

**LONDON METROPOLITAN HOUSING AUTHORITY
LONDON, OHIO**

BASIC FINANCIAL STATEMENTS

**FOR THE YEAR
SEPTEMBER 30, 2005**



**Auditor of State
Betty Montgomery**

Board of Directors
London Metropolitan Housing Authority
179 S. Main Street
London, Ohio 43140

We have reviewed the *Independent Auditor's Report* of the London Metropolitan Housing Authority, Madison County, prepared by Vanderhorst & Manning CPAs, LLC for the audit period October 1, 2004 through September 30, 2005. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The London 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

May 18, 2006

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LONDON METROPOLITAN HOUSING AUTHORITY
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VANDERHORST & MANNING CPAs, LLC
6105 NORTH DIXIE DRIVE
DAYTON, OHIO 45413

INDEPENDENT AUDITORS' REPORT

Board of Directors
London Metropolitan Housing Authority
London, Ohio

Regional Inspector General of Audit
Department of Housing and Urban
Development

We have audited the accompanying basic financial statements of London Metropolitan Housing Authority, as of and for the year ended September 30, 2005, as listed in the table of contents. These basic financial statements are the responsibility of the London 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 the London Metropolitan Housing Authority as of September 30, 2005, and the changes in net assets and the cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, to the basic financial statements, the London Metropolitan Housing Authority adopted the provisions of Governmental Accounting Standards Board ("GASB") Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements for State and Local Government: Omnibus*, and GASB No. 38, *Certain Financial Statements Note Disclosures*, as of October 1, 2003. The implementation resulted in a change to the Authority's format and content of basic financial statements.

In accordance with *Government Auditing Standards* we have also issued a report dated March 30, 2006, on our consideration of London Metropolitan Housing Authority's internal control over financial reporting our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis, is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquires 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 taken as a whole. The schedules listed in the table of contents are presented for purposes of additional analysis, and are not a required part of the financial statements of London Metropolitan Housing Authority. The combining financial data ("FDS") schedule is presented for purposes of additional analysis as required by the Department of Housing and Urban Development 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.

Vanderhorst & Manning CPAs, LLC
Dayton, Ohio

March 30, 2006

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**LONDON METROPOLITAN HOUSING AUTHORITY
MANAGEMENT’S DISCUSSION AND ANALYSIS
Year Ended September 30, 2005**

Unaudited

It is a privilege to present for you the financial picture of London Metropolitan Housing Authority. The London 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 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

- Net assets were \$1,601,465 and \$1,598,951 for fiscal year ending September 30, 2005 and 2004, respectively. The Authority-wide statements reflect an increase in total net assets of \$2,514 (or 1%), during 2005. This increase is reflective of the year’s activities.
- The business-type activity revenue increased by \$123,539 (or 24%) during 2005, and was \$625,062 and \$503,523 for 2005 and 2004, respectively.
- The total expenses of all Authority programs decreased by \$9,237 (or 1%). Total expenses were \$628,336 and \$637,573 for 2005 and 2004, respectively.

USING THIS ANNUAL REPORT

The following graphic outlines the format of this report:

MD&A ~ Management Discussion and Analysis ~
Basic Financial Statements ~ Authority-wide Financial Statements ~ ~ Fund Financial Statement ~ pgs. 10 - 12 ~ Notes to Financial Statements ~ pgs. 13 - 21
Other Required Supplementary Information ~ Required Supplementary Information (other than MD&A) ~ pgs. 22 - 24

The 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.

**LONDON METROPOLITAN HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended September 30, 2005**

Unaudited

Authority-Wide Financial Statements

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

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

The focus of the Statement of Net Assets (the "Unrestricted Net Assets") is designed 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". This account resembles the old operating reserves account.

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, 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.

Fund Financial Statements

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

The Department of Housing and Urban Development requires the funds be maintained by the Authority.

Business Type Funds:

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 size and age of your units.

**LONDON METROPOLITAN HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended September 30, 2005**

Unaudited

Drug Elimination Program – a grant program funded by the Department of Housing and Urban Development that is intended to reduce the use of illegal drugs within the Authority's properties.

AUTHORITY-WIDE STATEMENT

Statement of Net Assets

The following table reflects the condensed Statement of Net Assets compared to prior year. The Authority is engaged only in Business-Type Activities.

