



BASIC FINANCIAL STATEMENTS

of the

**HIGHLAND METROPOLITAN
HOUSING AUTHORITY**

for the

Year Ended December 31, 2004



**Auditor of State
Betty Montgomery**

Board of Directors
Highland Metropolitan Housing Authority
121 East East Street
Washington Court House, Ohio 43160

We have reviewed the *Independent Auditor's Report* of the Highland Metropolitan Housing Authority, Highland County, prepared by Jones, Cochenour & Co., for the audit period January 1, 2004 to December 31, 2004. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

BETTY MONTGOMERY
Auditor of State

June 20, 2005

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INDEPENDENT AUDITORS' REPORT

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

Regional Inspector General of Audit
Department of Housing and Urban
Development

We have audited the accompanying basic financial statements of Highland Metropolitan Housing Authority, as of and for the year ended December 31, 2004, as listed in the table of contents. These basic financial statements are the responsibility of the Highland Metropolitan Housing Authority's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Highland Metropolitan Housing Authority, as of December 31, 2004, and the results of its operations and the cash flows of its proprietary funds activities for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 28, 2005 on our consideration of Highland Metropolitan Housing Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the Authority taken as a whole. The FDS schedules are presented for purposes of additional analysis and are not a required part of the financial statements of the Highland Metropolitan Housing Authority. 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.
March 28, 2005**

HIGHLAND METROPOLITAN HOUSING AUTHORITY
STATEMENT OF NET ASSETS
December 31, 2004

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

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

FINANCIAL HIGHLIGHTS

During FY 2004, the Authority's net assets increased by \$5,835 (or 85%). Since the Authority engages only in business-type activities, the increase is all in the category of business-type net assets. Net Assets were \$6,163 and \$328 for FY 2004 and FY 2003 respectively.

The revenue decreased by \$54,387 (or 12%) during FY 2004, and was \$399,814 and \$454,201 for FY 2004 and FY 2003 respectively.

The total expenses of the Authority decreased by \$77,897 (or 16%). Total expenses were \$393,979 and \$471,876 for FY 2004 and FY 2003 respectively.

USING THIS ANNUAL REPORT

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

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

Authority-Wide Financial Statements

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

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

**HIGHLAND METROPOLITAN HOUSING AUTHORITY
STATEMENT OF NET ASSETS
December 31, 2004**

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

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

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

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

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

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

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

THE AUTHORITY’S FUNDS

The Authority’s financial statements include all programs that are considered to be within its administrative control. The Authority only has one grant program as follows:

Housing Choice Voucher Program – Under the Housing Choice Voucher Program, the Authority administers contracts with independent landlords that own the property. The Authority subsidizes the family’s rent through a Housing Assistance Payment made to the landlord. The program is administered under and Annual Contributions Contract (ACC) with HUD. HUD provides Annual Contributions Funding to enable the Authority to structure a lease that sets the participants’ rent at 30% of adjusted household income.

AUTHORITY-WIDE STATEMENT

Statement of Net Assets

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

**HIGHLAND METROPOLITAN HOUSING AUTHORITY
STATEMENT OF NET ASSETS
December 31, 2004**

**TABLE 1
STATEMENT OF NET ASSETS**

	FY 2004	Restated FY 2003
Current and Other Assets	\$ 80,018	\$ 23,331
Capital Assets	1,991	4,052
Total Assets	82,009	27,383
Other Liabilities	75,846	27,055
Non-Current Liabilities	0	0
Total Liabilities	75,846	27,055
Net Assets:		
Invested in Capital Assets, Net of Related Debt	1,991	4,052
Unrestricted	4,172	(3,724)
Total Net Assets	\$6,163	\$328

Major Factors Affecting the Statement of Net Assets

Current assets were increased by \$16,417 in fiscal year 2004; which was mainly caused by cash being higher and owing current liabilities of \$75,846.

Capital Assets were decreased by \$2,061. The current year's depreciation totaled \$2,061 for the year. For more detail see "Capital Assets and Debt Administration" below.

**TABLE 2
CHANGE OF NET ASSETS**

Total Net Assets 12/31/03	\$ 40,598
Prior Period Adjustments (1)	(40,270)
Unrestricted Net Assets 12/31/03, restated	328
Operating Revenue Over Expenses	5,835
Total Net Assets 12/31/04	\$ 6,163

(1) HUD adjusted the FY03 year-end reports to decrease amount earned due to disallowing over leasing of units.

**TABLE 3
CHANGE OF UNRESTRICTED NET ASSETS**

Unrestricted Net Assets 12/31/03	\$ 36,546
Prior Period Adjustments	(40,270)
Unrestricted Net Assets 12/31/03, restated	(3,724)
Results from operations	7,896
Unrestricted Net Assets 12/31/04	\$ 4,172

Note: Depreciation is treated as an expense and reduces the results of operations but does not have an impact on Unrestricted Net Assets

**HIGHLAND METROPOLITAN HOUSING AUTHORITY
STATEMENT OF NET ASSETS
December 31, 2004**

While the result of operations is a significant measure of the Authority's activities, the analysis of the changes in Unrestricted Net Assets provides a clearer change in financial well-being.

