Fayette Metropolitan Housing Authority

Financial Statements

For the Year Ended December 31, 2008

Board of Directors
Fayette Metropolitan Housing Authority
121 East Street
Washington Courthouse, Ohio 43160

We have reviewed the *Independent Auditors' Report* of the Fayette Metropolitan Housing Authority, Fayette County, prepared by Salvatore Consiglio, CPA, Inc., for the audit period January 1, 2008 through December 31, 2008. 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 Fayette Metropolitan Housing Authority is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

October 14, 2009

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FAYETTE METROPOLITAN HOUSING AUTHORITY
AUDIT REPORT
FOR THE YEAR ENDED DECEMBER 31, 2008

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Independent Auditors' Report

Board of Directors
Fayette Metropolitan Housing Authority

I have audited the accompanying financial statements of the business-type activities of Fayette Metropolitan Housing Authority, Ohio, as of and for the year ended December 31, 2008, which collectively comprise the Authority basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Fayette Metropolitan Housing Authority, Ohio, management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my 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 I 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. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Fayette Metropolitan Housing Authority, Ohio, as of December 31, 2008, and the respective changes in financial position and the cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards,* I have also issued a report dated September 8, 2009, on my consideration of Fayette Metropolitan Housing Authority, Ohio's internal control over financial reporting and my 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 my 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 consider in conjunction with this report in considering the results of my audit.

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the accounting principles generally accepted in the United State of America. I have applied certain limited procedures, which consisted principally of inquiry of management regarding the methods of measurement and presentation of the supplementary information. However, I did not audit the information and express no opinion thereon.

My Audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the Fayette Metropolitan Housing Authority basic financial statements. The accompanying Schedule of Expenditure of Federal Awards 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 my opinion, is fairly presented in all material respect in relation to the basic financial statements taken as a whole.

Salvatore Consiglio, CPA, Inc.
September 8, 2009

FAYETTE METROPOLITAN HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (M D & A)
Year Ended DECEMBER 31, 2008

Unaudited

Fayette 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, 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 (beginning on page 12).

FINANCIAL HIGHLIGHTS

- During FY 2008, the Authority's net assets increased by $60,660. Since the Authority engages only in business-type activities, the increase is all in the category of business-type net assets. Net Assets were $467,596 and $528,256 for FY 2007 and FY 2008 respectively.

- The revenue increased by $29,601 (or 2%) during FY 2008, and was $1,729,400 and $1,759,001 for FY 2007 and FY 2008 respectively.

- The total expenses of the Authority increased by $21,218 (or 1%). Total expenses were $1,677,123 and $1,698,341 for FY 2007 and FY 2008 respectively.

USING THIS ANNUAL REPORT

The Report includes three major sections, the "Management's Discussion and Analysis (MD&A)", "Basic Financial Statements", and "Other Required Supplementary Information":

MD&A

~ Management's Discussion and Analysis ~

Basic Financial Statements

~ Authority-wide Financial Statements ~

Other Required Supplementary Information

~ Required Supplementary Information ~
(other than the MD&A)

The primary focus of the Authority's financial statements is on both the Authority as a whole (Authority-wide).

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, 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 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 capital 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

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.

Many of the programs maintained by the Authority are required by the Department of Housing and Urban Development. Others are segregated to enhance accountability and control.

The Authority's Programs

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 household income.

Other Programs - In addition to the housing choice voucher program, the Authority also operates the following programs:

Unaudited

Section 8 New Construction Program – provides housing assistance payments to participating owners on behalf of eligibly tenants occupying the units under a lease agreement between the landlords and tenants.

Business Activities – represents non-HUD resources developed from a variety of activities.

AUTHORITY-WIDE STATEMENTS

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

	2008	2007
Current and Other Assets	$ 565,390	$ 470,676
Capital Assets	922,506	861,374
Total Assets	$ 1,487,896	$ 1,332,050
Current Liabilities	$ 263,469	$ 27,309
Long-Term Liabilities	696,171	837,145
Total Liabilities	959,640	864,454
Net Assets:		
Investment in Capital Assets, net of Related Debt	106,387	56,469
Restricted net assets	98,993	88,889
Unrestricted Net Assets	322,876	322,238
Total Net Assets	528,256	467,596
Total Liabilities and Net Assets	$ 1,487,896	$ 1,332,050

For more detailed information see page 12 for the Statement of Net Assets.

FAYETTE METROPOLITAN HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (M D & A)
Year Ended DECEMBER 31, 2008

Unaudited

Major Factors Affecting the Statement of Net Assets

Current assets increased by $94,714 in fiscal year 2008, while, total liabilities increased by $95,186. The increase in current assets is mainly due to the increase in cash in the current year. Total liabilities also increased during the year due to the increase in accounts payable and new debt issued of $45,000 that was used to acquire a home to be leased to MRDD clients.

