

**SHELBY METROPOLITAN
HOUSING AUTHORITY**

**BASIC FINANCIAL STATEMENTS
AND SINGLE AUDIT**

**FOR THE YEAR ENDED
DECEMBER 31, 2013**

James G. Zupka, CPA, Inc.
Certified Public Accountants



Dave Yost • Auditor of State

Board of Directors
Shelby Metropolitan Housing Authority
706 North Wagner Avenue
Sidney, OH 45365

We have reviewed the *Independent Auditor's Report* of the Shelby Metropolitan Housing Authority, Shelby County, prepared by James G. Zupka, CPA, Inc., for the audit period January 1, 2013 through December 31, 2013. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

Dave Yost
Auditor of State

July 10, 2014

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**SHELBY METROPOLITAN HOUSING AUTHORITY
BASIC FINANCIAL STATEMENTS AND SINGLE AUDIT
FOR THE YEAR ENDED DECEMBER 31, 2013**

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JAMES G. ZUPKA, C.P.A., INC.

Certified Public Accountants

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Ohio Society of Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Shelby Metropolitan Housing Authority
Sidney, Ohio

Regional Inspector General of Audit
Department of Housing and Urban
Development

Report on the Financial Statements

We have audited the accompanying financial statements of the Shelby Metropolitan Housing Authority, Ohio, (the Authority) as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Shelby Metropolitan Housing Authority, as of December 31, 2013, and the respective changes in financial position, and cash flows thereof for the year ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Shelby Metropolitan Housing Authority, Ohio's basic financial statements. The Financial Data Schedules are presented for purposes of additional analysis and are not part of the basic financial statements. The 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*, and is also not a required part of the basic financial statements.

The Financial Data Schedules and the Schedule of Expenditures of Federal Awards, are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Financial Data Schedules, and the Schedule of Expenditures of Federal Awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 24, 2014, on our consideration of the Shelby Metropolitan Housing Authority, Ohio's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

James G.
Zupka, CPA,
President



Digitally signed by James G.
Zupka, CPA, President
DN: cn=James G. Zupka, CPA,
President, o=James G. Zupka,
CPA, Inc., ou=Accounting,
email=jgzcpa@sbcglobal.net,
c=US
Date: 2014.06.26 13:38:31 -0400'

James G. Zupka, CPA, Inc.
Certified Public Accountants

June 24, 2014

**SHELBY METROPOLITAN HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2013
(Unaudited)**

This Management's Discussion and Analysis (MD&A) for the Shelby Metropolitan Housing Authority (Shelby MHA) is intended to assist the reader identify what management feels are significant financial issues, provide an overview of the financial activity for the year, and identify and offer a discussion about changes in Shelby Metropolitan Housing Authority's financial position. It is designed to focus on the financial activity for the fiscal year ended December 31, 2013, resulting changes and currently known facts. Please read it in conjunction with the financial statements found elsewhere in this report.

Overview of the Financial Statements

The basic financial statements included elsewhere in this report are:

- the Statement of Net Position
- the Statement of Revenues, Expenses and Changes in Net Position
- the Statement of Cash Flows.

The *Statement of Net Position* is very similar to, and what most people would think of as a Balance Sheet. In the first half it reports the value of assets Shelby Metropolitan Housing Authority holds at December 31, 2013, that is, the cash Shelby Metropolitan Housing Authority has, the amounts that are owed Shelby Metropolitan Housing Authority from others, and the value of the equipment Shelby Metropolitan Housing Authority owns. In the other half of the report it shows the liabilities Shelby Metropolitan Housing Authority has, that is, what Shelby Metropolitan Housing Authority owes others at December 31, 2013; and what net position (or what is commonly referred to as equity) Shelby Metropolitan Housing Authority has at December 31, 2013. The two parts of the report are in balance, thus why many might refer to this type of report as a Balance Sheet, in that the total of the assets part equals the total of the liabilities plus net assets (or equity) part.

In the statement, the net position part is broken out into three broad categories:

- Net Investment in Capital Assets
 - Restricted
 - Unrestricted

The balance in Net Investment in Capital Assets reflects the value of capital assets, that is assets such as land, buildings, and equipment, reported in the top part of the statement reduced by the amount of accumulated depreciation of those assets and by the outstanding amount of debt yet owed on those assets.

The balance in Restricted Net Position reflects the value of assets reported in the top part of the statement that are restricted for use by law or regulation, or when the use of those assets is restricted by constraints placed on the assets by creditors.

**SHELBY METROPOLITAN HOUSING AUTHORITY
MANAGEMENT’S DISCUSSION AND ANALYSIS (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2013
(Unaudited)**

The balance in Unrestricted Net Position is what is left over of net position after what is classified in the two previously mentioned components of net position. It reflects the value of assets available to Shelby Metropolitan Housing Authority to use to further its purposes.

The *Statement of Revenues, Expenses, & Changes in Net Position* is very similar to and may commonly be referred to as an Income Statement. It is in essence a report showing what Shelby Metropolitan Housing Authority earned, that is what its revenues or incomes were, versus what expenses Shelby Metropolitan Housing Authority had over the same period. Then it shows how the net position (or equity) changed because of how the incomes exceeded or were less than what expenses were. It helps the reader to determine if Shelby Metropolitan Housing Authority had more revenues than in expenses or vice-versa, and then how that net gain or net loss affected the net position (or equity) balance. The bottom line of the report, the Ending Total Net Position, is what is referred to in the above discussion of the Statement of Net Position that when added to the liabilities, Shelby Metropolitan Housing Authority has, equals the total assets Shelby Metropolitan Housing has.

