



**GENERAL PURPOSE
FINANCIAL STATEMENTS**

of the

**CHILLICOTHE METROPOLITAN
HOUSING AUTHORITY**

for the

Year Ended September 30, 2002



**Auditor of State
Betty Montgomery**

Board of Directors
Chillicothe Metropolitan Housing Authority
178 West Fourth Street
Chillicothe, Ohio 45601

We have reviewed the Independent Auditor's Report of the Chillicothe Metropolitan Housing Authority, Ross County, prepared by Jones, Cochenour & Co., for the audit period October 1, 2001 to September 30, 2002. 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 Chillicothe Metropolitan Housing Authority is responsible for compliance with these laws and regulations.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

March 26, 2003

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**CHILLICOTHE METROPOLITAN HOUSING AUTHORITY
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Chillicothe Metropolitan Housing Authority
Chillicothe, Ohio

Regional Inspector General of Audit
Department of Housing and Urban
Development

We have audited the accompanying general purpose financial statements of Chillicothe Metropolitan Housing Authority, as of and for the year ended September 30, 2002, as listed in the table of contents. These general purpose financial statements are the responsibility of the Chillicothe Metropolitan Housing Authority's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

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

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of Chillicothe Metropolitan Housing Authority, as of September 30, 2002, and the results of its operations and the cash flows of its proprietary fund type activities for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 17, 2003 on our consideration of Chillicothe Metropolitan Housing Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements of the Chillicothe Metropolitan Housing Authority. The accompanying Schedule of Federal Awards Expenditures is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Government and Non-Profit Organizations* and is not a required part of the financial statements. The financial data schedule ("FDS") and cost certification are 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.

Jones, Cochenour & Co.
January 17, 2003

**Chillicothe Metropolitan Housing Authority
Balance Sheet
Proprietary Fund Type
Enterprise Fund
September 30, 2002**

ASSETS

Cash and cash equivalents	\$	611,580
Tenant security deposits		45,866
Receivables - net of allowance		247,626
Deferred charges and other assets		40,264
Inventories - net of allowance		43,659
Due from other funds		211,209
Fixed assets - net of accumulated depreciation		<u>11,039,332</u>

TOTAL ASSETS \$ 12,239,536

LIABILITIES, EQUITY AND OTHER CREDITS

Accounts payable	\$	56,381
Accrued wages and compensated absences		143,756
Intergovernmental payables		21,302
Tenant security deposits		42,408
Deferred credits and other liabilities		321,094
Due to other funds		<u>211,209</u>

TOTAL LIABILITIES 796,150

EQUITY AND OTHER CREDITS

Contributed capital	\$	8,288,636
Unreserved fund		<u>3,154,750</u>

TOTAL EQUITY AND OTHER CREDITS 11,443,386

**TOTAL LIABILITIES, EQUITY
AND OTHER CREDITS** \$ 12,239,536

See accompanying notes to the general purpose financial statements

Chillicothe Metropolitan Housing Authority
Statement of Revenues, Expenses and Changes in Equity
Proprietary Fund Type
Enterprise Fund
Year Ended September 30, 2002

OPERATING REVENUE	
Tenant revenue	\$ 527,251
Program operating grants/subsidies	3,391,162
Other income	<u>10,113</u>
TOTAL OPERATING REVENUE	3,928,526
 OPERATING EXPENSES	
Administrative	815,990
Tenant services	71,297
Utilities	307,330
Maintenance	542,473
Protective services	46,730
General	70,097
Bad debts	11,397
Housing assistance payments	1,318,885
Depreciation	<u>801,811</u>
TOTAL OPERATING EXPENSES	<u>3,986,010</u>
NET OPERATING (LOSS)	(57,484)
 NON-OPERATING REVENUE	
Interest income	<u>10,198</u>
NET (LOSS)	(47,286)
BEGINNING EQUITY	11,493,041
 PRIOR PERIOD ADJUSTMENTS/EQUITY TRANSFERS	 <u>(2,369)</u>
ENDING EQUITY	<u><u>\$ 11,443,386</u></u>

See accompanying notes to the general purpose financial statements

Chillicothe Metropolitan Housing Authority
Statement of Cash Flows
Proprietary Fund Type
Enterprise Fund
Year Ended September 30, 2002

