts Payable	\$ 3,085
Accrued Wages and Payroll Taxes	3,748
Undistributed Credits - Fraud Recovery	17,883
Deferred Revenue	109,294
Current Portion of Long Term Debt	2,833
Total Current Liabilities	136,843

Non-Current Liabilities

Accrued Compensated Absences	56,959
Notes Payable	31,820
Total Non-Current Liabilities	88,779
Total Liabilities	\$ 225,622

Net Assets

Investment in Capital Assets, Net of Related Debt	\$ 79,577
Unrestricted	8,023
Total Net Assets	\$ 87,600

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

HENRY METROPOLITAN HOUSING AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2005

Operating Revenue:

HUD Operating Subsidies and Grants	\$ 786,962
Management Fee	168,971
Other Revenue	2,046
Total Operating Revenue	957,979

Operating Expenses:

Housing Assistance Payments	674,429
Administrative Salaries	181,642
Compensated Absences	4,698
Employee Benefits	39,150
Other Administrative Expense	38,962
Material and Labor - Maintenance	11,509
Depreciation Expense	12,684
Interest Expense	2,481
General Expenses	8,458
Total Operating Expenses	974,013

Operating Income (Loss)	(16,034)
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Non-Operating Revenues (Expenses)

Investment Income - Unrestricted	3,410
Gain/Loss on Sale of Fixed Assets	3,716
Total Non-Operating Revenues (Expenses)	7,126

Change in Net Assets	(8,908)
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Net Assets - Beginning of Year as Previously Reported	96,052
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Prior Period Adjustments (Note 12)	456
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Net Assets - Beginning of Year as Restated	96,508
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Net Assets – End of Year	\$ 87,600
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The accompanying notes are an integral part of the financial statements.

HENRY METROPOLITAN HOUSING AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2005

Cash Flows From Operating Activities:	
Cash payments to suppliers for goods and services	\$ (76,586)
Cash payments for salaries and benefits	(220,792)
Housing assistance payments	(674,429)
HUD operating subsidies and grants	769,942
Other receipts	171,017
Other payments	<u>(19,388)</u>
Net Cash Provided (Used) by Operating Activities	(50,236)
Cash Flows From Non-Capital Financing:	
	<u>-</u>
Net Cash Provided (Used) by Non-Capital Financing	<u>-</u>
Cash Flows From Capital and Related Financing Activities:	
Sale of Machinery and Equipment	3,716
Repayment of Long Term Debt	<u>(2,596)</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	1,120
Cash Flows From Investing Activities:	
Changes in Investments	(2,328)
Investment Income	3,410
Acquisition of Machinery and Equipment	<u>(10,930)</u>
Net Cash Provided (Used) by Investing Activities	(9,848)
Increase (Decrease) in Cash and Cash Equivalents	(58,964)
Cash and Cash Equivalents - Beginning of Year	<u>162,060</u>
Cash and Cash Equivalents – End of Year	<u>\$ 103,096</u>

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

(Continued)

HENRY METROPOLITAN HOUSING AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2005

Reconciliation of Operating Loss to Net Cash Used in Operating Activities:	
Operating Income (Loss)	\$ (16,034)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	12,684
Changes in operating assets and liabilities:	
(Increase) decrease in assets:	
Accounts Receivable	5,777
Interest Receivable	(85)
Prepaid Expenses	(2,377)
Increase (decrease) in liabilities:	
Accounts Payable	(167,941)
Accrued expenses	3,748
Deferred Revenue	109,294
Compensated Absences	4,698
	<hr/>
Net cash used in operating activities	<u>\$ (50,236)</u>

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

**HENRY METROPOLITAN HOUSING AUTHORITY
NAPOLEON, OHIO**

**NOTES TO FINANCIAL STATEMENTS
June 30, 2005**

NOTE 1 - Summary of Significant Accounting Policies:

A. Organization

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

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

B. Basis of Accounting

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

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

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

**HENRY METROPOLITAN HOUSING AUTHORITY
NAPOLEON, OHIO**

**NOTES TO FINANCIAL STATEMENTS
June 30, 2005**

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

B. Basis of Accounting (continued)

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

C. Property and Equipment

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

Useful life of property and equipment is as follows:

Building	40 Years
Furniture	5 Years
Equipment	7 Years

Depreciation is recorded on the straight-line method. Total depreciation expense for the 2005 fiscal year was \$12,684.

D. Cash and Cash Equivalents

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

E. Investments

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

F. Use of Estimates

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

**HENRY METROPOLITAN HOUSING AUTHORITY
NAPOLEON, OHIO**

**NOTES TO FINANCIAL STATEMENTS
June 30, 2005**

NOTE 2 – Deposits and Investments:

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 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 by surety company bonds deposited with the treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

The Authority's deposits are categorized to give an indication of the level of risk assumed by the entity at year end. Category 1, includes deposits that are insured or collateralized with securities held by the Authority or its safekeeping agent in the Authority's name. Category 2, includes uninsured deposits collateralized with securities held by the pledging financial institution's trust department or safekeeping agent in the Authority's name. Category 3, includes uninsured and uncollateralized with securities held by the pledging institution, or by its trust department or safekeeping agent, but not in the Authority's name.