The *Statement of Cash Flows* is a report that shows how the amount of cash Shelby Metropolitan Housing Authority had at the end of the previous year was impacted by the activities of the current year. It breaks out in general categories the cash coming in, and the cash going out. It helps the reader to understand the sources and uses of cash by Shelby Metropolitan Housing Authority during the year, to include a measurement of cash gained or used by operating activities, by activities related to acquiring capital assets, and by activities related to investing activities.

Shelby Metropolitan Housing Authority Business Type Funds

The financial statements included elsewhere in this report are presented using the Authority-wide perspective meaning the activity reported reflects the summed results of all the programs, or business-type funds of Shelby Metropolitan Housing Authority. Shelby Metropolitan Housing Authority consists exclusively of Enterprise Funds. The full accrual basis of accounting is used for Enterprise Funds. That method of accounting is very similar to accounting used in the private sector.

Shelby Metropolitan Housing Authority’s programs include the following:

- the Low Rent Public Housing program,
- the Section 8 Housing Choice Voucher Program, and
- the State and Local program.

**SHELBY METROPOLITAN HOUSING AUTHORITY
MANAGEMENT’S DISCUSSION AND ANALYSIS (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2013
(Unaudited)**

Under the Low Rent Public Housing program, Shelby Metropolitan Housing Program rents dwelling units it owns to low to moderate-income families. Through an Annual Contributions Contract (commonly referred to as an ACC) with the Department of Housing and Urban Development (HUD), HUD provides an operating subsidy to Shelby Metropolitan Housing Authority to help support the operations of the program. In addition, HUD provides funds for physical improvements to Shelby Metropolitan Housing Authority’s properties and funds for management improvements through Capital Fund Program grants.

Under the Section 8 Housing Choice Voucher program, Shelby Metropolitan Housing Authority subsidizes the rents of low to moderate-income families through Housing Assistance Payments contracts when those families rent from private landlords. This is called a tenant-based program because when the tenant family moves, the rental assistance goes with the family to the new rental unit.

Under its Local program, Shelby Metropolitan Housing Authority administers a tenant based rental assistance program in essentially the same manner it does its Section 8 Housing Choice Voucher program except the funding for the program is being provided by local sources rather than by HUD.

Condensed Financial Statements

The following table reflects the condensed Statement of Net Position compared to the prior year. Shelby Metropolitan Housing Authority is engaged only in business-type activities.

Table 1 - Condensed Statement of Net Position Compared to Prior Year

	2013	2012
<u>Assets</u>		
Current and Other Assets	\$ 468,752	\$ 529,185
Capital Assets	<u>5,216,793</u>	<u>5,577,506</u>
Total Assets	<u>\$ 5,685,545</u>	<u>\$ 6,106,691</u>
<u>Liabilities</u>		
Current Liabilities	\$ 101,357	\$ 121,547
Noncurrent Liabilities	<u>46,433</u>	<u>43,504</u>
Total Liabilities	<u>147,790</u>	<u>165,051</u>
<u>Net Position</u>		
Net Investment in Capital Assets	5,216,793	5,577,506
Restricted	59,510	96,843
Unrestricted	<u>261,452</u>	<u>267,291</u>
Total Net Assets	<u>5,537,755</u>	<u>5,941,640</u>
Total Liabilities and Net Position	<u>\$ 5,685,545</u>	<u>\$ 6,106,691</u>

For more detailed information, see Statement of Net Position presented elsewhere in this report.

**SHELBY METROPOLITAN HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2013
(Unaudited)**

Current Assets dropped by more than \$60,000 (or 11 percent) from the period year-end. The corresponding changes were to Current Liabilities and Restricted Net Position. The reduction in Current Liabilities was to Accounts Payable, the result of a timing issue. Accounts Payable at December 31, 2013 were more current than at the end of the prior year. The change in Restricted Net Position was the result of steps taken by the Agency to more fully spend funds HUD had advanced for the Agency to provide rental assistance to its clients in the Housing Choice Voucher Program.

Capital Assets dropped by more than 6 percent (almost \$361,000). See discussion for Table 3 in this document about that change.

The following is a modified *Statement of Revenues, Expenses and Changes in Net Position*. Shelby Metropolitan Housing Authority is engaged only in business-type activities.

Table 2 - Modified Statement of Revenues, Expenses & Changes in Net Position

	2013	2012
<u>Revenues</u>		
Tenant Revenues - Rents and Other	\$ 327,887	\$ 297,471
Operating Subsidies and Grants	1,376,205	1,580,062
Capital Grants	11,114	208,120
Investment Income	737	150
Other Revenues	47,316	23,695
Total Revenues	<u>1,763,259</u>	<u>2,109,498</u>
<u>Expenses</u>		
Administrative	406,928	397,158
Tenant Services	3,004	1,519
Utilities	169,563	176,439
Maintenance	286,066	346,257
General	79,537	61,343
Housing Assistance Payments	850,219	867,728
Depreciation	371,827	368,755
Total Expenses	<u>2,167,144</u>	<u>2,219,199</u>
Net Increase (Decrease)	<u>\$ (403,885)</u>	<u>\$ (109,701)</u>

For more detailed information see Combined Statement of Revenues, Expenses and Changes in Net Position presented elsewhere in this report.