CASH FLOWS FROM OPERATING ACTIVITIES:	
Net operating (loss)	\$ (47,286)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation	801,811
Prior period adjustment affecting residual receipts	(2,369)
(Increase) decrease in:	
Receivables - net of allowance	(61,301)
Due from other programs	(55,980)
Inventories - net of allowance	(3,997)
Tenant security deposits	(622)
Deferred charges and other assets	(10,844)
Increase (decrease) in:	
Accounts payable	7,678
Due to other programs	55,980
Intergovernmental payable	(378,673)
Accrued compensated absences	21,596
Tenant security deposits	1,453
Deferred credits and other liabilities	33,227
	33,227
NET CASH PROVIDED BY OPERATING ACTIVITIES	360,673
 CASH FLOWS FROM CAPITAL ACTIVITIES:	
Acquisition of capital assets	(792,807)
 CASH FLOWS FROM FINANCING ACTIVITIES:	
Investment activity	188,566
	188,566
DECREASE IN CASH AND CASH EQUIVALENTS	(243,568)
CASH AND CASH EQUIVALENTS, BEGINNING	855,148
	855,148
CASH AND CASH EQUIVALENTS, ENDING	\$ 611,580
	611,580

See accompanying notes to the general purpose financial statements

Chillicothe Metropolitan Housing Authority
Notes to the general purpose financial statements
September 30, 2002

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Summary of Significant Accounting Policies

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

Reporting Entity

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

The accompanying general purpose financial statements comply with the provision of 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.

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

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

Fund Accounting

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

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

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:

Chillicothe Metropolitan Housing Authority
Notes to the general purpose financial statements
September 30, 2002

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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

Measurement Focus/Basis of Accounting

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

Investments

Investments are restricted by the provisions of the HUD Regulations (See Note 3). Investments are valued at market value. Interest income earned in fiscal year 2002 for both programs totaled \$10,198. The interest income earned on the general fund investments in the Section 8 Program is required to be returned to HUD, and this amount was \$606 for the year ended September 30, 2002.

Fixed Assets

Fixed assets are stated at cost and depreciation is computed using the straight line method over an estimated useful life of the assets. The cost of normal maintenance and repairs, 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

Cash and Cash Equivalents

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

Compensated Absences

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

Chillicothe Metropolitan Housing Authority
Notes to the general purpose financial statements
September 30, 2002

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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

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

Capital Contributions

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

Budgetary Accounting

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

Estimates

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

Receivables – net of allowance

Bad debts are provided on the allowance method based on management's evaluation of the collectability of outstanding tenant receivable balances at the end of the year. The allowance for uncollectable receivables was \$8,521 at September 30, 2002.

Inventories

Inventories are stated at cost. The allowance for obsolete inventory was \$500 at September 30, 2002.

Accounting and Reporting for Nonexchange Transactions

The Authority implemented GASB 33 in 2001. Nonexchange transactions occur when the Public Housing Authority (PHA) receives (or gives) value without directly giving equal value in return. GASB 33 identifies four classes of nonexchange transactions as follows:

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

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

Chillicothe Metropolitan Housing Authority
Notes to the general purpose financial statements
September 30, 2002

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Accounting and Reporting for Nonexchange Transactions – Continued

GASB 33 establishes two distinct standards depending upon the kind of stipulation imposed by the provider.

- Time requirements specify (a) the period when resources are required to be used or when use may begin (for example, operating or capital grants for a specific period) or (b) that the resources are required to be maintained intact in perpetuity or until a specified date or event has occurred (for example, permanent endowments, term endowments, and similar agreements). Time requirements affect the timing of recognition of nonexchange transactions.
- Purpose restrictions specify the purpose for which resources are required to be used. (i.e. capital grants used for the purchase of capital assets). Purpose restrictions do not affect when a nonexchange transaction is recognized. However, PHAs that receive resources with purpose restrictions should report resulting net assets, equity, or fund balance as restricted.

The PHA will recognize assets (liabilities) when all applicable eligibility requirements are met or resources received whichever is first. Eligibility requirements established by the provider may stipulate the qualifying characteristics of recipients, time requirements, allowable costs, and other contingencies.

