

**SHELBY METROPOLITAN HOUSING AUTHORITY
SIDNEY, OHIO**

GENERAL PURPOSE FINANCIAL STATEMENTS

**FOR THE YEAR ENDED
DECEMBER 31, 2003**



**Auditor of State
Betty Montgomery**

Board of Commissioners
Shelby Metropolitan Housing Authority
706 North Wagner Avenue
Sidney, Ohio 45365

We have reviewed the Independent Auditor's Report of the Shelby Metropolitan Housing Authority, Shelby County, prepared by Vanderhorst & Manning CPAs, LLC, for the audit period January 1, 2003 to 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 Shelby Metropolitan Housing Authority is responsible for compliance with these laws and regulations.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

August 18, 2004

This Page is Intentionally Left Blank.

SHELBY METROPOLITAN HOUSING AUTHORITY
AUDIT REPORT

FOR THE YEAR ENDED DECEMBER 31, 2003

TABLE OF CONTENTS

Independent Auditors' Report	1
General Purpose Financial Statements:	
Balance Sheet - Proprietary Fund Type – Enterprise Fund	3
Statement of Revenues, Expenses, and Changes in Equity – Proprietary Fund Type – Enterprise Fund	4
Statement of Cash Flows - Proprietary Fund Type – Enterprise Fund	5
Notes to General Purpose Financial Statements	6 – 13
Supplemental Data:	
Combining Balance Sheet – (FDS Schedule Format)	14 – 15
Combining Statements of Revenues, Expenses and Changes in Retained Earnings – (FDS Schedule Format)	16 – 17
Schedule of Expenditures of Federal Awards	18
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	20
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133	21 – 22
Schedule of Findings and Questioned Costs	23 – 24

VANDERHORST & MANNING CPAs, LLC
6105 NORTH DIXIE DRIVE
DAYTON, OHIO 45414

INDEPENDENT AUDITORS' REPORT

The Board of Commissioners
Shelby Metropolitan Housing Authority
707 Wagner Avenue
Sidney, Ohio

Regional Inspector General of Audit
Department of Housing & Urban Development

We have audited the accompanying general purpose financial statements of the Shelby Metropolitan Housing Authority as of and for the year ended December 31, 2003, as listed in the table of contents. These general purpose financial statements are the responsibility of Shelby Metropolitan Housing Authority's management. Our responsibility is to express an opinion on these 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 general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Shelby Metropolitan Housing Authority as of December 31, 2003, and the results of its operations and the cash flows of its proprietary fund type activities for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated June 22, 2004 on our consideration of the Shelby 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.

Our audit was made for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The schedules listed in the table of contents are presented for the purposes of additional analysis, and are not a required part of the financial statements of Shelby Metropolitan Authority. 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, *Audit of States, Local Governments and Non-Profit Organizations*, and is not a required part of the financial statements. The combining financial data schedule ("FDS") and cost certifications are presented for purposes of additional analysis as required by the Department of Housing and Urban Development and are not a required part of 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.

Vanderhorst & Manning CPAs, LLC
Dayton, Ohio

June 22, 2004

This page is intentionally left blank.

SHELBY METROPOLITAN HOUSING AUTHORITY

COMBINED BALANCE SHEET PROPRIETARY FUND TYPE - ENTERPRISE FUND DECEMBER 31, 2003

ASSETS

ASSETS

Cash and Cash Equivalents	\$	317,050
Intergovernmental Receivables		159,173
Tenant Receivables - Net of \$7,120 Allowance		9,226
Fraud Recovery - Net of \$17,521 Allowance		6,433
Inventory		40,746
Prepaid Expenses		4,556
Property and Equipment - Net of \$4,480,701 Accumulated Depreciation		<u>6,345,752</u>
TOTAL ASSETS	\$	<u><u>6,882,936</u></u>

LIABILITIES AND EQUITY

LIABILITIES

Accounts Payable	\$	28,470
Intergovernmental Payable		22,972
Tenant Security Deposits		31,716
Accrued Wages and Payroll Taxes		56,077
Deferred Revenue		<u>2,180</u>
TOTAL LIABILITIES	\$	<u><u>141,415</u></u>

EQUITY

HUD PHA Contributions	\$	5,737,532
Undesignated Retained Earnings		<u>1,003,989</u>
TOTAL EQUITY	\$	<u><u>6,741,521</u></u>
TOTAL LIABILITIES AND EQUITY	\$	<u><u>6,882,936</u></u>

The Accompanying Notes are an Integral Part of These Financial Statements.

