

HENRY METROPOLITAN HOUSING AUTHORITY

Financial Condition

As of

June 30, 2004

Together with Auditors' Report



**Auditor of State
Betty Montgomery**

Board of Trustees
Henry Metropolitan Housing Authority
1044 Chelsea Ave.
Napoleon, OH 43545

We have reviewed the Independent Auditor's Report of the Henry Metropolitan Housing Authority, Henry County, prepared by Kevin L. Penn, Inc., for the audit period July 1, 2003 through June 30, 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 Henry Metropolitan Housing Authority is responsible for compliance with these laws and regulations.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

December 20, 2004

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**HENRY METROPOLITAN HOUSING AUTHORITY
NAPOLEON, OHIO**

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Independent Auditor's Report

Board of Trustees
Henry Metropolitan Housing Authority
Napoleon, Ohio

I have audited the accompanying financial statements of the Henry Metropolitan Housing Authority, as of June 30, 2004 and for the year then ended, listed in the foregoing table of contents. These financial statements are the responsibility of the Henry Metropolitan Housing Authority's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Henry Metropolitan Housing Authority, as of June 30, 2004, and the changes in net assets and revenues, expenditures and other changes, and the cash flows for the year ended June 30, 2004 in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis (MD&A) on pages 4 – 9, is not a required part of the financial statements but is supplemental information required by the Governmental Accounting Standards Board. The MD&A has been reviewed in accordance with the standards established by the American Institute of Certified Public Accountants. Such a review, however, is substantially less in scope than an audit in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, I do not express such an opinion on the MD&A information.

In accordance with *Government Auditing Standards*, I have also issued my report dated October 26, 2004 on my consideration of the Henry Metropolitan Housing Authority's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the result of my audit.

My audit was performed for the purpose of forming an opinion on the basic financial statements of Henry Metropolitan Housing Authority taken as a whole. 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, Audits of States, Local Governments, and Non-Profit Organizations. In addition, the financial data schedule, pages 21 to 23 are presented for additional analysis as required by the U.S. Department of Housing and Urban Development. These schedules are the responsibility of management of Henry Metropolitan Housing Authority, 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 my opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Kevin L. Penn, Inc.

October 26, 2004

Henry Metropolitan Housing Authority

Management's Discussion and Analysis

For the Year Ended June 30, 2004

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

This Management Discussion and Analysis is new, and will now be presented at the front of each year's financial statements.

Since the Management's Discussion and Analysis (MD&A) is designed to focus on the current years activities, resulting changes and currently known facts, please read it in conjunction with the Authority's financial statements (beginning on page 10).

FINANCIAL HIGHLIGHTS

- During FY 2004, the Authority's net assets decreased by \$25,209 (or 20.79%). Since the Authority engages only in business-type activities, the decrease is all in the category of business-type net assets. Net Assets were \$121,261 and \$96,052 for FY 2003 and FY 2004 respectively.
- The revenue decreased by \$31,922 (or 3.99%) during FY 2004, and was \$985,099 and \$953,177 for FY 2003 and FY 2004 respectively.
- The total expenses of the Authority decreased by \$6,121 (or less than 1%) during FY2004 expenses were \$984,507 and \$978,386 for FY 2003 and FY 2004 respectively.

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

Authority-Wide Financial Statements

The Authority-wide financial statements (see pages 10-12) are designed to be corporate-like in that all business type activities are consolidated into columns, which add to a total for the entire Authority.

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

Authority-Wide Financial Statements (continued)

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

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

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

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

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

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

Finally, Statement of Cash Flows (see page 12) is included, which discloses net cash provided by, or used for operating activities, non-capital financing activities, and from capital and related financing activities.

Fund Financial Statements

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

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

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 adjusted household income.

The Authority's Funds

Business Type Funds (continued)

Other Non-major Funds - In addition to the major funds above, the Authority also maintains the following non-major funds. Non-major funds are defined as funds that have assets, liabilities, revenues, or expenses of at least 5% or more of the Authority's total assets, liabilities, revenues or expenses:

State/Local Activities – represents non-HUD resources developed from a variety of activities.

