

**SHELBY METROPOLITAN HOUSING AUTHORITY
SIDNEY, OHIO**

BASIC FINANCIAL STATEMENTS

**FOR THE YEAR ENDED
DECEMBER 31, 2004**



**Auditor of State
Betty Montgomery**

Board of Commissioners
Shelby Metropolitan Housing Authority
706 North Wagner Ave.
Sidney, Ohio 45365

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

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

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

BETTY MONTGOMERY
Auditor of State

July 26, 2005

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SHELBY METROPOLITAN HOUSING AUTHORITY
SIDNEY, OHIO

AUDIT REPORT
FOR THE YEAR ENDED DECEMBER 31, 2004

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VANDERHORST & MANNING CPA'S, LLC
6105 North Dixie Drive
Dayton, Ohio 45413

INDEPENDENT AUDITORS' REPORT

The Board of Commissioners
Shelby Metropolitan Housing Authority
706 N. Wagner
Sidney, Ohio

Regional Inspector General of Audit
Department of Housing & Urban Development

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

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

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

As described in Note 1, to the basic financial statements, the Shelby Metropolitan Housing Authority adopted the provisions of Governmental Accounting Standards Board ("GASB") Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements for State and Local Government: Omnibus*, and GASB No. 38, *Certain Financial Statements Note Disclosures*, as of January 1, 2004. The implementation resulted in a change to the Authority's format and content of basic financial statements.

In accordance with *Government Auditing Standards*, we have also issued a report dated June 23, 2005 on our consideration of the Shelby 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.

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

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the Authority 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 Shelby Metropolitan Housing Authority. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audit of States, Local Governments and Non-Profit Organizations* and is not a required part of the basic financial statements. The combining financial data schedule ("FDS") and cost certifications 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects, in relation to the basic financial statements taken as a whole.

Vanderhorst & Manning CPAs, LLC
Dayton, Ohio

June 23, 2005

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SHELBY METROPOLITAN HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2004

Unaudited

The Shelby Metropolitan Housing Authority of Shelby County ("the Authority") management's discussion and analysis is designed to (a) assist the reader in focusing on significant 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 year's activities, resulting changes and currently known facts, please read it in conjunction with the Authority's financial statements (beginning on page 12).

FINANCIAL HIGHLIGHTS

- The Authority's net assets decreased by \$ 60,037 (or 1%) during 2004, including results from operations of \$(341,580), plus non-operating revenues of \$ 281,543. Since the Authority engages only in business-type activities, the decreases are all in the category of business-type net assets. Net Assets were \$ 6.7 million and \$ 6.7 million for 2004 and 2003 respectively.
- Revenues decreased by \$343,782 (or 16%) during 2004, and were \$2.3 million and \$1.9 million for 2003 and 2004 respectively.
- The total expenses of all Authority programs increased by \$122,530 (or 7%). Total expenses were \$ 1.9 million and 2.0 million for 2003 and 2004, respectively.

USING THIS ANNUAL REPORT

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

MD&A ~ Management's Discussion and Analysis ~
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Basic Financial Statements ~ Authority-wide Financial Statements – pgs 12-14 ~ Notes to Financial Statements – pgs 15-22

<u>Other Required Supplementary Information</u> ~Required Supplementary Information pgs 23-28 (other than MD&A)
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The primary focus of the Authority's financial statements is on both the Authority as a whole (Authority-wide) and the major individual funds. Both perspectives (authority-wide and major fund) allow the user to address relevant questions, broaden a basis for comparison (year to year or Authority to Authority) and enhance the Authority's accountability.

SHELBY METROPOLITAN HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2004

Unaudited

AUTHORITY-WIDE FINANCIAL STATEMENTS

The Authority-wide financial statements (see pgs 12-14) 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 an asset, minus liabilities, equals "Net Assets", formerly known as equity. Assets and liabilities are presented in order of liquidity, and are classified as "Current" (convertible into cash within one year), and "Non-current".

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

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 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 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.

SHELBY METROPOLITAN HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2004

Unaudited

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 funds 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 Funds:

Business Type Funds

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

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

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 an 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.

SHELBY METROPOLITAN HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2004

Unaudited

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

	<u>2004</u>	<u>2003</u>
Current and Other Assets	433,185	537,184
Capital Assets	<u>6,375,881</u>	<u>6,345,752</u>
Total Assets	<u>6,809,066</u>	<u>6,882,936</u>
Current Liabilities	90,116	97,432
Long-Term Liabilities	<u>37,466</u>	<u>43,983</u>
Total Liabilities	<u>157,582</u>	<u>141,415</u>
Net Assets:		
Invest in Capital Assets, Net of Related Debt	6,375,881	6,345,752
Unrestricted	<u>305,603</u>	<u>395,769</u>
Total Net Assets	<u>6,681,484</u>	<u>6,741,521</u>

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

Major Factors Affecting the Statement of Net Assets

During 2004, current and other assets were decreased by \$ 103,999 and current liabilities were decreased by \$ 7,316.