SHELBY METROPOLITAN HOUSING AUTHORITY

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN EQUITY PROPRIETARY FUND TYPE - ENTERPRISE FUND FOR THE YEAR ENDED DECEMBER 31, 2003

REVENUE

HUD Grants - Operating	\$	1,245,790
HUD Grants - Capital		692,068
Rental Income		307,448
Interest Income		4,044
Other Income		<u>19,648</u>
 TOTAL REVENUE	\$	<u>2,268,998</u>

EXPENSES (Before Depreciation)

Housing Assistance Payments	\$	686,115
Utilities		132,383
Material and Labor		280,380
Administrative Salaries		222,134
Employee Benefits		122,338
Auditing Fees		4,946
Other Administrative		106,043
General		66,620
Residential Services		4,593
Depreciation		<u>237,171</u>
 TOTAL EXPENSES	\$	<u>1,862,723</u>

NET INCOME (LOSS) \$ 406,275

EQUITY - Beginning of Year 6,335,246

EQUITY - End of Year \$ 6,741,521

The Accompanying Notes are an Integral Part of These Financial Statements.

SHELBY METROPOLITAN HOUSING AUTHORITY

STATEMENT OF CASH FLOWS PROPRIETARY FUND TYPE - ENTERPRISE FUND FOR THE YEAR ENDED DECEMBER 31, 2003

CASH FLOWS FROM OPERATING ACTIVITIES

Net Income	\$ 406,275
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:	
Depreciation	237,171
Changes in Operating Assets and Liabilities that Increase/Decrease Cash Flows:	
Receivables	(35,818)
Inventory	(16,356)
Prepaid Expenses	(93)
Accounts Payable	15,103
Accrued Wages and Payroll Taxes	24,647
Deferred Revenue and Other Current Liabilities	1,503
Tenant Security Deposits	<u>2,151</u>
 NET CASH USED IN OPERATING ACTIVITIES	 \$ <u>634,583</u>

CASH FLOWS USED IN CAPITAL AND RELATED FINANCING ACTIVITIES

Purchase of Property and Equipment	\$ <u>(694,255)</u>
------------------------------------	---------------------

CASH FLOWS FROM INVESTING ACTIVITIES

Decrease in Investments	\$ <u>143,766</u>
-------------------------	-------------------

NET INCREASE IN CASH AND CASH EQUIVALENTS \$ 84,094

CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR 232,956

CASH AND CASH EQUIVALENTS AT END OF YEAR \$ 317,050

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

SHELBY METROPOLITAN HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR YEAR ENDED DECEMBER 31, 2003

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Summary of Significant Accounting Policies

The financial statements of the Shelby 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 more significant of the Authority’s accounting policies are described below.

Reporting Entity

The Shelby Metropolitan Housing 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.

The accompanying general purpose financial statements comply with the provision of Governmental Accounting Standards Board (GASB) Statement 14, the Financial Reporting Entity, in that the financial statements include all organizations, activities and functions for which the Authority is financial accountable. This report includes all activities considered by management to be part of the Authority by virtue of Section 2100 of the Codification of Governmental Accounting and Financial Reporting Standards.

Section 2100 indicates that the reporting entity consists of (a) the primary government, (b) organizations for which the primary government is financially accountable, and (c) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity’s financial statements to be misleading or incomplete.

The definition of the reporting entity is based primarily on the notion of financial accountability. A primary government is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization’s government body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the primary government. A primary government may also be financially accountable for governmental organizations that are fiscally dependent on it.

A primary government has the ability to impose its will on an organization if it can significantly influence the programs, projects, or activities of, or the level of services performed or provided by, the organization. A financial benefit or burden relationship exists if the primary government (a) is entitled to the organization’s resources; (b) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide financial support to, the organization; or (c) is obligated in some manner for the debt of the organization.

Management believes the financial statements included in this report represent all of the funds of the Authority over which the Authority is financially accountable.

