

**BASIC FINANCIAL STATEMENTS
AND SINGLE AUDIT**

of the

**HIGHLAND METROPOLITAN
HOUSING AUTHORITY**

for the

Year Ended December 31, 2003



**Auditor of State
Betty Montgomery**

Board of Directors
Highland Metropolitan Housing Authority

We have reviewed the Independent Auditor's Report of the Highland Metropolitan Housing Authority, Highland County, prepared by Jones, Cochenour & Co. for the audit period January 1, 2003 through December 31, 2003. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

August 17, 2004

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Highland Metropolitan Housing Authority
Hillsboro, Ohio

Regional Inspector General of Audit
Department of Housing and Urban
Development

We have audited the accompanying basic financial statements of Highland Metropolitan Housing Authority, as of and for the year ended December 31, 2003, as listed in the table of contents. These basic financial statements are the responsibility of the Highland 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 Highland Metropolitan Housing Authority, as of December 31, 2003, and the results of its operations and the cash flows of its proprietary funds activities for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

In accordance with *Government Auditing Standards*, we have also issued a report dated April 13, 2004 on our consideration of Highland Metropolitan Housing Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

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

A handwritten signature in cursive script that reads "Jones, Cochenour & Co." with a period at the end.

Jones, Cochenour & Co.
April 13, 2004

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

The Highland 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.

FINANCIAL HIGHLIGHTS

During FY 2003, the Authority's net assets increased by \$22,595 (or 126%). Since the Authority engages only in business-type activities, the increase is all in the category of business-type net assets. Net Assets were \$18,003 and \$40,598 for FY 2002 and FY 2003, respectively.

The revenue increased by \$106,352 (or 27.40%) during FY 2003, and was \$388,119 and \$494,471 for FY 2002 and FY 2003, respectively.

The total expenses of the Authority increased by \$85,810 (or 22.23%). Total expenses were \$386,066 and \$471,876 for FY 2002 and FY 2003, respectively.

USING THIS ANNUAL REPORT

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

MD&A ~ Management Discussion and Analysis (new) ~
Basic Financial Statements ~ Fund Financial Statement (refocused) ~ ~ Notes to Financial Statements (expanded/restructured) ~
Other Required Supplementary Information ~ Required Supplementary Information - none~ (other than MD&A) (expanded)

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

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

Authority-Wide Financial Statements

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

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

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

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

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

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

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

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

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

The Authority's Funds

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

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.

AUTHORITY-WIDE STATEMENT

Statement of Net Assets

The Statement of Net Assets includes all assets and liabilities of the Authority using the accrual basis of accounting, which is similar to the accounting used by most private-sector institutions. The following table reflects the condensed Statement of Net Assets compared to prior year. The Authority is engaged only in Business-Type Activities.

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

**TABLE 1
STATEMENT OF NET ASSETS**

	2003	Restated 2002
Current and Other Assets	\$ 63,601	\$ 31,317
Capital Assets	4,052	4,231
Total Assets	<u>67,653</u>	<u>35,548</u>
Current Liabilities	27,055	17,545
Non-current Liabilities	-	-
Total Liabilities	<u>27,055</u>	<u>17,545</u>
Net Assets:		
Invested in Capital Assets, Net of Related Debt	4,052	4,231
Restricted	-	-
Unrestricted	36,546	13,772
Total Net Assets	<u>\$ 40,598</u>	<u>\$ 18,003</u>

For more detailed information see the Statement of Net Assets.

Major Factors Affecting the Statement of Net Assets

Current assets were increased by \$32,284 in fiscal year 2003; which was mainly caused by the \$20,220 increase in Accounts Receivable – HUD. Current liabilities increased by \$9,013 mainly as a result of accounts payable.

Capital Assets were increased by \$1,969 with the additional equipment purchases. The current year's depreciation totaled \$2,148 for the year. These items totaled made Capital assets have a net decrease of \$179. For more detail see "Capital Assets and Debt Administration" below.

**TABLE 2
CHANGE OF UNRESTRICTED NET ASSETS**

Unrestricted Net Assets December 31, 2002	\$ 13,275
Results of Operations	22,595
Adjustments:	
Depreciation (1)	2,148
Prior Period Adjustments	497
Adjusted Results of Operations	25,240
Capital Expenditures	(1,969)
Unrestricted Net Assets December 31, 2003	<u>\$ 36,546</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) HUD adjusted the FY02 year-end reports to add \$497 to the administrative fees earned. The administrative fee rate increase was effective October 1, 2002, which changed the last 3 months of fees earned in FY 2002.