**SHELBY METROPOLITAN HOUSING AUTHORITY
MANAGEMENT’S DISCUSSION AND ANALYSIS (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2013
(Unaudited)**

Tenant Revenues increased by a little more than \$30,000 (or 10 percent), an indication of incomes of family households under lease increasing. Operating subsidies and grants decreased by almost \$204,000 (13 percent). Funding received for all programs, Public Housing, Capital Fund & Housing Choice Voucher, dropped. Capital Grant revenue also dropped meaning less was spent in the current year on physical improvements to Agency buildings.

The biggest reduction in expenses was to Maintenance expenses. A reduction in staffing in the Maintenance Department meant less expended for that purpose. Also, less was spent on materials purchased compared to the prior year, a result of belt tightening efforts by the Agency geared to use up stock on hand in the period of less being provided by HUD for subsidy for the Public Housing Program. Overall expenses were virtually unchanged.

The following is a condensed *Statement of Changes in Capital Assets* comparing the balance in capital assets at the year-end versus at the end of the prior-year.

Table 3 - Condensed Statement of Changes in Capital Assets

	2013	2012
Land and Land Rights	\$ 1,685,579	\$ 1,685,579
Buildings and Improvements	10,309,628	10,192,248
Equipment	775,259	754,810
Construction in Progress	80,496	207,211
Accumulated Depreciation	<u>(7,634,169)</u>	<u>(7,262,342)</u>
Total	<u><u>\$ 5,216,793</u></u>	<u><u>\$ 5,577,506</u></u>

The overall change in capital assets in the period (a drop of about \$361,000 or 6 percent) is a reflection that depreciation on existing assets outpaced capital expenditures in the period. With the exception of the change in accumulated depreciation, all of the increases in capital accounts in year-end 2013 were made with capital revenue through the Capital Fund Program.

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**SHELBY METROPOLITAN HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2013
(Unaudited)**

Debt

There is no comparison of debt outstanding at the year-end versus at the end of the prior year because Shelby Metropolitan Housing Authority had no debt as of December 31, 2013.

Economic Factors

Shelby Metropolitan Housing Authority faces the continuing prospect of HUD providing subsidies used to administer their programs at levels lower than that which the Agency is eligible due to Federal budget cuts. Since costs tend to rise every year, the effect of funding being provided at reduced levels creates an ongoing challenge for management to administer the Agency's programs. The reduction in government assistance for administration of programs despite ever increasing costs to administer the programs means Shelby Metropolitan Housing Authority continues to be challenged to provide the same level of quality service to their clients within the limits of resources available to do so.

Financial Contact

The individual to be contacted regarding this report is Judith Wells, Executive Director of the Shelby Metropolitan Housing Authority. Specific requests may be submitted to the Shelby Metropolitan Housing Authority at 706 North Wagner Avenue, Sidney, Ohio 45365.

SHELBY METROPOLITAN HOUSING AUTHORITY
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2013

ASSETS

Current Assets

Cash and Cash Equivalents	\$ 270,187
Restricted Cash and Cash Equivalents	100,423
Receivables, Net	17,787
Inventories, Net	31,506
Prepaid Expenses and Other Assets	48,849
Total Current Assets	<u>468,752</u>

Noncurrent Assets

Capital Assets:	
Non-Depreciable Capital Assets	1,766,075
Depreciable Capital Assets, Net	3,450,718
Total Noncurrent Assets	<u>5,216,793</u>

TOTAL ASSETS **\$ 5,685,545**

LIABILITIES

Liabilities

Current Liabilities

Accounts Payable	\$ 27,396
Intergovernmental Payables	15,832
Tenant Security Deposits	40,913
Accrued Wages & Payroll Taxes	17,216
Total Current Liabilities	<u>101,357</u>

Noncurrent Liabilities

Accrued Compensated Absences Non-Current	46,433
Total Noncurrent Liabilities	<u>46,433</u>

Total Liabilities **147,790**

NET POSITION

Net Investment in Capital Assets	5,216,793
Restricted	59,510
Unrestricted	261,452
Total Net Position	<u>5,537,755</u>

TOTAL LIABILITIES AND NET POSITION **\$ 5,685,545**

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

SHELBY METROPOLITAN HOUSING AUTHORITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2013

<u>Operating Revenues</u>	
Tenant Revenues	\$ 327,887
Government Operating Grants	1,376,205
Other Revenues	<u>47,316</u>
Total Operating Revenues	<u>1,751,408</u>
 <u>Operating Expenses</u>	
Administrative	406,928
Tenant Services	3,004
Utilities	169,563
Maintenance	286,066
General	79,537
Housing Assistance Payments	850,219
Depreciation	<u>371,827</u>
Total Operating Expenses	<u>2,167,144</u>
Operating Income (Loss)	<u>(415,736)</u>
 <u>Non-Operating Revenues</u>	
Interest and Investment Revenue	<u>737</u>
Total Non-Operating Revenues	<u>737</u>
Income (Loss) Before Contributions and Transfers	(414,999)
 Capital Grants	 <u>11,114</u>
Change in Net Position	(403,885)
 Total Net Position at Beginning of Year	 <u>5,941,640</u>
 Total Net Position at End of Year	 <u>\$ 5,537,755</u>