Capital Assets increased by $61,132. This increase represents the purchase of an additional home at 1412 Lindberg Street for $105,000 less current year's depreciation of $43,866. For more detail see "Capital Assets and Debt Administration".

TABLE 2

CHANGE OF TOTAL NET ASSETS

	Unrestricted	Restricted Net Assets	Investment in Capital Assets
Beginning Balance - December 31, 2007	$ 322,238	$ 88,889	$ 56,469
Results of Operations	50,556	10,104	-
Adjustments:			
Debt Retirements	(33,786)	-	33,786
Loan Proceeds	45,000	-	(45,000)
Current year Depreciation Expense (1)	43,866	-	(43,866)
Capital Expenditure	(105,000)	-	105,000
Rounding	2	-	(2)
Ending Balance - December 31, 2008	$ 322,876	$ 98,993	$ 106,387

(1) Depreciation is treated as an expense and reduces the results of operations but does not have an impact on Unrestricted Net Assets.

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

TABLE 3

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

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

	2008	2007
Revenues		
Operating Grants	$ 1,598,455	$ 1,585,130
Investment Income	11,329	9,713
Tenant Revenue	102,299	88,212
Other Revenues	46,918	46,345
Total Revenues	**1,759,001**	**1,729,400**
Expenses		
Administrative	219,711	211,609
Maintenance	75,672	97,857
General & Interest Expenses	75,089	57,541
Housing Assistance Payaments	1,284,003	1,268,889
Depreciation	43,866	41,227
Total Expenses	**1,698,341**	**1,677,123**
Net Increases (Decreases)	**$ 60,660**	**$ 52,277**

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

The amount of HUD PHA Grants available for FY2008 includes administrative fees and Housing Assistance Payments for Housing Choice Voucher, Mainstream and SRO programs. Other revenues include Fraud Recovery, FSS forfeitures and TBRA/EA funding, and CHIP funding.

The net increase in total revenue of $29,601 for FY 2008 is due mainly by the increase of rental income from the business activities.

Total expenses increased by $21,218. This increase was mainly due the increase in HAP payments of $15,114. All other expenses remained stable and only reflected inflation increases.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of December 31, 2008, the Authority had $922,506 invested in capital assets as reflected in the following schedule, which represents a net increase (additions, deductions and depreciation) of $61,132 from the end of last year.

TABLE 4

CAPITAL ASSETS AT YEAR-END (NET OF DEPRECIATION)

	2008	2007
Buildings	1,076,545	908,429
Furniture, Equipment & Machinery	77,080	77,080
Accumulated Depreciation	(231,119)	(187,251)
Construction in Process	-	63,116
Total	$ 922,506	$ 861,374

The following reconciliation summarizes the change in Capital Assets, which is presented in detail on page 26 of the notes.

TABLE 5

CHANGE IN CAPITAL ASSETS (IN THOUSANDS)

Beginning Balance - December 31, 2007	$	861,374
Current year Additions		105,000
Current year Depreciation Expense		(43,866)
Rounding		(2)
Ending Balance - December 31, 2008	$	922,506

Current year Additions are summarized as follows:		
Building - 1412 Lindberg	$	105,000
Total Current Year Additions	$	105,000

The additions for this year include the purchase of a house at 1412 Lindberg for $105,000.

Debt Outstanding

As of December 31, 2008, the Authority had $816,119 of debt outstanding as compared to $804,905 last year for a $11,214 net increase as reflected below:

TABLE 6
CONDENSED STATEMENT OF CHANGES IN DEBT OUTSTANDING

Beginning Balance - January 1, 2008	$804,905
Current Year Loans Proceeeds	45,000
Current Year Loan Retirements	(33,786)
Ending Balance - December 31, 2008	$816,119

FAYETTE METROPOLITAN HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (M D & A)
Year Ended DECEMBER 31, 2008

Unaudited

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 Fayette 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.

FAYETTE METROPOLITAN HOUSING AUTHORITY
Statement of Net Assets
Proprietary Funds
December 31, 2008

ASSETS	
Current assets	
Cash and cash equivalents	$369,342
Restricted cash and cash equivalents	163,337
Receivables, net	26,968
Prepaid expenses and other assets	5,743
Total current assets	**565,390**
Noncurrent assets	
Capital assets:	
Building and equipment	1,153,625
Less accumulated depreciation	(231,119)
Total noncurrent assets	***922,506***
Total assets	**$1,487,896**
LIABILITIES	
Current liabilities	
Accounts payable	$79,177
Tenant security deposits	2,794
Bonds, notes, and loans payable	181,498
Total current liabilities	***263,469***
Noncurrent liabilities	
Bonds, notes, and loans payable	634,621
Noncurrent liabilities - other	61,550
Total noncurrent liabilities	***696,171***
Total liabilities	**$959,640**
NET ASSETS	
Invested in capital assets, net of related debt	$106,387
Restricted net assets	98,993
Unrestricted net assets	322,876
Total net assets	**$528,256**

The accompanying notes to the Basic Financial Statements are an integral part of these statements.