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

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**

	2003	Restated 2002
Revenues		
HUD PHA Operating Grants	\$ 493,428	\$ 387,199
Investment Income	1,043	1,417
Total Revenue	494,471	388,616
Expenses		
Administrative	42,129	44,652
Maintenance	-	3,421
General	-	1,140
Housing Assistance Payments	427,599	333,322
Depreciation	2,148	3,532
Total Expenses	471,876	386,067
Net Increase (Decrease)	\$ 22,595	\$ 2,549

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

HUD PHA Grants which include administrative fees and Housing Assistance Payments increased by \$106,229 due to over-leasing during FY 03. The maximum unit months available for the year are 1,200, while the actual unit months leased was 1,468. This resulted in earning \$11,302 in additional administrative fees and also the additional expenditure Housing Assistance Payments. It would be noted that HUD has stated that no over-leasing was to be permitted. Therefore, the \$11,302 of Administrative fees and the additional Housing Assistance Payments expenditures may be recaptured back by HUD.

**CAPITAL ASSETS AND DEBT ADMINISTRATION
CAPITAL ASSETS**

As of December 31, 2003, the Authority had \$4,052 invested in capital assets as reflected in the following schedule, which represents a net decrease (additions, deductions and depreciation) of \$179.

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

	Business-type Activities	
	2003	2002
Equipment - Administrative	\$ 13,847	\$ 11,878
Accumulated Depreciation	(9,795)	(7,647)
TOTAL	\$ 4,052	\$ 4,231

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

The following reconciliation summarizes the change in Capital Assets, which is presented in detail in the schedule following:

**TABLE 5
CHANGE IN CAPITAL ASSETS**

		<u>Business Type Activities</u>
Beginning Balance	\$	4,231
Adjustments - prior period		1,969
Additions		-
Depreciation		<u>(2,148)</u>
Ending Balance	\$	<u>4,052</u>

Debt Outstanding

As of December 31, 2003, the Authority has no outstanding debt (bonds, notes, etc.)

Economic Factors

Significant economic factors affecting the Authority are as follows:

- Federal funding of the Department of Housing and Urban Development
- Local labor supply and demand, which can affect salary and wage rates
- Local inflationary, recession and employment trends, which can affect resident incomes and therefore the amount of housing assistance
- Inflationary pressure on utility rates, supplies and other costs

Financial Contact

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

HIGHLAND METROPOLITAN HOUSING AUTHORITY
STATEMENT OF NET ASSETS
December 31, 2003

ASSETS

Cash and cash equivalents	\$ 23,331
Receivables - net of allowance	<u>40,270</u>

TOTAL CURRENT ASSETS 63,601

CAPITAL ASSETS

4,052

TOTAL ASSETS 67,653

LIABILITIES

Accounts payable	<u>27,055</u>
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NET ASSETS

Invested in capital assets - net of related debt	4,052
Unrestricted net assets	<u>36,546</u>

TOTAL NET ASSETS \$ 40,598

See accompanying notes to the basic financial statements

HIGHLAND METROPOLITAN HOUSING AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
Year Ended December 31, 2003

OPERATING REVENUES	
HUD operating grants	<u>\$ 493,429</u>
TOTAL OPERATING REVENUES	493,429
OPERATING EXPENSES	
Administrative	42,130
Depreciation	2,148
Housing assistance payments	<u>427,599</u>
TOTAL OPERATING EXPENSES	<u>471,877</u>
	OPERATING INCOME 21,552
NONOPERATING REVENUES (EXPENSES)	
Interest income	<u>1,043</u>
	CHANGES IN NET ASSETS 22,595
Net Assets Beginning of Year	17,506
Prior period adjustments	<u>497</u>
Net Assets Beginning of Year - Restated	<u>18,003</u>
	NET ASSETS END OF YEAR <u><u>\$ 40,598</u></u>

