BASIC FINANCIAL STATEMENTS AND SINGLE AUDIT

of the

FAIRFIELD METROPOLITAN HOUSING AUTHORITY

for the

Year Ended December 31, 2005

Auditor of State
Betty Montgomery

Board of Directors
Fairfield County Metropolitan Housing Authority
315 North Columbus Street
Lancaster, Ohio 43130

We have reviewed the *Independent Auditors' Report* of the Fairfield County Metropolitan Housing Authority, Fairfield County, prepared by Jones, Cochenour & Co., for the audit period January 1, 2005 through December 31, 2005. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

October 23, 2006

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FAIRFIELD METROPOLITAN HOUSING AUTHORITY
TABLE OF CONTENTS

Jones, Cochenour & Co.
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

Board of Directors
Fairfield Metropolitan Housing Authority
Lancaster, Ohio

Regional Inspector General of Audit
Department of Housing and Urban Development

We have audited the accompanying basic financial statements of Fairfield Metropolitan Housing Authority, as of and for the year ended December 31, 2005, as listed in the table of contents. These basic financial statements are the responsibility of the Fairfield Metropolitan Housing Authority's management. Our responsibility is to express opinions 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 opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Fairfield Metropolitan Housing Authority, as of December 31, 2005, and the results of its operations and the cash flows of its proprietary funds activities for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 7, 2006 on our consideration of Fairfield Metropolitan Housing Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Our audit was performed for the purpose of forming opinions on the basic financial statements of the Authority taken as a whole. The FDS schedule and cost certification is presented for purposes of additional analysis and is not a required part of the financial statements of the Fairfield 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.

Jones, Cochenour & Co.

Jones, Cochenour & Co.
June 7, 2006

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Unaudited

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

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

FINANCIAL HIGHLIGHTS

The Authority's programs for the single enterprise fund are: Conventional Public-Housing, Capital Fund Program (CFP), and the Housing Choice Voucher Program.

- **The revenue increased by $22,460 (or .44%) during 2005, and was $5,079,371 and $5,056,911 for 2005 and 2004, respectively.**

- **The total expenses decreased by $40,426 (.78%). Total expenses were $5,161,139 and $5,201,565 for 2005 and 2004, respectively.**

USING THIS ANNUAL REPORT

The following graphic outlines the format of these financial statements:

MD&A **~ Management Discussion and Analysis ~**
Basic Financial Statements **~ Statement of Net Assets ~** **~ Statement of Revenues, Expenses and Changes in Net Assets ~** **~ Statement of Cash Flows ~** **~ Notes to Financial Statements ~**

The clearly preferable focus is on the Authority as a single enterprise fund. This format allows the user to address relevant questions, broaden a basis for comparison (year to year or Authority to Authority) and enhance the Authority's accountability.

Unaudited

BASIC FINANCIAL STATEMENTS

The basic financial statements are designed to be corporate-like in that all business type programs are consolidated into one single enterprise fund for the Authority.

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

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 (as applicable):

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". This account resembles the old operating reserves account.

The basic 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, a 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 programs that are consolidated into a single enterprise fund are as follows:

Conventional Public Housing – Under the Conventional Public Housing Program, the Authority rents units that it owns to low-income households. The Conventional Public Housing Program is operated under an Annual Contributions Contract (ACC) with HUD, and HUD provides Operating Subsidy to enable the PHA to provide the housing at a rent that is based upon 30% of adjusted gross household income.

Capital Fund Program (CFP) – This is the current primary funding source for the Authority's physical and management improvements. Funds are allocated by a formula allocation and based on size and age of the authority's units.

Unaudited

<u>Housing Choice Voucher Program</u> – 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 Annual Contributions Contract (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.

BASIC FINANCIAL STATEMENTS

STATEMENT OF NET ASSETS

The following table reflects the condensed Statement of Net Assets compared to prior year.

