

DAYTON METROPOLITAN HOUSING AUTHORITY

**REPORT ON AUDIT OF FINANCIAL STATEMENTS AND
REPORTS ON FEDERAL AWARDS IN ACCORDANCE WITH
*GOVERNMENT AUDITING STANDARDS AND OFFICE OF
MANAGEMENT AND BUDGET CIRCULAR A—133*
FOR THE YEAR ENDED JUNE 30, 2000**



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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Board of Commissioners
Dayton Metropolitan Housing Authority
Dayton, Ohio

We have reviewed the Independent Auditor's Report of the Dayton Metropolitan Housing Authority, Montgomery County, prepared by PricewaterhouseCoopers LLP, for the audit period July 1, 1999 to June 30, 2000. 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 Dayton Metropolitan Housing Authority is responsible for compliance with these laws and regulations.

JIM PETRO
Auditor of State

May 10, 2001

Dayton Metropolitan Housing Authority

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Report of Independent Accountants

Board of Commissioners
Dayton Metropolitan Housing Authority
400 Wayne Avenue
Dayton, Ohio 45410

In our opinion, the accompanying balance sheet and the related statements of revenue, expenses and changes in equity, and cash flows present fairly, in all material respects, the financial position of Dayton Metropolitan Housing Authority (the "Authority") at June 30, 2000, and the changes in its equity and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements 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 which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for the opinion expressed above.

As discussed in Note 2, the Authority changed its method of accounting from accounting practices prescribed or permitted by the Department of Housing and Urban Development to accounting principles generally accepted in the United States of America.

We have also issued our report dated March 9, 2001 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental financial data schedules accompanying the financial statements are not necessary for fair presentation of the financial position, results of operations and cash flows of the Authority in conformity with accounting principles generally accepted in the United States of America. The supplemental schedules listed in the table of contents are presented only for purposes of additional analysis and are not a required part of the financial statements. Such schedules have been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Our audit was made for the purpose of forming an opinion on the basic financial statements on the Authority taken as a whole. The accompanying Schedule 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 not a required part of the basic financial statements. The information in that Schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

PricewaterhouseCoopers

March 9, 2001

Dayton Metropolitan Housing Authority
Balance Sheet
As of June 30, 2000

Assets	
Cash and cash equivalents	\$ 4,400,808
Accounts receivable, net:	
Tenants, net of allowance for doubtful accounts of \$65,000	100,181
HUD	3,129,468
Homebuyer	45,337
Other	307,618
Accrued interest receivable	70,444
Investments	4,813,065
Inventory, net	1,071,821
Prepaid items	157,471
Total current assets	<u>14,096,213</u>
Land, structures and equipment, net	<u>63,722,711</u>
Total assets	<u>\$ 77,818,924</u>
Liabilities and Equity	
Current portion of mortgages payable	\$ 8,631
Current portion of capital lease obligation	64,105
Accounts payable:	
Trade	2,242,974
HUD	543,077
Other	239,745
Other current liabilities:	
Payment in lieu of taxes	192,708
Tenants security deposits	220,284
Deferred credits	1,190,730
Other	570,171
Total current liabilities	<u>5,272,425</u>
Mortgages payable, net of current portion	518,403
Capital lease obligation, net of current portion	67,225
Deferred revenue	381,192
Homebuyers reserve	74,214
Section 8 reserves	86,624
Other	951,431
Total liabilities	<u>7,351,514</u>
Equity	<u>70,467,410</u>
Total liabilities and equity	<u>\$ 77,818,924</u>

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

Dayton Metropolitan Housing Authority
Statement of Revenue, Expenses and Changes in Equity
For the Year Ended June 30, 2000

Operating revenue:		
HUD grants		\$ 29,766,367
Rental		6,862,608
Other		355,024
Total operating revenue		<u>36,983,999</u>
Operating expenses:		
Administration		9,659,673
Tenant services		1,637,232
Utilities		3,091,884
Ordinary maintenance and operation		8,103,461
Protective services		1,246,824
General expenses		549,818
Nonroutine maintenance		380,808
Housing assistance payments		11,666,010
Total operating expenses		<u>36,335,710</u>
Net operating income before other charges		648,289
Other income (expenses):		
Interest income		497,384
Interest expense		(26,945)
Payment in lieu of taxes		(192,708)
Depreciation		(5,054,654)
Fixed asset impairment		(578,955)
Gain on disposal of assets		59,645
Net loss		<u>(4,647,944)</u>
Equity, beginning of year		157,595,952
Adjustments to beginning equity		<u>(82,480,598)</u>
Equity, end of year		<u>\$ 70,467,410</u>

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

Dayton Metropolitan Housing Authority
Statement of Cash Flows
For the Year Ended June 30, 2000

Cash flows from operating activities:		
Net loss		\$ (4,647,944)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation		5,054,654
Fixed asset impairment		578,955
Gain on disposal of assets		(59,645)
Land donation		(10,900)
Change in assets and liabilities:		
Tenant receivables		(19,985)
HUD receivables		(1,204,036)
Homebuyers receivable		13,496
Other receivables		(23,887)
Funds on deposit and other assets		(68,282)
Inventory		(2,851)
Prepaid items		(16,819)
Trade payables		1,589,073
HUD payables		523,870
Other payables		214,872
Accrued expenses		(178,005)
Deferred credits		1,108,478
Other long-term liabilities		265,749
Net cash provided by operating activities		<u>3,116,793</u>
Cash flows from investing activities:		
Sale/purchase of investments, net		5,237,006
Net cash provided by investing activities		<u>5,237,006</u>
Cash flows from capital and related financing activities:		
Acquisition of land, structures and equipment		(4,494,989)
Proceeds from disposal of land, structures and equipment		127,712
Payments on mortgages payable		(7,154)
Payments on capital lease obligation		(65,757)
Net cash used in capital and related financing activities		<u>(4,440,188)</u>
Net increase in cash and cash equivalents		3,913,611
Cash and cash equivalents, beginning of year		487,197
Cash and cash equivalents, end of year		<u>\$ 4,400,808</u>

Dayton Metropolitan Housing Authority

Notes to Financial Statements

1. Summary of Significant Account Policies

Description of the entity. Dayton Metropolitan Housing Authority (the Authority) is organized under the laws of the state of Ohio for purposes of acquiring, developing, leasing, operating and administering low-rent housing programs.