The PHA will recognize revenues (expenses) when all applicable eligibility requirements are met. For transactions that have a time requirement for the beginning of the following period, PHAs should record resources received prior to that period as deferred revenue and the provider of those resources would record an advance.

The PHA receives government-mandated or voluntary nonexchange transactions, which do not specify time requirements. Upon award, the entire subsidy should be recognized as a receivable and revenue in the period when applicable eligibility requirements have been met.

2. CASH AND INVESTMENTS

Cash

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

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

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

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

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

Chillicothe Metropolitan Housing Authority
Notes to the general purpose financial statements
September 30, 2002

2. CASH AND INVESTMENTS - CONTINUED

Cash - Continued

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

Deposits: The carrying amount of the Authority's deposits totaled \$657,446 (includes tenant security deposits). The corresponding bank balances totaled \$719,775. The carrying amount includes petty cash of \$100.

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

Category 1:	\$400,000 was covered by federal depository insurance
Category 2:	\$319,775 was covered by specific collateral pledged by the financial institution in the name of the Authority.

Investments

HUD, State Statute and Board Resolutions authorize the Authority to invest in obligations of the U.S. Treasury, agencies and instrumentalities, certificates of deposit, repurchase agreements, money market deposit accounts, municipal depository fund, super NOW accounts, sweep accounts, separate trading of registered interest and principal of securities, mutual funds, bonds and other obligations of this State, and the State Treasurer's investment pool. Investments in stripped principal or interest and principal of securities, mutual funds, bonds and other obligations of this State, and the State Treasurer's investment pool. Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose or arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the Authority, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specific dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

The Authority's investments are categorized to give an indication of the level of risk assumed by the entity at year-end. Category A includes investments that are insured or registered or for which the securities are held by the Authority or its agent in the Authority's name. Category B includes uninsured and unregistered investments for which the securities are held by the counterparty's Trust department or agent in the Authority's name. Category C includes uninsured and unregistered investments for which securities are held by the counterparty or its Trust department but not in the Authority's name. The Authority did not have any investments at September 30, 2002.

3. NOTE TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES

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

Chillicothe Metropolitan Housing Authority
Notes to the general purpose financial statements
September 30, 2002

4. RISK MANAGEMENT

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

5. FIXED ASSETS

The following is a summary:

Land		\$	858,782
Buildings			10,615,836
Furniture and equipment - dwellings			220,898
Furniture and equipment - administrative			473,229
Leasehold improvements			7,846,422
			20,015,167
Accumulated depreciation			(8,975,835)
			NET FIXED ASSETS
		\$	11,039,332

The following is a summary of changes:

	Balance 9/30/2001	Additions / Reclass	Reclass / Deletions / Corrections	Balance 9/30/2002
Land	\$ 858,782	\$ -	\$ -	\$ 858,782
Buildings	10,615,836	-	-	10,615,836
Furniture and equipment - dwellings	221,479	-	581	220,898
Furniture and equipment - administrative	447,326	51,498	25,595	473,229
Leasehold improvements	7,105,113	741,309	-	7,846,422
	TOTAL FIXED ASSETS	\$ 792,807	\$ 26,176	\$ 20,015,167
	\$ 19,248,536	\$ 792,807	\$ 26,176	\$ 20,015,167

The depreciation expense for the year ended September 30, 2002 was \$801,811.

6. DEFINED BENEFIT PENSION PLANS – PUBLIC EMPLOYEES RETIREMENT SYSTEM

All of the Authority's full-time employees participate in a retirement system which are cost-sharing, multiple-employer defined benefit pension plans.

The following information was provided by PERS of Ohio to assist the Authority complying with GASB Statement No. 27, *Accounting for Pensions by State and Local Government Employers*.