TABLE 1
STATEMENT OF NET ASSETS

	2005	2004
Current and Other Assets	$ 1,087,797	$ 1,254,547
Capital Assets	5,862,233	6,102,726
TOTAL ASSETS	6,950,030	7,357,273
Other Liabilities	180,346	507,214
Long-term liabilities	18,360	16,649
TOTAL LIABILITIES	198,706	523,863
Net Assets:		
Invested in Capital Assets, Net of Related Debt	5,862,233	6,102,726
Unrestricted	889,091	730,684
TOTAL NET ASSETS	$ 6,751,324	$ 6,833,410

MAJOR FACTORS AFFECTING THE STATEMENT OF NET ASSETS

Current assets are down most significantly in the Section 8 Voucher Program due to HUD subsidiary funding and other changes into the program. Other liabilities are down significantly due to prior year reflecting a payable to HUD in the amount of $254,516. The changes in net assets are due to depreciation during the year.

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TABLE 2
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

The following schedule compares the revenues and expenses for the current and previous fiscal year.

	2005	2004
Revenues		
Tenant Revenue - Rents and Other	$ 205,281	$ 199,836
Operating Subsidies and Grants	4,705,388	4,681,472
Capital Grants	88,057	132,440
Investment Income/Other Revenues	80,645	43,163
TOTAL REVENUE	5,079,371	5,056,911
Expenses		
Administration	725,155	746,304
Utilities	10,957	9,753
Maintenance	114,321	87,617
General	30,112	22,738
Pilot	18,935	19,082
Housing Assistance Payment	3,909,568	3,972,040
Depreciation	337,317	335,290
Bad Debt	14,774	8,741
TOTAL EXPENSES	5,161,139	5,201,565
NET (LOSS)	$ (81,768)	$ (144,654)

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

Comparisons between the years reflect the authority's donations to the LCHC (Non-profit organization) of $100,000. Operating subsidies are down in the Section 8 program, which coincides with housing assistance payments down for the year.

Unaudited

CAPITAL ASSETS AND DEBT ADMINISTRATION

CAPITAL ASSETS

As of year-end, the Authority had $5,862,233 invested in a variety of capital assets as reflected in the following schedule, which represents a net decrease of $240,493.

TABLE 3
CAPITAL ASSETS AT YEAR-END
(NET OF DEPRECIATION)

	2005	2004
Land and Land Rights	$ 835,924	$ 835,924
Buildings	8,370,925	8,297,282
Equipment - Administrative	220,826	196,635
Equipment - Dwellings	150,438	150,438
Leasehold Improvments	62,544	62,544
Accumulated Depreciation	(3,778,424)	(3,440,097)
TOTAL	$ 5,862,233	$ 6,102,726

The following reconciliation summarizes the change in Capital Assets.

TABLE 4
CHANGE IN CAPITAL ASSETS

BEGINNING BALANCE - NET	$ 6,102,726
Additions - Capital Funds	88,057
Additions - Section 8	9,777
Correction of Depreciation Expense	(1,010)
Depreciation Expense	(337,317)
ENDING BALANCE	$ 5,862,233

Unaudited

ECONOMIC FACTORS

Significant economic factors affecting the Authority are as follows:

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

IN CONCLUSION

Fairfield Metropolitan Housing Authority takes great pride in its financial management and is pleased to report on consistent and sound financial condition of the Authority.

FINANCIAL CONTACT

If you have any questions regarding this report, you may contact Mary Bozman, Executive Director of the Fairfield Metropolitan Housing Authority at (740) 653-6928.

FAIRFIELD METROPOLITAN HOUSING AUTHORITY
STATEMENT OF NET ASSETS
December 31, 2005

ASSETS		
Cash and cash equivalents	$	861,234
Investments		108,800
Intergovernmental accounts receivable		21,758
Receivables - net of allowance		21,697
Inventories - net of allowance		19,257
Prepaid expenses and other assets		7,081
TOTAL CURRENT ASSETS		1,039,827
CAPITAL ASSETS		
Land		835,924
Other capital assets - net		5,026,309
		5,862,233
TOTAL ASSETS		6,902,060
LIABILITIES		
Accounts payable		15,268
Intergovernmental payables		18,935
Accrued wages/payroll taxes		24,682
Accrued compensated absenses - current		21,133
Tenant security deposits		40,600
Other current liabilities		11,758
TOTAL CURRENT LIABILITIES		132,376
Accrued compensated absences - non current		9,504
FSS liability		8,856
TOTAL LIABILITIES		150,736
NET ASSETS		
Invested in capital assets - net of related debt		5,862,233
Unrestricted net assets		889,091
NET ASSETS	$	6,751,324