Capital assets also changed, increasing to \$ 6,375,881 from \$ 6,345,752. The \$ 30,129 increase may be attributed primarily to a combination of net acquisitions (\$268,933), less current year depreciation and amortization (\$238,804). For more detail see "Capital Assets and Debt Administration" below.

SHELBY METROPOLITAN HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2004

Unaudited

Table 2 presents details on the change in Unrestricted Net Assets.

TABLE 2
CHANGE OF UNRESTRICTED NET ASSETS

Unrestricted Net Assets 12/31/03	395,769
Results of Operations	(60,037)
Adjustments:	
Depreciation (1)	<u>238,804</u>
Adjusted Results from Operations	574,536
Capital Expenditures (2)	<u>(268,933)</u>
Unrestricted Net Assets 12/31/04	<u>305,603</u>

- (1) Depreciation is treated as an expense and reduces the results of operations but does not have an impact on unrestricted Net Assets.
- (2) Capital expenditures represent an outflow of unrestricted net assets, but are not treated as an expense against Results of Operations, and therefore must be deducted.

While the results of operations are 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.

**SHELBY METROPOLITAN HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2004**

Unaudited

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

**TABLE 3
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**

	<u>2004</u>	<u>2003</u>
Revenues		
Tenant Revenue – Rents and Other	294,430	307,448
Operating Subsidies and Grants	1,322,800	1,245,790
Capital Grants	266,554	692,068
Investment Income	3,655	4,044
Insurance Proceeds	11,334	0
Other Revenues	<u>26,443</u>	<u>19,648</u>
Total Revenues	<u>1,925,216</u>	<u>2,268,998</u>
Expenses		
Administrative	489,382	455,461
Tenant Services	3,412	4,593
Utilities	132,460	132,383
Maintenance	339,072	280,380
General	68,407	66,620
Housing Assistance Payments	713,716	686,115
Depreciation	<u>238,804</u>	<u>237,171</u>
Total Expenses	<u>1,985,253</u>	<u>1,826,723</u>
Net Increase/ (Decrease)	<u>(60,037)</u>	<u>406,275</u>

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

Tenant revenue decreased during 2004 in comparison to 2003. This was due to a decrease in dwelling rents from those charged in 2003. Operating subsidies, increased and capital grants decreased. The increase was due to a significant increase in operating subsidy to cover the decrease in the average dwelling rent.

Administrative cost increased substantially due in part to salary increases and hiring additional staff. Tenant services decrease due to a decrease in Resident Council activities as a result of the Resident Participation funding. Utility costs remained stable. Maintenance costs overall increased due to higher const of materials and labor. General expenses remained stable.

Housing Assistance Payments increase due to a higher level of leasing activities within the Authority's Housing Choice Voucher Program and increase in grants due to lower average dwelling rent.

SHELBY METROPOLITAN HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2004

Unaudited

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of December 31, 2004, the Authority had \$ 6.4 million invested in a variety of capital assets as reflected in the following schedule, which represents a net increase (addition, deductions and depreciation) of \$ 30,129 or less than 1% from the end of last year.

**TABLE 4
CAPITAL ASSETS AT YEAR-END
(NET OF DEPRECIATION)**

	<u>2004</u>	<u>2003</u>
Land and land rights	1,685,579	1,685,579
Buildings	8,138,247	7,883,557
Equipment - Administrative	264,761	262,382
Equipment - Dwelling	475,551	455,341
Construction in Progress	531,248	539,594
Accumulated Depreciation	<u>4,719,505</u>	<u>4,480,701</u>
Total	<u>6,375,881</u>	<u>6,345,752</u>

The following reconciliation summarizes the change in Capital Assets, which is presented in detail on page 19 of the notes.

**TABLE 5
CHANGE IN CAPITAL ASSETS
(IN MILLIONS)**

	<u>Business-Type Activities</u>
Beginning Balance	6,345,752
Additions, Net of Retirements	268,933
Depreciation and Amortization	<u>(238,804)</u>
Ending Balance	<u>6,375,881</u>

This year major additions primarily capital expenditures related to modernizing the Authority's housing projects. There was also a small amount of equipment purchases.

Debt Outstanding

As of year-end, the Authority has no debt (bonds, notes, etc.) outstanding.

**SHELBY METROPOLITAN HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2004**

Unaudited

ECONOMIC FACTORS

Significant economic factors affecting the Authority are as follows:

- Federal funding provided by Congress to the Department of Housing and Urban Development
- Local labor supply and demand, which can affect salary and wage rates
- Local inflationary, recessionary and employment trends, which can affect resident incomes and therefore the amount of housing assistance
- Inflationary pressure on utility rates, supplies and other costs
- Local rental market rates and housing stock supply and demand, which affects the Authority's ability to maintain leasing rates

FINANCIAL CONTACT

The individual to be contacted regarding this report is Judith Wells, Financial Director of the Shelby Metropolitan Housing Authority, at (937) 498-9898. Specific requests may be submitted to the Shelby Housing Authority at 706 N. Wagner Avenue, Sidney, Ohio, 45365.