Chillicothe Metropolitan Housing Authority
Notes to the general purpose financial statements
September 30, 2002

6. DEFINED BENEFIT PENSION PLANS – PUBLIC EMPLOYEES RETIREMENT SYSTEM - CONTINUED

The Authority contributes to the Public Employees Retirement System of Ohio (PERS), a cost-sharing, multiple-employer defined pension plan. PERS provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State statute per Chapter 145 of the Ohio Revised Code. PERS issues a stand alone financial report that includes financial statements and required supplementary information for PERS. That report may be obtained by writing to the Public Employees Retirement System, 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 8.5 percent. The 2001 employer contribution rate for local government employer units was 13.55 percent of covered payroll, 9.25 percent to fund the pension and 4.3 percent to fund health care. The 2000 and 1999 employer contribution rates were 10.84 and 13.55 percent. The contribution requirements of plan members and the Authority are established and may be amended by the Public Employees Retirement Board. The Authority's required contributions to the PERS of Ohio for the years ending September 30, 2002, 2001 and 2000, were \$73,264, \$63,017 and \$57,861, respectively. The full amount has been contributed for 2000 and 2001. Ninety-two percent (92%) has been contributed for 2002, with the remainder being reported as a liability within the enterprise fund.

7. POSTEMPLOYMENT BENEFITS – PUBLIC EMPLOYEES RETIREMENT SYSTEM

Public Employees Retirement System of Ohio provides postretirement health care coverage to age and service retirees with 10 or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the retirement system is considered an Other Postemployment 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. For local government employer units the rate was 13.55 percent of covered payroll; 4.30 percent was the portion that was used to fund health care for the year.

A portion of each employer's contribution to PERS is set aside for funding of postretirement healthcare. The ORC provides statutory authority requiring public employers to fund postretirement healthcare through their contributions to PERS. The portion of the employer contribution rate used to fund healthcare was 5.11 percent of covered payroll in each year prior to January 1, 1998. During 1997, PERS adopted a new calculation methodology for determining employer contributions applied to OPEB. Under the new method, effective January 1, 1998, employer contributions equal to 4.3 percent of member-covered payroll are set aside to fund healthcare expenses. Under the prior method, which was actuarially based, accrued liabilities and normal cost rates were computed to determine the amount of employer contributions necessary to fund OPEB.

OPEB is financed through employer contributions and investment earnings thereon. The contributions allocated to retiree healthcare, along with investment income on allocated assets and periodic adjustments in healthcare provisions are expected to be sufficient to sustain the program indefinitely.

Chillicothe Metropolitan Housing Authority
Notes to the general purpose financial statements
September 30, 2002

7. POSTEMPLOYMENT BENEFITS – PUBLIC EMPLOYEES RETIREMENT SYSTEM - CONTINUED

The significant actuarial assumptions and calculations relating to postemployment health care benefits were based on the PERS of Ohio's latest actuarial review performed as of December 31, 2000. An entry age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of unfounded actuarial accrued liability. All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach, assets are adjusted annually to reflect 25 percent of unrealized market appreciation or depreciation on investment assets. The investment assumption rate for 2000 was 7.75 percent. An annual increase of 4.75 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 4.75 percent base increase, were assumed to range from 0.54 percent to 5.1 percent. Health care costs were assumed to increase 4.75 percent annually.

Benefits are advanced-funded on an actuarially determined basis. The number of active contributing participants was 411,076. The actuarial value of the PERS of Ohio net assets available for OPEB at December 31, 2000 was \$11,735.9 million. The actuarially accrued liability and the unfounded actuarial accrued liability, based on the actuarial cost method used, were \$14,364.6 million and \$2,628.7 million, respectively.

All employees participate in the Public Employees Retirement System of Ohio (PERS), a cost sharing multiple employer public employee retirement system administered by the Public Employee Retirement Board. PERS provides basic retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Benefits are established by Chapter 145 of the Ohio Revised Code. PERS issues a stand-alone financial report which may be obtained by writing to the Public Employee Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642.

8. RETAINED EARNINGS AND OTHER CREDITS/PRIOR PERIOD ADJUSTMENTS:

	<u>Total</u>	<u>Contributed Capital</u>	<u>Unreserved Fund</u>	
Balance as of September 30, 2001	\$ 11,493,041	\$ 8,955,476	\$ 2,537,565	
Net loss as of September 30, 2002	(47,286)	(666,840)	619,554	
Prior period adjustment	<u>(2,369)</u>	<u>-</u>	<u>(2,369)</u>	
 Balance as of September 30, 2002	 <u>\$ 11,443,386</u>	 <u>\$ 8,288,636</u>	 <u>\$ 3,154,750</u>	
 Equity Transfers were as follows:				
	<u>Housing Choice VO</u>	<u>S/8 Rental Certificate</u>	<u>S/8 Rental Voucher</u>	<u>Total</u>
Balances as of September 30, 2001	\$ -	\$ 26,044	\$ 61,912	\$ 87,956
Equity Transfer	<u>87,956</u>	<u>(26,044)</u>	<u>(61,912)</u>	<u>-</u>
 Balances as of September 30, 2002	 <u>\$ 87,956</u>	 <u>\$ -</u>	 <u>\$ -</u>	 <u>\$ 87,956</u>

