

Highland Metropolitan Housing Authority

Financial Statements

For the Year Ended December 31, 2011



Dave Yost • Auditor of State

Board of Commissioners
Highland Metropolitan Housing Authority
121 E. East Street
Washington Court House, Ohio 43160

We have reviewed the *Independent Auditors' Report* of the Highland Metropolitan Housing Authority, Highland County, prepared by Salvatore Consiglio, CPA, Inc., for the audit period January 1, 2011 through December 31, 2011. 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 Highland Metropolitan Housing Authority is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

July 23, 2012

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HIGHLAND METROPOLITAN HOUSING AUTHORITY
AUDIT REPORT
FOR THE YEAR ENDED DECEMBER 31, 2011

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Independent Auditors' Report

Board of Commissioners
Highland Metropolitan Housing Authority

I have audited the accompanying financial statements of the business-type activities of Highland Metropolitan Housing Authority, Ohio, as of and for the year ended December 31, 2011, which collectively comprise the Authority financial statements, as listed in the table of contents. These financial statements are the responsibility of the Highland Metropolitan Housing Authority, Ohio's, management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Highland Metropolitan Housing Authority, Ohio, as of December 31, 2011, and the respective change in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued a report dated June 7, 2012, on my consideration of Highland Metropolitan Housing Authority, Ohio'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.

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

My Audit was performed for the purpose of forming and opinion on the financial statements that collectively comprise the Highland Metropolitan Housing Authority financial statements. 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. The combining financial data schedule ("FDS") is presented for purposes additional analysis as required by the Department of Housing and Urban Development and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in my opinion, is fairly presented in all material respect in relation to the financial statements taken as a whole.

Salvatore Consiglio, CPA, Inc.
June 7, 2012

Highland Metropolitan Housing Authority
Management Discussion and Analysis (MD&A)
December 31, 2011

Unaudited

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

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

FINANCIAL HIGHLIGHTS

- During FY 2011, the Authority’s net assets decreased by \$23,113 or 19.3%. Since the Authority engages only in business-type activities, the decrease is all in the category of business-type net assets. Net Assets were \$119,768 and \$96,655 for FY 2010 and FY 2011 respectively.
- The revenue increased by \$13,401 (or 3.10%) during FY 2011, and was \$432,949 and \$446,350 for FY 2010 and FY 2011 respectively.
- The total expenses of the Authority increased by \$44,357 (or 10.43%). Total expenses were \$425,106 and \$469,463 for FY 2010 and FY 2011 respectively.

USING THIS ANNUAL REPORT

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

MD&A ~ Management Discussion And Analysis ~

Basic Financial Statements ~ Authority-Wide Financial Statements ~

Other Required Supplementary Information ~ Required Supplementary Information ~
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Highland Metropolitan Housing Authority
Management Discussion and Analysis (MD&A)
December 31, 2011

Unaudited

Authority-Wide Financial Statements

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

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

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

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

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

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

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 is included, which discloses net cash provided by, or used for operating activities, non-capital financing activities, and from capital and related financing activities.

Highland Metropolitan Housing Authority
Management Discussion and Analysis (MD&A)
December 31, 2011

Unaudited

Fund Financial Statements

The Authority is accounted for as an Enterprise Fund. Enterprise funds utilize the full accrual basis of accounting. The Enterprise method of accounting is similar to accounting utilized by the private sector accounting.

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

The Authority’s Programs

Housing Choice Voucher Program – Under the Housing Choice Voucher Program, the Authority administers contracts with independent landlords that own the property. The Authority subsidizes the family’s rent through a Housing Assistance Payment made to the landlord. The program is administered under 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.