AUTHORITY –WIDE STATEMENT

Statement of Net Assets

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

TABLE 1
STATEMENT OF NET ASSETS

	<u>FY 2004</u>	<u>FY 2003</u>
Current and Other Assets	\$ 251,885	\$ 142,028
Capital Assets	<u>118,447</u>	<u>85,963</u>
Total Assets	<u>370,332</u>	<u>227,991</u>
Other Liabilities	187,456	22,706
Non-Current Liabilities	<u>86,824</u>	<u>84,024</u>
Total Liabilities	<u>274,280</u>	<u>106,730</u>
Net Assets:		
Invested in Capital Assets, Net of Related Debt	81,198	46,033
Unrestricted	<u>14,854</u>	<u>75,228</u>
Total Net Assets	<u>\$ 96,052</u>	<u>\$ 121,261</u>

For More detailed information see page 10 for the Statement of Net Assets.

Major Factors Affecting the Statement of Net Assets

Current assets (primarily cash and investments) were increased by \$109,857 in fiscal year 2004 and liabilities increased by \$167,550. The over requesting of HUD funds gave the Authority additional cash as well as an increase in their liability to HUD.

The replacement of the parking lot totaling \$44,199 and current years' depreciation totaling \$11,715 gave a net increase to Capital Assets. For more detail see "Capital Assets and Debt Administration" below.

TABLE 2**CHANGE OF UNRESTRICTED NET ASSETS**

Unrestricted Net Assets 6/30/2003		\$ 75,228
Results of Operations	(25,209)	
Adjustments:		
Depreciation (1)	11,715	
Adjusted Results from Operations		(13,494)
Capital Expenditures		(44,199)
Retirement of Debt		(2,681)
		<hr/>
Unrestricted Net Assets 6/30/04		<u><u>\$ 14,854</u></u>

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

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

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

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

	<u>FY 2004</u>	<u>FY 2003</u>
Revenues		
HUD PHA Operating Grants	\$ 796,482	853,177
Investment Income	2,816	3,345
Other Revenues – Service Income	140,225	127,599
Other Revenues-Port Admin Fees	12,716	0
Other Revenues – Fraud Recovery	938	978
Total Revenue	<u>953,177</u>	<u>985,099</u>
Expenses		
Administrative	260,439	226,372
Maintenance	15,543	9,512
General	10,288	6,736
Housing Assistance Payments	680,401	729,563
Depreciation	11,715	12,324
Total Expenses	<u>978,386</u>	<u>984,507</u>
Net Increase/ (Decrease)	<u>\$ (25,209)</u>	<u>\$ 592</u>

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

HUD PHA Grants decreased due to the changes in HUD funding beginning January 2004. HUD’s max funding for HAP per unit beginning 1/1/04 was \$272.85. As instructed by HUD the Authority took what measures they could (Decreasing Payment Standards & increasing minimum rents) to decrease their average HAP payments. The Authority’s leasing unit months decreased by 72 with a total of 2,648 (97% leasing rate) in Fy04 and 2,720 (99.9%) in FY03.

The Authority at the request of HUD helped Hancock MHA out of an under leasing problem and has ported units leased in Henry paid for by Hancock MHA. The Authority receives a port admin fee of 80% of the current rate. These fees are reflected in Other Revenues – Port Admin fees and then again paid out under Administrative Expenses. Thus both items show an increase.

Annual increases and staffing changes during the fiscal year 2004 contributed to the increase of \$41,436 in the Administrative Expense category.

Most other expenses increase moderately due to inflation. Depreciation increased because of the additions to capital assets during fiscal year 2004.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of 6/30/04, the Authority had \$118,447 invested in capital assets as reflected in the following schedule, which represents a net increase (addition, deductions and depreciation).

TABLE 4

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

	Business-type Activities	
	FY 2004	FY 2003
Land/Building	\$ 84,511	\$ 84,511
Equipment – Administrative	51,021	51,021
Building Improvements	51,974	7,775
Accumulated Depreciation	(69,059)	(57,344)
Total	<u>\$ 118,447</u>	<u>\$ 85,963</u>

The following reconciliation summarizes the change in Capital Assets, which is presented in detail on page 17 of the notes.