SHELBY METROPOLITAN HOUSING AUTHORITY

STATEMENT OF NET ASSETS

DECEMBER 31, 2004

ASSETS

CURRENT ASSETS

Cash and Cash Equivalents	\$	291,003
Intergovernmental Receivables		93,229
Tenant Receivables - Net of \$8,420 Allowance		8,488
Fraud Recovery - Net of \$10,418 Allowance		16,063
Inventory		19,656
Prepaid Expenses		4,746
TOTAL CURRENT ASSETS	\$	<u>433,185</u>

NONCURRENT ASSETS

Property and Equipment - Net of \$4,719,505 Accumulated Depreciation	\$	<u>6,375,881</u>
TOTAL ASSETS	\$	<u><u>6,809,066</u></u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts Payable	\$	34,758
Intergovernmental Payable		14,575
Tenant Security Deposits		30,476
Accrued Wages and Payroll Taxes		10,307
TOTAL CURRENT LIABILITIES	\$	<u>90,116</u>

NONCURRENT LIABILITIES

Other Liabilities	\$	<u>37,466</u>
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NET ASSETS

Invested in Capital Assets, Net of Related Debt	\$	6,375,881
Unrestricted Net Assets		<u>305,603</u>
TOTAL NET ASSETS	\$	<u><u>6,681,484</u></u>

See Accompanying Notes to the Basic Financial Statements

SHELBY METROPOLITAN HOUSING AUTHORITY

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

FOR THE YEAR ENDED DECEMBER 31, 2004

REVENUE

Program Operating Grants/Subsidies	\$	1,322,800
Rental Income		294,430
Other Income		<u>26,443</u>
TOTAL OPERATING REVENUE	\$	<u>1,643,673</u>

EXPENSES (Before Depreciation)

Housing Assistance Payments	\$	713,716
Utilities		132,460
Material and Labor		339,072
Administrative Salaries		232,443
Employee Benefits		135,582
Auditing Fees		4,576
Other Administrative		116,781
General		68,407
Residential Services		3,412
Depreciation		<u>238,804</u>
TOTAL EXPENSES	\$	<u>1,985,253</u>

OPERATING LOSS \$ (341,580)

NONOPERATING REVENUES/(EXPENSES)

Interest and Investment Revenue		3,655
Insurance Proceeds		11,334
Capital Grants		<u>266,554</u>
	\$	<u>281,543</u>

CHANGE IN NET ASSETS \$ (60,037)

NET ASSETS, Beginning of year 6,741,521

NET ASSETS, End of year \$ 6,681,484

See Accompanying Notes to the Basic Financial Statements

SHELBY METROPOLITAN HOUSING AUTHORITY

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2004

CASH FLOWS FROM OPERATING ACTIVITIES

Cash Received from HUD	\$ 1,388,744
Cash Received from Tenants	291,748
Cash Received from Other Income	16,813
Cash Payments for Housing Assistance Payments	(713,716)
Cash Payments for Other Operating Expenses	<u>(1,022,246)</u>
NET CASH USED FOR OPERATING ACTIVITIES	\$ <u>(38,657)</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Purchase of Property and Equipment	\$ (268,933)
Insurance Proceeds	11,334
Capital Grants Received	<u>266,554</u>
NET CASH PROVIDED BY CAPITAL AND RELATED FINANCING ACTIVITIES	\$ <u>8,955</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest Received	\$ <u>3,655</u>
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NET INCREASE IN CASH AND CASH EQUIVALENTS \$ (26,047)

CASH AND CASH EQUIVALENTS, BEGINNING 317,050

CASH AND CASH EQUIVALENTS, ENDING \$ 291,003

RECONCILIATION OF OPERATING INCOME TO NET CASH USED BY OPERATING ACTIVITIES

Net Operating Loss	\$ (341,580)
Adjustments to Reconcile Net Loss to Net Cash Provided by Operating Activities:	
Depreciation	238,804
Changes in Operating Assets and Liabilities that Increase/Decrease Cash Flows:	
Receivables	57,052
Inventory	21,090
Prepaid Expenses	(190)
Accounts Payable	6,288
Accrued Wages and Payroll Taxes	(3,967)
Deferred Revenue	(2,180)
Intergovernmental Payables	(8,397)
Other Liabilities	(4,337)
Tenant Security Deposits	<u>(1,240)</u>
NET CASH USED FOR OPERATING ACTIVITIES	\$ <u>(38,657)</u>