**TABLE 1
STATEMENT OF NET ASSETS**

	2005	Restated 2004
Current Assets	\$ 142,907	\$ 136,653
Net fixed Assets	1,541,217	1,532,946
TOTAL ASSETS	\$ 1,684,124	\$ 1,669,599
Current Liabilities	\$ 64,170	\$ 44,575
Long-term Liabilities	18,489	26,073
TOTAL LIABILITIES	\$ 82,659	\$ 70,648
Net Assets:		
Invested in Capital Assets, Net of Related Debt	\$ 1,512,345	\$ 1,508,621
Unrestricted	89,120	90,330
TOTAL NET ASSETS	\$ 1,601,465	\$ 1,598,951

For more detailed information see the Statement of Net Assets.

Major Factors Affecting the Statement of Net Assets

Total assets increased by \$14,525 (1%) for 2005. The explanation for the increase is as follows:

- 1) Current assets decreased by \$6254. This was the result in change in tenant receivable, receivable from HUD and interprogram due from.
- 2) The increase in fixed assets is due to the purchase of equipment and additional construction in process.

Total liabilities increased by \$12,011 (17%) for 2005:

- 1) Current liability increased by \$19,595. This was the result of increase at year-end outstanding bills to be paid.
- 2) Long-term liabilities decreased due to repayment on installment loans.

**LONDON METROPOLITAN HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended September 30, 2005**

Unaudited

Statement of Revenue, Expenses and Change in Net Assets

The following schedule compares the revenues and expenses for the current and previous fiscal year. The Authority is engaged only in Business-Type Activities.

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

REVENUES

Total Tenant Revenue	\$	194,713	\$	199,280
HUD Operating Subsidies		278,274		261,720
Capital Grants		146,769		38,231
Investment Income		891		851
Other Revenue		4,415		3,441
TOTAL REVENUE		625,062		503,523

EXPENSES

Administrative		126,851		199,505
Tenant Services		200		-
Utilities		113,290		84,363
Maintenance		173,534		142,998
General		55,308		36,056
Depreciation		159,153		174,651
TOTAL EXPENSES		628,336		637,573
NET INCREASE (DECREASE)	\$	(3,274)	\$	(134,050)

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

Total revenue increased by \$121,539 (24%) in 2005. The revenue increase was due to HUD allowing Capital Funds to be used to pay for the utility allowance reimbursement to the tenant as a result of an OIG audit finding. Without this additional funding, total revenue remained stable.

Total expenses decreased by \$9,237 (1%) in 2005. The decrease is due to the following:

- 1) Decrease in administration expenses to reflect reduction of utility allowance to tenants as a result of OIG audit findings in prior year.
- 2) Utility expenses increase due to change in utility rates. This appears to be a general trend across the state of Ohio.
- 3) Maintenance costs increased moderately due to contracted services to assist the PHA staff to make vacated units ready to be leased.

**LONDON METROPOLITAN HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended September 30, 2005**

Unaudited

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of year-end, the Authority had \$1,531,122 invested in a variety of capital assets as reflected in the following schedule, which represents a net decrease (addition, deductions and depreciation) of \$1,824 from the end of last year.

TABLE 3

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

	Business-type Activities	
	2005	2004
Land	\$ 340,739	\$ 340,739
Buildings	3,310,538	3,310,538
Equipment	216,137	201,208
Leasehold Improvements	25,456	24,325
Construction in Progress	257,600	116,332
Total Fixed Assets	4,150,470	3,993,142
Accumulated Depreciation	(2,619,348)	(2,460,196)
Net Fixed Assets	<u>\$ 1,531,122</u>	<u>\$ 1,532,946</u>

The following reconciliation summarizes the change in Capital Assets.

TABLE 4

CHANGE IN CAPITAL ASSETS

	Business Type Activities
Beginning Balance	\$ 1,532,946
Additions	157,329
Depreciation	<u>(159,153)</u>
Ending Balance	<u><u>\$ 1,531,122</u></u>

**LONDON METROPOLITAN HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended September 30, 2005**

Unaudited

Current year additions were:

- Purchase of various ranges and refrigerators, air conditions for a total cost of 21,561.
- Additional construction in progress \$141,268

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, 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

IN CONCLUSION

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

FINANCIAL CONTACT

Salvatore Consiglio, CPA, Inc.
Fee Accountant
(440) 877-9870

If you have any questions regarding this report, you may contact Diana Bell, Executive Director of the London Metropolitan Housing Authority at (740) 852-1888.