The Section 8 programs were merged into the new program Housing Choice Vouchers.

Chillicothe Metropolitan Housing Authority
Balance Sheet
FDS Schedule Submitted to HUD
Proprietary Fund Type
Enterprise Fund
September 30, 2002

FDS Line Item	Account Description	14850A Low Rent Public Hsg	14.850B Develop	14.854 Drug Elimination	14.859 Comp Grant	14.864 EDSS	14.872 Capital Grant Fund	14.870 ROSS	14.871 Housing Choice VO	14.857 S8 Rental Cert Prgm	14.855 S8 Rental VO Prgm	TOTAL
	ASSETS											
111	Cash - unrestricted	\$ 301,787	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 136,236	\$ -	\$ -	\$ 438,023
112	Cash - restricted - mod & dev	-	82,056	-	-	-	-	-	-	-	-	82,056
113	Cash - other restricted	29,496	-	-	-	-	-	-	62,005	-	-	91,501
114	Cash - tenant security deposits	45,866	-	-	-	-	-	-	-	-	-	45,866
100	TOTAL CASH	377,149	82,056	-	-	-	-	-	198,241	-	-	657,446
122	Accounts receivable - HUD other proj	45,619	10,746	1,205	-	-	455	4,250	11,582	-	-	73,857
125	Accounts receivable - miscellaneous	1,800	-	-	-	-	-	-	168,544	-	-	170,344
126	A/R Tenants - dwelling rents	10,735	-	-	-	-	-	-	-	-	-	10,735
126.1	Allowance for doubtful accts	(8,021)	-	-	-	-	-	-	-	-	-	(8,021)
128	Fraud recovery	-	-	-	-	-	-	-	1,211	-	-	1,211
128.1	Allowance for doubtful accts	-	-	-	-	-	-	-	(500)	-	-	(500)
120	TOTAL ACCOUNTS RECEIVABLE	50,133	10,746	1,205	-	-	455	4,250	180,837	-	-	247,626
142	Prepaid expenses and other assets	40,264	-	-	-	-	-	-	-	-	-	40,264
143	Inventories	44,159	-	-	-	-	-	-	-	-	-	44,159
143.1	Allowance for obsolete inventory	(500)	-	-	-	-	-	-	-	-	-	(500)
144	Interprogram due from	211,209	-	-	-	-	-	-	-	-	-	211,209
150	TOTAL CURRENT ASSETS	722,414	92,802	1,205	-	-	455	4,250	379,078	-	-	1,200,204
161	Land	500,843	357,939	-	-	-	-	-	-	-	-	858,782
162	Buildings	7,839,432	2,776,404	-	-	-	-	-	-	-	-	10,615,836
163	Furniture & equipment - dwellings	194,392	26,506	-	-	-	-	-	-	-	-	220,898
164	Furniture & equipment - admin	444,040	-	-	-	10,892	6,500	-	11,797	-	-	473,229
165	Leasehold improvements	5,903,877	793,762	-	374,460	-	774,323	-	-	-	-	7,846,422
166	Accumulated depreciation	(8,338,935)	(546,223)	-	(45,232)	(5,276)	(29,097)	-	(11,072)	-	-	(8,975,835)
160	TOTAL FIXED ASSETS, NET	6,543,649	3,408,388	-	329,228	5,616	751,726	-	725	-	-	11,039,332
180	TOTAL NON-CURRENT ASSETS	6,543,649	3,408,388	-	329,228	5,616	751,726	-	725	-	-	11,039,332
190	TOTAL ASSETS	\$ 7,266,063	\$ 3,501,190	\$ 1,205	\$ 329,228	\$ 5,616	\$ 752,181	\$ 4,250	\$ 379,803	\$ -	\$ -	\$ 12,239,536