See accompanying notes to the basic financial statements

FAIRFIELD METROPOLITAN HOUSING AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
Year Ended December 31, 2005

OPERATING REVENUES		
Tenant revenue	$	205,281
HUD operating grants		4,705,388
Operating revenues		61,522
TOTAL OPERATING REVENUES		4,972,191
OPERATING EXPENSES		
Administrative		723,599
Tenant services		1,556
Utilities		10,957
Maintenance		114,321
General		30,112
PILOT		18,935
Bad debts		14,774
Housing assistance payments		3,909,568
Depreciation		337,317
TOTAL OPERATING EXPENSES		5,161,139
OPERATING LOSS		(188,948)
NON-OPERATING REVENUES		
Interest income		19,123
HUD capital grants		88,057
CHANGE IN NET ASSETS		(81,768)
Net assets beginning of year		6,833,441
Prior period adjustments		(349)
NET ASSETS BEGINNING OF YEAR - RESTATED		6,833,092
NET ASSETS END OF YEAR	$	6,751,324

See accompanying notes to the basic financial statements

FAIRFIELD METROPOLITAN HOUSING AUTHORITY
STATEMENT OF CASH FLOWS
Year Ended December 31, 2005

CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from HUD	$	4,522,408
Cash received from tenants		203,924
Cash received from other operations		63,094
Cash payments for housing assistance payments		(3,909,568)
Cash payments for administrative/operations		(636,263)
Cash payments to HUD and other government		(19,082)
NET CASH (USED) BY OPERATING ACTIVITIES		(224,513)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Capital grants received for capital assets		88,057
Acquisition of capital assets		(97,834)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment income		19,123
(DECREASE) IN CASH AND CASH EQUIVALENTS		(215,167)
CASH AND CASH EQUIVALENTS, BEGINNING		1,076,401
CASH AND CASH EQUIVALENTS, ENDING	$	861,234
RECONCILIATION OF OPERATING INCOME TO NET CASH USED BY OPERATING ACTIVITIES:		
Operating loss	$	(188,948)
Adjustments to reconcile operating loss to net cash used by operating activities		
Depreciation		337,317
(Increase) decrease in:		
Intergovernmental receivables		(16,521)
Receivables - net of allowance		215
Inventories - net of allowance		(1,287)
Prepaid expenses and other assets		(634)
Increase (decrease) in:		
Accounts payable		2,490
Intergovernmental payables		(254,516)
Accrued wages/payroll taxes		(4,192)
Accrued compensated absences		2,853
Tenant security deposits		4,975
Deferred credits and other liabilities		(106,265)
NET CASH (USED) BY OPERATING ACTIVITIES	$	(224,513)

See accompanying notes to the basic financial statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Summary of Significant Accounting Policies

The financial statements of the Fairfield 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 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:

- **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.**

Reporting Entity

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

Basis of Presentation

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

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

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

Measurement Focus

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

Enterprise Fund

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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

Conventional Public Housing (PH) – Under the Conventional Public Housing Program, the Authority rents units that it owns to low-income households. The Conventional Public Housing Program is operated under an Annual Contributions Contract (ACC) with HUD, and HUD provides Operating Subsidy to enable the PHA to provide the housing at a rent that is based upon 30% of adjusted gross household income.

Capital Fund Program (CFP) – This is the current primary funding source for the Authority's physical and management improvements. While the formula funding methodology used for the CGP was revised for the CFP, funds are still provided by formula allocation and based on the size and age of the units.

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 previously adopted GASB 33. Nonexchange transactions occur when the Public Housing Authority (PHA) receives (or gives) value without directly giving equal value in return. GASB 33 identifies four classes of nonexchange transactions as follows:

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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.

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

Prepaid expenses
Payments made to vendors for services that will benefit periods beyond December 31, 2005, are recorded as prepaid expenses using the consumption method. A current asset for the amount is recorded at the time of the purchase and expense is reported in the year in which the services are consumed.