TABLE 5

CHANGE IN CAPITAL ASSETS

Beginning Balance	\$ 85,963
Additions	44,199
Disposition	(0)
Depreciation	<u>(11,715)</u>
Ending Balance	<u><u>\$ 118,447</u></u>

This year's major additions are:

Complete removal and replacement of parking lot including regarding and installation of drainage tiles. Total Cost \$44,199.

ECONOMIC FACTORS

Significant economic factors affecting the Authority are as follows:

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

FINANCIAL CONTACT

The individual to be contacted regarding this report is Marsha K. Inscho, Finance Manager for the Henry Metropolitan Housing Authority, at (419) 592-1735. Specific requests may be submitted to the Authority at 1044 Chelsea Ave., Napoleon, OH 43545-1202.

HENRY METROPOLITAN HOUSING AUTHORITY
STATEMENT OF NET ASSETS
JUNE 30, 2004

ASSETS

Current Assets

Cash and Cash Equivalents (Note 1)	\$	162,060
Investments - Unrestricted		65,990
Fraud Recovery		13,288
Accounts Receivable - Other		5,827
Interest Receivable		190
Prepaid Expenses		4,510
Total Current Assets		251,865

Other Assets

Property and Equipment - Net (Note 1)		118,447
Deposits		20
Total Other Assets		118,467
TOTAL ASSETS	\$	370,332

LIABILITIES AND NET ASSETS

Current Liabilities

Accounts Payable	\$	45,168
Accounts Payable - HUD		126,314
Accrued Wages and Payroll Taxes		0
Undistributed Credits - Fraud Recovery		13,288
Current Portion of Long Term Debt		2,686
Total Current Liabilities		187,456

Non-Current Liabilities

Accrued Compensated Absences		52,261
Notes Payable		34,563
Total Non-Current Liabilities		86,824
Total Liabilities	\$	274,280

Net Assets

Investment in Capital Assets, Net of Related Debt	\$	81,198
Unrestricted		14,854
Total Net Assets	\$	96,052

The accompanying notes are an integral part of the financial statements.

HENRY METROPOLITAN HOUSING AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2004

Operating Revenue:

HUD Operating Subsidies and Grants	\$ 809,198
Total Operating Revenue	809,198

Operating Expenses:

Housing Assistance Payments	680,401
Administrative Salaries	173,701
Compensated Absences	5,621
Employee Benefits	37,865
Other Administrative Expense	43,254
Material and Labor - Maintenance	17,621
Depreciation Expense	11,715
General Expenses	8,208
Total Operating Expenses	978,386

Operating Income (Loss)	(169,188)
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Non-Operating Revenues (Expenses)

Investment Income - Unrestricted	2,816
Management Fee	140,225
Fraud Recovery	938
Total Non-Operating Revenues (Expenses)	143,979

Change in Net Assets	(25,209)
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Net Assets - Beginning of Year	121,261
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Net Assets - End of Year	\$ 96,052
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The accompanying notes are an integral part of the financial statements.

HENRY METROPOLITAN HOUSING AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2004

Cash Flows From Operating Activities:	
Cash payments to suppliers for goods and services	\$ (27,177)
Cash payments for salaries and benefits	(217,187)
Housing assistance payments	(552,098)
HUD operating subsidies and grants	809,198
Other receipts	146,368
Other payments	<u>(8,208)</u>
Net Cash Provided (Used) by Operating Activities	150,896
Cash Flows From Non-Capital Financing:	
Net Cash Provided (Used) by Non-Capital Financing	<u>-</u>
Cash Flows From Capital and Related Financing Activities:	
Repayment of Long Term Debt	<u>(2,681)</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	(2,681)
Cash Flows From Investing Activities:	
Changes in Investments	(1,948)
Building and Land Improvements	<u>(44,199)</u>
Net Cash Provided (Used) by Investing Activities	(46,147)
Increase (Decrease) in Cash and Cash Equivalents	102,068
Cash and Cash Equivalents - Beginning of Year	<u>59,992</u>
Cash and Cash Equivalents - End of Year	<u>\$ 162,060</u>

The accompanying notes are an integral part of the financial statements.