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

Category 1.	\$ 100,000 was covered by federal depository insurance.
Category 2.	\$ 80,144
Category 3	\$ None

**HENRY METROPOLITAN HOUSING AUTHORITY
NAPOLEON, OHIO**

**NOTES TO FINANCIAL STATEMENTS
June 30, 2005**

NOTE 2 – Deposits and Investments: (continued)

The book balance at June 30, 2005 were as follows:

Cash	\$103,046
Cash on Hand	50
Investments	<u>68,318</u>
Total	<u>\$171,414</u>

Investments

The Department of HUD, State Statute and Board Resolutions, authorize the Authority to invest in obligations of U.S. Treasury, agencies and instrumentalities, certificates of deposit, repurchase agreements, money market deposit accounts, municipal depository fund, super NOW accounts, sweep accounts, separate trading of registered interest and principal of securities, mutual funds, bonds and other obligations of this State, and the State Treasurer’s investment pool. Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the Authority, and must be purchased with the expectation that it will be held to maturity.

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or, if the securities are not represented by a certificate, upon receipt of conformation of transfer from the custodian.

NOTE 3 – Capital Assets:

A summary of capital assets at June 30, 2005, by class is as follows:

Building	\$ 84,511
Building Improvements	51,974
Furniture, Equipment – Administrative	55,179
Less Accumulated Depreciation	<u>(74,971)</u>
Net Property and Equipment	<u>\$116,693</u>

The following is a summary of changes:

	Balance <u>6/30/2004</u>	<u>Addition</u>	<u>Deletions</u>	Balance <u>6/30/2005</u>
Buildings	\$ 84,511			\$ 84,511
Building Improvements	51,974			51,974
Furniture & Equipment	<u>51,021</u>	<u>10,930</u>	<u>(6,772)</u>	<u>55,179</u>
Total Capital Assets	<u>\$187,506</u>	<u>\$10,930</u>	<u>\$(6,772)</u>	<u>\$191,664</u>

**HENRY METROPOLITAN HOUSING AUTHORITY
NAPOLEON, OHIO**

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE 4 – Administrative Fee:

The Authority receives and “administrative fee” as part of the annual contributions from HUD to cover the costs (including overhead) of administering the Section 8 Housing Assistance Payments (HAP) Programs. The fee is a percentage of a HUD determined based rate for each unit per month under HAP contracts.

NOTE 5 – Allocation of Costs:

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

NOTE 6: PENSION PLAN

Ohio Public Employees Retirement System

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

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

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

The Ohio Revised Code provides statutory authority for member and employer contributions. For 2004, member and employer contribution rates were consistent across all three plans (TP, MD, and CO). Plan members are required to contribute 8.5 percent of their annual covered salary to fund pension obligations. The employer pension contribution rate for the Authority was 13.55 percent of covered payroll. The Authority's required contributions to OPERS for the years ended June 30, 2005, 2004, and 2003 were \$24,562, \$23,536, and \$21,186, respectively.

NOTE 7: POST-EMPLOYMENT BENEFITS

Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides post-retirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available with both the Traditional and the Combined Plan; however, health care benefits are not statutorily guaranteed. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage. The health care coverage provided by the retirement system is considered an Other Post-Employment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The 2005 employer contribution rate was 13.55 percent of covered payroll, 4 percent was the portion that was used to fund health care for 2005.

Benefits are advance-funded using the entry age normal actuarial cost method of valuation. Significant actuarial assumptions, based on OPERS' latest actuarial review performed as of December 31, 2003, include a rate of return on investments of 8 percent, an annual increase in active employee total payroll of 4 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.30 percent based on additional annual pay increases. Health care costs were assumed to increase at the projected wage inflation rate plus an additional factor ranging from 1 percent to 6 percent for the next 8 years. In subsequent years (9 and beyond) health care costs were assumed to increase at 4 percent (the projected wage inflation rate).

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

At December 31, 2004, the number of active contributing participants in the Traditional Pension and Combined Plans totaled 369,885. The actual contribution and the actuarially required contribution amounts are the same. OPERS' net assets available for payment of benefits at December 31, 2003 (the latest information available) were \$10.5 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$26.9 billion and \$16.4 billion, respectively.

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

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

NOTE 8 – Compensated Absences

Vacation and sick leave policies are established by the Board of Commissioners based on local and state laws. All permanent employees will earn 4.6 hours of sick leave per (80) hours of service. Unused sick leave may be accumulated without limit. At the time of separation, employees shall be paid the value of (30) days of unused sick leave. All permanent employees will earn vacation hours accumulated based on length of service. All vacation time accumulated will be paid upon separation.