**TABLE 4
STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS**

	FY 2004	Restated FY 2003
HUD PHA Operating Grants	\$ 397,926	\$ 453,158
Investment Income/Other	1,888	1,043
Total Revenue	399,814	454,201
Total Expenses	393,979	471,876
Net Increases (Decrease)	\$ 5,835	\$ (17,675)

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

HUD PHA Grants which includes administrative fees and Housing Assistance Payments decreased by \$95,502. For 2003 the authority had over leased by 268 unit months and they were able to decrease there over leasing for 2004 to only 8 unit months. HUD does not allow over leasing of units for any reason. So the Authority can expect HUD recapture the HAP and Administrative for the 8 unit months and deduct them form the Authority's Operating Reserve.

**CAPITAL ASSETS AND DEBT ADMINISTRATION
CAPITAL ASSETS**

As of 12/31/04, the Authority had \$1,991 invested in capital assets as reflected in the following schedule, which represents a net decrease (additions, deductions and depreciation).

**TABLE 5
CAPITAL ASSETS AT YEAR-END
(NET OF DEPRECIATION)**

	Business-type Activities	
	FY 2004	FY 2003
Equipment - Administrative	\$ 13,847	\$ 13,847
Accumulated Depreciation	(11,856)	(9,795)
Total	\$ 1,991	\$ 4,052

**HIGHLAND METROPOLITAN HOUSING AUTHORITY
STATEMENT OF NET ASSETS
December 31, 2004**

The following reconciliation summarizes the change in Capital Assets:

**TABLE 6
CHANGE IN CAPITAL ASSETS**

	Business Type Activities
Beginning Balance	\$ 4,052
Additions	-
Disposition	-
Depreciation	<u>(2,061)</u>
Ending Balance	<u><u>\$ 1,991</u></u>

Debt Outstanding

As of 12/31/04, the Authority has no outstanding debt (bonds, notes, etc.)

Economic Factors

Significant economic factors affecting the Authority are as follows:

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

Financial Contact

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

**HIGHLAND METROPOLITAN HOUSING AUTHORITY
STATEMENT OF NET ASSETS
December 31, 2004**

ASSETS

Cash and cash equivalents \$ 80,018

TOTAL CURRENT ASSETS 80,018

CAPITAL ASSETS

Other capital assets - net 1,991

TOTAL ASSETS 82,009

LIABILITIES

Accounts payable 72,000

Accounts payable - other government 3,846

TOTAL CURRENT LIABILITIES 75,846

NET ASSETS

Invested in capital assets - net of related debt 1,991

Unrestricted net assets 4,172

TOTAL NET ASSETS \$ 6,163

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

OPERATING REVENUES	
HUD operating grants	<u>\$ 397,926</u>
TOTAL OPERATING REVENUES	397,926
 OPERATING EXPENSES	
Administrative	51,194
Depreciation	2,061
Housing assistance payments	<u>340,724</u>
TOTAL OPERATING EXPENSES	<u>393,979</u>
OPERATING INCOME	3,947
 NONOPERATING REVENUES	
Interest income	1,283
Fraud recovery	<u>605</u>
CHANGE IN NET ASSETS	5,835
Net Assets Beginning of Year	40,598
Prior period adjustments	<u>(40,270)</u>
Net Assets Beginning of Year - Restated	<u>328</u>
NET ASSETS END OF YEAR	<u><u>\$ 6,163</u></u>

See accompanying notes to the basic financial statements

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

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from HUD	\$ 397,926
Cash payments for administrative	(2,403)
Cash payments to HAP	<u>(340,724)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	54,799
 CASH FLOWS FROM INVESTING ACTIVITIES	
Investment activity/other income	<u>1,888</u>
INCREASE IN CASH AND CASH EQUIVALENTS	56,687
CASH AND CASH EQUIVALENTS, BEGINNING	<u>23,331</u>
CASH AND CASH EQUIVALENTS, ENDING	<u><u>\$ 80,018</u></u>
 RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH (USED FOR) OPERATING ACTIVITIES	
Operating income	\$ 3,947
Adjustments to reconcile operating loss to net cash used by operating activities	
Depreciation	2,061
Increase (decrease) in:	
Accounts payable	<u>48,791</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ 54,799</u></u>

See accompanying notes to the basic financial statements

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Summary of Significant Accounting Policies

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

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

Reporting Entity

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

Basis of Presentation

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

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

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

Measurement Focus

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

Enterprise Fund

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

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

The following is the program, which is included in the single enterprise fund:

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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.

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.

Investments

Investments are restricted by the provisions of the HUD Regulations (See Note 2). Investments are valued at market value. Interest income earned in fiscal year 2004 for both programs totaled \$1,283. The interest income earned on the general fund investments in the Section 8 Program is required to be returned to HUD.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Capital Assets

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

Furniture – non-dwelling	7
Equipment – non-dwelling	7
Computer hardware	3
Computer software	3

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets – net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are recorded as restricted when there are limitations imposed on their use either by internal or external restrictions.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the Authority, these revenues are tenant revenues, operating grants from HUD and other miscellaneous revenue.