The United States Department of Housing and Urban Development (HUD) has direct responsibility for administering the Low-Rent Housing Program under the United States Housing Act of 1937, as amended. HUD is authorized to contract with local housing authorities in financing the acquisition, construction and/or leasing of housing units, to make housing assistance payments, and to make annual contributions (subsidies) to the local housing authorities for the purposes of maintaining the low-rent character of the local housing program. Under an administrative form of contract, HUD has conveyed certain federally built housing units to the Authority for low-rent operations.

Basis of presentation. Statement No. 34 of the Governmental Accounting Standards Board, “Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments”, will be effective for the year ended June 30, 2003. The impact of this Statement has not been determined.

Basis of accounting. The accompanying consolidated financial statements are prepared on the accrual basis in accordance with generally accepted accounting principles (GAAP). All intercompany balances and transactions have been eliminated in consolidation.

HUD contributions. The Authority finances certain expenditures through the issuances of bonds and notes. HUD makes annual contributions and subsidies directly to the authorized fiscal agent of the bonds and notes to meet annual principal and interest requirements.

Fund accounting. The Authority maintains its accounting records in accordance with the principles of fund accounting. Fund accounting is designed to meet the needs of governmental entities in which legal or other restraints require the recording of specific receipts and disbursements. The transactions of each fund are reflected in self-balancing groups of accounts and accounting entities that are separate from the activities reported in other funds.

A summary of each of these funds is provided below:

Low-Rent Housing Program Fund—This Fund is used to account for the components for the Low-Rent Housing Programs subsidized by HUD. A summary of each of these components is provided below.

1. **PHA-Owned Housing**—Under this program, the Authority owns and operates apartments and single-family housing. Funding is provided by tenant rent payments and HUD subsidies.
2. **Housing Assistance Payments**—Under Section 8 of the Housing Program, low-income tenants lease housing units directly from private landlords rather than from the Authority. HUD contracts with the Authority, which in turn contracts with private landlords and makes assistance payments for the difference between the approved contract rent and the actual rent paid by the low-income tenants.

Dayton Metropolitan Housing Authority

Notes to Financial Statements

3. **Homeownership**—Under this program, qualified low-income families can earn homeownership of their homes. A portion of each monthly rent payment is applied against the purchase of the home. A family achieves homeownership when accumulated equity equals a predetermined amount based on the unamortized purchase price of the dwelling. A family may also purchase the dwelling by obtaining financing to pay the amount by which the purchase price exceeds the family's equity in the home.
4. **Comprehensive Grant Program**—Substantially all additions to land, structures and equipment are accomplished through Comprehensive Grant Programs. Comprehensive Grant Programs replace or materially upgrade deteriorated portions of the Authority's housing units. Funding is provided through grants. The Authority enters into significant construction contract obligations in relation to this Modernization and Development activity on an ongoing basis.
5. **Public Housing Drug Elimination Program** - The PHDEP provides funds for public housing authorities and tribally designated housing entities to develop and finance drug and drug-related crime elimination efforts in their developments. Funds may be used for enhancing security within the developments, making physical improvements to improve security or developing and implementing prevention, intervention and treatment programs to help curtail the use of drugs in public and Indian housing.
6. **Economic Development and Support Services Program** - Jobs-Plus is an inner city revitalization program, designed to provide saturation level, employment related services to all working age residents of a single public housing development in each community selected as a demonstration site. This initiative was launched in the context of emerging changes in national and state policies that would simultaneously place strict time limits on welfare receipt and reduce federal subsidies for public housing. Jobs-Plus was designed with a research component to measure its impact on residents, families, public housing developments, and inner-city communities.
7. **New Vision Program** – This program provides low-income families an opportunity to purchase a home. The Authority purchases property with a mortgage obtained from a bank and local funds received. The qualified individuals lease the property over a specific term. Upon the achievement of certain criteria, the home and the related mortgage is transferred to the individual.
8. **The Dayton Local Housing Authority (DLHA)** - DLHA was originally established under the Lanham Act from the sale of temporary federal war-housing projects. The DLHA is affiliated through a common Board of Commissioners with the Dayton Metropolitan Housing Authority. The DLHA owns and operates all the central office facilities used by the Authority. The primary purpose of the DLHA is to lend support to the Authority.

Dayton Metropolitan Housing Authority

Notes to Financial Statements

Revenue recognition. Grant revenue is recognized when the earnings process is complete, an exchange has taken place, and any restrictions imposed by the terms of the grant have been met. Rent revenue is recognized over the period for which housing has been provided. Investment income is recognized and recorded when earned and is allocated to programs based upon monthly investment balances.

Inventory. Inventory consists of supplies and maintenance parts carried at the lower of cost and market using the average cost method and are expensed as they are consumed.

Investments. The Authority's investments are recorded at fair value. Fair value generally represents quoted market value prices for investments traded in the public marketplace. Investment income, including changes in the fair value of investments, is recorded as revenue in the operating statements.