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>2011</u>	<u>2010</u>
Current and Other Assets	\$ 91,911	\$ 141,084
Capital Assets	4,744	4,739
Total Assets	<u>\$ 96,655</u>	<u>\$ 145,823</u>
Current Liabilities	\$ -	\$ 26,055
Total Liabilities	<u>-</u>	<u>26,055</u>
Net Assets:		
Investment in Capital Assets, net of Related Debt	4,744	4,739
Restricted net assets	24,714	42,907
Unrestricted Net Assets	<u>67,197</u>	<u>72,122</u>
Total Net Assets	<u>96,655</u>	<u>119,768</u>
Total Liabilities and Net Assets	<u>\$ 96,655</u>	<u>\$ 145,823</u>

Highland Metropolitan Housing Authority
Management Discussion and Analysis (MD&A)
December 31, 2011

Unaudited

Major Factors Affecting the Statement of Net Assets

Current assets decreased by \$49,173 or 34.85% and liabilities also decreased by \$26,055 or 100%. Current assets were used to decrease liabilities. Additionally, there was a current year loss for both HAP & Authority funds which also decreased the current assets.

Capital Assets increased by a net amount of \$5. The new purchases of \$1,907 net against the current year’s depreciation of \$1,902 will account for this year’s increase. For more detail see “Capital Assets and Debt Administration” below.

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

TABLE 2 – CHANGE OF NET ASSETS

	<u>Unrestricted</u>	<u>Restricted</u> <u>Net Assets</u>	<u>Investment in</u> <u>Capital Assets</u>
Beginning Balance - December 31, 2010	\$ 72,122	\$ 42,907	\$ 4,739
Net Operating Income (Loss)	(4,920)	(18,193)	-
Adjustments:			
Current year Depreciation Expense (1)	1,902	-	(1,902)
Capital Expenditure (2)	(1,907)	-	1,907
Ending Balance - December 31, 2011	<u>\$ 67,197</u>	<u>\$ 24,714</u>	<u>\$ 4,744</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 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.

Highland Metropolitan Housing Authority
Management Discussion and Analysis (MD&A)
December 31, 2011

Unaudited

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>2011</u>	<u>2010</u>
<u>Revenues</u>		
HUD PHA Operating Grants	\$ 427,083	\$ 430,164
Investment Income	892	2,055
Other Revenues	18,375	730
Total Revenues	<u>446,350</u>	<u>432,949</u>
<u>Expenses</u>		
Administrative	59,194	55,079
Housing Assistance Payments	408,367	368,761
Depreciation	1,902	1,266
Total Expenses	<u>469,463</u>	<u>425,106</u>
Net Increases (Decreases)	<u>\$ (23,113)</u>	<u>\$ 7,843</u>

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

Total amount of HUD PHA Grants for FY 2011 were slightly decreased by \$3,081 or less than 1% which includes both Administrative Fees and Housing Assistance Payments.

The authority spent \$408,367 in Housing Assistance Payments which is a \$39,606 or 10.74% increase from FY 2010.

The authority net decrease for FY 2011 of \$23,113 is reflected in the decrease of \$18,193 in the Restricted HAP funds and a decrease of \$4,920 in Administrative funds.

Highland Metropolitan Housing Authority
 Management Discussion and Analysis (MD&A)
 December 31, 2011

Unaudited

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of December 31, 2011, the Authority had \$4,744 invested in capital assets as reflected in the following schedule, which represents a net increase (additions, deductions and depreciation) from the end of last year.

TABLE 4

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

	<u>2011</u>	<u>2010</u>
Equipment - Administrative	\$ 28,811	\$ 26,904
Accumulated Depreciation	<u>(24,067)</u>	<u>(22,165)</u>
 Total	 <u>\$ 4,744</u>	 <u>\$ 4,739</u>

The following reconciliation summarizes the change in Capital Assets.

TABLE 5

CHANGE IN CAPITAL ASSETS

Beginning Balance - December 31, 2010	\$	4,739
Current year Additions		1,907
Current year Depreciation Expense		<u>(1,902)</u>
Ending Balance - December 31, 2011	\$	<u><u>4,744</u></u>

Current year Additions are summarized as follows:

- Laptop and Printer	\$	<u>1,907</u>
	\$	<u><u>1,907</u></u>

Highland Metropolitan Housing Authority
Management Discussion and Analysis (MD&A)
December 31, 2011

Unaudited

Debt Outstanding

As of December 31, 2011, the Authority has no outstanding debt.