Investments
Investments are restricted by the provisions of the HUD Regulations (See Note 2). Investments are valued at market value. Interest income earned in fiscal year 2005 for both programs totaled $19,123. Certificates of deposits with maturities greater than three months are considered investments.

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 Authority's capitalization policy is $2,000. The following are the useful lives used for depreciation purposes:

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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. Operating expenses are those expenses that are generated from the primary activity of the proprietary fund.

Cash and Cash Equivalents

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

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 the 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. All employees who meet the termination policy of the Authority for years of service are included in the calculation of the compensated absences 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 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 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 $45,717 at December 31, 2005.

Inventories

Inventories are stated at cost. The allowance for obsolete inventory was $2,150 at December 31, 2005.

Due to/Due From Programs

These are reflected in the FDS and eliminated for the basic financial statement.

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 $861,234 (includes tenant security deposits of $39,526). The corresponding bank balances totaled $849,090.

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

Category 1:	**$100,000 was covered by federal depository insurance**
Category 2:	**$724,090 was covered by specific collateral pledged by the financial institution in the name of the Authority.**

Investments

HUD, State Statute and Board Resolutions authorize the Authority to invest in obligations of the 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 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 principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose or 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 specific 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 had investments of Certificates of Deposits in excess of three months maturities in the amount of $108,800 at December 31, 2005.

2. CASH AND INVESTMENTS

Investments – Continued
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. The investments of the Authority are classified as Category A.

3. NOTE TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES

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

4. RISK MANAGEMENT

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

5. CAPITAL ASSETS

The following is a summary of capital assets:

	Balance 12/31/2004	Net Additions / Deletions/ Corrections	Balance 12/31/2005
CAPITAL ASSETS, NOT BEING DEPRECIATED			
Land	$ 835,924	$ -	$ 835,924
TOTAL CAPITAL ASSETS NOT BEING DEPRECIATED	$ 835,924	$ -	$ 835,924
CAPITAL ASSETS BEING DEPRECIATED			
Building and Improvements	$ 8,359,825	$ 73,644	$ 8,433,469
Furniture and equipment	347,073	24,191	371,264
Totals at Historical Costs	8,706,898	97,835	8,804,733
Less: Accumulated Depreciation	(3,440,096)	(338,328)	(3,778,424)
TOTAL CAPITAL ASSETS, NET, BEING DEPRECIATED	$ 5,266,802	$ (240,493)	$ 5,026,309

6. DEFINED BENEFIT PENSION PLANS – PUBLIC EMPLOYEES RETIREMENT SYSTEM

Ohio Public Employees Retirement System (OPERS) administers three separate pension plans as described below:

a. **The Traditional Pension Plan (TP) – cost-sharing multiple-employer defined benefit pension plan.**

b. **The Member-Directed Plan (MD) – a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year.) Under the Member-Directed Plan members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings thereon.**

c. **The Combined Plan (CO) – a cost-sharing multiple-employer defined benefit pension plan. Under the Combined Plan employer contributions are invested by the retirement system to provide a formula retirement benefit similar in nature to the Traditional Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed plan.**

OPERS provides basic retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the Traditional Plan and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by statement statute per Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report which may be obtaining by writing to the 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 Revise Code provides statutory authority for member and employer contributions. For 2005, member and employer contribution rates were consistent across all three plans (TP, MD and CO). Plan members are required to contribute 8.5 percent of their annual covered payroll to fund pension obligations and the Authority was required to contribute 13.55 percent of covered payroll during 2004. The Authority's required contributions, including the pick up portion for certain employees for the years ended December 31, 2005, 2004 and 2003 were $65,055, $68,132 and $40,167 respectively. All required payments of contributions have been made through December 31, 2004.

7. POSTEMPLOYMENT BENEFITS – PUBLIC EMPLOYEES RETIREMENT SYSTEM

Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: The Traditional Pension Plan (TP) - a cost-sharing multiple-employer defined benefit pension plan; the Member-Directed Plan (MD) - a defined contribution plan; and the Combined Plan (CO) - a cost-sharing multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

OPERS provides retirement, disability, survivor and post retirement health care benefits to qualifying members of both the Traditional and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage. In order to qualify for post-retirement health care coverage, age and service retirees under the Traditional Pension and Combined Plans must have ten or more years of qualifying Ohio service credit. Health care coverage for disability recipients and qualified survivor recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post-employment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to OPERS is set aside for the funding of postretirement health care based on authority granted by the Ohio Revised Code. The 2005 employer contribution rate was 13.55 percent of covered payroll, and 4.00 percent was used to fund health care for the year.