See Accompanying Notes to the Basic Financial Statements

SHELBY METROPOLITAN HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR YEAR ENDED DECEMBER 31, 2004

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Reporting Entity

The Shelby Metropolitan Housing Authority (the Authority) was created under the Ohio Revised Code Section (3735.27) to engage in the acquisition, development, leasing and administration of a low-rent housing program. An Annual Contributions Contract (ACC) was signed by the Authority and the U.S. Department of Housing and Urban Development (HUD) under the provisions of the United States Housing Act of 1937 (42 U.S.C. 1437) Section 1.1. The Authority was also created in accordance with state law to eliminate housing conditions which are detrimental to the public peace, health, safety, morals or welfare by purchasing, acquiring, constructing, maintaining, operating, improving, extending and repairing housing facilities.

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

Basis of Presentation

The financial statements of the Authority have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

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

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

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

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

Measurement Focus and Basis of Accounting

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

SHELBY METROPOLITAN HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2004

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Measurement Focus and Basis of Accounting (continued)

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

Changes in Accounting Principles

Effective January 1, 2004, the Authority adopted the provisions of GASB Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments" as amended by GASB Statement No. 37, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus", and GASB Statement No. 38, "Certain Financial Statement Disclosures". GASB Statement No. 34 establishes financial reporting standards for all state and local governments and related entities. GASB Statement No. 34 primarily relates to presentation and disclosure requirements. The impact of this accounting change was related to the format of the financial statements, presentation of net assets, the inclusion of management's discussion and analysis, additional disclosures for capital assets, and the preparation of the statements of cash flows on the direct method.

Estimates

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

Cash and Cash Equivalents

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

Inventory

Inventory consists of materials and supplies and are stated at cost (first-in, first-out method), which approximates market. The Board believes no allowance is needed for obsolete inventory.

Receivable – net of allowance

Bad debts are provided on the allowance method based on management's evaluation of the collectibility of outstanding tenant receivable balances at the end of the year. The allowance of uncollectible receivable was \$8,420 for tenant receivables and \$10,418 for fraud receivables at December 31, 2004.

SHELBY METROPOLITAN HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2004

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, the do not add to the value of the asset or materially extend the asset life, are not capitalized.

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 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 absence accrual amount.

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

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

Investments

The provisions of the HUD Regulations restrict investments. Investments are stated at fair value. Cost based measures were applied to nonnegotiable certificates of deposit and money market investments. Interest income earned in fiscal year ending December 31, 2004 totaled \$3,655.

Due From/To Other Programs

Inter-program receivables and payables on the FDS Schedule on pages 23-26 are eliminated on the Statement of Net Assets.

Prepaid Expenses

Payments made to vendors for services that will be benefit periods beyond December 31, 2004, are recorded as prepaid expenses using the consumption method. A current asset for the amount is recorded at the time of the purchase and expense is reported in the year in which the services are consumed.

SHELBY METROPOLITAN HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2004

NOTE 2 – CASH AND CASH EQUIVALENTS

Cash

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

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

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

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

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

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

The carrying amount of the Authority's deposits was \$291,003 at December 31, 2004. The corresponding bank balances were \$354,512.

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

Category 1.	\$ 279,516	was covered by federal depository insurance.
Category 3.	\$ 74,996	was covered by collateral held by the pledging financial institution, in the name of the Authority.

Collateral is required for demand deposits and certificates of deposit at 110 percent of all deposits not covered by federal deposit insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies and obligations of the State and its municipalities, school districts, and district corporations. Obligations pledged to secure deposits must be delivered to a bank other than the institution in which the deposit is made. Written custodial agreements are required.

Investments

HUD, State Statute and Board Resolutions authorize the Authority to invest in obligations of U.S. Treasury, agencies and instrumentalities, certificates of deposit, repurchase agreements, money market deposit accounts, municipal

SHELBY METROPOLITAN HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2004

NOTE 2 – CASH AND CASH EQUIVALENTS (Continued)

Investments

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

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. Star Ohio is not classified, since it is not evidenced by securities that exist in physical or book entry form.

The Authority's deposits are classified as cash on the balance sheet and are considered as deposits for GASB 3 purposes. Therefore, the categories described above do not apply.

NOTE 3 – PROPERTY AND EQUIPMENT

A summary of property and equipment at December 31, 2004, by class is as follows:

Buildings and Building Improvements	\$ 8,138,247
Land and Land Improvements	1,685,579
Furniture and Fixtures, Equipment and Moving Vehicles	740,312
Construction In Progress	<u>531,248</u>
Total	\$ 11,095,386
Less Accumulated Depreciation	<u>(4,719,505)</u>
Net Property and Equipment	<u>\$ 6,375,881</u>

The depreciation expense for year ended December 31, 2004 is \$238,804.