Respectfully submitted,

Diana Bell
Executive Director

LONDON METROPOLITAN HOUSING AUTHORITY
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2005

ASSETS

CURRENT ASSETS

Cash and Cash Equivalents	\$ 112,384
Investment	19,923
HUD Receivables - Other	15,600
Tenant Receivables - Net of \$503 Allowance For Doubtful Accounts	8,215
Prepaid Expenses	9,846
TOTAL CURRENT ASSETS	\$ 165,968

Property and Equipment - Net of \$2,619,348 Accumulated Depreciation	<u>1,531,122</u>
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TOTAL ASSETS	\$ <u>1,697,090</u>
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LIABILITIES

CURRENT LIABILITIES

Accounts Payable	\$ 28,675
Tenant Security Deposits	8,250
Accrued Wages and Payroll Taxes	9,180
Other Current Liabilities	10,037
Current Portion of Long-term Debt	5,548
TOTAL CURRENT LIABILITIES	\$ <u>61,690</u>

NON-CURRENT LIABILITIES

Long-term Debt, net of current	\$ 13,229
Compensated Absences-long term	<u>5,260</u>
	<u>18,489</u>

TOTAL LIABILITIES	\$ <u>80,179</u>
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NET ASSETS

Invested in Capital Assets, Net of Related Debt	\$ 1,512,345
Unrestricted	<u>104,566</u>
TOTAL NET ASSETS	\$ <u>1,616,911</u>

See accompanying notes to the basic financial statements.

**LONDON METROPOLITAN HOUSING AUTHORITY
STATEMENT OF REVENUES, EXPENSES
AND NET ASSETS
FOR THE YEAR ENDED SEPTEMBER 30, 2005**

<u>REVENUE</u>	
HUD Grants	\$ 293,874
Rental Income	194,713
Other Income	<u>4,415</u>
 TOTAL REVENUE	 \$ <u>493,002</u>
 <u>EXPENSES</u>	
Administrative Salaries	\$ 56,706
Employee Benefits	56,066
Auditing Fees	3,982
Sundry Administration	37,085
Utilities	113,289
Material & Labor	144,892
Depreciation	159,153
General	<u>51,529</u>
 TOTAL EXPENSES	 \$ <u>622,702</u>
 OPERATING INCOME	 \$ <u>(129,700)</u>
 <u>NON-OPERATING REVENUES</u>	
Interest Income	\$ 891
HUD Capital Grants	<u>146,769</u>
TOTAL NON-OPERATING REVENUES	<u>\$ 147,660</u>
 CHANGE IN NET ASSETS	 \$ 17,960
NET ASSETS - OCTOBER 1, 2004	<u>1,598,951</u>
 NET ASSETS - SEPTEMBER 30, 2005	 \$ <u><u>1,616,911</u></u>

See accompanying notes to the basic financial statements.

**LONDON METROPOLITAN HOUSING AUTHORITY
STATEMENT OF CASH FLOWS
YEAR ENDED SEPTEMBER 30, 2005**

<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>	
Cash received from HUD	\$ 278,274
Cash received from Tenants & Other	190,913
Cash Payments Operating Expenses	<u>(431,418)</u>
 NET CASH (USED) PROVIDED FOR OPERATING ACTIVITIES	 \$ <u>37,769</u>
 <u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u>	
Capital Grants received for Capital Assets	\$ 146,769
Acquisition of Property and Equipment	(157,328)
Proceeds from Note Payable - Ohio Edison	<u>(5,548)</u>
NET CASH (USED) PROVIDED BY FINANCING ACTIVITIES	\$ <u>(16,107)</u>
 <u>CASH FLOWS FROM INVESTING ACTIVITIES</u>	
Investment Income	\$ <u>891</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	\$ <u>891</u>
 NET INCREASE IN CASH AND CASH EQUIVALENTS	 \$ 22,553
CASH AND CASH EQUIVALENTS AT OCTOBER 1, 2004	<u>89,831</u>
CASH AND CASH EQUIVALENTS AT SEPTEMBER 30, 2005	<u><u>\$ 112,384</u></u>
 <u>RECONCILIATION OF OPERATING INCOME TO NET CASH USED BY OPERATING ACTIVITIES:</u>	
Net Operating Income	\$ (129,700)
Adjustments to Reconcile Net Loss to Net Cash Provided by Operating Activities:	
Depreciation	159,153
Changes in Operating Assets and Liabilities that Increase/Decrease Cash Flows:	
Receivables	(8,494)
Prepaid Expenses	1,755
Accounts Payable	18,458
Accrued Wages and Payroll Taxes	764
Other Current Liabilities	(1,825)
Tenant Security Deposits	<u>(2,342)</u>
 NET CASH PROVIDED BY OPERATING ACTIVITIES	 \$ <u><u>37,769</u></u>

See accompanying notes to the basic financial statements.