FAYETTE METROPOLITAN HOUSING AUTHORITY
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended December 31, 2008

OPERATING REVENUES	
Tenant Revenue	$102,299
Government operating grants	1,598,455
Other revenue	46,918
Total operating revenues	**1,747,672**
OPERATING EXPENSES	
Administrative	219,711
Maintenance	75,672
General	25,771
Housing assistance payment	1,284,003
Depreciation	43,866
Total operating expenses	***1,649,023***
Operating income (loss)	**98,649**
NONOPERATING REVENUES (EXPENSES)	
Interest and investment revenue	11,329
Interest expense	(49,318)
Total nonoperating revenues (expenses)	***(37,989)***
Change in net assets	60,660
Total net assets - beginning	467,596
Total net assets - ending	**$528,256**

The accompanying notes to the Basic Financial Statements are an integral part of these statements.

FAYETTE METROPOLITAN HOUSING AUTHORITY
Statement of Cash Flows
Proprietary Fund Type
For the year ended December 31, 2008

CASH FLOWS FROM OPERATING ACTIVITIES	
Operating grants received	$1,580,618
Other revenue received	46,918
Cash received from tenants	93,299
Cash payments for administrative	(193,656)
Cash payments for HAP	(1,284,003)
Net cash provided (used) by operating activities	**243,176**
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest earned	11,329
Net cash provided (used) by investing activities	**11,329**
CASH FLOWS FROM CAPITAL AND FINANCING ACTIVITIES	
Repayment of debt	(33,786)
Acquisition of capital assets	(105,000)
Interest expense	(49,318)
Loan proceeds	45,000
Net cash provided (used) by capital and related activities	**(143,104)**
Net increase (decrease) in cash	111,401
Cash and cash equivalents - Beginning of year	421,278
Cash and cash equivalents - End of year	**$532,679**

The accompanying notes to the Basic Financial Statements are an integral part of these statements.

FAYETTE METROPOLITAN HOUSING AUTHORITY
Statement of Cash Flows (Continued)
Proprietary Funds
For the Year Ended December 31, 2008

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Net Operating Income (Loss)	$98,649
Adjustment to Reconcile Operating Loss to Net Cash Used by Operating Activities	
- Depreciation	43,866
- (Increases) Decreases in Accounts Receivable - HUD	7,966
- (Increases) Decreases in Accounts Receivable - Other	9,000
- (Increases) Decreases in Prepaid Assets	(265)
- (Increases) Decreases in Accrued Interest Receivable	(14)
- Increases (Decreases) in Accounts Payable	68,900
- Increases (Decreases) in Accounts Payable -HUD	7,282
- Increases (Decreases) in Noncurrent Liabilities	7,792
Net cash provided by operating activities	**$243,176**

The accompanying notes to the Basic Financial Statements are an integral part of these statements.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Summary of Significant Accounting Policies

The financial statements of the Fayette Metropolitan Housing Authority (the Authority) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Authority's accounting policies are described below.

Reporting Entity

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

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

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

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Component units are legally separate organizations for which the Authority is financially accountable. The Authority is financially accountable for an organization if the Authority appoints a voting majority of the organization's governing board and (1) is able to significantly influence the programs or services performed or provided by the organization; or (2) is legally entitled to or can otherwise access the organization's resources; is legally obligated or has otherwise assumed the responsibility to finance deficits of or provide financial support to the organization; or is obligated for the debt of the organization. Component units may also include organizations that ate fiscally dependent on the Authority in that the Authority approves their budget, the issuance of their debt or the levying of their taxes. Based upon the application of these criteria, the Authority has no component units.

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

Basis of Presentation

In July 1999, the GASB issued GASB statement No. 34, *Basic Financial Statement and Management's Discussion and Analysis for State and Local Government*. The effective date of the statement is for periods beginning after June 15, 2002. The statement requires enhanced disclosures and changes to the presentation of the financial statements.

The Authority has implemented GASB 34, noting that the inclusion of Management's Discussion and Analysis, the presentation of net assets, and the utilization of the direct method of cash flows are the changes made to the financial statements to comply with the requirement.

Net Assets, Invested in Capital Assets, Net of Related Debt: This component of Net Assets consists of all Capital Assets, reduced by the outstanding

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

balances of any bonds, mortgages, notes or other borrowing 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 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 is similar to the former operating reserve account.