See independent auditors' report

Chillicothe Metropolitan Housing Authority
Balance Sheet
FDS Schedule Submitted to HUD
Proprietary Fund Type
Enterprise Fund
September 30, 2002

FDS Line Item	Account Description	14850A Low Rent Public Hsg	14.850B Develop	14.854 Drug Elimination	14.859 Comp Grant	14.864 EDSS	14.872 Capital Grant Fund	14.870 ROSS	14.871 Housing Choice VO	14.857 S8 Rental Cert Prgm	14.855 S8 Rental VO Prgm	TOTAL
LIABILITIES												
312	Accounts payable <=90 days	\$ 56,381	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 56,381
321	Accrued wages/payroll taxes	13,861	-	-	-	-	-	-	-	-	-	13,861
322	Accrued compensated absences	119,427	-	-	-	-	-	-	10,468	-	-	129,895
331	Accounts payable - HUD PHA programs	-	-	-	-	-	-	-	606	-	-	606
333	Accounts payable - other govt	20,696	-	-	-	-	-	-	-	-	-	20,696
341	Tenant security deposits	42,408	-	-	-	-	-	-	-	-	-	42,408
342	Deferred revenues	-	82,056	-	-	-	-	-	-	-	-	82,056
345	Other current liabilities - escrow	29,496	-	-	-	-	-	-	62,006	-	-	91,502
347	Interprogram due to	-	10,746	1,205	-	-	455	4,250	194,553	-	-	211,209
310	TOTAL CURRENT LIABILITIES	282,269	92,802	1,205	-	-	455	4,250	267,633	-	-	648,614
354	Accrued comp abs - noncurrent	127,730	-	-	-	-	-	-	19,806	-	-	147,536
350	TOTAL NONCURRENT LIABILITIES	127,730	-	-	-	-	-	-	19,806	-	-	147,536
300	TOTAL LIABILITIES	409,999	92,802	1,205	-	-	455	4,250	287,439	-	-	796,150
513	TOTAL EQUITY	6,856,064	3,408,388	-	329,228	5,616	751,726	-	92,364	-	-	11,443,386
600	TOTAL LIABILITIES AND EQUITY	\$ 7,266,063	\$ 3,501,190	\$ 1,205	\$ 329,228	\$ 5,616	\$ 752,181	\$ 4,250	\$ 379,803	\$ -	\$ -	\$ 12,239,536

See independent auditors' report

Chillicothe Metropolitan Housing Authority
Statement of Revenues, Expenses and Changes in Equity
FDS Schedule Submitted to HUD
Proprietary Fund Type
Enterprise Fund
Year Ended September 30, 2002