Compensated absences. Compensated absences are accrued as they are earned by employees if two conditions are met: 1) the employees rights to receive compensation are attributable to services already rendered and 2) it is probable that the employer will compensate the employee for the benefits through paid time off or cash payment. Accrued compensated absences are included in other liabilities.

Land, structures and equipment. Land, structures and equipment are recorded at historical cost. Donated land, structures and equipment are recorded at their fair value on the date donated. Depreciation is calculated on a straight-line method using half-year convention over the estimated useful lives. When depreciable property is disposed of or sold, the cost and related accumulated depreciation are removed from the accounts, with any gain or loss reflected in operations. The estimated useful lives are as follows:

Equipment and vehicles	3-7 years
Building and site improvements	15 years
Buildings	40 years

Use of estimates. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Risk Management. The Authority maintains comprehensive insurance coverage with private carriers for real property, building contents, and vehicles. Vehicle policies include liability coverage for bodily injury and property damage. The Authority also maintains employee bonding and employee major medical coverage with private carriers. Employee dental coverage is provided through self-insurance (Note 10).

Effective November 1, 1998, the Authority entered into a joint insurance pool, Ohio Housing Authority Property & Casualty, Inc. (OHAPCI), with two other Ohio housing authorities. The pool covers property, general liability, law enforcement liability, automobile liability, crime liability, boiler and machinery and public officials liability up to the limits stated below. It is intended for the public purpose of enabling housing authorities to obtain insurance coverage, to provide methods for paying claims, and to provide for a formalized, jointly administered self-insurance fund for its members.

Dayton Metropolitan Housing Authority

Notes to Financial Statements

OHAPCI is a corporation governed by a board of trustees, consisting of a representative appointed by each of the member housing authorities. The board of trustees elect the officers of the corporation, with each trustee having a single vote. The board is responsible for its own financial matters, and the corporation maintains its own books of account. Budgeting and financing of OHAPCI is subject to the approval of the board. Currently, the participating housing authorities are Dayton, Akron, and Cincinnati.

The following is a summary of insurance coverage at year end:

Property and boiler and machinery	\$50,000,000 per location
General liability, law enforcement liability, public officials liability, automobile liability	\$5,000,000 per occurrence
Crime liability	up to \$1,000,000 per occurrence

During the year, settled claims for the Authority did not exceed the coverage provided by OHAPCI.

2. Change in Method of Accounting

Effective in 2000, the Authority converted their annual financial statements from the HUD basis accounting to generally accepted accounting principles (GAAP). These changes consisted of the following items:

1. Development costs and preliminary administrative costs incurred prior to the dwelling unit's occupation are expensed rather than capitalized.
2. Depreciation expense is recorded on structures and equipment
3. Capital purchases less than \$500 are expensed rather than capitalized.
4. Gains and losses from sale of Homeownership Program dwelling units are shown as other expenses items rather than as a credit directly to equity.
5. Housing assistance payments and administrative fees made to the Authority for Section 8 projects are shown as revenue rather than as a credit directly to equity.
6. Other contributions made to the Authority to subsidize operation deficits for PHA-Owned projects are shown as revenue rather than as a credit directly to equity.
7. HUD and other governmental reimbursements are recorded as revenue at the time the related expenditure is recorded.
8. An allowance for doubtful accounts is recorded against accounts receivable when determined to be uncollectible.
9. Bonds and notes guaranteed by HUD are recorded as a capital contributions rather than as a liability on the Balance Sheet.
10. Compensated absences are recorded as a liability when earned by employees rather than as an expense when paid.

Dayton Metropolitan Housing Authority

Notes to Financial Statements

The adjustment to beginning equity is based on the following as of June 30, 2000:

HUD receivables	\$ 1,371,590
Fixed assets	(136,373,448)
Other assets	118,613
Notes payable	20,062,180
Fixed liabilities	17,532,356
Accrued interest	15,738,405
Debt amortization funds	(5,854)
Compensated absences	(848,523)
Allowance for doubtful accounts	(75,917)
	\$ (82,480,598)

3. Cash Flows

During 2000, the Authority paid interest of \$497,384.

During 2000, the Authority had the following non-cash transactions:

1. The Authority acquired equipment under a capital lease obligation in the amount of \$197,087.
2. The Authority transferred property to an individual under the New Vision program in the amount of \$64,957, as well as the related debt of \$59,928.
3. The Authority acquired land and buildings through mortgages in the amount of \$120,000 under the New Vision Program.

4. Cash, Cash Equivalents and Investments

The Authority maintains cash, cash equivalents and investments in separate accounts for the Low-Rent Housing Fund and other business ventures.

Cash equivalents include short-term, highly liquid investments that are both readily convertible to known amounts of cash and are so near maturity that they present insignificant risk of changes in value because of changes in interest rates. Generally, only investments with original maturities of three months or less qualify under this definition.

Cash and cash equivalents included in the Authority's cash position at June 30, 2000 are as follows:

Demand deposits:	
Bank balance	\$ 4,529,912
Items-in-transit	(129,104)
Carrying balance	\$ 4,400,808

Dayton Metropolitan Housing Authority

Notes to Financial Statements

Of the year-end cash balance, \$100,000 was covered by federal depository insurance, \$5,000 was maintained in petty cash funds and \$193,981 was covered by collateral pools held by third-party trustees maintaining collateral for all public funds on deposit. A balance of \$1,300,890 was maintained in a money market account at June 30, 2000.