This new standard provides for significant changes in terminology; recognition of contributions in the Statement of Revenues, Expenses and Changes in Net Assets; inclusion of management discussion and analysis as supplementary information; and other changes.

All activities of the Authority are accounted for within a single proprietary (enterprise) fund. Proprietary funds are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods and services to the general public on a continuing basis be financed or recovered primarily though user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management a control, accountability, or other purposes.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result form providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Authority are rents collected form tenants and subsidies provided by federal agencies. The Authority also recognized as operating revenue and expenses the portion of interest on bonds and notes related to housing developments of the Authority and its partnerships. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, depreciation on capital assets and amortization of bond discounts. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The accounting and financial reporting treatment applied to the Authority is determined by its measurement focus. The transactions of the Authority are

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the balance sheet. Net assets (i.e., total assets net of total liabilities) are segregated into invested in capital assets, net of related debt, restricted and unrestricted components.

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, and then unrestricted resources as they are needed.

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

Fund Accounting

The Authority maintains its accounting records in accordance with the principles of fund accounting. Fund accounting is designed to meet the needs of governmental entities in which legal or other restraints require the recording of specific receipts and disbursements. The transactions of each fund are reflected in self-balancing groups of accounts and accounting entities that are separate from the activities reported in other funds. A summary of each of these funds is provided below:

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

Proprietary Fund Types

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

Enterprise Fund

This fund is used to account for the operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Enterprise Fund – (Continued)
through user charges or where it has been decided that periodic determination of revenue earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Measurement Focus/Basis of Accounting

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

Investments

Investments are restricted by the provisions of the HUD Regulations. Investments are valued at market value. Interest income earned in fiscal year 2008 for both programs totaled $11,329.

Capital Assets

Capital assets over the Authority's capitalization threshold of $500 are recorded at cost and depreciated using the straight-line method over an estimated useful life of the assets. Donated capital assets are recorded at fair market value on the date of receipt. 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 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	Land improvements 15

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Accounting and Reporting for Nonexchange Transactions

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounting and Reporting for Nonexchange Transactions – (Continued)

by the parties to the agreement (i.e., certain grants and private donations).

PHA grants and subsidies will be defined as 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 specified 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.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Due From/To Other Programs
Inter-program receivables and payables as of December 31, 2008 on the Financial Data Schedule have been eliminated on the Statement of Net Assets.

Operating Revenues and Expenses
Operating revenues are revenues 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 expenses that are expended directly for the primary activity of the proprietary fund. For the Authority, these expenses are administrative, tenant services, utilities, maintenance, protective services, general, depreciation, bad debts and housing assistance payments.

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

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

Section 8 New Construction Program – Provides housing assistance payments to participating owners on behalf of eligible tenants to provide decent, safe and sanitary housing for very low income families at rents they can afford. Housing assistance payments are used to make up the difference between the approved rent due to the owner for the dwelling unit and the occupant family’s required contribution towards rent. Assisted families must pay the highest of 30 percent of their monthly adjusted family income, 10 percent of gross family income, or the portion of welfare assistance designated for housing toward rent.

Other Business Activities – Represents non HUD resources and derived from a variety of other activities mainly MRDD rentals.

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounts 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 uncollectable receivables was $1,941 at December 31, 2008.

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.

NOTE 2: CASH AND INVESTMENTS

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

A. 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.

B. 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 account is including, but not limited to passbook accounts.

C. 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

NOTE 2: CASH AND INVESTMENTS (Continued)

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.

At fiscal year end December 31, 2008, the carrying amount of the Authority's deposits totaled $532,679 and its bank balance was $536,284. Based on the criteria described in GASB Statement No. 40, "Deposit and Investment Risk Disclosure," as of December 31, 2008, $286,284 was exposed to custodial risk as discussed below, while $250,000 was covered by the Federal Depository Insurance Corporation.

Custodial credit risk is the risk that in the event of bank failure, the Authority will not be able to recover the deposits. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at the Federal Reserve Banks or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the Authority.

NOTE 3: RESTRICTED CASH

The restricted cash balance of $163,337 at December 31, 2008 represents the following:

- FSS Escrow cash balance	$61,550
- Excess HAP cash funds on Hand	$98,993
- Tenant Security Deposits	$ 2,794

NOTE 4: RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year ending December 31, 2008 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 coverage and no settlements exceeded insurance coverage during the past three years.