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 Edith Stewart; Executive Director for the Highland Metropolitan Housing Authority, at (740) 335-7525. Specific requests may be submitted to the Authority at 121 E. East Street, Washington Court House, OH 43160.

HIGHLAND METROPOLITAN HOUSING AUTHORITY
Statement of Net Assets
Proprietary Funds
December 31, 2011

ASSETS

Current assets

Cash and cash equivalents	\$64,993
Restricted cash and cash equivalents	24,714
Receivables, net	2,204
Total current assets	<u>91,911</u>

Noncurrent assets

Capital assets:	
Building and equipment	28,811
Less accumulated depreciation	<u>(24,067)</u>
Total noncurrent assets	<u>4,744</u>
Total assets	<u><u>\$96,655</u></u>

NET ASSETS

Invested in capital assets, net of related debt	\$4,744
Restricted net assets	24,714
Unrestricted net assets	<u>67,197</u>
Total net assets	<u><u>\$96,655</u></u>

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

HIGHLAND METROPOLITAN HOUSING AUTHORITY
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended December 31, 2011

OPERATING REVENUES

Government operating grants	\$427,083
Other revenue	18,375
Total operating revenues	<u>445,458</u>

OPERATING EXPENSES

Administrative	59,194
Housing assistance payment	408,367
Depreciation	1,902
Total operating expenses	<u>469,463</u>
Operating income (loss)	<u>(24,005)</u>

NONOPERATING REVENUES (EXPENSES)

Interest and investment revenue	892
Total nonoperating revenues (expenses)	<u>892</u>
Change in net assets	(23,113)
Total net assets - beginning	119,768
Total net assets - ending	<u><u>\$96,655</u></u>

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

Highland Metropolitan Housing Authority
Statement of Cash Flows
Proprietary Fund Type
For the Year Ended December 31, 2011

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from HUD	\$ 425,107
Other revenue	18,375
Cash payments for administrative	(85,249)
Cash payments to HAP	(408,367)
Net cash provided (used) by operating activities	<u>(50,134)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest income	892
Net cash provided (used) by investing activities	<u>892</u>

CASH FLOWS FROM CAPITAL AND RELATED ACTIVITIES

Property and equipment purchased	(1,907)
Net cash provided (used) by capital and related activities	<u>(1,907)</u>

Net increase (decrease) in cash	(51,149)
Cash and cash equivalents - Beginning of year	140,856
Cash and cash equivalents - End of year	<u><u>\$89,707</u></u>

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES

Net Operating Income (Loss)	(\$24,005)
Adjustment to Reconcile Operating Loss to Net Cash Used by Operating	
- Depreciation	1,902
- (Increases) Decreases in Accounts Receivable	(1,976)
- Increases (Decreases) in Accounts Payable	(26,055)
Net cash provided by operating activities	<u><u>(\$50,134)</u></u>

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

HIGHLAND METROPOLITAN HOUSING AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Summary of Significant Accounting Policies

The financial statements of the Highland Metropolitan Housing Authority (the "Authority") have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Authority also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or after November 30, 1989, to its business-type activities and to its proprietary fund provided they do not conflict with or contradict GASB pronouncements. The more significant of the Authority's accounting policies are described below.

Reporting Entity

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

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

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

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

HIGHLAND METROPOLITAN HOUSING AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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

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

Basis of Presentation

The Authority's basic financial statements consist of a statement of net assets, a statement of revenue, expenses and changes in net assets, and a statement of cash flows. The Authority uses a single enterprise fund to maintain its financial records during the year. 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 in net assets, financial position and cash flows.

Fund Accounting

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

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

Proprietary Fund Types

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

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

HIGHLAND METROPOLITAN HOUSING AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Measurement Focus/Basis of Accounting

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

Description of programs

The following is the program, which is included in the single enterprise fund:

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

Accounting and Reporting for Non-exchange Transactions

The Authority previously adopted GASB 33. Non-exchange transactions occur when the Public Housing Authority (PHA) receives (or gives) value without directly giving equal value in return. GASB 33 identifies four classes of non-exchange transactions as follows:

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

HIGHLAND METROPOLITAN HOUSING AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

PHA grants and subsidies will be defined as government-mandated or voluntary non-exchange transactions.