In addition, the Authority's Low-Rent Housing Program had \$2,930,041, held in the State Treasury Asset Reserve of Ohio (STAR Ohio, managed by the treasurer of the state of Ohio). STAR Ohio is a highly liquid investment pool with participation restricted to subdivisions of the state of Ohio. Under Ohio Revised Code Section 135.143, STAR Ohio is restricted to investing in obligations of the U.S. government and other instruments authorized by the state of Ohio and its political subdivisions. Due to the highly liquid nature of the fund and a net asset value of \$1, STAR Ohio resembles a money market fund and, therefore, has been treated as a cash equivalent by the Authority in the financial statements. The Authority's investment in the pool is not subject to credit risk categorization because it is not evidenced by securities that exist in physical or book entry form.

Investments. Investment procedures are restricted by the provisions of the Ohio Revised Code and the Department of Housing and Urban Development. Approved investment securities include direct obligations of the federal government backed by the full faith and credit of the United States (e.g., U.S. Treasury bills, notes and bonds), obligations of federal government agencies (e.g., Government National Mortgage Association mortgage-backed securities, bonds, participating certificates), and securities of government-sponsored agencies (e.g., Federal Farm credit banks, Federal Land banks, and Federal Home Loan banks).

	Amortized Cost	Gross Unrealized Gains	Fair Value
At June 30, 2000:			
U.S. federal agency bonds	\$ 4,964,000	\$ 150,935	\$ 4,813,065
Total	\$ 4,964,000	\$ 150,935	\$ 4,813,065

The Authority's cash equivalents balances and investments are categorized to give an indication of risk assumed by the Authority as follows:

- The cash equivalent funds are assigned a risk category of two. Category two includes cash equivalents balances collateralized with securities held by the pledging financial institution's trust department or agent in the name of the Authority.
- The investments are assigned a risk category of two. Category two includes uninsured and unregistered investments for which the securities are held by the Authority's agent or the agent's trust department in the Authority's name.

Dayton Metropolitan Housing Authority

Notes to Financial Statements

5. Land, Structures and Equipment

The Authority capitalizes as land, buildings and improvements, equipment and vehicles. A summary as of June 30, 2000 is as follows:

Land	\$ 6,709,302
Buildings and improvements	99,639,187
Equipment and vehicles	4,556,384
Total	110,904,873
Accumulated depreciation	(47,182,162)
Net book value	<u>\$ 63,722,711</u>

There was no interest capitalized for the year ended June 30, 2000.

6. Impairment of Long-Lived Assets

In accordance with Statement of Financial Accounting Standards (SFAS) No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of", the Authority has identified three housing locations for demolition. The impairment amount has taken into consideration any expected future cash flows of these assets. The total impairment loss recorded at June 30, 2000 for these locations was \$578,955.

7. Capital Leases

During the year, the Authority entered into a lease for telephone equipment. Scheduled future payments on capital lease obligations as of June 30, 2000 are as follows:

2001	\$ 69,660
2002	69,660
Net minimum lease payments	139,320
Less amount representing imputed interest	(7,990)
Present value of net minimum lease payments	<u>\$ 131,330</u>

Dayton Metropolitan Housing Authority

Notes to Financial Statements

8. Other HUD Contributions

In accordance with the conversion to GAAP as described in Note 2, the bond and permanent note issues were recorded to contributed capital through an adjustment to beginning equity as the loans are guaranteed by a pledge of faith of the U.S. Government to finance Comprehensive Grant Program. HUD pays for the principal and interest on these loans. The Authority also wrote-off debt amortization funds and accrued interest on the debt. The outstanding balance on conduit debt at June 30, 2000 is as follows:

Bonds payable with interest rates ranging	
from 3.25% to 5.258% maturing through 2013	\$ 16,366,211
Notes payable with an interest rates ranging	
from 5.75% to 8.125%	20,062,180
	<u>\$ 36,428,391</u>

9. Indebtedness

Under the New Vision program, the Authority has mortgages payable outstanding at June 30, 2000 in the amount of \$527,034. The mortgages have an interest rate of 5% and are collateralized by real property. The mortgages are payable to a financial institution in monthly installments, with varying maturities through September 2030.

Principal maturity of the indebtedness by fiscal year is as follows:

	2001	\$ 8,631
	2002	9,073
	2003	9,537
	2004	10,025
	2005	10,538
	Thereafter	479,230
		<u>\$527,034</u>

10. Payment in Lieu of Taxes

The Authority has executed a Cooperation Agreement with the County of Montgomery that provides for tax exemption of the housing projects but requires the Authority to make payments in lieu of taxes for municipal services received based upon a prescribed formula related to rental income.

Dayton Metropolitan Housing Authority

Notes to Financial Statements

11. Self-Insured Dental and Vision Plans

The Authority has a self-insured dental and vision plan that covers all employees electing to participate. A reconciliation of claims liabilities is shown below for the year ended June 30, 2000:

Reconciliation of Claims Liabilities		
Unpaid claims and claim adjustment expenses at beginning of year		\$ 135,720
Incurred claims and claim adjustment expenses:		
Provision for insured events of the current year		136,420
Total incurred claims and claim adjustment expenses		272,140
Payments:		
Claims and claim adjustment expenses attributable to insured events		(121,035)
Total unpaid claims and claim adjustment expenses at end of year		\$ 151,105

The Authority makes payments to the Plan Trustee based on estimated amounts needed to pay prior and current year claims. The June 30, 2000 claims liability is based on the requirements of the Governmental Accounting Standards Board (GASB) Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

12. Retirement Commitments

Plan description. The Authority contributes to the Public Employees' Retirement System of Ohio (PERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State Statute per Chapter 145 of the Ohio Revised Code. The Public Employees' Retirement System issues a stand-alone financial report that includes financial statements and required supplementary information. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 466-2085.