NOTE 5*:* <u>CAPITAL ASSETS</u>

The following is a summary of changes:

	Balance 12/31/07	**Adjustment**	**Additions**	**Deletion**	**Balance 12/31/08**
Capital Assets Not Being Depreciated:					
Construct. in Process	$63,116	($63,116)	$0	$0	$0
Total Capital Assets Not Being Depreciated	**63,116**	**(63,116)**	**0**	**0**	**0**
Capital Assets Being Depreciated:					
Building	908,429	63,116	105,000	0	1,076,545
Furnt, Mach. and Equip. – Admin	57,154	0	0	0	57,154
Furnt, Mach. and Equip. – Dwelling	19,926	0	0	0	19,926
Total Capital Assets Being Depreciated	985,509	63,116	105,000	0	1,153,625
Accumulated Depreciation:					
Buildings	(142,000)	(26)	(35,450)	0	(177,476)
Furnt, Mach. and Equip. – Admin	(42,380)	0	(5,569)	0	(47,949)
Furnt, Mach. and Equip. - Dwelling	(2,847)	0	(2,847)	0	(5,694)
Total Accumulated Depreciation	(187,227)	(26)	(43,866)	0	(231,119)
Total Capital Assets Being Depreciated, Net	**798,282**	**63,090**	**61,134**	**(0)**	**922,506**
Total Capital Assets, Net	**$861,398**	**($26)**	**$61,110**	**($0)**	**$922,506**

The depreciation expense for the year ended December 31, 2008 was $43,866.

NOTE 6: CONTRACT SERVICES

The authority contracts with:

- Fayette County to provide financial services for the housing authority. The authority does not have any employees; instead, services are subcontracted from Fayette County.

- Highland Metropolitan Housing Authority to provide management and financial reporting services. Compensation shall be based on the amount allowed by HUD for performing these services.

- Fayette County Board of Mental Retardation and Developmental Disabilities (MRDD) to provide a rent subsidy program for persons with mental retardation or other developmental disabilities. To provide these services, the authority acquired residential houses on behalf of the MRDD. The MRDD will maintain a legal interest in the property acquired with community assistance funds and will compensate the authority for housing expenses when vacancies occur in the properties.

NOTE 7: LONG-TERM DEBT

The authority has interest bearing notes that are payable to Merchants National Bank. The interest rates are noted and are due in monthly installments.

The summary of maturities of long-term debt for the nine homes purchased is as follows:

• Mortgage payable for property at 842 Lincoln St. in Washington Court House, Ohio. The current structure of this loan is set for 7.00% at 25 years with a balloon payment due on 11/18/10. Payments and interest are due monthly.	$72,584
• Mortgage payable for property at 364 Carolyn St. in Washington Court House, Ohio. The current structure of this loan is set for a fixed rate of 7.00% at 30 years due on 9/11/31. Payments and interest are due monthly.	66,414
• Mortgage payable for property at 834 Lincoln St. in Washington Court House, Ohio. The current structure of this loan is set for a fixed rate of 7.00% at 30 years due on 9/11/31. Payments and interest are due monthly.	66,414
• Mortgage payable for property at 1103 Golfview St. in Washington Court House, Ohio. The current structure of this loan is set for 5.375% at 30 years with a balloon payment due on 4/10/09. Payments and interest are due monthly.	84,387

NOTE 7: LONG-TERM DEBT – (Continued)

• Mortgage payable for property at 594 Leslie Trace in Washington Court House, Ohio. The current structure of this loan is set for 5.375% at 30 years with a balloon payment due on 4/10/09. Payments and interest are due monthly.	77,985
• Mortgage payable for property at 388 Leslie Trace in Washington Court House, Ohio. The current structure of this loan is set for 7.25% at 25 years with a balloon payment due on 5/22/11. Payments and interest are due monthly.	49,172
• Mortgage payable for property at 780 Gregg St. in Washington Court House, Ohio. This property was purchased for the purpose of housing a shelter for women with domestic violence. The current structure of this loan is set for an ARM rate of 7.00% at 25 years due on 11/28/32. Payments and interest are due monthly.	196,744
• Mortgage payable for property at 1029 Fayette in Washington Court House, Ohio. The current structure of this loan is set for 7.0% interest rate for 25 years with a balloon payment due on 11/18/10. Payments and interest are due monthly.	82,670
• Obligation with MRDD of which the housing authority received a grant with the condition that the grant funds is used to acquire several properties. The properties are then to be rented to MRDD clients for the next 15 years. As long as the authority complies with this restriction, the grant funds is forgiven for each year that has expires.	75,377
• Mortgage payable for property at 1412 Lindberg in Washington Court House, Ohio. The current structure of this loan is set for 5.5% interest rate for 25 years due on 03/28/33. Payments and interest are due monthly.	44,372
Total Outstanding Debt:	816,119
Less Current Portion:	181,498
Total Long-term Debt:	$634,621

NOTE 7: LONG-TERM DEBT – (Continued)

The following is a summary of changes in long-term liabilities for the year ended December 31, 2008:

DESCRIPTION	BALANCE 12/31/07	ISSUED	RETIRED	BALANCE 12/31/08
Loan Payable – Bank	$708,144	$45,000	$12,402	$740,742
MRDD Grant Funds Unexpired	96,761	0	21,384	75,377
TOTAL	$804,905	$45,000	$33,786	$816,119

Maturities of the debt over the next five years are as follows:

Years	Principal	Interest	Total
2009	$181,498	$41,811	$223,309
2010	162,112	37,381	199,493
2011	70,988	25,809	96,797
2012	55,462	23,744	79,206
2013	8,817	23,166	31,983
2014-2018	54,297	105,615	159,912
2019-2023	76,294	83,618	159,912
2024-2028	107,266	52,646	159,912
2029-2033	99,385	12,282	111,667
Total	**$816,119**	**$406,072**	**$1,222,191**

To avoid the final balloon payments, it is the intent of the Authority to refinance the debt.

NOTE 8*:* <u>SCHEDULE OF EXPENDITURES AWARD</u>

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.

Fayette Metropolitan Housing Authority
Schedule of Expenditure of Federal Award
For the Year Ended December 31, 2008

FEDERAL GRANTOR / PASS THROUGH GRANTOR PROGRAM TITLES	**CFDA NUMBER**	**EXPENDITURES**
U.S. Department of Housing and Urban Development Direct Program		
Supportive Housing for Persons with Disabilities	14.181	$244,045
N/C S/R Section 8 Programs	14.182	57,526
Housing Choice Voucher	14.871	1,162,084
Total Expenditure of Federal Award		$1,463,655

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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
Fayette Metropolitan Housing Authority

I have audited the financial statements of the business-type activities of the Fayette Metropolitan Housing Authority, Ohio, as of and for the year ended December 31, 2008, which collectively comprise the Fayette Metropolitan Housing Authority basic financial statements and have issued my report thereon dated September 8, 2009. I conducted my 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 my audit, I considered Fayette Metropolitan Housing Authority, Ohio's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the entity's internal control over financial reporting.

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, I identified certain deficiencies in internal control over financial reporting that I consider significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the authority's financial statements that is more than inconsequential will not be prevented or detected by the authority's internal control.

I consider the following deficiencies described in the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting: 2008-FMHA-1 through 2008-FMHA-3.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the authority' internal control.

My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Fayette Metropolitan Housing Authority financial statements are free of material misstatement, I performed tests of its compliance with certain provision of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The result of my tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Fayette Metropolitan Housing Authority, Ohio responses to the findings identified in my audit are described in the accompanying schedule of findings and questioned costs. I did not audit Fayette Metropolitan Housing Authority, Ohio responses and, accordingly, I express no opinion on it.

This report is intended for the information of the Board of Directors, management, and federal awarding agencies and is not intended to be and should not be used by anyone other than those specified parties.

Salvatore Consiglio, CPA, Inc.
September 8, 2009

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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
Fayette Metropolitan Housing Authority

Compliance

I have audited the compliance of the Fayette Metropolitan Housing Authority, Ohio, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended December 31, 2008. Fayette Metropolitan Housing Authority, Ohio major federal programs are identified in the summary of auditor's result 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 Fayette Metropolitan Housing Authority, Ohio’s management. My responsibility is to express an opinion on Fayette Metropolitan Housing Authority, Ohio’s compliance based on my audit.

I conducted my 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; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Fayette Metropolitan Housing Authority, Ohio’s compliance with those requirements and performing such other procedures, as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination on Fayette Metropolitan Housing Authority, Ohio’s compliance with those requirements.

In my opinion, Fayette Metropolitan Housing Authority, Ohio, 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, 2008. However, the result of my audit procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 2008-FMHA-4.

Internal Control Over Compliance

The management of Fayette Metropolitan Housing Authority, Ohio 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 my audit, I considered Fayette Metropolitan Housing Authority, Ohio's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of the entity's internal control over compliance.

A control deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above.

Fayette Metropolitan Housing Authority, Ohio response to the findings identified in my audit is described in the accompanying schedule of findings and questioned costs. I did not audit Fayette Metropolitan Housing Authority, Ohio response and, accordingly, I express no opinion on it.

This report is intended for the information of the Board of Directors, management, and federal awarding agencies and is not intended to be and should not be used by anyone other than those specified parties.