See accompanying notes to the basic financial statements

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

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from HUD	\$ 473,209
Cash payments for administrative	(32,620)
Cash payments to HUD and other governments	<u>(427,599)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	12,990
 CASH FLOWS FROM CAPITAL AND FINANCING ACTIVITIES	
Acquisition of capital assets	(1,969)
 CASH FLOWS FROM INVESTING ACTIVITIES	
Investment activity	<u>1,043</u>
INCREASE IN CASH AND CASH EQUIVALENTS	12,064
 CASH AND CASH EQUIVALENTS, BEGINNING	 <u>11,267</u>
CASH AND CASH EQUIVALENTS, ENDING	\$ <u><u>23,331</u></u>
 RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH (USED FOR) OPERATING ACTIVITIES	
Operating income	\$ 21,552
Adjustments to reconcile operating income to net cash used by operating activities	
Depreciation	2,148
(Increase) decrease in:	
Receivables - net of allowance	(19,723)
Increase (decrease) in:	
Accounts payable	<u>9,013</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ <u><u>12,990</u></u>

See accompanying notes to the basic financial statements

HIGHLAND METROPOLITAN HOUSING AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Summary of Significant Accounting Policies

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

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

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

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

Reporting Entity

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

Basis of Presentation

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

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

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

Measurement Focus

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

Enterprise Fund

The Authority uses the proprietary fund to report on its financial position and the results of its operations for the Section 8 program. 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.

HIGHLAND METROPOLITAN HOUSING AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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

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

Accounting and Reporting for Nonexchange Transactions

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

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

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

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

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

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

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.

HIGHLAND METROPOLITAN HOUSING AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Deferred Revenue

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

Investments

Investments are restricted by the provisions of the HUD Regulations (See Note 2). Investments are valued at market value. Interest income earned in fiscal year 2003 for both programs totaled \$1,043. 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 \$-0- for the year ended December 31, 2003.

Capital Assets

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

Furniture – non-dwelling	7
Equipment – non-dwelling	7
Computer hardware	7
Computer software	3
Leasehold improvements	15

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.

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, 2003.

HIGHLAND METROPOLITAN HOUSING AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2003

2. CASH AND INVESTMENTS

Cash

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

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

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

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

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

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

Deposits: The carrying amount of the Authority's deposits totaled \$23,331. The corresponding bank balances totaled \$23,725.

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

Category 1: \$23,725 was covered by federal depository insurance

3. NOTE TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES

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

4. RISK MANAGEMENT

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

HIGHLAND METROPOLITAN HOUSING AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2003

5. CAPITAL ASSETS

The following is a summary of capital assets:

	Balance December 31, 2002	Additions / Deletions	Balance December 31, 2003
CAPITAL ASSETS, BEING DEPRECIATED			
Furniture and equipment	\$ 11,878	\$ 1,969	\$ 13,847
Totals at Historical Costs	11,878	1,969	13,847
Less: Accumulated Depreciation	(7,647)	(2,148)	(9,795)
TOTAL CAPITAL ASSETS, NET, BEING DEPRECIATED	\$ 4,231	\$ (179)	\$ 4,052

The depreciation expense for the year then ended December 31, 2003 was \$2,148.

6. FDS SCHEDULE SUBMITTED TO HUD

For the fiscal year ended December 31, 2003, the Authority electronically submitted an unaudited version of the balance sheet, statement of revenues, expenses and changes in net asset and other data to HUD as required on the GAAP basis. The FDS schedules are on pages 16 and 17. The schedules are presented in the manner prescribed by Housing and Urban Development.

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

Changes in Accounting Principles

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

	Total	Net HUD PHA Contributions	Undesignated Retained Earnings	Invested in Capital Assets- Net of Debt	Unrestricted Net Assets
Net Assets, Beginning of Year	\$ 17,506	\$ 14,005	\$ 3,501	\$ -	\$ -
Reclassification - GASB 34	-	(14,005)	(3,501)	14,005	3,501
Reclassification of Capital Assets	-	-	-	(9,774)	9,774
HUD corrections on Section 8 year end reports	497	-	-	-	497
Net Assets, Beginning of Year, Restated	18,003	-	-	4,231	13,772
Current year income	22,595	-	-	(179)	22,774
Net Assets, End of Year	\$ 40,598	\$ -	\$ -	\$ 4,052	\$ 36,546

8. CONTRACT SERVICES

The Authority contracts with Fayette Metropolitan Housing Authority to provide management and financial reporting services.