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

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

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

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

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

Capital Assets

Capital assets are stated at cost and depreciation is computed using the straight line method over an estimated useful life of the assets. The cost of normal maintenance and repairs, that do not add to the value of the asset or materially extend the asset life, are not

HIGHLAND METROPOLITAN HOUSING AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Capital Assets – (Continued)

capitalized. The capitalization policy is \$500. The following are the useful lives used for depreciation purposes:

Furniture – non-dwelling	7 years
Equipment – non-dwelling	7 years
Computer hardware	3 years
Computer software	3 years

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets – net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are recorded as restricted when there are limitations imposed on their use either by internal or external restrictions.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the Authority, these revenues are tenant revenues, operating grants from HUD and other miscellaneous revenue.

Cash and Cash Equivalents

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

Budgetary Accounting

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

Estimates

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

HIGHLAND METROPOLITAN HOUSING AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Accounts Payable

This balance reflects the amount owed to the management company for the administration of the program.

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 withdraw able 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 account is including, but not limited to passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies, which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories.

Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

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

At fiscal year-end December 31, 2011, the carrying amount of the Authority's deposits totaled \$89,707 and its bank balance was \$96,849. Based on the criteria described in GASB Statement No. 40, "Deposit and Investment Risk Disclosure," as of December 31, 2011, no amount was exposed to custodial risk as discussed below the full balance was covered by the Federal Depository Insurance Corporation.

HIGHLAND METROPOLITAN HOUSING AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2011

2. DEPOSITS AND INVESTMENTS – (Continued)

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

3. RESTRICTED CASH

Restricted cash balance as of December 31, 201 of \$24,714 represents cash on hand for the following:

Cash on hand advance from HUD to be used for tenants housing assistance payments	\$24,714
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4. RISK MANAGEMENT

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

5. CAPITAL ASSETS

The following is a summary of capital assets:

	Balance 12/31/10	Round Adjust.	Additions/ Deletions	Balance 12/31/11
Capital Assets, Being Depreciated				
Furniture and equipment at (cost)	\$26,904	\$0	\$1,907	\$28,811
Less accumulated depreciation	(22,165)	0	(1,902)	(24,067)
Total Capital Assets, net being depreciated	\$4,739	\$0	\$5	\$4,744

The depreciation expense for the year ended December 31, 2011 was \$1,902.

HIGHLAND METROPOLITAN HOUSING AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2011

6. FDS SCHEDULE SUBMITTED TO HUD

For the fiscal year ended December 31, 2011, the Authority electronically submitted an unaudited version of the balance sheet, statement of revenues, expenses and changes in net asset and other data to HUD as required on the GAAP basis. The schedules are presented in the manner prescribed by Housing and Urban Development.

7. MANAGEMENT CONTRACT

The Authority contracted with Fayette Metropolitan Housing Authority for management and operations of its Housing Choice Voucher Program. Fayette Metropolitan Housing Authority then contracted with Fayette County Commissioners for management services. The Highland Metropolitan Housing Authority does not have any employees; all staff is subcontracted from Fayette County Commissioners.