The assumptions and calculations below were based on the System's latest actuarial review performed as of December 31, 2004.

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 the unfunded 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 to reflect 25% of unrealized market appreciation or depreciation on investment assets annually. The investment assumption rate for 2004 was 8.00 percent. An annual increase of 4.00%, 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 4.00% base increase, were assumed to range from 0.50% to 6.30%. Health care costs were assumed to increase at the projected wage inflation rate plus an additional factor ranging from 1 percent to 6 percent for the next 8 years. In subsequent years (9 and beyond) health care costs were assumed to increase at 4.00 percent (the projected wage inflation rate).

7. POSTEMPLOYMENT BENEFITS – PUBLIC EMPLOYEES RETIREMENT SYSTEM - CONTINUED

OPEBs are advance-funded on an actuarially determined basis. At December 31, 2005, the number of active contributing participants in the Traditional and Combined Plans totaled 376,109. The number of active contributing participants for both plans used in the December 31, 2004, actuarial valuation was $355,287. The actuarial value of the Retirement System's net assets available for OPEB at December 31, 2004 were $10.8 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used were, $29.5 billion and $18.7 billion, respectively.

On September 9, 2004, the OPERS Retirement Board adopted a Health Care Prevention Plan (HCPP) with an effective date of January 1, 2007. In addition to the HCPP, OPERS has taken additional action to improve the solvency of the Health Care Fund in 2005 by creating a separate investment pool for health care assets. As an additional component of the HCPP, member and employer contribution rates increased as of January 1, 2006, which will allow additional funds to be allocated to the health care plan.

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

8. FDS SCHEDULE SUBMITTED TO HUD

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

9. PRIOR PERIOD ADJUSTMENT AND RESTATEMENT OF PRIOR YEAR'S FUND EQUITY

	Total	Invested in Capital Assets - Net of Debt	Unrestricted Net Assets
Net Assets, Beginning of Year	$ 6,833,441	$ 6,102,726	$ 730,715
Correction of depreciation	(1,010)	(1,010)	-
Other Miscellaneous	630	-	630
HUD corrections on Section 8 year end reports	31	-	31
Prior period adjustment	(349)	(1,010)	661
Net Assets, Beginning of Year, Restated	6,833,092	6,101,716	731,376
Fixed asset additions	-	97,835	(97,835)
Current loss/Depreciation expense	(81,728)	(337,318)	255,550
Net Assets, End of Year	$ 6,751,364	$ 5,862,233	$ 889,091

10. CONTINGENT LIABILITY

The Fairfield Metropolitan Housing Authority (FMHA) was audited by the Office of Inspector General (OIG). The audit report issued December 30, 2005, contains a total of four recommendations: two of the four are financially accountable recommendations. Each monetary recommendation addresses the implementation of controls and procedures regarding the use of the properties and/or sales proceeds noted in the audit report.

10. CONTINGENT LIABILITY -CONTINUED

The first monetary recommendation alleges that FMHA improperly transferred $520,169 of its HOPE 1 and 5 (h) homeownership plan federal funds to its non-profit organization, Lancaster Community Housing Corporation (LCHC). The report states that FMHA did not obtain HUD approval to transfer the funds and failed to meet federal requirements. The OIG recommends that the Director of Housing & Urban Development's HUD's Cleveland Public Housing Hub require FMHA to reimburse its Hope Grant the entire amount from non-federal funds, therefore, the non-profit is to reimburse FMHA for these monies.

The second monetary recommendation alleges that the FMHA transferred three properties to LCHC of which those properties were sold after the transfer. The report states that FMHA did not obtain HUD approval to transfer the properties, failed to reimburse HUD the funds used to rehabilitate the sold unit. The Office of Inspector General also recommends that the Director of HUD's Columbus Office of Community Planning and Development require FMHA to reimburse HUD for an amount of $23,314, which represents 60% of the grant funds net improvement costs, with non federal funds.