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

SHELBY METROPOLITAN HOUSING AUTHORITY
STATEMENT OF CASH FLOWS
PROPRIETARY FUND TYPE
FOR THE YEAR ENDED DECEMBER 31, 2013

<u>Cash Flows from Operating Activities</u>	
Operating Grants Received	\$ 1,376,205
Tenant Revenue Received	326,444
Other Revenue Received	47,316
General and Administrative Expenses Paid	(977,426)
Housing Assistance Payments	(850,219)
Net Cash Provided (Used) by Operating Activities	<u>(77,680)</u>
 <u>Cash Flows from Investing Activities</u>	
Interest Income	<u>737</u>
Net Cash Provided (Used) by Investing Activities	<u>737</u>
 <u>Cash Flows from Capital and Related Activities</u>	
Capital Grant Funds Received	11,114
Property and Equipment Purchased	<u>(11,114)</u>
Net Cash Provided (Used) by Capital and Related Activities	<u>0</u>
Net Increase (Decrease) in Cash	<u>(76,943)</u>
 Cash and Cash Equivalents at Beginning of Year	 <u>447,553</u>
 Cash and Cash Equivalents at End of Year	 <u>\$ 370,610</u>
 <u>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</u>	
Net Operating Income (Loss)	\$ (415,736)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation	371,827
(Increase) Decrease in:	
Accounts Receivable	(4,501)
Prepaid Assets	(15,297)
Inventory	3,288
Increase (Decrease) in:	
Accounts Payable	(17,520)
Intergovernmental Payable	3,729
Accrued Compensated Absences	(3,911)
Accrued Expenses Payable	(2,617)
Tenant Security Deposits	<u>3,058</u>
Net Cash Provided by Operating Activities	<u>\$ (77,680)</u>

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

**SHELBY METROPOLITAN HOUSING AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Reporting Entity

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

The nucleus of the financial reporting entity as defined by the Government Accounting Standards Board (GASB) Statement No. 14 is the “primary government”. A fundamental characteristic of a primary government is that it is a fiscally independent entity. In evaluating how to define the financial reporting entity, management has considered all potential component units. A component unit is a legally separate entity for which the primary government is financially accountable. The criteria of financial accountability is the ability of the primary government to impose its will upon the potential component unit. These criteria were considered in determining the reporting entity. The Authority is not a component unit of a larger entity,

Basis of Presentation

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

Pursuant to GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance, contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, the Authority follows GASB guidance as applicable to enterprise funds.

The Authority’s basic financial statements consist of a Statement of Net Position, a Statement of Revenues, Expenses, and Changes in Net Position, and a Statement of Cash Flows.

SHELBY METROPOLITAN HOUSING AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(CONTINUED)

NOTE 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Basis of Presentation (Continued)

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

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

Measurement Focus/Basis of Accounting

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

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

Estimates

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

SHELBY METROPOLITAN HOUSING AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(CONTINUED)

NOTE 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Cash and Cash Equivalents

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

Inventory

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

Receivable - Net of Allowance

Bad debts are provided on the allowance method based on management's evaluation of the collect ability of outstanding tenant receivable balances at the end of the year. The allowance of uncollectible receivable was \$5,050 for tenant receivables and \$3,140 for fraud receivables at December 31, 2013.

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 ranging from five to forty years. The cost of normal maintenance and repairs, that do not add to the value of the asset or materially extend the asset life, are not capitalized. The Authority capitalizes capital assets over \$1,000. Lesser amounts are expensed.

Compensated Absences

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

**SHELBY METROPOLITAN HOUSING AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(CONTINUED)**

NOTE 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Compensated Absences (Continued)

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

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

Investments

The provisions of the HUD Regulations restrict investments. Investments are stated at fair value. Cost based measures are applied to nonnegotiable certificates of deposit and money market investments. Interest income earned in fiscal year ending December 31, 2013 totaled \$737.

Due From/To Other Programs

Inter-program receivables and payables on the FDS Schedule on pages 24-26 are eliminated on the Statement of Net Position.

Prepaid Expenses

Payments made to vendors for services that will be benefit periods beyond December 31, 2013, are recorded as prepaid expenses using the consumption method. A current asset for the amount is recorded at the time of the purchase and expense is reported in the year in which the services are consumed.

SHELBY METROPOLITAN HOUSING AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(CONTINUED)

NOTE 2: DEPOSITS AND INVESTMENTS

Deposits

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

- A. Active deposits are public deposits necessary to meet demands on the treasury. Such monies must be maintained either as cash in the Authority's treasury, in commercial accounts payable or withdrawal on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.
- B. Inactive deposits are public deposits that the Authority has identified as not required for use within the current two-year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of the depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.
- C. Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit, or by savings or deposit accounts including passbook accounts.

Protection of the 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 collateral held by the Authority, 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, 2013, the carrying amount of the Authority's deposits totaled \$370,610 (including \$100 petty cash and \$120 change fund) and its bank balance was \$396,785. Based on criteria described in GASB Statement No. 40, *Deposits and Investments Risk Disclosures*, as of December 31, 2013, \$396,785 was covered by Federal Depository Insurance.

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 exceeding FDIC amounts are collateralized with eligible securities in amounts equal to 105 percent of the carrying value of deposits.

Such collateral, as permitted by Chapter 135 of the Ohio Revised Code, is held in a single financial institution's collateral pools at 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 specified collateral held at the Federal Reserve bank in the name of the Authority.