**Highland Metropolitan Housing Authority
Balance Sheet
FDS Schedule Submitted to HUD
Proprietary Fund Type
Enterprise Fund
December 31, 2003**

FDS Line Item No.	Account Description	14.871 Sect. 8 Hsg Choice VO
	ASSETS	
111	Cash - unrestricted	\$ 23,331
100	TOTAL CASH	23,331
122	Accounts receivable - HUD other proj	40,270
150	TOTAL CURRENT ASSETS	63,601
164	Furniture and equipment - admin	13,847
166	Accumulated depreciation	(9,795)
160	TOTAL FIXED ASSETS, NET	4,052
180	TOTAL NON-CURRENT ASSETS	4,052
190	TOTAL ASSETS	\$ 67,653
	LIABILITIES	
312	Accounts payable <=90 days	\$ 27,055
310	TOTAL CURRENT LIABILITIES	27,055
300	TOTAL LIABILITIES	27,055
	NET ASSETS	
508.1	Invested in Capital Assets net of restricted debt	4,052
	TOTAL INVESTED IN CAPITAL ASSETS, NET OF RESTRICTED DEBT	4,052
512.1	Unrestricted net assets	36,546
513	TOTAL EQUITY/NET ASSETS	40,598
600	TOTAL LIABILITIES AND EQUITY/ NET ASSETS	\$ 67,653

See independent auditors' report

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

<u>FDS Line Item No.</u>	<u>Account Description</u>	<u>14.871 8 Hsg Choice VO</u>	<u>Sect. VO</u>
	REVENUE		
706	PHA HUD grants	\$	493,429
711	Investment income - unrestricted		1,043
	TOTAL REVENUE		<u>494,472</u>
	EXPENSES		
912	Auditing fees		3,249
916	Other operating - administrative		38,881
969	TOTAL OPERATING EXPENSES		<u>42,130</u>
970	EXCESS OPERATING REVENUE OVER EXPENSES		452,342
973	Housing Assistance Payments		427,599
974	Depreciation expense		2,148
900	TOTAL EXPENSES		<u>471,877</u>
1000	EXCESS OF REVENUE OVER EXPENSES		22,595
1103	Beginning equity		17,506
1104	Prior period adj/equity transfers		497
	ENDING EQUITY	\$	<u><u>40,598</u></u>

See independent auditors' report

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

	<u>FEDERAL CFDA NUMBER</u>	<u>FUNDS EXPENDED</u>
<u>FROM U.S. DEPARTMENT OF HUD</u>		
<u>DIRECT PROGRAMS</u>		
PHA Owned Housing:		
Annual Contribution -		
Section 8 Housing Choice Vouchers	14.871	\$ 493,429

See independent auditors' report



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

Board of Directors
Highland Metropolitan Housing Authority
Hillsboro, Ohio

Regional Inspector General of Audit
Department of Housing and Urban
Development

We have audited the basic financial statements of Highland Metropolitan Housing Authority as of and for the year ended December 31, 2003, and have issued our report thereon dated April 13, 2004. The Authority adopted the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – For State and Local Governments*, as of January 1, 2003. This results in a change to the Authority’s format and content of the basic financial statements. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

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

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

Jones, Cochenour & Co.
April 13, 2004



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

Board of Directors
Highland Metropolitan Housing Authority
Hillsboro, Ohio

Regional Inspector General of Audit
Department of Housing and Urban
Development

Compliance

We have audited the compliance of Highland 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 its major federal program for the year ended December 31, 2003. Highland Metropolitan Housing Authority's major federal program is 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 Highland Metropolitan Housing Authority's management. Our responsibility is to express an opinion on Highland 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 Highland 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 Highland Metropolitan Housing Authority's compliance with those requirements.

In our opinion, Highland Metropolitan Housing Authority complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2003.

Internal Control Over Compliance

The management of Highland 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 Highland Metropolitan Housing Authority's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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

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

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

Jones, Cochenour & Co.
April 13, 2004

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

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

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):	Section 8 Housing Choice Vouchers CFDA#14.871
Dollar Threshold: Type A/B Programs	\$300,000
Low Risk Auditee?	Yes

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

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

2. FINDINGS RELATED TO FINANCIAL STATEMENTS

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

3. FINDINGS RELATED TO FEDERAL AWARDS

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



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

HIGHLAND METROPOLITAN HOUSING AUTHORITY

HIGHLAND COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
AUGUST 31, 2004**