FDS Line Item	Account Description	14.850A Low Rent Public Hsg	14.850B Develop	14.854 Drug Elimination	14.859 Comp Grant	14.864 EDSS	14.872 Capital Grant Fund	14.870 ROSS	14.871 Housing Choice VO	14.857 S8 Rental Cert Prgm	14.855 S8 Rental VO Prgm	TOTAL
REVENUE												
703	Net tenant revenue	\$ 516,586	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 516,586
704	Tenant revenue - other	10,665	-	-	-	-	-	-	-	-	-	10,665
705	TOTAL TENANT REVENUE	527,251	-	-	-	-	-	-	-	-	-	527,251
706	PHA HUD grants	888,833	36,070	84,769	-	-	92,914	23,132	1,517,635	-	-	2,643,353
706.1	Capital contributions	-	-	-	-	-	747,809	-	-	-	-	747,809
711	Investment income - unrestricted	8,342	-	-	-	-	-	-	1,856	-	-	10,198
714	Fraud recovery	-	-	-	-	-	-	-	3,204	-	-	3,204
715	Other revenue	6,909	-	-	-	-	-	-	-	-	-	6,909
	TOTAL REVENUE	1,431,335	36,070	84,769	-	-	840,723	23,132	1,522,695	-	-	3,938,724
EXPENSES												
911	Administrative salaries	233,640	-	-	-	-	-	-	86,342	-	-	319,982
912	Auditing fees	5,587	-	-	-	-	-	-	1,439	-	-	7,026
913	Outside management fees	-	26,840	-	-	-	61,000	11,401	-	-	-	99,241
914	Compensated absences	72,416	-	-	-	-	-	-	11,794	-	-	84,210
915	Employee benefit contrib - admin	114,259	-	-	-	-	-	-	41,900	-	-	156,159
916	Other operating - administrative	82,282	9,230	2,500	-	-	783	-	54,577	-	-	149,372
921	Tenant services - salaries	13,858	-	-	-	-	-	-	-	-	-	13,858
923	Employee benefit contrib - ten svcs	6,014	-	-	-	-	-	-	-	-	-	6,014
924	Tenant services - other	4,155	-	35,539	-	-	-	11,731	-	-	-	51,425
931	Water	161,444	-	-	-	-	-	-	-	-	-	161,444
932	Electricity	135,665	-	-	-	-	-	-	-	-	-	135,665
933	Gas	10,221	-	-	-	-	-	-	-	-	-	10,221
941	Ord maintenance/op - labor	160,036	-	-	-	-	-	-	-	-	-	160,036
942	Ord maintenance/op - materials	55,401	-	-	-	-	-	-	-	-	-	55,401
943	Ord maintenance/op - cont costs	215,637	-	-	-	-	31,131	-	87	-	-	246,855
945	Emp benefit contrib - ord main	80,181	-	-	-	-	-	-	-	-	-	80,181
952	Protective services - other cont costs	-	-	46,730	-	-	-	-	-	-	-	46,730

See independent auditors' report

Chillicothe Metropolitan Housing Authority
Statement of Revenues, Expenses and Changes in Equity
FDS Schedule Submitted to HUD
Proprietary Fund Type
Enterprise Fund
Year Ended September 30, 2002

FDS Line Item	Account Description	14850A Low Rent Public Hsg	14.850B Develop	14.854 Drug Elimination	14.859 Comp Grant	14.864 EDSS	14.872 Capital Grant Fund	14.870 ROSS	14.871 Housing Choice VO	14.857 S8 Rental Cert Prgm	14.855 S8 Rental VO Prgm	TOTAL
	EXPENSES - CONTINUED											
961	Insurance premiums	48,375	-	-	-	-	-	-	-	-	-	48,375
963	PILOT	21,722	-	-	-	-	-	-	-	-	-	21,722
964	Bad debts - tenant rents	13,882	-	-	-	-	-	-	-	-	-	13,882
966	Bad debts - other	(2,895)	-	-	-	-	-	-	410	-	-	(2,485)
969	TOTAL OPERATING EXPENSES	1,431,880	36,070	84,769	-	-	92,914	23,132	196,549	-	-	1,865,314
970	EXCESS OPERATING REVENUE OVER EXPENSES	(545)	-	-	-	-	747,809	-	1,326,146	-	-	2,073,410
973	Housing Assistance Payments	-	-	-	-	-	-	-	1,318,885	-	-	1,318,885
974	Depreciation expense	618,734	126,115	-	24,964	3,517	27,997	-	484	-	-	801,811
900	TOTAL EXPENSES	2,050,614	162,185	84,769	24,964	3,517	120,911	23,132	1,515,918	-	-	3,986,010
	EXCESS OF REVENUE OVER EXPENSES	(619,279)	(126,115)	-	(24,964)	(3,517)	719,812	-	6,777	-	-	(47,286)
1103	Beginning equity	7,475,343	3,534,503	-	354,192	9,133	31,914	-	-	26,044	61,912	11,493,041
1104	Prior period adj/equity transfers	-	-	-	-	-	-	-	85,587	(26,044)	(61,912)	(2,369)
	ENDING EQUITY	\$ 6,856,064	\$ 3,408,388	\$ -	\$ 329,228	\$ 5,616	\$ 751,726	\$ -	\$ 92,364	\$ -	\$ -	\$ 11,443,386