Salvatore Consiglio, CPA, Inc.
September 8, 2009

Fayette Metropolitan Housing Authority
Schedule of Findings and Questioned Costs
OMB Circular A-133 § .505
December 31, 2008

1. SUMMARY OF AUDITOR'S RESULTS

Type of Financial Statement Opinion	Unqualified
Were there any significant deficiency reported as material weakness at the financial statement level (GAGAS)?	No
Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?	Yes
Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
Were there any significant deficiency reported for any major federal programs as material weakness?	No
Were there any other significant deficiency reported for the major federal programs?	No
Type of Major Programs' Compliance Opinion	Unqualified
Are there any reportable findings under § .510?	Yes
Major Programs (list):	CFDA # 14.871 Housing choice Voucher Program
Dollar Threshold: Type A/B Programs	Type A: > $300,000 Type B: All Others
Low Risk Auditee?	No

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

FINDING NUMBER	2008-FMHA-1

Significant Deficiency – Cost Allocation

Prior year audit revealed that several programs are housed under one department of the County (part of the Fayette County general fund). The Executive Director oversees all programs. Prior year audit report issued a finding because a writing cost allocation plan was not in place to document how certain common costs were allocated to the various programs operated. The result of current year audit procedures revealed that the finding was not resolved. The cost allocation plan, as recommended, was not implemented as of the end of the fiscal year. In addition, current audit procedures revealed that no administrative costs were charged to business activity (MRDD Rental Properties) program as reported in the unaudited financial data schedule filed with HUD for the fiscal year ended December 31, 2008. No explanation was provided as to why no administration costs were allocated to this program. The December 31, 2007 fiscal year reporting of the financial data schedule with HUD showed $39,261 of administrative costs charged to this program.

Recommendation: A proper cost allocation plan must be implemented and documented in writing. The administrative costs must be allocated to all programs operated by the agency. Once the plan is in place, costs should be reallocated and charged to the correct program.

Corrective Action Plan:

For clarification purposes, at the beginning of the first paragraph of this finding, the General Fund of the Fayette County Commissioners includes “the Fayette County Building Department” and within the building department are several agencies, as opposed to programs. Within these agencies, there are several programs being administered by the same Administrator of the Fayette County Building Department. These agencies are the Building Department, the Fayette and Highland County Housing Authorities, the Community Development Office, and the Flood Plain Management. This Administrator is responsible for all of the said agencies.

Since each of the agencies is too small for the purpose of efficient management and economy of scale, the concept was to have the administrator and the staff under one roof. Certain employees were given the primary responsibility for administering a particular agency, and secondarily back up the other agencies, thereby creating human resources not normally available for each individual agency and creating administrative cost savings.

A cost allocation plan has been utilized over the years, however not in a proper format for auditing purpose. This has not created an issue over the years and has been workable.

The Chairman of the Board will cause to be put in place a Cost Allocation Plan consistent with good accounting practices by December 31, 2009.

Responsible Party: Chairman of the Board
Implementation Date: 12/31/09

FINDING NUMBER	2008-FMHA-2

Significant Deficiency – Fringe Benefits Paid by FMHA

Fayette Metropolitan Housing Authority contracted with Fayette County Commissioners for management of the housing authority. There is no written contract between the housing authority and the county commissioners outlining responsibilities and payments for services rendered between the two entities.

An analysis of current year expenses identified the following:

a. Staffs were paid bonus. The staffs were issued IRS form 1099 for the bonus amount, however, there were no PERS or any other taxes withheld.
b. 2 staffs were paid for internet service at their personal homes.
c. One staff was paid tuition for going to school.

R.C. 2921.43(A)(1) prohibits a public servant from soliciting or accepting, and prohibits any person from promising or giving a public servant, except as allowed by law, any compensation: (a) to perform his or her official duties; (b) to perform any other acts or service in his or her public capacity; (c) for the general performance of the duties of his or her public office or public employment; or (d) as a supplement to his or her public compensation.

The staff operating the HUD program are not employees of the Housing Authority (employees of Fayette County), therefore there should not be any fringe benefits paid by the Housing Authority. In addition, the Housing Authority does not have any written policy to address these expenses. Per inquiry with Fayette Metropolitan Housing Authority board members and review of board minutes, it was determined that the housing authority board did authorize these payments. The above payments to the staff can be a possible ethics violation.

Recommendation: Since the staffs are employees of the Fayette County, all fringe benefits paid to the staff should be paid by the county not the housing authority. In addition, a written agreement should be entered into between the Fayette MHA Board and the Fayette County Commissioners outlining the responsibilities of both parties and payments for services rendered.

Corrective Action Plan:

The payments in questions are costs incurred by the PHA regardless whether the PHA paid directly or the County Commissioners paid, since whatever the Commissioners pay with respect to costs associated with the PHA, are reimbursed by the PHA.

We are presently waiting from an opinion from the State Attorney General, who forwarded the issued to the State's Ethics Committee on the issue of paying the fringe benefits to the employees in question.

In the finding, we are not sure if the issue is one of whose employees are the staff or whether the payments are inconsistent with state law.

Although there has been an informal/verbal agreement in place all these years, the Chairman of the Board will cause a formal agreement to be in place by December 31, 2009.