Fund Accounting

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

SHELBY METROPOLITAN HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2003

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Accounting (Continued)

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

Proprietary Fund Types

Proprietary funds are used to account for the Authority's ongoing activities, which are similar to those found in the private sector. The following is the proprietary fund type:

Enterprise Fund – This fund is used to account for the operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenue earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Measurement Focus/Basis of Accounting

The proprietary funds are accounted for on the accrual basis of accounting. Revenues are recognized in the period earned and expenses are recognized in the period incurred. Pursuant to GASB Statement No. 20 *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, the Authority follows GASB guidance as applicable to proprietary funds and FASB Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins issued on or before November 30, 1989, that do not conflict with or contradict GASB pronouncements.

Investments

The provisions of the HUD Regulations restrict investments. Investments are valued at market value. Interest income earned in fiscal year ending December 31, 2003 totaled \$7,398.

Fixed 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, the do not add to the value of the asset or materially extend the asset life, are not capitalized.

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.

Compensated Absences

The Authority accounts for compensated absences in accordance with GASB Statement No. 16. Sick leave and other compensated absences with similar characteristics are accrued as a liability based on sick leave accumulated at the balance sheet date by those employees who currently are eligible to receive termination payments. To calculate the liability, these accumulations are reduced to the maximum amount allowed as a termination payment.

SHELBY METROPOLITAN HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2003

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Compensated Absences (Continued)

All employees who meet the termination policy of the Authority for years of service are included in the calculation of the compensated absence accrual amount.

Vacation leave and other compensated absences with similar characteristics are accrued as a liability as the benefits are earned by the employees if both of the following conditions are met: (1) the employees' rights to receive compensation are attributable to services already rendered and are not contingent on a specific event that is outside the control of the employer and employee. (2) It is probable that the employer will compensate the employees for the benefits through paid time off or some other means, such as cash payments at termination or retirement.

In the proprietary fund, the compensated absences are expensed when earned with the amount reported as a fund liability.

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 statement, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

PHA HUD Contributions

This represents contributions made available by HUD with respect to all federally aided projects under an annual contributions contract.

Receivable – net of allowance

Bad debts are provided on the allowance method based on management's evaluation of the collectibility of outstanding tenant receivable balances at the end of the year. The allowance of uncollectable receivable was \$7,120 at December 31, 2003 for tenant receivables, and \$17,521 for fraud recovery receivables.

Inventories

Inventories are stated at cost.

SHELBY METROPOLITAN HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2003

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

SHELBY METROPOLITAN HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2003

NOTE 2 – CASH AND CASH EQUIVALENTS

Cash

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

Active deposits are public deposits necessary to meet current 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, 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 deposits, including any bank balance that is collateralized 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 balance) in each category:

- Category 1. \$188,734 was covered by federal depository insurance.
- Category 2. \$60,498 was covered by collateral held by the pledging financial institution in the name of the Authority.

Collateral is required for demand deposits and certificates of deposit at 110 percent of all deposits not covered by federal deposit insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies and obligations of the State and its municipalities, school districts, and district corporations. Obligations pledged to secure deposits must be delivered to a bank other than the institution in which the deposit is made. Written custodial agreements are required.

SHELBY METROPOLITAN HOUSING AUTHORITY
 NOTES TO FINANCIAL STATEMENTS
 YEAR ENDED DECEMBER 31, 2003

NOTE 2 – CASH AND CASH EQUIVALENTS (Continued)

Investments

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 confirmation of transfer from the custodian.

The Authority’s investments are categorized to give an indication of the level of risk assumed by the entity at year-end. Category A includes investments that are insured or registered or for which the securities are held by the Authority or its agent in the Authority’s name. Category B includes uninsured and unregistered investments for which the securities are held by the counterparty’s Trust department or agent in the Authority’s name. Category C includes uninsured and unregistered investments for which securities are held by the counterparty or its Trust department but not in the Authority’s name. Star Ohio is not classified, since it is not evidenced by securities that exist in physical or book entry form.

The Authority had no investments at December 31, 2003 therefore; the categories described above do not apply.

NOTE 3 – PROPERTY AND EQUIPMENT

A summary of property and equipment at December 31, 2003, by class is as follows:

Buildings and Building Improvements	\$ 7,883,557
Land and Land Improvements	1,685,579
Furniture and Fixtures, Equipment and Moving Vehicles	<u>717,723</u>
Total	\$ 10,286,859
Less Accumulated Depreciation	<u>(4,480,701)</u>
Construction In Progress	<u>539,594</u>
Net Property and Equipment	<u>\$ 6,345,752</u>

The depreciation expense for year ended December 31, 2003 is \$237,171.