LONDON METROPOLITAN HOUSING AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2005

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Reporting Entity

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

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

Basis of Presentation

The financial statements of 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.

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

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

The Authority uses a single enterprise fund to maintain its financial records on an accrual basis. 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 of 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 and Basis of Accounting

The enterprise fund is accounted for on a flow of economic resources measurement focus and the accrual basis of accounting. 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 of its enterprise activity.

LONDON METROPOLITAN HOUSING AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2005

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Measurement Focus and Basis of Accounting (continued)

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operation. The principal operating revenues of the Authority's enterprise fund are charges to tenants for rent and operating subsidies from HUD. Operating expenses for the enterprise fund include the costs of facility maintenance, housing assistance payments, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Changes in Accounting Principles

Effective October 1, 2003, the Authority adopted the provisions of GASB Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments" as amended by GASB Statement No. 37, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus", and GASB Statement No. 38, "Certain Financial Statement Disclosures". GASB Statement No. 34 establishes financial reporting standards for all state and local governments and related entities. GASB Statement No. 34 primarily relates to presentation and disclosure requirements. The impact of this accounting change was related to the format of the financial statements, presentation of net assets, the inclusion of management's discussion and analysis, additional disclosures for capital assets, and the preparation of the statements of cash flows on the direct method.

Estimates

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

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.

Investments

Investments are stated at fair value. Cost –based measures of fair value were applied to nonnegotiable certificate of deposit.

LONDON METROPOLITAN HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2005

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Tenant Receivables – Recognition of Bad Debts

Bad debts are provided on the allowance method based on management's evaluation of the collectibility of outstanding tenant receivable balances at the end of the year.

Property and Equipment

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

Depreciation is recorded on the straight-line method.

Long-Term Debt/HUD Contributions

To provide for the development and modernization of low-rent housing units, LMHA issued New Housing Authority Bonds and Permanent Notes – F.F.B. These bonds and notes are payable by HUD and secured by annual contributions. The bonds and notes do not constitute a debt by the Authority and accordingly have not been reported in the accompanying financial statements.

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.

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 reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Authority or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

LONDON METROPOLITAN HOUSING AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2005

NOTE 2 – CASH AND CASH EQUIVALENTS

Cash

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

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

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

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

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

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

The carrying amount of the Authority's deposits was \$112,384 at September 30, 2005. The corresponding bank balances were \$112,389.

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

Category 1.	\$	100,000	was covered by federal depository insurance.
Category 3.	\$	12,384	was covered by collateral held by the pledging financial institution, but not in the name of the Authority.

LONDON METROPOLITAN HOUSING AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2005

NOTE 2 – CASH AND CASH EQUIVALENTS (continued)

Investments

HUD, State Statute and Board Resolutions authorize the Authority to invest in obligations of U.S. Treasury, agencies and instrumentalities, certificates of deposit, repurchase agreements, money market deposit accounts, municipal depository fund, super NOW accounts, sweep accounts, separate trading of registered interest and principal of securities, mutual funds, bonds and other obligations of this State, and the State Treasurer's investment pool. Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the Authority, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian. For purposes of GASB No. 3, the Authority has no investments at September 30, 2005.

NOTE 3 – PROPERTY AND EQUIPMENT

A summary of property and equipment at September 30, **2005, and 2004** by class is as follows:

	<u>Sept 30,2004</u>	<u>Additions</u>	<u>Sept 30,2005</u>
Buildings and Building Improvements	\$ 3,310,538		\$ 3,310,538
Land and Land Improvements	340,739		340,739
Furniture and Fixtures, Equipment and Moving Vehicles	225,533	16,060	241,393
Construction in Progress	<u>116,332</u>	<u>141,268</u>	<u>257,600</u>
Total	\$ 3,993,142	157,328	\$ 4,150,470
Less Accumulated Depreciation	<u>2,460,196</u>	<u>159,152</u>	<u>2,619,348</u>
Net Property and Equipment	<u>\$ 1,532,946</u>	<u>\$ (1,824)</u>	<u>\$ 1,531,122</u>

Depreciation Expense for the year ended September 30, 2005 was \$159,153.