The FMHA maintains it did nothing improper, and believes the allegations to be false and/or exaggerated. Management believes that FMHA gave full disclosure to HUD with regard to the transfers of money and properties. Management also believes that it was in compliance with the HOPE 1 ownership program and the grant agreement regarding the properties cited in the report. While FMHA held opposing views on the interpretation of the cited federal regulations, the outcome that is most important is that all funds were accounted for and those cited to be used for homeownership programs are available for that use. None of the money in the discussion was eligible for recapture by HUD and none of those funds were covered by an Annual Contributions Contract. The Board will continue to work with HUD to achieve a resolution that is in the best interest of the citizens of Fairfield County.

The potential contingent liability was reflected as an issue on Lancaster Community Housing Corporation's audited financial statements.

11. ADMINISTRATIVE SERVICES CONTRACT

The Fairfield Metropolitan Housing (FMHA) and the Lancaster Community Housing Corporation have a common goal and purpose – to provide for the development, acquisition and ongoing management of affordable housing in Fairfield County. Therefore, the two entities have passed a resolution to accomplish this task. As part of this resolution the Corporation will provide housing for low-income families, whereas the FMHA donated cash, other assets and fixed assets to finance the Corporation's mission.

FMHA and the Corporation signed a contract agreement dated June 9, 2004, that includes the terms discussed in the resolution and that FMHA will provide administrative services specific to FMHA's housing program for an administrative fee.

However, if FMHA is required to reimburse the HOPE 1 program and HUD the amounts discussed above (Note 10) it is possible that it would adversely affect LCHC; but, it is too early to discern how much negative impact it could have in LCHC.

FAIRFIELD METROPOLITAN HOUSING AUTHORITY
BALANCE SHEET
FDS SCHEDULE SUBMITTED TO HUD
PROPRIETARY FUND TYPE
ENTERPRISE FUND
December 31, 2005

FDS Line Item No.	Account Description	14.850 Public & Indian Hsg	14.871 Sect. 8 Hsg Choice VO	14.872 PH Capital Fund	TOTAL
	ASSETS				
111	Cash - unrestricted	$ 223,821	$ 519,864	$ -	$ 743,685
113	Cash - other FSS	1,476	6,592	-	8,068
114	Cash - tenant security deposits	39,526	-	-	39,526
115	Cash - restricted for payment of current liabilities	69,955	-	-	69,955
100	TOTAL CASH	334,778	526,456	-	861,234
122	Accounts receivable - HUD other proj	-	7,275	14,483	21,758
125	Accounts receivable - miscellaneous	1,095	3,102	-	4,197
126	A/R tenants - dwelling rents	5,472	-	-	5,472
126.1	Allowance for doubtful accts	(2,409)	-	-	(2,409)
128	Fraud recovery	-	57,745	-	57,745
128.1	Fraud recovery - allowance	-	(43,308)	-	(43,308)
120	TOTAL ACCOUNTS RECEIVABLE	4,158	24,814	14,483	43,455
131	Investments - unrestricted	108,800	-	-	108,800
142	Prepaid expenses and other assets	6,736	345	-	7,081
143	Inventories	21,407	-	-	21,407
143.1	Allowance for obsolete inventory	(2,150)	-	-	(2,150)
144	Interprogram due from	3,304	44,666	-	47,970
150	TOTAL CURRENT ASSETS	477,033	596,281	14,483	1,087,797
161	Land	835,924	-	-	835,924
162	Buildings	8,188,644	-	182,281	8,370,925
163	Furniture and equipment - dwellings	117,185	-	33,253	150,438
164	Furniture and equipment - admin	122,605	62,545	35,676	220,826
165	Leasehold improvements	58,544	-	4,000	62,544
166	Accumulated depreciation	(3,725,600)	(20,831)	(31,993)	(3,778,424)
160	TOTAL FIXED ASSETS, NET	5,597,302	41,714	223,217	5,862,233
180	TOTAL NON-CURRENT ASSETS	5,597,302	41,714	223,217	5,862,233
190	TOTAL ASSETS	$ 6,074,335	$ 637,995	$ 237,700	$ 6,950,030