**HENRY METROPOLITAN HOUSING AUTHORITY
NAPOLEON, OHIO**

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE 9 - Contingencies

In the normal course of operations, the Authority may be subject to litigation and claims. At June 30, 2005 the Authority was not involved in any such matters.

NOTE 10 – Long Term Debt

The Authority is obligated to a bank on a mortgage note, which matures August 30, 2014. The note requires monthly installments of \$396.68, including interest at 5.28% per annum.

Total Long-Term Debt as of June 30, 2005	\$34,653
Less Current Portion	<u>2,833</u>
Long-Term Debt, Net of Current	<u>\$31,820</u>

The aggregate amounts of long-term debt maturities for the five years following 2005 are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 2,833	\$ 1,927	\$ 4,760
2007	\$ 3,139	\$ 1,621	\$ 4,760
2008	\$ 3,311	\$ 1,449	\$ 4,760
2009	\$ 3,493	\$ 1,267	\$ 4,760
2010	\$ 3,685	\$ 1,075	\$ 4,760
Thereafter	<u>\$ 18,192</u>	<u>\$ 2,039</u>	<u>\$ 20,231</u>
Total	<u>\$ 34,653</u>	<u>\$ 9,378</u>	<u>\$ 44,031</u>

NOTE 11– Insurance:

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

The Authority maintains comprehensive insurance coverage with private carriers for health, real property, building contents and vehicles. Vehicle policies include liability coverage for bodily injury and property damage. There was no significant reduction in coverage and no settlements exceeded insurance coverage, during the past three years.

NOTE 12 – Prior Period Adjustments

Beginning net assets balance has been restated in the amount of \$456 as a result of the administrative fees being adjusted to a lower amount by the Department of Housing and Urban Development.

NOTE 13 – Schedule of Expenditures of Federal Awards

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

HENRY METROPOLITAN HOUSING AUTHORITY

Balance Sheet

June 30, 2005

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

FDS Line Item No.	<u>Account Description</u>	
	ASSETS	
111	Cash and Cash Equivalents	\$ 103,096
100	TOTAL CASH	103,096
125	Accounts Receivable - Miscellaneous	50
128	Accounts Receivable - Fraud Recovery	17,883
129	Accrued Interest Receivable	275
131	Investments - Unrestricted	68,318
120	TOTAL ACCOUNTS RECEIVABLE	86,526
144	Interprogram Due From	21,431
142	Prepaid Expenses	6,907
150	TOTAL CURRENT ASSETS	217,960
162	Buildings	84,511
164	Furniture, Equipment & Machinery - Administration	55,179
165	Leasehold Improvements	51,974
166	Accumulated Depreciation	(74,971)
160	TOTAL FIXED ASSETS, NET	116,693
190	TOTAL ASSETS	\$ 334,653
	LIABILITIES	
312	Accounts Payable	\$ 3,085
321	Accrued Wage/Payroll Taxes Payable	3,748
322	Accrued Compensated Absences - Current Portion	4,698
342	Deferred Revenue	109,294
347	Interprogram Due To	21,431
343	Current Portion of Long-term Debt	2,674
310	TOTAL CURRENT LIABILITIES	144,930
351	Long-term Debt, Net of Current Portion	31,979
353	Non-current Liabilities - Other	17,883
354	Accrued Compensated Absences - Non Current	52,261
	TOTAL NON-CURRENT LIABILITIES	102,123
	TOTAL LIABILITIES	247,053
508.1	Invested in Capital Assets, Net of Related Debt	79,577
512	Retained Earnings	8,023
	TOTAL EQUITY/NET ASSETS	87,600
	TOTAL LIABILITIES AND EQUITY/NET ASSETS	\$ 334,653

HENRY METROPOLITAN HOUSING AUTHORITY
Statement of Revenue, Expenses and Changes in Equity
For the Year Ended June 30, 2005

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

FDS Line <u>Item No.</u>	<u>Account Description</u>	
	Revenue:	
706	HUD PHA Operating Grant	\$ 786,962
711	Investment Income - Unrestricted	3,410
714	Fraud Recovery	2,046
715	Management Fee	168,971
716	Gain/Loss on Sale of Fixed Assets	<u>3,716</u>
700	Total Revenue	965,105
	Expenses:	
911	Administrative Salaries	181,642
912	Audit Fees	3,410
914	Compensated Absences	4,698
915	Employee Benefit Contributions - Administrative	39,150
916	Other Operating - Administrative	35,552
942	Ordinary Maintenance and Operations - Material & Other	11,509
961	Insurance Premiums	8,458
967	Interest Expense	<u>2,481</u>
969	Total Operating Expenses	<u>286,900</u>
970	Excess Operating Revenue over Expenses	678,205
	Other Expenses	
973	Housing Assistance Payments	674,429
974	Depreciation Expense	<u>12,684</u>
900	Total Expenses	974,013
1010	Total Other Funding Sources(Uses)	<u>-</u>
1000	Excess of Operating Revenue Over Expenses	(8,908)
1103	Beginning Equity	96,052
1104	Prior Period Adjustments	<u>456</u>
	Ending Equity	<u><u>\$ 87,600</u></u>