SHELBY METROPOLITAN HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2003

NOTE 4 – ADMINISTRATIVE FEE

The Authority receives an “administrative fee” as part of the annual contribution 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 base rate for each unit per month under HAP contracts. The rates are as follows:

A. Choice Vouchers: Shelby County	\$43.13/unit
-----------------------------------	--------------

NOTE 5 – DEFINED BENEFIT PENSION PLANS – PUBLIC EMPLOYEES RETIREMENT SYSTEM

All employees participate in the Ohio Public Employees Retirement System of Ohio (OPERS), a cost sharing multiple employer public employee retirement system administered by the Ohio Public Employee Retirement Board. OPERS provides basic retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report, which may be obtained by writing to the Ohio Public Employee Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6705 or 1-800-222-7377.

The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rate is 8.5 percent. The employer contribution rate was 13.55 percent of covered payroll of which 5 percent were the portions used to fund health care. The Authority’s required contributions to OPERS for the years ended December 31, 2003, 2002, and 2001 were \$48,774, 51,398 and \$50,895, respectively. All required contributions have been made.

NOTE 6 – POSTEMPLOYMENT BENEFITS PUBLIC EMPLOYEES RETIREMENT SYSTEM

OPERS provides postretirement 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. The health care coverage provided by OPERS is considered an Other Postemployment 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 postretirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The portion of the 2003 employer contributions used to fund health care were \$17,998.

The significant actuarial assumptions and calculations relating to Postemployment health care benefits were based on the System’s latest actuarial review performed as of December 31, 2001. An entry age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of unfounded actuarial accrued liability. All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach assets are adjusted annually to reflect 25 percent of unrealized market appreciation or depreciation on investment assets. The investment assumption rate for 2001 was 8.0 percent. An annual increase of 4.0 percent compounded annually is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.0 percent base increase, were assumed to range from 0.50 percent to 6.3 percent. Health care costs were assumed to increase 4.0 percent annually.

Benefits are advanced-funded on an actuarially determined basis. The number of active contributing participants was 402,041. The actuarial value of OPERS’ net assets available for OPEB at December 31, 2001 was \$11.6 billion. The actuarially accrued liability and the unfounded actuarial accrued liability, based on the actuarial cost method used, were \$16.4 billion and \$4.8 billion, respectively.

SHELBY METROPOLITAN HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2003

NOTE 6 – DEFINED BENEFIT PLANS (continued)

In December 2001, the Board adopted the Health Care “Choices” Plan in its continuing effort to respond to the rise in the cost of health care. The Choices plan will be offered to all persons newly hired under OPERS after January 1, 2003, with no prior service credit accumulated toward health care coverage. Choices, as the name suggests, will incorporate a cafeteria approach, offering a more broad range of health care options. The Plan uses a graded scale from ten to thirty years to calculate a monthly health care benefit. This is in contrast to the ten-year “cliff” eligibility standard for the present Plan.

The benefit recipient will be free to select the option that best meets their needs. Recipients will fund health care costs in excess of their monthly health care benefit. The Plan will also offer a spending account feature, enabling the benefit recipient to apply their allowance toward specific medical expenses, much like a Medical Spending Account.

NOTE 7 – 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 one and ¼ days sick leave per month to a maximum of 180 days. The Authority’s policy is to accrue sick leave for employees five years before retirement. All permanent employees will earn vacation hours accumulated based on length of service. All vacation time accumulated will be paid upon separation to a maximum of four weeks.

At December 31, 2003 based on the vesting method, \$41,803 was accrued by the Authority for unused vacation and sick time.

NOTE 8 – CONTINGENCIES

Grants

The Authority received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Authority. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Authority at December 31, 2003.

Insurance

The Housing 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.

Litigation and Claims

In the normal course of operations, the Authority may be subject to litigation and claims. At December 31, 2003 the Authority was involved in no matters which management believes would have a material effect on the financial statements.