SHELBY METROPOLITAN HOUSING AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(CONTINUED)

NOTE 3: RESTRICTED CASH AND INVESTMENT

The restricted cash balance as of December 31, 2013 of \$100,423 represents cash on hand for the following:

Tenant Security Deposits	\$ 40,913
Cash on Hand - Advance from HUD to be Used for Tenant's Housing Assistance Payments	<u>59,510</u>
Total Restricted Cash and Investment	<u><u>\$ 100,423</u></u>

*This amount is shown as restricted net position in the financial statements.

NOTE 4: CAPITAL ASSETS

The following is a summary of changes:

	Balance 12/31/12	Reclasses	Additions	Deletions	Balance 12/31/13
<i>Capital Assets Not Being Depreciated:</i>					
Land	\$ 1,685,579	\$ 0	\$ 0	\$ 0	\$ 1,685,579
Construction-in-Progress	<u>207,211</u>	<u>(137,829)</u>	<u>11,114</u>	<u>0</u>	<u>80,496</u>
<i>Total Capital Assets Not Being Depreciated</i>	<u>1,892,790</u>	<u>(137,829)</u>	<u>11,114</u>	<u>0</u>	<u>1,766,075</u>
<i>Capital Assets Being Depreciated:</i>					
Buildings and Improve.	10,192,248	117,380	0	0	10,309,628
Furniture, Machinery, and Equipment	<u>754,810</u>	<u>20,449</u>	<u>0</u>	<u>0</u>	<u>775,259</u>
<i>Total Capital Assets Being Depreciated</i>	<u>10,947,058</u>	<u>137,829</u>	<u>0</u>	<u>0</u>	<u>11,084,887</u>
<i>Accumulated Depreciation:</i>					
Buildings & Improve.	(6,964,217)	0	(364,581)	0	(7,328,798)
Furniture, Machinery, and Equipment	<u>(298,125)</u>	<u>0</u>	<u>(7,246)</u>	<u>0</u>	<u>(305,371)</u>
<i>Total Accumulated Depreciation</i>	<u>(7,262,342)</u>	<u>0</u>	<u>(371,827)</u>	<u>0</u>	<u>(7,634,169)</u>
<i>Total Capital Assets Being Depreciated, Net</i>	<u>3,684,716</u>	<u>137,829</u>	<u>(371,827)</u>	<u>0</u>	<u>3,450,718</u>
Total Capital Assets, Net	<u><u>\$ 5,577,506</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ (360,713)</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 5,216,793</u></u>

SHELBY METROPOLITAN HOUSING AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(CONTINUED)

NOTE 5: **PENSION PLAN**

Ohio Public Employees Retirement System

All Authority full-time employees participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans, as described below:

1. The Traditional Pension Plan (TP) - a cost sharing, multiple-employer defined benefit pension plan;
2. The Member-Directed Plan (MD) - a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20 percent per year). Under the Member-Directed Plan, members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings;
3. The Combined Plan (CO) - a cost-sharing, multiple-employer defined benefit pension plan. Under the Combined Plan, employer contributions are invested by the retirement system to provide a formula retirement benefit similar in nature to the Traditional Pension Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member Directed Plan.

OPERS provides retirement, disability, survivor and death benefits, and annual cost of living adjustments to members of both the Traditional Pension and Combined plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 E. Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6701 or 1-800-222-7377, or by using the OPERS website at www.opers.org.

The Ohio Revised Code provides statutory authority for member and employer contributions. For 2013, member and employer contribution rates were consistent across all three plans (TP, MD, and CO). Plan members are required to contribute 10.00 percent of their annual covered salary to fund pension obligations. The employer pension contribution rate for the Authority was 14.00 percent of covered payroll. The Authority's required contributions to OPERS for the years ended December 31, 2013, 2012, and 2011 were \$48,473, \$52,966, and \$55,255, respectively. The full amount has been contributed for all three years.

SHELBY METROPOLITAN HOUSING AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(CONTINUED)

NOTE 6: **POST-EMPLOYMENT BENEFITS**

A. Plan Description

The Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: the Traditional Pension Plan - a cost-sharing, multiple-employer defined benefit pension plan; the Member-Directed Plan - a defined contribution plan; and the Combined Plan - a cost sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

OPERS maintains a cost-sharing, multiple-employer defined benefit post-employment health care plan, which includes a medical plan, prescription drug program, and Medicare Part B premium reimbursement, to qualifying members of both the Traditional Pension and the Combined plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage.

In order to qualify for post-employment health care coverage, age and service retirees under the Traditional Pension and Combined plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post-Employment Benefit (OPEB) as described in GASB Statement No. 45.

The Ohio Revised Code permits, but does not mandate, OPERS to provide OPEB benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

OPERS issues a stand-alone financial report. Interested parties may obtain a copy by writing OPERS, 277 East Town Street, Columbus, OH 43215-4642, or by calling 614-222-5601 or 1-800-222-7377, or by using the OPERS website at www.opers.org.

B. Funding Policy

The Ohio Revised Code provides the statutory authority requiring public employers to fund post-retirement health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care benefits.

SHELBY METROPOLITAN HOUSING AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(CONTINUED)

NOTE 6: **POST-EMPLOYMENT BENEFITS**

B. Funding Policy (Continued)

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2013, the Authority contributed at a rate of 14.00 percent of covered payroll. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14.00 percent of covered payroll for state and local employer units. Active members do not make contributions to the OPEB Plan.

OPERS' Post-Employment Health Care Plan was established under, and is administered in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside for funding of post-employment health care benefits. The portion of employer contributions allocated to health care for members in the Traditional Plan was 1.0 percent for calendar year 2013. Effective January 1, 2014, the portion of the employer contributions allocated to healthcare was raised to 2.00 percent for both plans, as recommended by the OPERS Actuary.