HENRY METROPOLITAN HOUSING AUTHORITY
Additional Information Required by HUD
Year Ended June 30, 2005

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

<u>FDS</u> <u>Line</u> <u>Item No.</u>	<u>Account Description</u>	
1113	Maximum Annual Contributions Commitment (Per ACC)	\$ 852,735
1114	Applicable to a Period of Less Than Twelve Months	\$ -
1115	Contingency Reserve, ACC Program Reserve	\$ 149,546
1116	Total Annual Contributions Available	\$ 1,002,281
1120	Unit Months Available	2,724
1121	Number of Unit Months Leased	2,610

HENRY METROPOLITAN HOUSING AUTHORITY
 Schedule of Expenditures of Federal Awards
 For the Year Ended June 30, 2005

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Contract Number</u>	<u>Grant Amount Received</u>	<u>Federal Expenditures</u>
U.S. Department of Housing and Urban Development				
Direct Program:				
Section 8 Tenant Based Cluster:				
Housing Choice Vouchers	14.871	C-10017	\$896,256	\$786,962

TOTAL FEDERAL FINANCIAL ASSISTANCE				\$786,962
				=====

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



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

Board of Trustees
Henry Metropolitan Housing Authority
Napoleon, Ohio

I have audited the financial statements of Henry Metropolitan Housing Authority as of and for the year ended June 30, 2005, and have issued my report thereon dated October 28, 2005. I conducted my 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 my audit, I considered Henry Metropolitan Housing Authority's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. My 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 reportable 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 caused by error or fraud in amounts that would be material in relation to 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. I noted no matters involving the internal control over financial reporting and its operations that I consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Henry Metropolitan Housing Authority's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

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

Kevin L. Penn, Inc.

October 28, 2005



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

Board of Trustees
Henry Metropolitan Housing Authority
Napoleon, Ohio

Compliance

I have audited the compliance of Henry Metropolitan Housing Authority with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. Henry Metropolitan Housing Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Henry Metropolitan Housing Authority's management. My responsibility is to express an opinion on Henry Metropolitan Housing Authority's compliance based on my audit.

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

In my opinion, Henry Metropolitan Housing Authority complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

The management of Henry Metropolitan Housing Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing my audit, I considered Henry Metropolitan Housing Authority's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

My 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 caused by error or fraud 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. I noted no matters involving the internal control over compliance and its operation that I consider to be material weaknesses.

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

Kevin L. Penn, Inc.

October 28, 2005

Henry Metropolitan Housing Authority
 Schedule of Findings and Questioned Costs
 June 30, 2005

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? No

Reportable condition(s) identified
 not considered to be material weaknesses? No

Noncompliance material to financial statements noted? No

Federal Awards

Internal control over financial reporting:

Material weakness(es) identified? No

Reportable condition(s) identified
 not considered to be material weaknesses? No

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

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

Identification of major programs:
 14.871 Housing Choice Voucher Program

Dollar threshold used to distinguish
 between Type A and Type B programs: \$300,000 (Type A)

Auditee qualified as low-risk auditee? Yes

Henry Metropolitan Housing Authority
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2005

2004-1

Overpayment Due HUD (Section 8 – Housing Choice Voucher; CFDA # 14.871)

Recommendation:

I recommend that financial records be reviewed on a quarterly basis with respects to monthly advances received and program costs, in order to determine whether the five percent threshold will be exceeded. In this way, the risk of jeopardizing future funding will be significantly reduced.

Auditee's Response:

Three areas lead the authority to over request funding for the FYE 6/30/04.

First, a lack of communication between the leasing dept and the accounting dept. The first 6 months of the fiscal year the Authority maintained an average leasing rate of 98.5% while the last 6 months the Authorities monthly leasing rate dropped to 95%.

Secondly, the Authority began measures to drop HAP cost based on the 2004 funding limits. This also included dropping units to stay within funding level.

Finally, the lack of monitoring from the accounting dept of funds requested to funds actually being used.

The combinations of these three items lead to the Authority to over request funds for the year. The Authority has and is making every effort to avoid these errors for the next fiscal year.

Current Status:

The finding has been corrected, and does not warrant further action.



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Betty Montgomery**

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HENRY METROPOLITAN HOUSING AUTHORITY

HENRY COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JANUARY 19, 2006**