Funding policy. The Retirement Board instituted a temporary employer contribution rate rollback for calendar year 2000. The rate rollback was 20% for state and local government divisions. The 2000 employer contribution rate for local employers was 10.84% of covered payroll. Requirement employer contributions are equal to 100% of the dollar amount billed to each employer and must be extracted from the employer's records. The Authority's contribution to PERS was \$1,275,322, \$1,137,797, and \$1,092,314 for the years ended June 30, 2000, 1999, and 1998, respectively.

Dayton Metropolitan Housing Authority

Notes to Financial Statements

13. Other Postemployment Benefits

Public Employees Retirement System of Ohio provides postretirement health care coverage to age and service retirees with 10 or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to PERS is set aside for the funding of post retirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The employer contribution rate was rolled back for the year 2000. For local government employer units the rate was 10.84% of covered payroll; 4.30% was the portion that was used to fund health care for the year.

The Ohio Revised Code provides the statutory authority requiring public employers to fund postretirement health care through their contributions to PERS.

Summary of Assumptions:

Actuarial Review. The assumptions and calculations below was based on the System's latest Actuarial Review performed as of December 31, 1999.

Funding Method. An entry age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of unfunded actuarial accrued liability.

Assets Valuation Method. All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach assets are adjusted annually to reflect 25% of unrealized market appreciation or depreciation on investment assets.

Investment Return. The investment assumption rate for 1999 was 7.75%.

Active Employee Total Payroll. An annual increase of 4.75% compounded annually, is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.75% base increases, were assumed to range from 0.54% to 5.1%.

Health Care. Health care costs were assumed to increase 4.75% annually.

OPEBs are advanced-funded on an actuarially determined basis. The following disclosures are required:

- 1) The number of active contributing participants was 401,339.
- 2) The stated rates are the actuarially determined contribution requirements for PERS. The employer contributions made by the Authority to fund postretirement benefits during fiscal year 2000 was \$505,920.

Dayton Metropolitan Housing Authority

Notes to Financial Statements

- 3) \$10,805.5 million represents the actuarial value of the Retirement System's net assets available for OPEB at December 31, 1999.
- 4) The actuarially accrued liability and the unfunded actuarial accrued liability based on the actuarial cost method used, were \$12,473.6 million and \$1,668.1 million, respectively.

The Retirement Board enacted a temporary employer contribution rate rollback for calendar year 2000. The decision to rollback rates was based on the December 31, 1998 actuarial study, which indicated that actuarial assets exceeded actuarial liabilities. The temporary rate rollback was 20% local government divisions. The Board reallocated employer contributions from 4.20% to 4.30% at the beginning of the year to improve health care financing. The proportion of contributions dedicated to funding OPEB increased during the year for those reasons.

14. Deferred Compensation

The Authority offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all regular employees, permits them to defer a portion of their salaries until future years. The deferred compensation is not available to employees until termination, retirement, death, or an unforeseeable emergency. The Authority made no contributions to the plan in 2000.

All assets of the plan are held in a trust for the exclusive benefit of the participants and their beneficiaries. Investments are managed by the Ohio Public Employees Deferred Compensation Program. The plan is not included in the Authorities financial statements as the Authority does not hold these assets in a trustee capacity.

15. Uncompleted Contracts

At June 30, 2000, the Authority has contracts related to construction in progress under the Comprehensive Grant Program and extraordinary maintenance programs in the amount of \$11,625,608.

16. Contingent Liabilities

Under the terms of Federal grants, periodic audits are required and certain costs may be questioned as not being appropriate expenses under the terms of the grants. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenses which may be disallowed by the grantor cannot be determined at this time, although the Authority expects such amounts, if any, to be immaterial.

The Authority is involved in various litigation matters. There is one case outstanding, and management has accrued for the potential liability at June 30, 2000. The ultimate disposition of other matters are uncertain; therefore, no adjustments have been made to the financial statements relative to those matters.

Dayton Metropolitan Housing Authority
Supplemental Financial Data Schedules
Balance Sheet
As of June 30, 2000

	Low Rent 14.850	Home Ownership 14.851	Section 8 14.855/14.856/ 14.857	Economic Development 14.864	Drug Elimination 14.854	CGP 14.859	Hope VI 14.866	State/Local and LHA	Total
ASSETS									
Current assets									
Cash-unrestricted	\$ 1,637,065		\$ 202,023					\$ 1,084,413	\$ 2,923,501
Cash-restricted		\$ 48,558	97,419						145,977
Cash-other restricted			1,331,330						1,331,330
Total cash	1,637,065	48,558	1,630,772	\$ -	\$ -	\$ -	\$ -	1,084,413	4,400,808
Accounts and notes receivables									
Accounts receivable-PHA projects									
Accounts receivable-HUD other projects	538,253		321,273	28,998	107,045	2,061,449	72,450		3,129,468
Accounts receivable-other governments									
Accounts receivable-miscellaneous	190,488	75,880						4,815	271,183
Accounts receivable-tenants-dwelling rent	165,181								165,181
Allowance for doubtful accounts-dwelling re	(65,000)								(65,000)
Allowance for doubtful accounts-others									-
Notes and mortgages receivables									-
Fraud recovery			81,772						81,772
Allowance for doubtful accounts-fraud									-
Accrued interest receivable	69,590	854							70,444
Total receivables,net of allowances for uncollectibles	898,512	76,734	403,045	28,998	107,045	2,061,449	72,450	4,815	3,653,048
Current investments									
Investments-unrestricted	4,813,065								4,813,065
Investments-restricted									-
Prepaid expenses and other assets	148,975		8,496						157,471
Inventories	1,061,520	26,963							1,088,483
Allowance for obsolete inventories	(16,662)								(16,662)
Interprogram-due from	1,228,532							83,223	1,311,755
Total investments	7,235,430	26,963	8,496	-	-	-	-	82,223	7,354,112
Total current assets	\$ 9,771,007	\$ 152,255	\$ 2,042,313	\$ 28,998	\$ 107,045	\$ 2,061,449	\$ 72,450	\$ 1,172,451	\$ 15,407,968