See independent auditors' report

**Chillicothe Metropolitan Housing Authority
Schedule of Federal Awards Expenditures
Year Ended September 30, 2002**

	FEDERAL CFDA NUMBER	FUNDS EXPENDED
<u>FROM U.S. DEPARTMENT OF HUD</u>		
<u>DIRECT PROGRAMS</u>		
PHA Owned Housing:		
Public and Indian Housing	14.850A	888,833
Public and Indian Housing	14.850B	36,070
Public and Indian Housing Drug Elimination Program	14.854	84,769
Public Housing Capital Fund	14.872	840,723
Resident Opportunity and Supportive Services	14.870	23,132
Housing Assistance Payments:		
Annual Contribution -		
Section 8 Housing Choice Vouchers	14.871	1,517,635
Total - All Programs		\$ 3,391,162

See independent auditors' report

**Chillicothe Metropolitan Housing Authority
Cost Certifications
September 30, 2002**

	OH16-P024-501-00	OH16-P024-004	OH16-P024-707-99
Operations	\$ 27,405	\$ 2,213,164	\$ -
Management improvements	-	-	12,350
Administration	437	53,964	435
Fees and costs	80,374	111,788	50,126
Site improvement	27,600	1,450	-
Dwelling structures	610,352	54,400	348,334
Nondwelling structures	-	25,350	-
Dwelling equipment	-	26,100	-
Nondwelling equipment	-	21,588	-
TOTAL EXPENDED	<u>\$ 746,168</u>	<u>\$ 2,507,804</u>	<u>\$ 411,245</u>
TOTAL RECEIVED	<u>\$ 746,168</u>	<u>\$ 2,507,804</u>	<u>\$ 411,245</u>

1. The HUD Form 53001 was submitted and signed on November 4, 2002, August 6, 2001, and May 31, 2001 for 501, 004, and 707, respectively.
2. There were no outstanding liabilities associated with 501, 004, or 707.
3. The expenditures and receipts agree to the Authority's records.



**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
Chillicothe Metropolitan Housing Authority
Chillicothe, Ohio

Regional Inspector General of Audit
Department of Housing and Urban
Development

We have audited the general purpose financial statements of Chillicothe Metropolitan Housing Authority as of and for the year ended September 30, 2002, and have issued our report thereon dated January 17, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

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

This report is intended solely for the information and use of the board of directors, management, Auditor of State and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Jones, Cochenour & Co.
January 17, 2003

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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
Chillicothe Metropolitan Housing Authority
Chillicothe, Ohio

Regional Inspector General of Audit
Department of Housing and Urban
Development

Compliance

We have audited the compliance of Chillicothe Metropolitan Housing Authority with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133* that are applicable to each of its major federal programs for the year ended September 30, 2002. Chillicothe Metropolitan Housing Authority's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Chillicothe Metropolitan Housing Authority's management. Our responsibility is to express an opinion on Chillicothe Metropolitan Housing Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Chillicothe Metropolitan Housing Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Chillicothe Metropolitan Housing Authority's compliance with those requirements.

In our opinion, Chillicothe Metropolitan Housing Authority complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2002.

Internal Control Over Compliance

The management of Chillicothe Metropolitan Housing Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Chillicothe Metropolitan Housing Authority's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the board of directors, management, Auditor of State, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

**Jones, Cochenour & Co.
January 17, 2003**

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

**Chillicothe Metropolitan Housing Authority
September 30, 2002**

1. SUMMARY OF AUDITORS' RESULTS
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Type of Financial Statement Opinion	Unqualified
Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
Were there any material internal control weakness conditions reported for major federal programs?	No
Were there any other reportable internal control weakness conditions reported for major federal programs?	No
Type of Major Programs' Compliance Opinion	Unqualified
Are there any reportable findings under § .510?	No
Major Programs (list):	Section 8 Housing Choice Vouchers CFDA #14.871 Public Housing Capital Fund CFDA# 14.872
Dollar Threshold: Type A/B Programs	\$300,000
Low Risk Auditee?	Yes

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

**Chillicothe Metropolitan Housing Authority
September 30, 2002**

2. FINDINGS RELATED TO FINANCIAL STATEMENTS

There are no findings or questioned costs for the year ended September 30, 2002.

3. FINDINGS RELATED TO FEDERAL AWARDS

There are no findings or questioned costs for the year ended September 30, 2002.



**Auditor of State
Betty Montgomery**

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CHILLICOTHE METROPOLITAN HOUSING AUTHORITY

ROSS 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
APRIL 10, 2003**