LONDON METROPOLITAN HOUSING AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2005

NOTE 4 – RETIREMENT AND OTHER BENEFIT PLANS

All employees of the Authority participate in the Ohio Public Employees Retirement System (OPERS), a cost-sharing multiple-employer defined benefit pension plan. The OPERS provides basic retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Chapter 145 of the Ohio Revised Code provides statutory authority to establish and amend benefits. OPERS issues a stand-alone financial report that includes financial statements and required supplementary information for the OPERS. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 466-2085 or 1-800-222-7377.

The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rate is 8.50% of qualifying gross wages for all employees. The total 2005 employer contribution rate was 13.55% of covered payroll, 8.55 percent to fund pension and 5.0 percent to fund health care. Required employer contributions are equal to 100% of the dollar amount billed to each employer and must be extracted from the employer's records. The Authority's contributions to OPERS for the years ended September 30, 2005, 2004 and 2003 were \$15,492, \$14,265, and \$12,982, respectively.

OPERS provides post-retirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit and to primary survivor recipients of such retirees. Health care coverage for disability recipients is available. The health care coverage provided by the retirement system is considered an Other Post-employment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to PERS is set aside for the funding of post retirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The 2005 employer contribution rate for state employers was 13.55% of covered payroll: 5% was the portion that was used to fund health care for the year, under the new calculation methodology. The number of active contributing participants was 368,996 as of December 31, 2003.

The significant actuarial assumptions and calculations relating to postemployment health care benefits were based on the OPERS latest actuarial review performed as of December 31, 2002. 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 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 annually to reflect 25 percent of unrealized market appreciation or depreciation on investment assets. The investment assumption rate for 2002 was 8.00 percent. An annual increase of 4.00 percent compounded annually is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.00 percent base increase, were assumed to range from 0.50 percent to 6.3 percent. Health care costs were assumed to increase 4.00 percent annually.

As of December 31, 2002, the audited estimated net assets available for future OPEB payments were \$10.0 billion. The actuarial accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used were \$18.7 billion and \$8.7 billion, respectively.

In December 2001, the Board adopted the Health Care Choices plan in its continuing effort to respond to the rise in the cost of health care. The Choices Plan will be offered to all persons newly hired under OPERS after January 1, 2004, with no prior service credit accumulated toward health care coverage. Choices, as the name suggests, will incorporate a cafeteria approach, offering a more broad range of health care options. The plan uses a graded scale from ten to thirty years to calculate a month health care benefit.

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

LONDON METROPOLITAN HOUSING AUTHORITY
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 SEPTEMBER 30, 2005

NOTE 5 – COMPENSATED ABSENCES

The Board of Commissioners establishes vacation and sick leave policies.

Annual vacation and sick leave is given to all full time permanent employees at varying rates each year, based upon years of service of each respective employee. Certain portions of such leave may be accrued if not taken currently each year, but none of which may be paid to the employee except upon permanent termination, provided the employee is not dismissed for cause. At September 30, 2005, the Authority has accrued vacation and sick leave in the amount of \$5,260, long-term and \$2,939 current portion.

NOTE 6 – NOTE PAYABLE

The Authority financed the purchase of outside lighting with Ohio Edison in the amount of \$18,777, payable in monthly installments of \$462 per month including interest at .28% over 3.4 years. Final payment due February 2009. Four year maturities are as follows:

September 30	Principal	Interest	Total
2006	5,503	45	5,548
2007	5,518	30	5,548
2008	5,534	14	5,548
2009	<u>2,1291</u>	<u>4</u>	<u>2,133</u>
Total	<u>\$18,684</u>	<u>\$ 93</u>	<u>\$18,777</u>

NOTE 7 – INSURANCE

The Housing Authority maintains comprehensive insurance coverage with private carriers for health, real property, building and contents. There were no significant reduction in coverage and no settlements exceeded insurance coverage during the past three years.

NOTE 8 – FDS SCHEDULE SUBMITTED TO HUD

For the fiscal year ended September 30, 2005, the Authority electronically submitted an unaudited version of the combining balance sheet, statement of revenues, expenses and charges in retained earnings and other data to HUD as required on the GAAP basis. The audited version of the FDS schedules is on pages 21 and 22. The schedules are presented in the manner prescribed by Housing and Urban Development. These schedules can be used to tie the total assets and liabilities into the combined statements

LONDON METROPOLITAN HOUSING AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2005

NOTE 9 – CONTINGENCIES

Grants

The Authority received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Authority. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Authority at September 30, 2005.