Dayton Metropolitan Housing Authority
Supplemental Financial Data Schedules
Balance Sheet, Continued
As of June 30, 2000

	Low Rent 14.850	Home Ownership 14.851	Section 8 14.855/14.856/ 14.857	Economic Development 14.864	Drug Elimination 14.854	CGP 14.859	Hope VI 14.866	State/Local and LHA	Total
Noncurrent assets									
Land	\$ 6,148,683	\$ 131,874						\$ 428,745	\$ 6,709,302
Buildings	91,190,753	1,692,641				\$ 4,754,839		2,000,954	99,639,187
Furniture,equipment and machinery-dwellings	94,331			\$ 17,221					111,552
Furniture,equipment and machinery-administration	3,819,462	15,497	\$ 312,482		\$ 45,590	93,249		158,552	4,444,832
Leasehold improvements									-
Accumulated depreciation	(45,613,109)	(412,505)	(232,658)	(2,062)	(7,296)	(105,399)		(809,133)	(47,182,162)
Total fixed assets,net of accumulated depreciation	<u>55,640,120</u>	<u>1,427,507</u>	<u>79,824</u>	<u>15,159</u>	<u>38,294</u>	<u>4,742,689</u>	<u>\$ -</u>	<u>1,779,118</u>	<u>63,722,711</u>
Other non-current assets									
Notes and mortgages receivables-non current									-
Notes and mortgages receivables-non current-past due									-
Other assets									-
Undistributed debits									-
Total non-current assets	<u>55,640,120</u>	<u>1,427,507</u>	<u>79,824</u>	<u>15,159</u>	<u>38,294</u>	<u>4,742,689</u>	<u>-</u>	<u>1,779,118</u>	<u>63,722,711</u>
Total assets	<u>\$ 65,411,127</u>	<u>\$ 1,579,762</u>	<u>\$ 2,122,137</u>	<u>\$ 44,157</u>	<u>\$ 145,339</u>	<u>\$ 6,804,138</u>	<u>\$ 72,450</u>	<u>\$ 2,951,569</u>	<u>\$ 79,130,679</u>

Dayton Metropolitan Housing Authority
Supplemental Financial Data Schedules
Balance Sheet, Continued
As of June 30, 2000

	Low Rent 14.850	Home Ownership 14.851	Section 8 14.855/14.856/ 14.857	Economic Development 14.864	Drug Elimination 14.854	CGP 14.859	Hope VI 14.866	State/Local and LHA	Total
LIABILITIES AND EQUITY									
Current liabilities									
Bank overdraft									
Accounts payable < 90 days	\$ 638,415	\$ 13,365	\$ 8,894	\$ 23,407	\$ 46,147	\$ 1,056,026	\$ 24,497	\$ 660	\$ 1,811,411
Accounts payable > 90 days									-
Accrued wage/payroll taxes payable	423,480								423,480
Accrued vacation pay	71,085	2,189	6,654	1,853	3,152	25,214		598	110,745
Accrued contingency liability	100,000								100,000
Accrued interest payable									-
Accounts payable- HUD PHA Program			624,849						624,849
Accounts payable-other government	186,929	5,779							192,708
Tenant security deposits	215,600	4,734							220,334
Deferred revenue		70,267							70,267
Current portion of long-term debt-capital projects	41,027	8,631	23,078						72,736
Current portion of long-term debt-operating borrowing									-
Other current liabilities	158,141					154,765	12,144		325,050
Accrued liabilities-other	211,937								211,937
Interprogram due to	-	165,761	38,273	5,591	60,898	1,005,423	35,809	-	1,311,755
Total current liabilities	2,046,614	270,726	701,748	30,851	110,197	2,241,428	72,450	1,258	5,475,272
Non-current liabilities									
Long term debt,net of current -capital projects	43,024	518,403	24,201						585,628
Long term debt,net of current -operating borrowings									-
Non-current liabilities-other	1,227,233	179,554	1,195,582						2,602,369
Total non-current liabilities	1,270,257	697,957	1,219,783	-	-	-	-	-	3,187,997
Total liabilities	\$ 3,316,871	\$ 968,683	\$ 1,921,531	\$ 30,851	\$ 110,197	\$ 2,241,428	\$ 72,450	\$ 1,258	\$ 8,663,269

Dayton Metropolitan Housing Authority
Supplemental Financial Data Schedules
Balance Sheet, Continued
As of June 30, 2000

	Low Rent 14.850	Home Ownership 14.851	Section 8 14.855/14.856/ 14.857	Economic Development 14.864	Drug Elimination 14.854	CGP 14.859	Hope VI 14.866	State/Local and LHA	Total
Equity									
Investment in general fixed assets									\$ -
Contributed capital-projects notes (HUD)									-
Contributed capital-long-term debt-HUD guaranteed									-
Net HUD PHA contributions	\$ 55,576,957	\$ 268,210	\$ 20,249					\$ 1,925,543	57,790,959
Other HUD contributions									-
Other contributions									-
Undesignated fund balance/retained earnings	6,517,299	342,869	180,357	\$ 13,306	\$ 35,142	\$ 4,562,710		1,024,768	12,676,451
Total equity	62,094,256	611,079	200,606	13,306	35,142	4,562,710	\$ -	2,950,311	70,467,410
Total liabilities and equity	\$ 65,411,127	\$ 1,579,762	\$ 2,122,137	\$ 44,157	\$ 145,339	\$ 6,804,138	\$ 72,450	\$ 2,951,569	\$ 79,130,679