SHELBY METROPOLITAN HOUSING AUTHORITY
COMBINING BALANCE SHEET
FDS SCHEDULE SUBMITTED TO HUD
DECEMBER 31, 2003

FDS Line Item No.	Account Description	Low Rent	Housing Choice Voucher	Capital Fund Program	TOTAL
<u>ASSETS</u>					
111	Cash - Unrestricted	\$159,303	\$157,747	\$0	\$317,050
100	Total Cash	\$159,303	\$157,747	\$0	\$317,050
122	Accounts Receivable - HUD Other Projects	\$0	\$0	\$159,173	\$159,173
126	Accounts Receivable-Tenants-Dwelling Rents	\$16,346	\$0	\$0	\$16,346
126.1	Allowance for Doubtful Accounts - Dwelling	(\$7,120)	\$0	\$0	(\$7,120)
128	Fraud Recovery	\$0	\$23,954	\$0	\$23,954
128.1	Allowance for Doubtful Accounts - Fraud	\$0	(\$17,521)	\$0	(\$17,521)
120	Total Receivables, net of allowances for doubtful accounts	\$9,226	\$6,433	\$159,173	\$174,832
142	Prepaid Expenses and Other Assets	\$4,556	\$0	\$0	\$4,556
143	Inventories	\$40,746	\$0	\$0	\$40,746
143.1	Allowance for Obsolete Inventories	\$0	\$0	\$0	\$0
144	Interprogram Due From	\$197,283	\$0	\$0	\$197,283
150	TOTAL CURRENT ASSETS	\$411,114	\$164,180	\$159,173	\$734,467
161	Land	\$1,685,579	\$0	\$0	\$1,685,579
162	Buildings	\$7,583,340	\$0	\$300,217	\$7,883,557
163	Furniture, Equipment & Machinery - Dwellings	\$455,341	\$0	\$0	\$455,341
164	Furniture, Equipment & Machinery - Administration	\$244,672	\$14,317	\$3,393	\$262,382
166	Accumulated Depreciation	(\$4,456,037)	(\$14,317)	(\$10,347)	(\$4,480,701)
167	Construction in Progress	\$0	\$0	\$539,594	\$539,594
150	TOTAL FIXED ASSETS, NET OF ACCUMULATED DEPRECIATION	\$5,512,895	\$0	\$832,857	\$6,345,752
190	TOTAL ASSETS	\$5,924,009	\$164,180	\$992,030	\$7,080,219

SHELBY METROPOLITAN HOUSING AUTHORITY
COMBINING BALANCE SHEET
FDS SCHEDULE SUBMITTED TO HUD
DECEMBER 31, 2003

FDS Line Item No.	Account Description	Low Rent	Housing Choice Voucher	Capital Fund Program	TOTAL
<u>LIABILITIES & RETAINED EARNINGS</u>					
312	Accounts Payable <= 90 days	\$28,470	\$0	\$0	\$28,470
321	Accrued Wage/ Payroll Taxes Payable	\$14,274	\$0	\$0	\$14,274
322	Accrued Compensated Absences - Current	\$6,850	\$0	\$0	\$6,850
331	Accounts Payable - HUD PHA Programs	\$0	\$6,530	\$0	\$6,530
333	Accounts Payable - Other Government	\$16,442	\$0	\$0	\$16,442
341	Tenant Security Deposits	\$31,716	\$0	\$0	\$31,716
342	Deferred Revenue	\$2,180	\$0	\$0	\$2,180
347	Interprogram Due To	\$0	\$38,110	\$159,173	\$197,283
310	TOTAL CURRENT LIABILITIES	\$99,932	\$44,640	\$159,173	\$303,745
354	Accrued Compensated Absences-Noncurrent	\$27,621	\$7,332	\$0	\$34,953
300	TOTAL LIABILITIES	\$127,553	\$51,972	\$159,173	\$338,698
<u>EQUITY</u>					
504	Net HUD PHA Contributions	\$5,737,532	\$0	\$0	\$5,737,532
508	Total Contributed Capital	\$5,737,532	\$0	\$0	\$5,737,532
512	Undesignated Fund Balance/Retained Earnings	\$58,924	\$112,208	\$832,857	\$1,003,989
513	TOTAL EQUITY/ NET ASSETS	\$5,796,456	\$112,208	\$832,857	\$6,741,521
600	TOTAL LIABILITIES & EQUITY	\$5,924,009	\$164,180	\$992,030	\$7,080,219