The following is a summary of changes:

	Balance <u>12/31/03</u>	<u>Additions</u>	<u>Deletion</u>	Balance <u>12/31/04</u>
Land	\$ 1,685,579	\$ 0	\$ 0	\$ 1,685,579
Buildings	7,883,557	254,690	0	8,138,247
Furniture, Mach. And Equip.	717,723	22,589	0	740,312
Construction In Progress	<u>539,594</u>	<u>(8,346)</u>	<u>0</u>	<u>531,248</u>
Total Fixed Assets	<u>\$10,826,453</u>	<u>\$ 268,933</u>	<u>\$ 0</u>	<u>\$11,095,386</u>

SHELBY METROPOLITAN HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2004

NOTE 4 – ADMINISTRATIVE FEE

The Authority receives an “administrative fee” as part of the annual contribution from HUD to cover the costs (including overhead) of administering the Section 8 Housing Assistance Payments (HAP) Programs. The fee is a percentage of a HUD determined base rate for each unit per month under HAP contracts. The rates are as follows:

A. Choice Vouchers:

County:

Shelby, Champaign, Hardin	\$40.47/unit
Hard to House Fees	\$75.00/unit

NOTE 5 – DEFINED BENEFIT PENSION PLANS – PUBLIC EMPLOYEES RETIREMENT SYSTEM

All employees participate in the Ohio Public Employees Retirement System of Ohio (OPERS), a cost sharing multiple employer public employee retirement system administered by the Ohio Public Employee Retirement Board. OPERS provides basic 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 Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report, which may be obtained by writing to the Ohio Public Employee Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6705 or 1-800-222-7377.

The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rate is 8.5 percent. The employer contribution rate was 13.55 percent of covered payroll of which 5 percent were the portions used to fund health care. The Authority’s required contributions to OPERS for the years ended December 31, 2004, 2003, and 2002 were \$53,607, \$48,774, and \$51,398 respectively. All required contributions have been made.

NOTE 6 – DEFINED BENEFIT PLANS

OPERS provides postretirement health care coverage to age and service retirees with ten 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 OPERS is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer’s contribution to OPERS is set aside for the funding of postretirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The portion of the 2004 employer contributions used to fund health care were \$19,782.

The significant actuarial assumptions and calculations relating to Postemployment health care benefits were based on the System’s latest actuarial review performed as of December 31, 2003. 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 2003 was 8.0 percent. An annual increase of 4.0 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 4.0 percent base increase, were assumed to range from 0.50 percent to 6.3 percent. Health care costs were assumed to increase 4.0 percent annually.

SHELBY METROPOLITAN HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2004

NOTE 6 – DEFINED BENEFIT PLANS (continued)

Benefits are advanced-funded on an actuarially determined basis. The number of active contributing participants was 369,885 at December 31, 2004. The actuarial value of OPERS' net assets available for OPEB at December 31, 2003 was \$10.5 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$26.9 billion and \$16.4 billion, respectively.

In December 2001, the Board adopted the Health Care "Choices" Plan in its continuing effort to respond to the rise in the cost of health care. The Choices plan will be offered to all persons newly hired under OPERS after January 1, 2003, with no prior service credit accumulated toward health care coverage. Choices, as the name suggests, will incorporate a cafeteria approach, offering a more broad range of health care options. The Plan uses a graded scale from ten to thirty years to calculate a monthly health care benefit. This is in contrast to the ten year "cliff" eligibility standard for the present Plan.

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

NOTE 7 – COMPENSATED ABSENCES

Vacation and sick leave policies are established by the Board of Commissioners based on local and state laws.

All permanent employees will earn one and ¼ days sick leave per month to a maximum of 180 days. The Authority's policy is to accrue sick leave for employees five years before retirement. All permanent employees will earn vacation hours accumulated based on length of service. All vacation time accumulated will be paid upon separation to a maximum of four weeks.

At December 31, 2004 based on the vesting method, \$37,466 was accrued by the Authority for unused vacation and sick time, it is managements belief this to be all long- term.

NOTE 8 – CONTINGENCIES

Grants

The Authority received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Authority. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Authority at December 31, 2004.

Risk Management

The Housing 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.

SHELBY METROPOLITAN HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2004

NOTE 8 – CONTINGENCIES (continued)

Litigation and Claims

In the normal course of operations, the Authority may be subject to litigation and claims. At December 31, 2004 the Authority was involved in no matters which management believes would have a material effect on the financial statements.

NOTE 9 – BASIS OF PRESENTATION

The accompanying schedule of federal awards includes the federal grant activity of Shelby Metropolitan Housing Authority and is presented on the accrual basis of accounting.

NOTE 10 – PAYMENT IN LIEU OF TAXES

The Authority has cooperation agreements with certain municipalities under which it makes payment in lieu of real estate taxes for various public services. Expense recognized for payment in lieu of taxes totaled 14,575.