Dayton Metropolitan Housing Authority
Supplemental Financial Data Schedules
Statement of Revenue and Expenses, Continued
For the Year Ended June 30, 2000

Account Description	Low Rental 14.850	Home Ownership 14.851	Section 8 14.855/14.856/ 14.857	Economic Development 14.864	Drug Elimination 14.854	CGP 14.859	HOPE VI 14.866	State/Local and LHA	Total
Revenue									
Net tenant rental revenue	\$ 5,089,166	\$ 61,079							\$ 5,150,245
Tenant revenue-other	1,655,980	15,102	\$ 28,643					\$ 12,638	1,712,363
Total tenant revenue	6,745,146	76,181	28,643					12,638	6,862,608
HUD PHA grants	7,032,616		12,721,152	\$ 203,041	\$ 1,533,116	\$ 7,641,307	\$ 635,135		29,766,367
Other government grants	22,141							178,723	200,864
Investment income-unrestricted	414,306	5,820	20,523					56,735	497,384
Mortgage interest income									-
Fraud recovery			494						494
Other income	119,051	12,480						22,135	153,666
Gain or loss on sale of fixed assets	(578,555)	55,795	3,450						(519,310)
Investment income-restricted									-
Total revenue	13,754,705	150,276	12,774,262	203,041	1,533,116	7,641,307	635,135	270,231	36,962,073
Expense									
Administrative									
Administrative salaries	3,135,707	170,976	755,256			730,324	69,474	115,271	4,977,008
Auditing fees	22,148	180	14,200						36,528
Outside management fees									-
Compensated absences	47,889	2,189	6,654	1,853	3,152	25,214		598	87,549
Employee benefit contributions-administrat	880,902	45,613	202,735			290,902	10,291	29,369	1,459,812
Other operating expenses	1,407,574	69,150	124,344	13,886	8,472	1,409,724	45,223	20,403	3,098,776
Tenant services									
Tenant services-salaries	300,184			106,953	97,727	70,348	28,256	51,710	655,178
Relocation costs									-
Employee benefit contributions-tenant serv	80,266			27,095	38,240		4,384	1,750	151,735
Tenant services-other	302,331		2,175	37,886	453,439	21,281	624	12,583	830,319
Utilities									
Water	561,878	2,555	1,589						566,022
Electric	1,305,067	9,382	15,760						1,330,209
Gas	721,613	744	243						722,600
Fuel									-
Labor	30,871								30,871
Employee benefit contributions-utilities	8,244								8,244
Other utilities expense	432,024	804	1,110						433,938

Dayton Metropolitan Housing Authority
Supplemental Financial Data Schedules
Statement of Revenue and Expenses, Continued
For the Year Ended June 30, 2000

	<u>Low Rental 14.850</u>	<u>Home Ownership 14.851</u>	<u>Section 8 14.855/14.856/ 14.857</u>	<u>Economic Development 14.864</u>	<u>Drug Elimination 14.854</u>	<u>CGP 14.859</u>	<u>HOPE VI 14.866</u>	<u>State/Local and LHA</u>	<u>Total</u>
Expense continued									
Ordinary maintenance & operations									
Ordinary maint and op-labor	\$ 2,313,064	\$ 59,800				\$ 671,534			\$ 3,044,398
Ordinary maint and op-materials & other	1,008,771	5,987	\$ 11,207			12,154		\$ 32	1,038,151
Ordinary maint and op-contract cost	1,969,626	35,497	152,512		\$ 106	1,036,306		410	3,194,457
Employee benefit contributions-ordinary maintenance	559,942	11,824				254,689			826,455
Protective services									
Protective services-labor					65,497				65,497
Protective services-other contract costs	191,578	1,422	1,327		834,063	140,926			1,169,316
Protective services-other									-
Employee benefit contributions-protective services					12,011				12,011
General expenses									
Insurance	111,994		26,522			6,471	1,394	1,876	148,257
Other general expenses	88,279	488	2,998			14,358	9,024		115,147
Payment in lieu of taxes	186,929	5,779							192,708
Bad debt-tenant rents	236,732								236,732
Bad debt-mortgages									-
Bad debt-other									-
Interest expenses	2,497	23,043	1,405						26,945
Severance expenses	42,604	2,568	3,617					893	49,682
Total operating expenses	<u>15,948,714</u>	<u>448,001</u>	<u>1,323,654</u>	<u>187,673</u>	<u>1,512,707</u>	<u>4,684,231</u>	<u>168,670</u>	<u>234,895</u>	<u>24,508,545</u>
Excess (deficiency) operating revenue over operating expenses	<u>(2,194,009)</u>	<u>(297,725)</u>	<u>11,450,608</u>	<u>15,368</u>	<u>20,409</u>	<u>2,957,076</u>	<u>466,465</u>	<u>35,336</u>	<u>12,453,528</u>
Extraordinary maintenance						3,596	466,465		470,061
Casualty losses-non capitalized	(89,253)								(89,253)
Housing assistance payments			11,666,010						11,666,010
Depreciation expense	4,831,942	28,952	16,046	2,062	7,296	73,274		95,082	5,054,654
Fraud losses									-
Capital outlays-goverments funds									-
Debt principal payment-government funds									-
Total expenses	<u>20,691,403</u>	<u>476,953</u>	<u>13,005,710</u>	<u>189,735</u>	<u>1,520,003</u>	<u>4,761,101</u>	<u>635,135</u>	<u>329,977</u>	<u>41,610,017</u>
Excess (deficiency) of revenue over expenses	<u>\$ (6,936,698)</u>	<u>\$ (326,677)</u>	<u>\$ (231,448)</u>	<u>\$ 13,306</u>	<u>\$ 13,113</u>	<u>\$ 2,880,206</u>	<u>\$ -</u>	<u>\$ (59,746)</u>	<u>\$ (4,647,944)</u>