(Continued)

HENRY METROPOLITAN HOUSING AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2004

Reconciliation of Operating Loss to Net Cash Used in Operating Activities:	
Change in Net Assets	\$ (25,209)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	11,715
Changes in operating assets and liabilities:	
(Increase) decrease in assets:	
Accounts Receivable	(3,438)
Interest Receivable	(6)
Prepaid Expenses	(668)
Increase (decrease) in liabilities:	
Accounts Payable	164,937
Accrued expenses	(2,056)
Compensated Absences	5,621
	150,896
Net cash used in operating activities	\$ 150,896

The accompanying notes are an integral part of the financial statements.

**HENRY METROPOLITAN HOUSING AUTHORITY
NAPOLEON, OHIO**

**NOTES TO FINANCIAL STATEMENTS
June 30, 2004**

NOTE 1 - Summary of Significant Accounting Policies:

A. Organization

The Henry Metropolitan Housing Authority (HMHA) is a political subdivision of the State of Ohio, located in Napoleon, Ohio, created under Section 3735.27 of the Ohio Revised Code, to engage in the acquisition, development, leasing and administration of low-rent housing program.

An Annual Contributions Contract was signed by the HMHA and the United States 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 Governmental Accounting Standards Board (GASB) Statement No. 14 is the "primary government". A fundamental characteristic of a primary government is that it is 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. This criteria, was considered in determining the reporting entity.

B. Basis of Accounting

The Authority has prepared its financial statements in conformity with accounting principles generally accepted in the United States of America. Effective July 1, 2002, the Authority implement GASB Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments, Statement No. 37, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus, an amendment of GASB Statements No. 21 and No. 34, and Statement No. 38, Certain Financial Statement Disclosures. These statements revise accounting and reporting standards for general purpose external financial reporting by governmental units. The Authority now follows the business-type activities reporting requirements of GASB Statement No. 34. In accordance with GASB statement No. 34, the accompanying basic financial statements are reported on an Authority-wide basis.

Statement No. 34 requires the following, which collectively make up the Authority's basic financial statements:

Management's Discussion and Analysis

Basic Financial Statements:

Statement of Net Assets

Statement of Revenues, Expenses, and Changes in Net Assets

Statement of Cash Flows

Notes to the Financial Statements

**HENRY METROPOLITAN HOUSING AUTHORITY
NAPOLEON, OHIO**

**NOTES TO FINANCIAL STATEMENTS
June 30, 2004**

NOTE 1 - Summary of Significant Accounting Policies: (continued)

B. Basis of Accounting (continued)

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 not to apply the provisions of the Statements and Interpretations of the Financial Accounting Standards Board issued after November 30, 1989. The Authority will continue to apply all applicable pronouncements of the Governmental Accounting Standards Board.

C. Property and Equipment

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

Useful life of property and equipment is as follows:

Building	40 Years
Equipment	7 Years

Depreciation is recorded on the straight-line method. Total depreciation expense for the 2004 fiscal year was \$11,715.

D. Cash and Cash Equivalents

The Authority considers all highly liquid investments (including restricted assets) with maturity of three months or less when purchased to be cash equivalents.

E. Investments

Investments are stated at fair value. Cost-based measures of fair value were applied to nonnegotiable certificates of deposit and money market investment.

F. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**HENRY METROPOLITAN HOUSING AUTHORITY
NAPOLEON, OHIO**

**NOTES TO FINANCIAL STATEMENTS
June 30, 2004**

NOTE 2 – Deposits and Investments:

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 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 with securities held by the pledging institution, or by its trust department or safekeeping agent, but not in the Authority's name.