NOTE 11 – CHANGES IN ACCOUNTING PRINCIPLES, RECLASSIFICATIONS, AND RESTATEMENT OF PRIOR YEAR'S FUND EQUITY

Changes in Accounting Principles

For the period ending December 31, 2004, the Authority implemented GASB Statement No. 34. This had an effect on the classification of equity. See the following for the reclassification and restatement.

	<u>Total</u>	<u>Net HUD/PHA Contributions</u>	<u>Undesignated Retained Earnings</u>	<u>Invested in Capital Assets Net of Debt</u>	<u>Unrestricted Net Assets</u>
Net Assets, Beginning of Year	\$6,741,521	\$ 5,737,532	\$ 1,003,989	\$ 0	\$ 0
Reclassification – GASB 34	<u>0</u>	<u>(5,737,532)</u>	<u>(1,003,989)</u>	<u>6,345,752</u>	<u>395,769</u>
Net Assets, Beginning of year, Restated	<u>\$6,741,521</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$6,345,769</u>	<u>\$ 395,769</u>

SHELBY METROPOLITAN HOUSING AUTHORITY
COMBINING BALANCE SHEET
FDS SCHEDULE SUBMITTED TO HUD
DECEMBER 31, 2004

FDS Line Item No.	Account Description	Low Rent	Housing Choice Voucher	Capital Fund Program	TOTAL
<u>ASSETS</u>					
111	Cash - Unrestricted	\$164,001	\$127,002	\$0	\$291,003
100	Total Cash	\$164,001	\$127,002	\$0	\$291,003
122	Accounts Receivable - HUD Other Projects	\$0	\$7,816	\$85,413	\$93,229
126	Accounts Receivable-Tenants-Dwelling Rents	\$16,908	\$0	\$0	\$16,908
126.1	Allowance for Doubtful Accounts - Dwelling	(\$8,420)	\$0	\$0	(\$8,420)
128	Fraud Recovery	\$0	\$26,481	\$0	\$26,481
128.1	Allowance for Doubtful Accounts - Fraud	\$0	(\$10,418)	\$0	(\$10,418)
120	Total Receivables, net of allowances for doubtful accounts	\$8,488	\$23,879	\$85,413	\$117,780
142	Prepaid Expenses and Other Assets	\$4,746	\$0	\$0	\$4,746
143	Inventories	\$19,656	\$0	\$0	\$19,656
143.1	Allowance for Obsolete Inventories	\$0	\$0	\$0	\$0
144	Interprogram Due From	\$113,039	\$0	\$0	\$113,039
150	TOTAL CURRENT ASSETS	\$309,930	\$150,881	\$85,413	\$546,224
161	Land	\$1,685,579	\$0	\$0	\$1,685,579
162	Buildings	\$7,883,557	\$0	\$254,690	\$8,138,247
163	Furniture, Equipment & Machinery - Dwellings	\$455,341	\$0	\$0	\$455,341
164	Furniture, Equipment & Machinery - Administration	\$250,444	\$14,317	\$20,210	\$284,971
166	Accumulated Depreciation	(\$4,694,677)	(\$14,317)	(\$10,511)	(\$4,719,505)
167	Construction in Progress	\$0	\$0	\$531,248	\$531,248
150	TOTAL FIXED ASSETS, NET OF ACCUMULATED DEPRECIATION	\$5,580,244	\$0	\$795,637	\$6,375,881
190	TOTAL ASSETS	\$5,890,174	\$150,881	\$881,050	\$6,922,105

SHELBY METROPOLITAN HOUSING AUTHORITY
COMBINING BALANCE SHEET

FDS SCHEDULE SUBMITTED TO HUD
DECEMBER 31, 2004

FDS Line Item No.	Account Description	Low Rent	Housing Choice Voucher	Capital Fund Program	TOTAL
<u>LIABILITIES & RETAINED EARNINGS</u>					
312	Accounts Payable <= 90 days	\$34,758	\$0	\$0	\$34,758
321	Accrued Wage/ Payroll Taxes Payable	\$10,307	\$0	\$0	\$10,307
322	Accrued Compensated Absences - Current	\$0	\$0	\$0	\$0
331	Accounts Payable - HUD PHA Programs	\$0	\$0	\$0	\$0
333	Accounts Payable - Other Government	\$14,575	\$0	\$0	\$14,575
341	Tenant Security Deposits	\$30,476	\$0	\$0	\$30,476
342	Deferred Revenue	\$0	\$0	\$0	\$0
347	Interprogram Due To	\$0	\$27,626	\$85,413	\$113,039
310	TOTAL CURRENT LIABILITIES	\$90,116	\$27,626	\$85,413	\$203,155
354	Accrued Compensated Absences-Noncurrent	\$31,543	\$5,923	\$0	\$37,466
300	TOTAL LIABILITIES	\$121,659	\$33,549	\$85,413	\$240,621
<u>EQUITY</u>					
504	Net HUD PHA Contributions	\$5,580,244	\$0	\$795,637	\$6,375,881
508	Total Contributed Capital	\$5,580,244	\$0	\$795,637	\$6,375,881
512.1	Unrestricted Net Assets	\$188,271	\$117,332	\$0	\$305,603
513	TOTAL EQUITY/NET ASSETS	\$5,768,515	\$117,332	\$795,637	\$6,681,484
600	TOTAL LIABILITIES & EQUITY	\$5,890,174	\$150,881	\$881,050	\$6,922,105