See independent auditors' report

FAIRFIELD METROPOLITAN HOUSING AUTHORITY
BALANCE SHEET
FDS SCHEDULE SUBMITTED TO HUD
PROPRIETARY FUND TYPE
ENTERPRISE FUND
December 31, 2005

FDS Line Item No.	Account Description	14.850 Public & Indian Hsg	14.871 Sect. 8 Hsg Choice VO	14.872 PH Capital Fund	TOTAL
	LIABILITIES				
312	Accounts payable <=90 days	$ 5,256	$ 8,251	$ 1,761	$ 15,268
321	Accrued wages/payroll taxes	3,703	20,979	-	24,682
322	Accrued compensated absences - current	8,370	12,763	-	21,133
333	Accounts payable - other govt	18,935	-	-	18,935
341	Tenant security deposits	40,600	-	-	40,600
345	Other current liabilities	314	10,428	1,016	11,758
347	Interprogram due to	33,779	2,485	11,706	47,970
310	TOTAL CURRENT LIABILITIES	110,957	54,906	14,483	180,346
354	Accrued compensated absences - long term	4,056	5,448	-	9,504
351	Other long term liabilities	1,787	7,069	-	8,856
350	TOTAL NONCURRENT LIABILITIES	5,843	12,517	-	18,360
300	TOTAL LIABILITIES	116,800	67,423	14,483	198,706
508.1	Capital assets net of related debt	5,597,302	41,714	223,217	5,862,233
	UNRESTRICTED NET ASSETS	360,233	528,858	-	889,091
513	TOTAL EQUITY	5,957,535	570,572	223,217	6,751,324
300	TOTAL LIABILITIES AND EQUITY	$ 6,074,335	$ 637,995	$ 237,700	$ 6,950,030

See independent auditors' report

FAIRFIELD METROPOLITAN HOUSING AUTHORITY
STATEMENT OF REVENUES EXPENSES AND CHANGES IN NET ASSETS
Year Ended December 31, 2005

FDS Line Item No.	Account Description	14.850 Public & Indian Hsg	14.871 Sect. 8 Hsg Choice VO	14.872 PH Capital Fund	TOTAL
	REVENUE				
703	Net tenant revenue	$ 205,281	$ -	$ -	$ 205,281
705	TOTAL TENANT REVENUE	205,281	-	-	205,281
706	HUD PHA grants	186,690	4,464,250	54,448	4,705,388
706.1	HUD PHA grants - hard costs	-	-	88,057	88,057
711	Investment income - unrestricted	7,065	12,058	-	19,123
714	Fraud recovery	-	33,099	-	33,099
715	Other revenue	25,928	2,495	-	28,423
700	TOTAL REVENUE	424,964	4,511,902	142,505	5,079,371
	EXPENSES				
911	Administrative salaries	131,451	302,847	-	434,298
912	Auditing fees	2,323	1,901	-	4,224
914	Compensated absences	(4,091)	1,238	-	(2,853)
915	Employee benefit contribution - admin	33,336	90,646	-	123,982
916	Other operating - administrative	70,654	93,294	-	163,948
924	Tenant services - other	1,556	-	-	1,556
931	Water	1,374	-	-	1,374
932	Electricity	3,920	4,014	-	7,934
933	Gas	1,649	-	-	1,649
941	Ord maintenance/op - labor	36,747	-	-	36,747
942	Ord maintenance/op - materials	3,627	3,180	4,764	11,571
943	Ord maintenance/op - cont costs	13,349	13,567	29,684	56,600
945	Emp benefit contrib - ord main	9,403	-	-	9,403
961	Insurance premiums	14,865	9,088	-	23,953
962	Other general expenses	33	-	-	33
963	PILOT	18,935	-	-	18,935
964	Bad debts - tenant rents	6,126	-	-	6,126
969	TOTAL OPERATING EXPENSES	345,257	519,775	34,448	899,480
970	EXCESS OPERATING REVENUE OVER EXPENSES	79,707	3,992,127	108,057	- 4,179,891
973	Housing Assistance Payments	-	3,909,568	-	3,909,568
974	Depreciation expense	307,843	10,715	18,759	337,317
975	Fraud bad debt	-	14,774	-	14,774
900	TOTAL EXPENSES	307,843	3,935,057	18,759	4,261,659
1001	Transfer in	20,000	-	-	20,000
1002	Transfer out	-	-	(20,000)	(20,000)
1000	EXCESS OF REVENUE OVER EXPENSES	(208,136)	57,070	69,298	(81,768)
1003	Beginning equity	6,165,671	513,851	153,919	6,833,441
1004	Prior period adj/equity transfers	-	(349)	-	(349)
	ENDING EQUITY	5,957,535	570,572	223,217	6,751,324