Cash and Cash Equivalents

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

Budgetary Accounting

The Authority annually prepares its budget as prescribed by the Department of Housing and Urban Development. This budget is submitted to the Department of Housing and Urban Development and once approved is adopted by the Board of the Housing Authority.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Accounts Payable

This balance reflects the amount owed to the management company for the administration of the program.

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.

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

2. CASH AND INVESTMENTS – CONTINUED

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 \$80,018. The corresponding bank balances totaled \$81,356.

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

Category 1: \$81,356 was covered by federal depository insurance

3. 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.

4. CAPITAL ASSETS

	Balance 12/31/2003	Additions / Deletions	Balance 12/31/2004
CAPITAL ASSETS, BEING DEPRECIATED			
Furniture and equipment	\$ 13,847	\$ -	\$ 13,847
Totals at Historical Costs	13,847	-	13,847
Less: Accumulated Depreciation	(9,795)	(2,061)	(11,856)
TOTAL CAPITAL ASSETS, NET, BEING DEPRECIATED	\$ 4,052	\$ (2,061)	\$ 1,991

The depreciation expense for the year then ended December 31, 2004 was \$2,061.

The following is a summary of capital assets:

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

6. FDS SCHEDULE SUBMITTED TO HUD

For the fiscal year ended December 31, 2004, the Authority electronically submitted an unaudited version of the balance sheet, statement of revenues, expenses and changes in net asset and other data to HUD as required on the GAAP basis. The FDS schedules are on pages 16 – 17. The schedules are presented in the manner prescribed by Housing and Urban Development.

7. RESTATEMENT OF PRIOR YEAR’S FUND EQUITY

	<u>Total</u>	<u>Invests in Capital Assets</u>	<u>Unrestricted Net Assets</u>
Net Assets, Beginning of Year	\$ 40,598	\$ 4,052	\$ 36,546
HUD corrections on Section 8 year end reports	<u>(40,270)</u>	<u>-</u>	<u>(40,270)</u>
Net Assets, Beginning of Year, Restated	328	4,052	(3,724)
Current year income	<u>5,835</u>	<u>(2,061)</u>	<u>7,896</u>
Net Assets, End of Year	<u>\$ 6,163</u>	<u>\$ 1,991</u>	<u>\$ 4,172</u>

Highland Metropolitan Housing Authority
Balance Sheet
FDS Schedule Submitted to HUD
Proprietary Fund Type
Enterprise Fund
December 31, 2004

FDS Line Item No.	Account Description	14.871 Sect. 8 Hsg Choice VO
ASSETS		
111	Cash - unrestricted	\$ 80,018
100	TOTAL CASH	<u>80,018</u>
150	TOTAL CURRENT ASSETS	80,018
164	Furniture and equipment - admin	13,847
166	Accumulated depreciation	<u>(11,856)</u>
160	TOTAL FIXED ASSETS, NET	1,991
180	TOTAL NON-CURRENT ASSETS	<u>1,991</u>
190	TOTAL ASSETS	<u><u>\$ 82,009</u></u>
LIABILITIES		
312	Accounts payable <=90 days	\$ 72,000
331	Accounts payable - HUD PHA programs	<u>3,846</u>
310	TOTAL CURRENT LIABILITIES	75,846
300	TOTAL LIABILITIES	75,846
513	TOTAL EQUITY	<u>6,163</u>
600	TOTAL LIABILITIES AND EQUITY	<u><u>\$ 82,009</u></u>

See independent auditors' report

HIGHLAND METROPOLITAN HOUSING AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN EQUITY
FDS SCHEDULE SUBMITTED TO HUD
PROPRIETARY FUND TYPE
ENTERPRISE FUND
Year Ended December 31, 2004

FDS Line Item No.	Account Description	14.871 Sect. 8 Hsg Choice VO
	REVENUE	
706	PHA HUD grants	\$ 397,926
711	Investment income - unrestricted	1,283
714	Fraud recovery	605
	TOTAL REVENUE	<u>399,814</u>
	EXPENSES	
912	Auditing fees	3,369
916	Other operating - administrative	47,825
969	TOTAL OPERATING EXPENSES	<u>51,194</u>
970	EXCESS OPERATING REVENUE OVER EXPENSES	348,620
973	Housing Assistance Payments	340,724
974	Depreciation expense	2,061
900	TOTAL EXPENSES	<u>393,979</u>
1000	EXCESS OF REVENUE OVER EXPENSES	5,835
1103	Beginning equity	40,598
1104	Prior period adj/equity transfers	<u>(40,270)</u>
	ENDING EQUITY	<u><u>\$ 6,163</u></u>

See independent auditors' report



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

**Board of Directors
Highland Metropolitan Housing Authority
Washington Court House, Ohio**

**Regional Inspector General of Audit
Department of Housing and Urban
Development**

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

Internal Control Over Financial Reporting

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

Compliance and Other Matters

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

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

**Jones, Cochenour & Co.
March 28, 2005**



**Auditor of State
Betty Montgomery**

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HIGHLAND METROPOLIAN HOUSING AUTHORITY

HIGHLAND COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JULY 5, 2005**