Commitments and Contingencies

The authority has, under its normal operations, entered into commitments for the purchase of maintenance, cleaning, and other services. Such commitments are monthly or annually.

The Authority is exposed to various risks of loss related to torts; theft to, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. At September 30, 2005, the Authority was not involved in any such matters.

Utility Allowance

A report of the Inspector General of the U.S. Department of Housing & Urban Development, dated March 22, 2002, had indicated that in view of a failure of the housing Authority to review utility costs over a period of eight years and its impact on rents, tenants may have been overcharged an amount approximately nearly \$196,000 in rent and if efforts were made to reimburse tenants, then no financial assistance should be available from HUD for that purpose. Management however maintains that the value represented as the estimate is substantially overstated by nearly 250%, as supported by a subsequently secured independent study

The Authority paid \$1,514 in 2005 for settlement to tenants for the utility allowance. HUD granted permission to use funds from the Capital Fund program in the amount of \$1,514, thus making those funds Operating Funds. The \$1,514 expense is included in other operating administrative.

LONDON METROPOLITAN HOUSING AUTHORITY
BALANCE SHEET
FDS SCHEDULE SUBMITTED TO HUD
SEPTEMBER 30, 2005

FDS LINE NO.	Account Description	14.850 Low Rent Public Hsg	14.872 Public Hsg Capital Fund	14.854 Public Hsg Drug Elim.	Total
ASSETS					
111	Cash - unrestricted	\$ 102,289	\$ 0	\$ 0	\$ 102,289
114	Cash - Tenant Security	10,095	0	0	10,095
100	Total Cash	<u>112,384</u>	<u>0</u>	<u>0</u>	<u>112,384</u>
122	Accounts receivable - HUD Other Projects	15,600	0	0	0
125	Accounts receivable - Misc	0	0	0	0
126	Accounts receivable - Tenant	8,718	0	0	0
126.1	Allowance for doubtful accounts - tenant	(503)	0	0	0
126.2	Allowance for doubtful accounts - other	0	0	0	0
129	Accrued interest receivable	0	0	0	0
120	TOTAL RECEIVABLES - NET	<u>23,815</u>	<u>0</u>	<u>0</u>	<u>0</u>
131	Investments - Unrestricted	19,923	0	0	19,923
142	Prepaid Expenses and Other	9,846	0	0	9,846
144	Interprogram Due From	0	0	0	0
150	Total Current Assets	<u>165,968</u>	<u>0</u>	<u>0</u>	<u>165,968</u>
161	Land	340,739	0	0	340,739
162	Buildings	3,310,538	0	0	3,310,538
163	Furniture and equipment - Dwelling	108,525	0	0	108,525
164	Furniture and equipment - Admin	95,479	12,133	0	108,743
165	Leasehold improvements	25,456	0	0	25,456
166	Accumulated depreciation	(2,617,377)	(1,971)	0	(2,619,348)
167	Construction in Progress	0	257,600	0	257,600
180	TOTAL NON-CURRENT ASSETS	<u>1,263,360</u>	<u>267,762</u>	<u>0</u>	<u>1,531,122</u>
190	TOTAL ASSETS	<u>\$ 1,429,328</u>	<u>\$ 267,762</u>	<u>\$ 0</u>	<u>\$ 1,697,090</u>
LIABILITIES AND RETAINED EARNINGS					
312	Accounts payable <=90 days	\$ 28,675	\$ 0	\$ 0	\$ 28,675
321	Accrued Wage/Payroll taxes payable	9,180	0	0	9,180
322	Accrued Compensated Absences	0	0	0	0
333	Accounts payable - other Gov	10,037	0	0	10,037
341	Tenant Security Deposits	8,250	0	0	8,250
345	Other current liabilities	5,548	0	0	5,548
310	TOTAL CURRENT LIABILITIES	<u>61,690</u>	<u>0</u>	<u>0</u>	<u>61,690</u>
353	Noncurrent liabilities - other	13,229	0	0	13,229
354	Accrued Compensated Absences-non current	5,260	0	0	5,260
350	TOTAL NONCURRENT LIABILITIES	<u>18,489</u>	<u>0</u>	<u>0</u>	<u>18,489</u>
300	TOTAL LIABILITIES	<u>80,179</u>	<u>0</u>	<u>0</u>	<u>80,179</u>
508.1	Invested in Capital Assets, Net of Debt	1,244,583	267,762	0	1,512,345
512.1	Unrestricted Net Assets	<u>104,566</u>	<u>0</u>	<u>0</u>	<u>104,566</u>
513	TOTAL EQUITY/NET ASSETS	<u>1,349,149</u>	<u>267,762</u>	<u>0</u>	<u>1,616,911</u>
TOTAL LIABILITIES AND EQUITY					
600	NET ASSETS	<u>\$ 1,429,328</u>	<u>\$ 267,762</u>	<u>\$ 0</u>	<u>\$ 1,697,090</u>