The OPERS Board of Trustees is also authorized to establish rules for the payment of a portion of the health care coverage by the retiree or their surviving beneficiaries to pay a portion of the health care benefits provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. Actual Authority contributions for the year ended December 31, 2013, 2012, and 2011 which were used to fund post-employment benefits were \$3,462, \$15,133, and \$15,787, respectively.

Changes to the health care plan were adopted by the OPERS Board of Trustees on September 19, 2012, with a transition plan commencing January 1, 2014. With the recent passage of pension legislation under SB 343 and the approved health care changes, OPERS expects to be able to consistently allocate 4 percent of the employer contributions toward the health care fund after the end of the transition period.

**SHELBY METROPOLITAN HOUSING AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(CONTINUED)**

NOTE 7: COMPENSATED ABSENCES

Vacation and sick leave policies are established by the Board of the Authority and are based on local and state laws. All permanent employees will earn 4.6 hours of sick leave per eighty (80) hours of service. Unused sick leave may accumulated without limit. At the time of retirement, employees shall be paid the value of twenty-five (25) percent of unused sick leave subject to a maximum payment equal to sixty (60) days of sick leave. All permanent employees will earn vacation hours accumulated based on length of service. Employees will be paid for all unused vacation time upon their separation from service.

The following is a summary of changes in compensated absences for the year ended December 31, 2013:

	Balance 01/01/13	Additions	Used	Balance 12/31/13	Due Within One Year
Compensated Leave	<u>\$ 50,344</u>	<u>\$ 32,489</u>	<u>\$(36,400)</u>	<u>\$ 46,433</u>	<u>\$ 0</u>

NOTE 8: CONTINGENCIES

Grants

The Authority received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Authority. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Authority at December 31, 2013.

Risk Management

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

SHELBY METROPOLITAN HOUSING AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(CONTINUED)

NOTE 9: IMPLEMENTATION OF NEW GASB PRONOUNCEMENTS

For 2013, the Authority has implemented GASB No. 61, *The Financial Reporting Entity: Omnibus - an Amendment of GASB Statements No. 14 and No. 34*, and GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1981 FASB and AICPA Pronouncements*.

The objective of GASB Statement No. 61, *The Financial Reporting Entity: Omnibus-an Amendment of GASB Statements No. 14 and No. 34*, is to improve financial reporting for a governmental financial reporting entity. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2012 and have been implemented by the Authority.

The objective of GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the FASB and AICPA pronouncements which does not conflict with or contradict GASB pronouncements. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011 and the implementation of this statement did not result in any change in the Authority's financial statements.

SHELBY METROPOLITAN HOUSING AUTHORITY
ENTITY WIDE BALANCE SHEET SUMMARY
DECEMBER 31, 2013

	Project Total	14.871 Housing Choice Vouchers	State/Local	Subtotal	ELIM	Total
111 Cash - Unrestricted	185,757	72,833	11,597	270,187		270,187
113 Cash - Other Restricted		59,510		59,510		59,510
114 Cash - Tenant Security Deposits	40,913			40,913		40,913
100 Total Cash	226,670	132,343	11,597	370,610	-	370,610
126 Accounts Receivable - Tenants	14,987			14,987		14,987
126.1 Allowance for Doubtful Accounts - Tenants	-5,050			-5,050		-5,050
128 Fraud Recovery		10,990		10,990		10,990
128.1 Allowance for Doubtful Accounts - Fraud		-3,140		-3,140		-3,140
120 Total Receivables, Net of Allowances for Doubtful Accounts	9,937	7,850	-	17,787	-	17,787
142 Prepaid Expenses and Other Assets	31,506			31,506		31,506
143 Inventories	48,849			48,849		48,849
144 Inter Program Due From	9,943			9,943	-9,943	-
150 Total Current Assets	326,905	140,193	11,597	478,695	-9,943	468,752
161 Land	1,685,579			1,685,579		1,685,579
162 Buildings	10,309,628			10,309,628		10,309,628
163 Furniture, Equipment & Machinery - Dwellings	512,299			512,299		512,299
164 Furniture, Equipment & Machinery - Administration	248,643	14,317		262,960		262,960
166 Accumulated Depreciation	-7,619,852	-14,317		-7,634,169		-7,634,169
167 Construction in Progress	80,496			80,496		80,496
160 Total Capital Assets, Net of Accumulated Depreciation	5,216,793	-	-	5,216,793	-	5,216,793
180 Total Non-Current Assets	5,216,793	-	-	5,216,793	-	5,216,793
190 Total Assets	5,543,698	140,193	11,597	5,695,488	-9,943	5,685,545
200 Deferred Outflow of Resources				-		-
290 Total Assets and Deferred Outflow of Resources	5,543,698	140,193	11,597	5,695,488	-9,943	5,685,545
312 Accounts Payable <= 90 Days	27,396			27,396		27,396
321 Accrued Wage/Payroll Taxes Payable	17,216			17,216		17,216
333 Accounts Payable - Other Government	15,832			15,832		15,832
341 Tenant Security Deposits	40,913			40,913		40,913
347 Inter Program - Due To		9,943		9,943	-9,943	-
310 Total Current Liabilities	101,357	9,943	-	111,300	-9,943	101,357
354 Accrued Compensated Absences - Non Current	37,135	9,298		46,433		46,433
350 Total Non-Current Liabilities	37,135	9,298	-	46,433	-	46,433
300 Total Liabilities	138,492	19,241	-	157,733	-9,943	147,790
400 Deferred Inflow of Resources				-		-
508.4 Net Investment in Capital Assets	5,216,793			5,216,793		5,216,793
511.4 Restricted Net Position		59,510		59,510		59,510
512.4 Unrestricted Net Position	188,413	61,442	11,597	261,452		261,452
513 Total Equity - Net Assets / Position	5,405,206	120,952	11,597	5,537,755	-	5,537,755
600 Total Liab, Def Inflow of Res., and Equity - Net Assets / Position	5,543,698	140,193	11,597	5,695,488	-9,943	5,685,545