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

Category 1.	\$ 100,000 was covered by federal depository insurance.
Category 2.	\$ 140,655
Category 3	\$ None

**HENRY METROPOLITAN HOUSING AUTHORITY
NAPOLEON, OHIO**

**NOTES TO FINANCIAL STATEMENTS
June 30, 2004**

NOTE 2 – Deposits and Investments: (continued)

The book balance at June 30, 2004 were as follows:

Cash	\$162,010
Cash on Hand	50
Investments	<u>65,990</u>
Total	<u>\$228,050</u>

Investments

The Department of HUD, State Statute and Board Resolutions, authorize the Authority to invest in obligations of U.S. Treasury, agencies and instrumentalities, certificates of deposit, repurchase agreements, money market deposit accounts, municipal depository fund, super NOW accounts, sweep accounts, separate trading of registered interest and principal of securities, mutual funds, bonds and other obligations of this State, and the State Treasurer's investment pool. Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the Authority, and must be purchased with the expectation that it will be held to maturity.

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or, if the securities are not represented by a certificate, upon receipt of conformation of transfer from the custodian.

NOTE 3 – Property and Equipment:

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

Building	\$ 84,511
Building Improvements	51,974
Furniture, Equipment – Administrative	51,021
Less Accumulated Depreciation	<u>(69,059)</u>
Net Property and Equipment	<u>\$118,447</u>

**HENRY METROPOLITAN HOUSING AUTHORITY
NAPOLEON, OHIO**

**NOTES TO FINANCIAL STATEMENTS
June 30, 2004**

NOTE 4 – Administrative Fee:

The Authority receives and “administrative fee” as part of the annual contributions 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 based rate for each unit per month under HAP contracts. The rates are as follows:

Vouchers:

Units per month x \$43.34/units – July to December
Units per month x \$40.67/units – January to June

NOTE 5 – Allocation of Costs:

The Authority allocated expenses not attributable to a specific program to all programs under management. The basis for this allocation was the number of units in each program or estimated actual usage. Management considers this to be an equitable method of allocation.

NOTE 6 – Retirement and Other Benefit Plans:

The employees of the Authority are covered by the Public Employees Retirement System of Ohio (PERS), a statewide cost-sharing multiple-employer deferred benefit pension plan. PERS provides retirement and disability benefits annual cost-of-living adjustments, death benefits to plan members and beneficiaries. The authority to establish and amend benefits is provided by the state statute per Chapter 145 of the Ohio Revised Code. PERS issues a publicly available financial report. The report may be obtained by writing PERS, 277 East Town Street, Columbus, OH 43215-4642, or by calling (614) 466-2085.

The Ohio Revised Code provides statutory authority for employee and employer contributions. Covered employees are required by the System's Retirement Board to contribute 8.5% of their salary to the plan. The employer contribution rate was 13.55% for fiscal year 2004. The Authority's total payroll for covered employees was \$173,702. The Authority's 2004 total contribution was \$23,536.

The contribution requirement to fund the pension obligation for the year ended June 30, 2004, 2003 and 2002 were \$23,536, \$21,186 and \$17,019 from the Authority.

PERS of Ohio provides post-retirement health care coverage to age and service retirants with 10 or more years of qualifying Ohio service credit and to primary survivor recipients of such retirants. Health care coverage for disability recipients is available. The health care coverage provided by the retirement system is considered an Other Post-employment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to PERS is set aside for the funding of post retirement health care OPEB is financed through employer contributions and investment earnings and is expected to be sufficient to sustain the program indefinitely.

**HENRY METROPOLITAN HOUSING AUTHORITY
NAPOLEON, OHIO**

**NOTES TO FINANCIAL STATEMENTS
June 30, 2004**

NOTE 6 – Retirement and Other Benefit Plans:(continued)

The pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among PERS and employers. The System does not make separate measurements of assets and pension benefit obligation for individual employers. PERS issues a stand-alone financial report.

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 4.6 hours of sick leave per (80) hours of service. Unused sick leave may be accumulated without limit. At the time of separation, employees shall be paid the value of (30) days of unused sick leave. All permanent employees will earn vacation hours accumulated based on length of service. All vacation time accumulated will be paid upon separation.