Highland Metropolitan Housing Authority

FDS Schedule Submitted to REAC

Proprietary Fund Type - Enterprise Fund

December 31, 2011

	14.871 Housing Choice Vouchers	Elimination	Total
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	14.871 Housing Choice Vouchers	Elimination	Total
111 Cash - Unrestricted	\$64,993	\$0	\$64,993
113 Cash - Other Restricted	\$24,714	\$0	\$24,714
100 Total Cash	\$89,707	\$0	\$89,707
122 Accounts Receivable - HUD Other Projects	\$2,204	\$0	\$2,204
128 Fraud Recovery	\$9,781	\$0	\$9,781
128.1 Allowance for Doubtful Accounts - Fraud	-\$9,781	\$0	-\$9,781
120 Total Receivables, Net of Allowances for Doubtful Accounts	\$2,204	\$0	\$2,204
131 Investments - Unrestricted	\$0	\$0	\$0
132 Investments - Restricted	\$0	\$0	\$0
150 Total Current Assets	\$91,911	\$0	\$91,911
164 Furniture, Equipment & Machinery - Administration	\$28,811	\$0	\$28,811
166 Accumulated Depreciation	-\$24,067	\$0	-\$24,067
160 Total Capital Assets, Net of Accumulated Depreciation	\$4,744	\$0	\$4,744
174 Other Assets	\$0	\$0	\$0
180 Total Non-Current Assets	\$4,744	\$0	\$4,744
190 Total Assets	\$96,655	\$0	\$96,655
508.1 Invested In Capital Assets, Net of Related Debt	\$4,744	\$0	\$4,744
511.1 Restricted Net Assets	\$24,714	\$0	\$24,714
512.1 Unrestricted Net Assets	\$67,197	\$0	\$67,197
513 Total Equity/Net Assets	\$96,655	\$0	\$96,655
600 Total Liabilities and Equity/Net Assets	\$96,655	\$0	\$96,655

Highland Metropolitan Housing Authority
FDS Schedule Submitted to REAC
Proprietary Fund Type - Enterprise Fund
December 31, 2011

	14.871 Housing Choice Vouchers	Elimination	Total
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	14.871 Housing Choice Vouchers	Eliminations	Total
70500 Total Tenant Revenue	\$0	\$0	\$0
70600 HUD PHA Operating Grants	\$427,083	\$0	\$427,083
71100 Investment Income - Unrestricted	\$625	\$0	\$625
71400 Fraud Recovery	\$1,758	\$0	\$1,758
71500 Other Revenue	\$16,617	\$0	\$16,617
72000 Investment Income - Restricted	\$267	\$0	\$267
70000 Total Revenue	\$446,350	\$0	\$446,350
91200 Auditing Fees	\$3,482	\$0	\$3,482
91300 Management Fee	\$48,000	\$0	\$48,000
91310 Book-keeping Fee	\$2,289	\$0	\$2,289
91600 Office Expenses	\$5,125	\$0	\$5,125
91900 Other	\$298	\$0	\$298
91000 Total Operating - Administrative	\$59,194	\$0	\$59,194
96900 Total Operating Expenses	\$59,194	\$0	\$59,194
97000 Excess of Operating Revenue over Operating Expenses	\$387,156	\$0	\$387,156
97300 Housing Assistance Payments	\$392,916	\$0	\$392,916
97350 HAP Portability-In	\$15,451	\$0	\$15,451
97400 Depreciation Expense	\$1,902	\$0	\$1,902
90000 Total Expenses	\$469,463	\$0	\$469,463
10000 Excess (Deficiency) of Total Revenue Over (Under) Total Expenses	-\$23,113	\$0	-\$23,113
11030 Beginning Equity	\$119,768	\$0	\$119,768
11170 Administrative Fee Equity	\$71,941	\$0	\$71,941

Highland Metropolitan Housing Authority

FDS Schedule Submitted to REAC

Proprietary Fund Type - Enterprise Fund

December 31, 2011

	14.871 Housing Choice Vouchers	Elimination	Total
11180 Housing Assistance Payments Equity	\$24,714	\$0	\$24,714
11190 Unit Months Available	\$1,200	\$0	\$1,200
11210 Number of Unit Months Leased	\$1,191	\$0	\$1,191

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

Board of Commissioners
Highland Metropolitan Housing Authority

I have audited the financial statements of the business-type activities of Highland Metropolitan Housing Authority, Ohio, as of and for the year ended December 31, 2011, which collectively comprise the Highland Metropolitan Housing Authority, Ohio, financial statements and have issued my report thereon dated June 7, 2012. 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 Highland Metropolitan Housing Authority, Ohio's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the entity's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

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

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

Salvatore Consiglio, CPA, Inc.
June 7, 2012



Dave Yost • Auditor of State

HIGHLAND METROPOLITAN HOUSING AUTHORITY

HIGHLAND 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 02, 2012