LONDON METROPOLITAN HOUSING AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
NET ASSETS
FDS SCHEDULE SUBMITTED TO HUD
SEPTEMBER 30, 2005

DS LINE ITEM NO.	Account Description	14.850 Low Rent Public Hsg	14.872 Public Hsg Capital Fund	14.854 Public Hsg Drug Elim	Total
REVENUE					
703	Net Tenant Revenue	\$ 194,713	\$ 0	\$ 0	\$ 194,713
704	Net Tenant Revenue	0			0
705	Total Tenant Revenue	194,713	0	0	194,713
706	HUD PHA Operating Grants	186,585	107,289	0	293,874
706.1	Capital Grants	0	146,769	0	146,769
711	Investment income	891	0	0	891
715	Other Revenue	4,415	0	0	4,415
700	TOTAL REVENUE	386,604	254,058	0	640,662
EXPENSES					
911	Administrative Salaries	56,702	0	0	56,702
912	Auditing fees	3,982	0	0	3,982
914	Compensated Absences	8,487	0	0	8,487
915	Employee Benefit Admin	19,091	0	0	19,091
916	Other Operating - Admin	36,479	0	0	36,479
921	Tenant Services - Other	200	0	0	200
931	Water	41,160	0	0	41,160
932	Electric	7,684	0	0	7,684
933	Gas	64,446	0	0	64,446
941	Ordinary Mtce & Op. Labor	58,140	0	0	58,140
942	Ordinary Mtce & Op. Materials	28,712	0	0	28,712
943	Ordinary Mtce & Op. Contract Costs	58,039	0	0	58,039
945	Employee Benefit Contr. Mtce	28,643	0	0	28,643
961	Insurance Premiums	21,665	0	0	21,665
962	Other General Expenses	0	0	0	0
963	Payments in Lieu of Taxes	7,765	0	0	7,765
964	Bad Debt - Tenant Rent	22,354	0	0	22,354
969	TOTAL OPERATING EXPENSE	463,549	0	0	463,549
970	Excess operating revenue over expenses	(76,945)	254,058	0	177,113
OTHER EXPENSES					
974	Depreciation expense	157,655	1,498	0	159,153
900	TOTAL EXPENSES (Acct. 969, 973,974)	621,204	1,498	0	622,702
1001	Operating Transfers In	107,289	0	0	107,289
1002	Operating Transfers Out	0	(107,289)	0	(107,289)
1010	Total Other Financing Sources(Uses)	107,289	(107,289)	0	0
1000	Excess of Operating Revenue over Expenses	(127,311)	145,271	0	17,960
1003	Beginning Equity	1,446,400	122,491	30,060	1,598,951
1104	Prior Period Adjustments, Equity Transfers and Correction of Errors	30,060	0	(30,060)	30,060
	ENDING EQUITY	\$ 1,349,149	\$ 267,762	\$ 0	\$ 1,616,911

VANDERHORST & MANNING CPAs, LLC
6105 NORTH DIXIE DRIVE
DAYTON, OHIO 45413

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

Board of Directors
London Metropolitan Housing Authority
London, Ohio

Regional Inspector General of Audit
Department of Housing and Urban
Development

We have audited the basic financial statements of London Metropolitan Housing Authority as of and for the year ended September 30, 2005, and have issued our report thereon dated March 30, 2006. 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 London 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 auditing 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 operations that we consider to be material weaknesses.

Compliance

As part of obtaining reasonable assurance about whether London 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 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.

Vanderhorst & Manning CPAs, LLC
Dayton, Ohio

March 30, 2006



**Auditor of State
Betty Montgomery**

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LONDON METROPOLITAN HOUSING AUTHORITY

MADISON 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
MAY 30, 2006**