SHELBY METROPOLITAN HOUSING AUTHORITY
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
RETAINED EARNINGS
FDS SCHEDULE SUBMITTED TO HUD
DECEMBER 31, 2003

FDS Line Item No.	Account Description	Low Rent	Housing Choice Vouchers	Capital Fund Program	TOTAL
	<u>REVENUE</u>				
703	Net Tenant Rental Revenue	\$304,206	\$0	\$0	\$304,206
704	Tenant Revenue - Other	\$3,242	\$0	\$0	\$3,242
705	Total Tenant Revenue	\$307,448	\$0	\$0	\$307,448
706	HUD PHA Operating Grants	\$392,747	\$797,505	\$55,538	\$1,245,790
706.1	Capital Grants	\$0	\$0	\$692,068	\$692,068
711	Investment Income - Unrestricted	\$3,277	\$767	\$0	\$4,044
714	Fraud Recovery	\$0	\$3,716	\$0	\$3,716
715	Other Revenue	\$11,716	\$3,716	\$0	\$15,432
716	Gain/Loss on Sale of Fixed Assets	\$500	\$0	\$0	\$500
700	TOTAL REVENUE	\$715,688	\$805,704	\$747,606	\$2,268,998
	<u>EXPENSES</u>				
911	Administrative Salaries	\$134,443	\$73,121	\$14,570	\$222,134
912	Auditing Fees	\$3,957	\$989	\$0	\$4,946
914	Compensated Absences	\$22,326	\$5,529	\$0	\$27,855
915	Employee Benefit Contributions - Admin.	\$45,549	\$24,468	\$0	\$70,017
916	Other Operating - Administrative	\$28,177	\$9,043	\$40,968	\$78,188
924	Tenant Services - Other	\$4,593	\$0	\$0	\$4,593
931	Utilities - Water	\$44,021	\$0	\$0	\$44,021
932	Utilities - Electricity	\$54,957	\$0	\$0	\$54,957
933	Utilities - Gas	\$33,405	\$0	\$0	\$33,405
941	Ordinary Maintenance & Operations-labor	\$154,423	\$0	\$0	\$154,423
942	Ordinary Maintenance & Operations - Materials & Other	\$20,277	\$0	\$0	\$20,277
943	Ordinary Maintenance & Operations - Contract Costs	\$105,680	\$0	\$0	\$105,680
945	Employee Benefit Contributions - Ordinary Maintenance	\$52,321	\$0	\$0	\$52,321
961	Insurance Premiums	\$35,300	\$8,825	\$0	\$44,125
962	Other General Expenses	\$530	\$2,004	\$0	\$2,534
963	Payment in Lieu of Taxes	\$17,203	\$0	\$0	\$17,203
964	Bad Debts - Tenant Rents	\$2,758	\$0	\$0	\$2,758
969	TOTAL OPERATING EXPENSES	\$759,920	\$123,979	\$55,538	\$939,437

SHELBY METROPOLITAN HOUSING AUTHORITY
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
RETAINED EARNINGS
FDS SCHEDULE SUBMITTED TO HUD
DECEMBER 31, 2003

FDS Line Item No.	Account Description	Low Rent	Housing Choice Vouchers	Capital Fund Program	TOTAL
970	Excess Operating Revenue Over Operating Expenses	(\$44,232)	\$681,725	\$692,068	\$1,329,561
973	Housing Assistance Payments	\$0	\$686,115	\$0	\$686,115
974	Depreciation	\$226,824	\$0	\$10,347	\$237,171
900	TOTAL EXPENSES/ OTHER FINANCIAL SOURCES (USES)	\$986,744	\$810,094	\$65,885	\$1,862,723
1000	Excess (Deficiency) of Operating Revenue Over (Under) Expenses	(\$271,056)	(\$4,390)	\$681,721	\$406,275
1103	Beginning Equity	\$6,067,511	\$116,599	\$151,136	\$6,335,246
1104	Prior Period Adjustments, Equity Transfers and Correction of Errors	\$0	\$0	\$0	\$0
	ENDING RETAINED EARNINGS	\$5,796,455	\$112,209	\$832,857	\$6,741,521
1113	Maximum Annual Contributions Commitment (Per ACC)	\$0	\$804,035	\$0	\$804,035
114	Prorata Maximum Annual Contributions	\$0	\$0	\$0	\$0
1115	Contingency Reserve, ACC Program Reserve	\$0	\$6,530	\$0	\$6,530
1116	Total Annual Contributions Available	\$0	\$810,565	\$0	\$810,565
1120	Unit Months Available	2,028	2,628		4,656
1121	Number of Units Months Leased	1,991	2,572		4,563