SHELBY METROPOLITAN HOUSING AUTHORITY
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
RETAINED EARNINGS
FDS SCHEDULE SUBMITTED TO HUD
DECEMBER 31, 2004

FDS Line Item No.	Account Description	Low Rent	Housing Choice Vouchers	Capital Fund Program	TOTAL
REVENUE					
703	Net Tenant Rental Revenue	\$290,920	\$0	\$0	\$290,920
704	Tenant Revenue - Other	\$3,510	\$0	\$0	\$3,510
705	Total Tenant Revenue	\$294,430	\$0	\$0	\$294,430
706	HUD PHA Operating Grants	\$393,324	\$813,043	\$116,433	\$1,322,800
706.1	Capital Grants	\$0	\$0	\$266,554	\$266,554
711	Investment Income - Unrestricted	\$2,794	\$861	\$0	\$3,655
714	Fraud Recovery	\$0	\$13,141	\$0	\$13,141
715	Other Revenue	\$19,347	\$5,289	\$0	\$24,636
716	Gain/Loss on Sale of Fixed Assets	\$0	\$0	\$0	\$0
700	TOTAL REVENUE	\$709,895	\$832,334	\$382,987	\$1,925,216
EXPENSES					
911	Administrative Salaries	\$143,301	\$64,442	\$24,700	\$232,443
912	Auditing Fees	\$3,661	\$915	\$0	\$4,576
914	Compensated Absences	\$0	\$0	\$0	\$0
915	Employee Benefit Contributions - Admin.	\$51,342	\$26,496	\$0	\$77,838
916	Other Operating - Administrative	\$39,846	\$13,202	\$63,733	\$116,781
924	Tenant Services - Other	\$3,412	\$0	\$0	\$3,412
931	Utilities - Water	\$45,432	\$0	\$0	\$45,432
932	Utilities - Electricity	\$54,465	\$0	\$0	\$54,465
933	Utilities - Gas	\$32,563	\$0	\$0	\$32,563
941	Ordinary Maintenance & Operations-labor	\$161,167	\$0	\$0	\$161,167
942	Ordinary Maintenance & Operations - Materials & Other	\$54,929	\$0	\$0	\$54,929
943	Ordinary Maintenance & Operations - Contract Costs	\$122,976	\$0	\$0	\$122,976
945	Employee Benefit Contributions - Ordinary Maintenance	\$57,744	\$0	\$0	\$57,744
961	Insurance Premiums	\$37,164	\$8,410	\$0	\$45,574
962	Other General Expenses	\$1,306	\$29	\$0	\$1,335
963	Payment in Lieu of Taxes	\$14,575	\$0	\$0	\$14,575
964	Bad Debts - Tenant Rents	\$6,923	\$0	\$0	\$6,923
969	TOTAL OPERATING EXPENSES	\$830,806	\$113,494	\$88,433	\$1,032,733

SHELBY METROPOLITAN HOUSING AUTHORITY
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
RETAINED EARNINGS
FDS SCHEDULE SUBMITTED TO HUD
DECEMBER 31, 2004

FDS Line Item No.	Account Description	Low Rent	Housing Choice Vouchers	Capital Fund Program	TOTAL
970	Excess Operating Revenue Over Operating Expenses	(\$120,911)	\$718,840	\$294,554	\$892,483
973	Housing Assistance Payments	\$0	\$713,716	\$0	\$713,716
974	Depreciation	\$207,600	\$0	\$31,204	\$238,804
900	TOTAL EXPENSES/				
	OTHER FINANCIAL SOURCES (USES)				
1001	Transfers in	\$1,038,406	\$827,210	\$119,637	\$1,985,253
1002	Transfers Out	\$28,000		(\$28,000)	\$28,000
1000	Excess (Deficiency) of Operating Revenue Over (Under) Expenses	(\$300,511)	\$5,124	\$235,350	(\$60,037)
1103	Beginning Equity				
1104	Prior Period Adjustments, Equity Transfers and Correction of Errors	\$5,796,456	\$112,208	\$832,857	\$6,741,521
		\$272,570	\$0	(\$272,570)	\$0
513	Total Equity/Net Assets	<u>\$5,768,515</u>	<u>\$117,332</u>	<u>\$795,637</u>	<u>\$6,681,484</u>
1113	Maximum Annual Contributions Commitment (Per ACC)	\$0	\$849,263	\$0	\$849,263
114	Prorata Maximum Annual Contributions	\$0	\$0	\$0	\$0
1115	Contingency Reserve, ACC Program Reserve	\$0	\$36,220	\$0	\$36,220
		\$0	\$0	\$0	\$0
1116	Total Annual Contributions Available	\$0	\$885,483	\$0	\$885,483
1120	Unit Months Available	2,100	2,628		4,728
1121	Number of Units Months Leased	2,045	2,555		4,600