NOTE 8 - Contingencies

In the normal course of operations, the Authority may be subject to litigation and claims. At June 30, 2004 the Authority was not involved in any such matters.

NOTE 9 – Long Term Debt

The Authority is obligated to a bank on a mortgage note, which matures August 30, 2014. The note requires monthly installments of \$396.68, including interest at 5.28% per annum.

The balance at June 30, 2004 is \$37,249.

The aggregate amounts of long-term debt maturities for the five years following 2004 are as follows:

Year	Principal	Interest	Total
2005	\$ 2,686	\$ 2,074	\$ 4,760
2006	\$ 2,833	\$ 1,927	\$ 4,760
2007	\$ 3,139	\$ 1,621	\$ 4,760
2008	\$ 3,311	\$ 1,449	\$ 4,760
2009	\$ 3,493	\$ 1,267	\$ 4,760
Thereafter	<u>\$ 21,787</u>	<u>\$ 2,807</u>	<u>\$24,594</u>
Total	<u>\$ 37,249</u>	<u>\$11,145</u>	<u>\$48,394</u>

**HENRY METROPOLITAN HOUSING AUTHORITY
NAPOLEON, OHIO**

**NOTES TO FINANCIAL STATEMENTS
June 30, 2004**

NOTE 10– Insurance:

The Authority is exposed to various risks of loss during the normal course of its operations including, but not limited to, loss related to torts; theft of damage to, and destruction of assets; errors and omissions; and injuries to employees.

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

NOTE 11 – Schedule of Expenditures of Federal Awards

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Henry Metropolitan Housing Authority and is presented on the accrued basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations.

HENRY METROPOLITAN HOUSING AUTHORITY
Balance Sheet
June 30, 2004

Financial Data Schedule Submitted to U.S. Department of HUD

FDS Line <u>Item No.</u>	<u>Account Description</u>	
	ASSETS	
111	Cash and Cash Equivalents	\$ 162,060
100	TOTAL CASH	<u>162,060</u>
128	Accounts Receivable - Fraud Recovery	13,288
125	Accounts Receivable - Miscellaneous	5,827
129	Accrued Interest Receivable	<u>190</u>
120	TOTAL ACCOUNTS RECEIVABLE	19,305
132	Investments - Unrestricted	65,990
142	Prepaid Expenses	<u>4,530</u>
150	TOTAL CURRENT ASSETS	251,885
162	Building	136,485
164	Furniture, Equipment & Machinery - Administration	51,021
166	Accumulated Depreciation	<u>(69,059)</u>
160	TOTAL FIXED ASSETS, NET	118,447
190	TOTAL ASSETS	<u><u>\$ 370,332</u></u>
	LIABILITIES	
312	Accounts Payable	\$ 45,168
322	Accrued Compensated Absences - Current Portion	52,261
331	Accounts Payable - HUD PHA Programs	126,314
343	Current Portion of Long Term Debt - Capital Projects/Mortgage Revenue Bonds	<u>2,686</u>
310	TOTAL CURRENT LIABILITIES	226,429
351	Long Term Debt Net of Current - Capital Projects/Mortgage Revenue Bonds	34,563
353	Undistributed Credits - Fraud Recovery	<u>13,288</u>
	TOTAL NON-CURRENT LIABILITIES	47,851
	TOTAL LIABILITIES	274,280
512	Retained Earnings	<u>96,052</u>
	TOTAL EQUITY/NET ASSETS	96,052
	TOTAL LIABILITIES AND EQUITY/NET ASSETS	<u><u>\$ 370,332</u></u>

HENRY METROPOLITAN HOUSING AUTHORITY
Statement of Revenue, Expenses and Changes in Equity
For the Year Ended June 30, 2004