Responsible Party: Chairman of the Board
Implementation Date: 12/31/09

FINDING NUMBER	2008-FMHA-3

Significant Deficiency – Policies and Procedures

Last year audit issued a finding because the policies listed bellow did not exist. Follow up in current year audit revealed that these policies still do not exist:

a. Fiscal Policy
b. Procurement Policy
c. Capitalization Policy
d. Credit Card Policy
e. Cell Phone usage policy
f. Travel Policy

Not having written policies and procedures can result in unauthorized expenditures or not following consistent procedures in handling similar transactions.

Recommendation: The housing authority should implement the above policies and procedures.

Corrective Action Plan:

Previous findings, statements made by the Executive Director of PHA, and payroll records, suggest that the staff of the PHA is county employees. As such, the staff has been utilizing the A. Fiscal Policy, B. Procurement Policy, C. Capitalization Policy, D. Credit Card Policy, E. Use of Cell Phones Policy, F. Travel Policy, of the county.

The Chairman of the Board will cause a formal PHA Policies and Procedures be written by December 31, 2009.

Responsible Party: Chairman of the Board
Implementation Date: 12/31/09

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

REPORTABLE NONCOMPLIANCE

FINDING NUMBER	2008-FMHA-4

Payment Standard

U.S. Department of HUD
Housing Choice Voucher Program (CFDA # 14.871)

24 CFR section 982.503 requires that a housing authority adopts a payment standard schedule that establishes voucher payment amounts for each fair market rent (FMR) area in the PHA jurisdiction. These payment standard amounts are used to calculate the monthly housing assistance payment for a family.

24 CFR section 982.503 states, “The PHA may establish the payment standard amount for a unit size at any level between 90 percent and 110 percent of the published FMR for that unit size. HUD approval is not required to establish a payment standard amount in that range (``basic range")… The PHA must request HUD approval to establish a payment standard amount that is higher or lower than the basic range. HUD has sole discretion to grant or deny approval of higher or lower payment standard amount.”

Audit procedures revealed that the housing authority established its payment standards using the Highland County FMR, not Fayette County. This resulted in the housing authority using less than 90% of the FMR for the following bedrooms size:

Bedroom Size	2008 FMR for Fayette County	90% of FMR	Payment Standard Used
1 Bedroom	$525	$473	$472
2 Bedroom	$641	$577	$567
4 Bedroom	$1,029	$926	$789

Therefore, Fayette Metropolitan Housing Authority did not comply with the above requirement. This resulted in the families paying a higher amount of rent. Fayette Metropolitan Housing Authority staff calculated the error amount to be $6,997.

Recommendation:

The PHA must request retroactive approval to use a lower payment standard for the above bedrooms from HUD. If approval is not granted, then total families affected must be identified and a refund made to the families. The refunded, if any, must be paid using the PHA administration funds equity.

Corrective Action Plan:

With respect to the wrong Payment Standard being applied to tenants, the PHA has corrected the problem and immediately reviewed the files to determine the tenants that were under paid because of it. The amount of the under payment is approximately $6,997.00.

We have written to HUD to request a retroactive approval, but were denied. The funds will be paid to the tenants as soon as HUD responds to our request to determine the procedures and documentation necessary for proper accounting. The funds will be paid out of the S-8 account. The Chairman of the Board will insure that the HUD procedures are being followed and payment be concluded by December 31, 2009.

Responsible Party: Chairman of the Board
Implementation Date: 12/31/09

Fayette Metropolitan Housing Authority
Schedule of Prior Audit Findings
December 31, 2008

The following are the status of the December 31, 2007 audit findings.

Finding Number	Finding Summary	Fully Corrected?	Not Corrected; Partially Corrected; Significantly Difference Corrective Action Taken; or Finding No Longer Valid; **Explain:**
2007-FMHA -1	Written cost allocation plan	No	Not corrected - finding repeated as 2008-FMHA-1.
2007-FMHA -2	Reimbursement to County	Yes	No longer valid.
2007-FMHA-3	Contract Agreement with HQS Inspector	Yes	Corrected - contract was re-writing.
2007-FMHA-4	Authorized Check Signers	Yes	Corrected – Board members added as authorized signers.
2007-FMHA-5	Fringe Benefits Paid by FMHA	No	Not corrected - finding repeated as 2008-FMHA-2.
2007-FMHA-5	Policies & Procedures	No	Not corrected - finding repeated as 2008-FMHA-3.
2007-FMHA-6	Procurement	Yes	No longer valid.
2007-FMHA-7	Utility Allowance	Yes	Corrected – Utility allowance were updated.

Mary Taylor, CPA
Auditor of State

FAYETTE METROPOLITAN HOUSING AUTHORITY

FAYETTE 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 5, 2009

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