**SHELBY METROPOLITAN HOUSING AUTHORITY
ENTITY WIDE REVENUE AND EXPENSE SUMMARY
FOR THE YEAR ENDED DECEMBER 31, 2013**

	Project Total	14,871 Housing Choice Vouchers	State/Local	Subtotal	ELIM	Total
70300 Net Tenant Rental Revenue	319,827			319,827		319,827
70400 Tenant Revenue - Other	8,060			8,060		8,060
70500 Total Tenant Revenue	327,887	-	-	327,887	-	327,887
70600 HUDPHA Operating Grants	469,491	816,672		1,286,163		1,286,163
70610 Capital Grants	11,114			11,114		11,114
70800 Other Government Grants			90,042	90,042		90,042
71100 Investment Income - Unrestricted	737			737		737
71400 Fraud Recovery		4,432		4,432		4,432
71500 Other Revenue	36,897	987	5,000	42,884		42,884
70000 Total Revenue	846,126	822,091	95,042	1,763,259	-	1,763,259
91100 Administrative Salaries	172,389	55,176	9,737	237,302		237,302
91200 Auditing Fees	6,859	1,506		8,365		8,365
91500 Employee Benefit contributions - Administrative	63,252	23,469	4,142	90,863		90,863
91600 Office Expenses	32,408	9,675		42,083		42,083
91700 Legal Expense	2,263			2,263		2,263
91800 Travel	2,570	2,143		4,713		4,713
91900 Other	10,755	10,584		21,339		21,339
91000 Total Operating - Administrative	290,496	102,553	13,879	406,928	-	406,928
92400 Tenant Services - Other	3,004			3,004		3,004
92500 Total Tenant Services	3,004	-	-	3,004	-	3,004
93100 Water	38,351			38,351		38,351
93200 Electricity	59,462			59,462		59,462
93300 Gas	36,491			36,491		36,491
93600 Sewer	35,259			35,259		35,259
93000 Total Utilities	169,563	-	-	169,563	-	169,563
94100 Ordinary Maintenance and Operations - Labor	107,344			107,344		107,344
94200 Ordinary Maintenance and Operations - Materials and Other	2,154			2,154		2,154
94300 Ordinary Maintenance and Operations Contracts	123,030			123,030		123,030
94500 Employee Benefit Contributions - Ordinary Maintenance	52,400			52,400		52,400
94000 Total Maintenance	284,928	-	-	284,928	-	284,928

**SHELBY METROPOLITAN HOUSING AUTHORITY
ENTITY WIDE REVENUE AND EXPENSE SUMMARY
FOR THE YEAR ENDED DECEMBER 31, 2013**

	Project Total	14,871 Housing Choice Vouchers	State/Local	Subtotal	ELIM	Total
96110 Property Insurance	29,241			29,241		29,241
96120 Liability Insurance		7,288		7,288		7,288
96100 Total insurance Premiums	29,241	7,288	-	36,529	-	36,529
96200 Other General Expenses	811		1,205	2,016		2,016
96210 Compensated Absences		923		923		923
96300 Payments in Lieu of Taxes	15,832			15,832		15,832
96400 Bad debt - Tenant Rents	24,237			24,237		24,237
96000 Total Other General Expenses	40,880	923	1,205	43,008	-	43,008
96900 Total Operating Expenses	818,112	110,764	15,084	943,960	-	943,960
97000 Excess of Operating Revenue over Operating Expenses	28,014	711,327	79,958	819,299	-	819,299
97100 Extraordinary Maintenance	1,138			1,138		1,138
97300 Housing Assistance Payments		770,723	78,612	849,335		849,335
97350 HAP Portability-In		884		884		884
97400 Depreciation Expense	371,827			371,827		371,827
90000 Total Expenses	1,191,077	882,371	93,696	2,167,144	-	2,167,144
10000 Excess (Deficiency) of Total Revenue Over (Under) Total Expenses	-344,951	-60,280	1,346	-403,885	-	-403,885
11030 Beginning Equity	5,750,157	181,232	10,251	5,941,640		5,941,640
11170 Administrative Fee Equity		61,442		61,442		61,442
11190 Unit Months Available		59,510		59,510		59,510
11210 Number of Unit Months Leased	2,100	2,628	459	5,187		5,187

**SHELBY METROPOLITAN HOUSING AUTHORITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2013**

Federal Grantor/ Pass Through Grantor/ Program Title	Federal CFDA Number	Expenditures
<u>U.S. Department of Housing and Urban Development</u>		
<i>Direct Programs:</i>		
Public Housing Program	14.850	\$ 460,353
Capital Fund Program	14.872	20,252
Section 8 Housing Choice Voucher Program	14.871	<u>816,672</u>
Total Direct Awards		<u>1,297,277</u>
<i>Passed through from City of Sidney, Ohio:</i>		
Community Development Block Grants/State's Program	14.228	<u>78,364</u>
Total Federal Awards		<u>\$ 1,375,641</u>