Financial Data Schedule Submitted to U.S. Department of HUD

FDS Line <u>Item No.</u>	<u>Account Description</u>	
	Revenue:	
706	HUD PHA Operating Grant	\$ 809,198
711	Investment Income - Unrestricted	2,816
714	Fraud Recovery	938
715	Management Fee	<u>140,225</u>
700	Total Revenue	953,177
	Expenses:	
911	Administrative Salaries	173,701
912	Audit Fees	3,300
914	Compensated Absences	5,621
915	Employee Benefit Contributions - Administrative	37,865
916	Other Operating - Administrative	39,954
942	Ordinary Maintenance and Operations - Material & Other	17,621
961	Insurance Premiums	<u>8,208</u>
969	Total Operating Expenses	<u>286,270</u>
970	Excess Operating Revenue over Expenses	666,907
	Other Expenses	
973	Housing Assistance Payments	680,401
974	Depreciation Expense	<u>11,715</u>
900	Total Expenses	978,386
1010	Total Other Funding Sources(Uses)	<u>-</u>
1000	Excess of Operating Revenue Over Expenses	(25,209)
1103	Beginning Equity	<u>121,261</u>
	Ending Equity	<u>\$ 96,052</u>

HENRY METROPOLITAN HOUSING AUTHORITY
Additional Information Required by HUD
Year Ended June 30, 2004

Financial Data Schedule Submitted to U.S. Department of HUD

<u>FDS Line</u> <u>Item No.</u>	<u>Account Description</u>	
1113	Maximum Annual Contributions Commitment (Per ACC)	\$ 860,327
1114	Applicable to a Period of Less Than Twelve Months	\$ -
1115	Contingency Reserve, ACC Program Reserve	\$ 75,490
1116	Total Annual Contributions Available	\$ 935,817
1120	Unit Months Available	2,724
1121	Number of Unit Months Leased	2,648

HENRY METROPOLITAN HOUSING AUTHORITY
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2004

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Contract Number</u>	<u>Grant Amount Received</u>	<u>Federal Expenditures</u>
U.S. Department of Housing and Urban Development				
Direct Program:				
Section 8 Tenant Based Cluster:				
Housing Choice Vouchers	14.871	C-10017	\$935,512	\$809,198
TOTAL FEDERAL FINANCIAL ASSISTANCE				----- \$809,198 =====

The notes to the financial statements are an integral part of this statement.



Certified Public Accountant
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Independent Auditor's 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 Trustees
Henry Metropolitan Housing Authority
Napoleon, Ohio

I have audited the financial statements of Henry Metropolitan Housing Authority as of and for the year ended June 30, 2004, and have issued my report thereon dated October 26, 2004. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Henry Metropolitan Housing Authority's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, I noted certain matters involving the internal control over financial reporting and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect Henry Metropolitan Housing Authority's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2004-1. I also noted certain immaterial instances of noncompliance, which I have reported to management of Henry Metropolitan Housing Authority in a separate letter dated October 26, 2004.

A material weakness is a reportable 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 caused by error or fraud 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. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, I believe that none of the reportable conditions described above, is material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Henry Metropolitan Housing Authority's financial statements are free of material misstatement, I 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 my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and questioned costs as items 2004-1.

This report is intended solely for the information and use of the audit committee, management, and the Department of Housing and Urban Development and is not intended to be and should not be used by anyone other than these specified parties.

Kevin L. Penn, Inc.

October 26, 2004



Kevin L.
Penn, Inc.

Certified Public Accountant
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Independent Auditor's Report on Compliance with Requirements Applicable to each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133

Board of Trustees
Henry Metropolitan Housing Authority
Napoleon, Ohio

Compliance

I have audited the compliance of Henry Metropolitan Housing Authority 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 June 30, 2004. Henry Metropolitan Housing Authority's major federal programs are identified in the summary of auditor's 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 Henry Metropolitan Housing Authority's management. My responsibility is to express an opinion on Henry Metropolitan Housing Authority's compliance based on my audit.

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

In my opinion, Henry 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 June 30, 2004. However, the results of my auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2004-1.

Internal Control Over Compliance

The management of Henry 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 my audit, I considered Henry 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 my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

My 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. I noted no matters involving the internal control over compliance and its operation that I consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee, management, and the Department of Housing and Urban Development and is not intended to be and should not be used by anyone other than these specified parties.