SHELBY METROPOLITAN HOUSING AUTHORITY

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2003**

	<u>Federal CFDA Number</u>	<u>Funds Expended</u>
<u>FROM U. S. DEPT. OF HUD DIRECT PROGRAMS</u>		
Annual Contribution		
Public Housing:		
PHA Owned Housing:		
Operating Subsidy - Low Rent	14.850	\$ <u>392,747</u>
Modernization Program:		
Capital Fund Program	14.872	\$ <u>747,606</u>
Annual Contribution		
Contract C-5098:		
Housing Assistance Payments:		
Choice Voucher	14.871	\$ <u>797,505</u>
TOTAL - ALL PROGRAMS		\$ <u><u>1,937,858</u></u>

BASIS OF PRESENTATION

The accompanying schedule of federal awards includes the federal grant activity of Shelby Metropolitan Housing Authority and is presented on the accrual basis of accounting.

The accompanying notes to this schedule are an integral part of this schedule.

SHELBY METROPOLITAN HOUSING AUTHORITY
SCHEDULE OF COST CERTIFICATION OF MODERNIZATION PROJECTS

The cost certification of modernization of the projects are as follows:

Capital Fund Program 501000

<u>Classification</u>	<u>OH16-P061 - 501-00</u>
Operations	\$ 6,480
Management Improvements	10,000
Site Improvement	7,354
Dwelling Structures	293,671
Nondwelling Equipment	<u>3,393</u>
TOTAL EXPENDED	\$ <u>320,898</u>
TOTAL RECEIVED	\$ <u>320,898</u>

1. The actual cost certificates were signed in year 2000.
2. All modernization grant costs have been paid and all related liabilities have been discharged through payments.
3. The final costs on the certification agree to the Authority's records.

VANDERHORST & MANNING CPAs, LLC
6105 NORTH DIXIE DRIVE
DAYTON, OHIO 45414

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

Board of Commissioners
Shelby Metropolitan Housing Authority
Sidney, Ohio

We have audited the general purpose financial statements of the Shelby Metropolitan Housing Authority, Sidney, Ohio, as of and for the year ended December 31, 2003, and have issued our report thereon dated June 22, 2004. 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 Shelby 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 Shelby 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 and management of the Authority, Auditor of the State, and federal awarding agencies and is not intended to be and should not be used by anyone other than those specified parties.

Vanderhorst & Manning CPAs, LLC
Dayton, Ohio

June 22, 2004

VANDERHORST & MANNING CPAs, LLC
6105 NORTH DIXIE DRIVE
DAYTON, OHIO 45414

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

Board of Commissioners
Shelby Metropolitan Housing Authority
Sidney, Ohio

Compliance

We have audited the compliance of the Shelby Metropolitan Housing Authority, Sidney, Ohio, 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 December 31, 2003. The Shelby Metropolitan Housing Authority's major federal programs are identified in the summary of the 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 the Shelby Metropolitan Housing Authority's management. Our responsibility is to express an opinion on the Shelby 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 the 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 the Shelby Metropolitan Housing Authority's compliance with those requirements.

In our opinion, the Shelby 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 the Shelby 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 the 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*.

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

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, federal awarding agencies and is not intended to be and should not be used by anyone other than those specified parties.

Vanderhorst & Manning CPAs, LLC
Dayton, Ohio

June 22, 2004

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

Shelby County Metropolitan Housing Authority
 December 31, 2003

1. SUMMARY OF AUDITORS' RESULTS	
Type of Financial Statement Opinion	Unqualified
Were there any material 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):	CFDA# 14.850 14.871 & 14.872
Dollar Threshold: Type A/B Programs	Type A: \$300,000 Type B: All others
Low Risk Auditee?	YES

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

Shelby County 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

SHELBY METROPOLITAN HOUSING AUTHORITY

SHELBY 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**