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

Board of Directors
Shelby Metropolitan Housing Authority
Sidney, Ohio

Regional Inspector General for Audit
Department of Housing and Urban
Development

We have audited, in accordance with the 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, the financial statements of the Shelby Metropolitan Housing Authority, Ohio, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Shelby Metropolitan Housing Authority, Ohio's basic financial statements and have issued our report thereon dated June 24, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Shelby Metropolitan Housing Authority, Ohio's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Shelby Metropolitan Housing Authority, Ohio's internal control. Accordingly, we do not express an opinion on the effectiveness of the Shelby Metropolitan Housing Authority, Ohio's internal control.

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 and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings and Questioned Costs as **Finding 2013-001** that we consider to be a significant deficiency.

Compliance and Other Matters

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

Shelby Metropolitan Housing Authority Response to Finding

The Authority's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and accordingly we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

James G.
Zupka, CPA,
President



Digitally signed by James G. Zupka,
CPA, President
DN: cn=James G. Zupka, CPA,
President, o=James G. Zupka, CPA,
Inc., ou=Accounting,
email=jgzcpa@sbcglobal.net, c=US
Date: 2014.06.26 13:39:23 -0400

James G. Zupka, CPA, Inc.
Certified Public Accountants

June 24, 2014

JAMES G. ZUPKA, C.P.A., INC.

Certified Public Accountants

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**REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY OMB CIRCULAR A-133**

Board of Directors
Shelby Metropolitan Housing Authority
Sidney, Ohio

Regional Inspector General of Audit
Department of Housing and Urban
Development

Report on Compliance for Each Major Federal Program

We have audited the Shelby Metropolitan Housing Authority, Ohio's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on Shelby Metropolitan Housing Authority, Ohio's major federal program for the year ended December 31, 2013. The Authority's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Shelby Metropolitan Housing Authority, Ohio's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for its major federal program. However, our audit does not provide a legal determination of the Shelby Metropolitan Housing Authority, Ohio's compliance.

Opinion on Each Major Federal Program

In our opinion, the Shelby Metropolitan Housing Authority, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2013.

Report on Internal Control Over Compliance

The management of the Shelby Metropolitan Housing Authority, Ohio, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of the compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

James G. Zupka
CPA, President

Digitally signed by James G. Zupka, CPA, President
DN: cn=James G. Zupka, CPA, President, o=James G.
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Date: 2014.06.26 13:39:49 -0400

James G. Zupka CPA, Inc.
Certified Public Accountants

June 24, 2014

**SHELBY METROPOLITAN HOUSING AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 & .505
DECEMBER 31, 2013**

1. SUMMARY OF AUDITOR'S RESULTS

2013(i)	Type of Financial Statement Opinion	Unmodified
2013(ii)	Were there any material control weaknesses reported at the financial statement level? (GAGAS)?	No
2013(ii)	Were there any significant deficiencies in internal control reported at the financial statements level (GAGAS)?	Yes
2013(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
2013(iv)	Were there any material internal control weaknesses reported for major Federal programs?	No
2013(iv)	Were there any other significant deficiency conditions reported for major Federal programs?	No
2013(v)	Type of Major Programs' Compliance Opinion	Unmodified
2013(vi)	Are there any reportable findings under .510?	No
2013(vii)	Major Programs (list): Low Rent Public Housing - CFDA #14.850	
2013(viii)	Dollar Threshold: Type A\B Programs	Type A: >\$300,000 Type B: all others
2013(ix)	Low Risk Auditee?	Yes

**SHELBY METROPOLITAN HOUSING AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 & .505 (CONTINUED)
DECEMBER 31, 2013**

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

Finding No. 2013-01 - Significant Deficiency - Controls Over the Tenant Receipt Process

Statement of Condition/Criteria

The tenant receipt process used by the Agency does not include a documented comparison of daily receipt totals to daily deposit totals. It should be noted the Agency performs a comparison of receipt totals to deposit totals monthly. In addition, while we conclude there is adequate separation of duties in the process, there is no monitoring of the process by an Agency staff member with greater authority than all others involved in the process.

Cause/Effect

Controls over tenant receipts are lacking exposing the Agency to loss of resources collected, even if only temporary, via the process.

Recommendation

We recommend the Agency implement changes to the process so it includes a comparison of daily receipt totals to daily deposit totals. Also, we recommend the involvement of the staff member with a level of authority higher than all others involved in the process be limited to monitoring the process. In addition, we recommend the Agency consider whether the Agency policy can be modified so that the Agency no longer accepts cash payments at Agency offices, accepting only checks or money orders, and establishes that cash payments would only be accepted by the bank serving as a collection agent for the Authority.

Client's Response

We agree with the comment regarding controls over the tenant receipt process and have implemented changes to improve the controls in this area.

3. **FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

None.

**SHELBY METROPOLITAN HOUSING AUTHORITY
STATUS OF PRIOR CITATIONS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2013**

The prior year management comments were either corrected because procedures were implemented to prevent future occurrences or repeated.

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Dave Yost • Auditor of State

SHELBY METROPOLITAN HOUSING AUTHORITY

SHELBY COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JULY 22, 2014**