See independent auditors' report

FAIRFIELD METROPOLITAN HOUSING AUTHORITY
SCHEDULE OF FEDERAL AWARDS EXPENDITURES
Year Ended December 31, 2005

	FEDERAL CFDA NUMBER	FUNDS EXPENDED
FROM U.S. DEPARTMENT OF HUD		
DIRECT PROGRAMS		
PHA Owned Housing:		
Public and Indian Housing	14.850A	$ 186,690
Public Housing Capital Fund	14.872	142,505
Housing Assistance Payments:		
Annual Contribution -		
Section 8 Housing Choice Vouchers	14.871	4,437,948
Total - All Programs		$ 4,767,143

See independent auditors' report

FAIRFIELD METROPOLITAN HOUSING AUTHORITY
COST CERTIFICATION

			CFP-OH16-P034-501-02
Operations		$	20,000
Management improvements			1,640
Fees & Costs			22,091
Site Improvement			7,469
Dwelling structures			77,534
Dwelling equipment			8,903
Nondwelling structure			7,923
Nondwelling equipment			54,980
	TOTAL EXPENDED	$	200,540
	TOTAL RECEIVED	$	200,540

1. The grant cost certificate was approved by HUD on June 23, 2005.

2. There Authority records agree to the above total liability.

3. There are no outstanding liabilities.

See independent auditors' report

Jones, Cochenour & Co.
Certified Public Accountants

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

Board of Directors
Fairfield Metropolitan Housing Authority
Lancaster, Ohio

Regional Inspector General of Audit
Department of Housing and Urban Development

We have audited the basic financial statements of governmental activities, each major fund, and the aggregate remaining fund information for Fairfield Metropolitan Housing Authority as of and for the year ended December 31, 2005, which collectively compromise the Authority's basic financial statements and have issued our report thereon dated June 7, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standard applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Fairfield 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 an opinion 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 reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Fairfield 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 grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Jones, Cochenour & Co.

Jones, Cochenour & Co.
June 7, 2006

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Jones, Cochenour & Co.
Certified Public Accountants

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
Fairfield Metropolitan Housing Authority
Lancaster, Ohio

Regional Inspector General of Audit
Department of Housing and Urban Development

<u>Compliance</u>
We have audited the compliance of Fairfield Metropolitan Housing Authority with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133* that are applicable to each of its major federal programs for the year ended December 31, 2005. Fairfield Metropolitan Housing Authority's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Fairfield Metropolitan Housing Authority's management. Our responsibility is to express an opinion on Fairfield 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 Fairfield 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 Fairfield Metropolitan Housing Authority's compliance with those requirements.

In our opinion, Fairfield 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, 2005.

<u>Internal Control Over Compliance</u>
The management of Fairfield 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 Fairfield 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.

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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 reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that 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.

Jones, Cochenour & Co.
June 7, 2006

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

Fairfield Metropolitan Housing Authority
December 31, 2005

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**
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** **Public Housing 14.850A** **Capital Fund Grant 14.872**
Dollar Threshold: Type A/B Programs	**$300,000**
Low Risk Auditee?	**Yes**

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

Fairfield Metropolitan Housing Authority
December 31, 2005

2. FINDINGS RELATED TO FINANCIAL STATEMENTS

There are no findings or questioned costs for the year ended December 31, 2005.

3. FINDINGS RELATED TO FEDERAL AWARDS

There are no findings or questioned costs for the year ended December 31, 2005.

Auditor of State
Betty Montgomery

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FAIRFIELD COUNTY METROPOLITAN HOUSING AUTHORITY

FAIRFIELD 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
NOVEMBER 9, 2006