SHELBY METROPOLITAN HOUSING AUTHORITY

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>Federal CFDA Number</u>	<u>Funds Expended</u>
<u>FROM U. S. DEPT. OF HUD DIRECT PROGRAMS</u>		
Annual Contribution Public Housing:		
PHA Owned Housing:		
Operating Subsidy - Low Rent	14.850	\$ <u>393,324</u>
Modernization Program:		
Capital Fund Program	14.872	\$ <u>382,987</u>
 Annual Contribution Contract C-5098:		
Housing Assistance Payments:		
Choice Voucher	14.871	\$ <u>813,043</u>
 TOTAL - ALL PROGRAMS		\$ <u><u>1,589,354</u></u>

BASIS OF PRESENTATION

The accompanying schedule of federal awards includes the federal grant activity of Shelby Metropolitan Housing Authority and is presented on the accrual basis of accounting.

The accompanying notes to this schedule are an integral part of this schedule.

SHELBY METROPOLITAN HOUSING AUTHORITY
SCHEDULE OF COST CERTIFICATION OF MODERNIZATION PROJECTS
FOR THE YEAR ENDED DECEMBER 31, 2004

The cost certification of modernization of the projects are as follows:

Capital Fund Program 501-01

	<u>OH16-P061 - 501-01</u>
Original Funds Approved	\$ <u><u>326,116</u></u>
Total Funds Expended	\$ <u><u>326,116</u></u>

1. All modernization grant costs have been paid and all related liabilities have been discharged through payments.
2. The final costs on the certification agree to the Authority's records.

VANDERHORST & MANNING CPAS, LLC
6105 North Dixie Drive
Dayton, Ohio 45413

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

Board of Commissioners
Shelby Metropolitan Housing Authority
Sidney, Ohio

We have audited the general purpose financial statements of the Shelby Metropolitan Housing Authority, Sidney, Ohio, as of and for the year ended December 31, 2004, and have issued our report thereon dated June 23, 2005. As described in Note 1 of the basic financial statement the Authority adopted the provisions of *Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – For State and Local Governments*, as of January 1, 2004. This results in a change in the format and content of the basic financial statements. 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 Shelby 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 Shelby 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 and management of the Authority, Auditor of the State, and federal awarding agencies and is not intended to be and should not be used by anyone other than those specified parties.

Vanderhorst & Manning CPAs, LLC
Dayton, Ohio

June 23, 2005

VANDERHORST & MANNING CPAS, LLC
6105 North Dixie Drive
Dayton, Ohio 45413

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM
AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Commissioners
Shelby Metropolitan Housing Authority
Sidney, Ohio

Compliance

We have audited the compliance of the Shelby Metropolitan Housing Authority, Sidney, 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, 2004. The Shelby Metropolitan Housing Authority's major federal programs are identified in the summary of the 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 the Shelby Metropolitan Housing Authority's management. Our responsibility is to express an opinion on the Shelby 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 the 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 the Shelby Metropolitan Housing Authority's compliance with those requirements.

In our opinion, the Shelby Metropolitan Housing Authority complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2004.

Internal Control Over Compliance

The management of the Shelby 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 the 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*.

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM
AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH
OMB CIRCULAR A-133** (continued)

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, federal awarding agencies and is not intended to be and should not be used by anyone other than those specified parties.

Vanderhorst & Manning CPAs, LLC
Dayton, Ohio

June 23, 2005

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

Shelby County Metropolitan Housing Authority
 December 31, 2004

1. SUMMARY OF AUDITORS' RESULTS	
Type of Financial Statement Opinion	Unqualified
Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	NO
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):	CFDA#14.871, 14.850 & 14.872
Dollar Threshold: Type A/B Programs	Type A: \$300,000 Type B: All others
Low Risk Auditee?	YES

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

Shelby County Metropolitan Housing Authority
December 31, 2004

2. FINDINGS RELATED TO FINANCIAL STATEMENTS

There are no findings or questioned costs for the year ended December 31, 2004.

3. FINDINGS RELATED TO FEDERAL AWARDS

There are no findings or questioned costs for the year ended December 31, 2004.



**Auditor of State
Betty Montgomery**

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SHELBY METROPOLITAN HOUSING AUTHORITY

SHELBY 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
AUGUST 9, 2005**