Kevin L. Penn, Inc.

October 26, 2004

Henry Metropolitan Housing Authority
 Schedule of Findings and Questioned Costs
 June 30, 2004

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? No

Reportable condition(s) identified
 not considered to be material weaknesses? Yes

Noncompliance material to financial statements noted? No

Federal Awards

Internal control over financial reporting:

Material weakness(es) identified? No

Reportable condition(s) identified
 not considered to be material weaknesses? Yes

Type of auditor's report issued on compliance
 for major program: Unqualified

Any audit findings disclosed that are required
 to be reported in accordance with
 Circular A-133, Section .510(a)? Yes

Identification of major programs:
 14.871 Housing Choice Voucher Program

Dollar threshold used to distinguish
 between Type A and Type B programs: \$300,000 (Type A)

Auditee qualified as low-risk auditee? Yes

Henry Metropolitan Housing Authority
Schedule of Findings and Questioned Costs
June 30, 2004

Section II - Financial Statement Findings

2004-1

Overpayment Due HUD (Section 8 – Housing Choice Voucher; CFDA # 14.871)

Condition:

The total overpayment due the U.S. Department of HUD, exceeded five percent of the actual contribution required for the fiscal year.

Criteria:

Per HUD notice 94-64(HA) the total overpayment due to the U.S. Department of HUD, should not exceed five percent of the actual contribution required for the fiscal year.

Effect:

Noncompliance regarding the requirements of HUD notice 94-64(HA), may result in penalties and sanctions imposed against HMHA.

Cause:

Oversight by management.

Recommendation:

I recommend that financial records be reviewed on a quarterly basis with respects to monthly advances received and program costs, in order to determine whether the five percent threshold will be exceeded. In this way, the risk of jeopardizing future funding will be significantly reduced.

Section III - Federal Award Findings and Questioned Costs

See 2004-1

Henry Metropolitan Housing Authority
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2004

There were no audit findings, during the 2003 fiscal year.

Henry Metropolitan Housing Authority

1044 Chelsea Avenue . Napoleon, Ohio 43545 . (419) 592-1735

CORRECTIVE ACTION PLAN

June 30, 2004

Oversight Agency for Audit: Department of Housing and Urban Development

Henry Metropolitan Housing Authority, respectfully submits the following corrective action plan for the year ended June 30, 2004.

Name and address of independent public accounting firm: Kevin L. Penn, Inc. 13212 Shaker Square, Suite 100, Cleveland, Ohio 44120.

Audit Period: June 30, 2004.

The findings from the June 30, 2004 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

FINDINGS – FINANCIAL STATEMENT AUDIT

REPORTABLE CONDITIONS

2004-1

Overpayment Due HUD (Section 8 – Housing Choice Voucher; CFDA # 14.871)

Recommendation:

I recommend that financial records be reviewed on a quarterly basis with respects to monthly advances received and program costs, in order to determine whether the five percent threshold will be exceeded. In this way, the risk of jeopardizing future funding will be significantly reduced.

Auditee's Response:

Three areas lead the authority to over request funding for the FYE 6/30/04.

First, a lack of communication between the leasing department and the accounting department. The first 6 months of the fiscal year the Authority maintained an average leasing rate of 98.5% while the last 6 months the Authorities monthly leasing rate dropped to 95%.

Secondly, the Authority began measures to drop HAP cost based on the 2004 funding limits. This also included dropping units to stay within funding level.

Auditee's Response: (continued)

Finally, the lack of monitoring from the accounting department of funds requested to funds actually being used.

The combinations of these three items lead to the Authority to over request funds for the year. The Authority has and is making every effort to avoid these errors for the next fiscal year.

If there are any questions regarding this plan, please call Mary Jo Sands, Executive Director at (419) 526-1622.

Sincerely yours,

Mary Jo Sands

Mary Jo Sands, Executive Director
Henry Metropolitan Housing Authority



**Auditor of State
Betty Montgomery**

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HENRY METROPOLITAN HOUSING AUTHORITY

HENRY 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
DECEMBER 30, 2004**