Dayton Metropolitan Housing Authority
Schedule of Federal Expenditures
For the Year Ended June 30, 2000

		Catalog of	
		Federal	
		Domestic	
Federal Grantor/ Pass-Through Grantor/Program Title		Assistance Number	Federal Expenditures
U.S. Department of Housing and			
Urban Development:			
Direct Programs:			
Low-Income Housing—PHA-Owned and Leased		14.850	\$ 9,411,451
Low-Income Housing—Homeownership		14.851	33,352
Low-Income Housing Assistance Program:			
Comprehensive Grant Program		14.859	9,723,390
Moderate Rehabilitation		14.856	3,633,872
Rental Vouchers		14.855	7,456,562
Certificates		14.857	1,953,372
Public Housing Drug Elimination Program		14.854	1,558,297
Economic Development and Support Program		14.864	204,894
Hope VI Program		14.866	635,135
Subtotal—Low-Income Housing Assistance Program			
			25,165,522
Total Federal Financial Assistance			
			\$ 34,610,325

Dayton Metropolitan Housing Authority

Notes to Schedule of Federal Expenditures

1. Basis of Presentation

The accompanying Schedule of Federal Financial Assistance has been prepared using the accrual basis of accounting in accordance with the format as set forth in the *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget Circular A-133, *Audits of State and Local Governments*.

2. Program Status

The Dayton Metropolitan Housing Authority receives assistance in the form of grant monies, HOPE VI grant, from the United States Department of Housing and Urban Development (HUD) to be used in conjunction with the revitalization activities of federally built low-rent housing units.

3. Bonds and Permanent Notes

The bond and permanent note issues represent loans guaranteed by a pledge of faith of the U.S. Government to finance Comprehensive Grant Programs. Principal and interest on these loans will be paid through annual contributions for debt service from HUD. Bonds and permanent notes at June 30, 2000 consist of the following:

Bonds payable with interest rates ranging	
from 3.25% to 5.258% and maturity dates	
through 2013	\$ 16,366,211
Notes payable with an interest rates ranging	
from 5.75% to 8.125%	20,062,180
	<u>\$ 36,428,391</u>

Dayton Metropolitan Housing Authority
Schedule of Actual Modernization Costs
Project OH10-P005-705

1. The actual modernization costs of the project are as follows:

Classification	Project OH10-P005-705
Operating account	\$ 701,888
Management improvements	1,076,956
Administration	581,203
Fees and costs	616,384
Site improvements	179,956
Dwelling structures	3,376,617
Nondwelling structures	34,599
Nondwelling equipment	434,226
Relocation costs	17,053
Total costs	\$ 7,018,882

2. The distribution of costs by major cost accounts as shown on the Performance and Evaluation Report dated February 25, 2000 for Project OH10-P005-705, as submitted to HUD for approval, is in agreement with the Authority's records.
3. Funds advanced for Project OH10-P005-705 totaled \$7,018,882.

**Report of Independent Accountants on Compliance and on Internal Control
over Financial Reporting Based on an Audit of the Financial Statements
Performed in Accordance with *Government Auditing Standards***

Board of Commissioners
Dayton Metropolitan Housing Authority
Dayton, Ohio

We have audited the financial statements of the Dayton Metropolitan Housing Authority (the Authority) as of and for the year ended June 30, 2000, and have issued our report thereon dated March 9, 2001. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; *Government Auditing Standards*, issued by the Comptroller General of the United States; and the applicable requirements of the *U.S. Department of Housing and Urban Development Audit Guide for Audits of Public Housing Agencies and Indian Housing Authorities by Independent Public Accountants*.

Compliance

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards* or the *U.S. Department of Housing and Urban Development Audit Guide for Audits of Public Housing Agencies and Indian Housing Authorities by Independent Public Accountants*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financing reporting and its operating that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant

deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Authority's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 00-1 and 00-2.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness. However, we noted other matters involving the internal control over financial reporting which we have reported to management the Authority in a separate letter dated March 9, 2001.

This report is intended solely for the information of the Board of Commissioners and management of the Authority, the Department of Housing and Urban Development and the Auditor of State of Ohio and is not intended to be and should not be used by anyone other than these specified parties.

PricewaterhouseCoopers

March 9, 2001

**Report of Independent Accountants on Compliance with Requirements Applicable
to Each Major Program and Internal Control Over Compliance
in Accordance with OMB Circular A-133**

Board of Commissioners
Dayton Metropolitan Housing Authority
Dayton, Ohio

Compliance

We have audited the compliance of Dayton Metropolitan Housing Authority (the Authority) with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement*; and the provisions of the *Public and Indian Housing Compliance Supplement* dated May 29, 1996, that are applicable to each of its major federal programs for the year ended June 30, 2000. The Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Authority's management. Our responsibility is to express an opinion on Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; 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 Organization* and *The Public and Indian Housing Compliance Supplement* dated May 29, 1996. 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 Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Authority's compliance with those requirements.

In our opinion, the Authority complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2000.

Internal Control Over Compliance

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

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

This report is intended solely for the information and use of the Board of Commissioners and management of the Authority, the Department of Housing and Urban Development and the Auditor of the State of Ohio and is not intended to be and should not be used by anyone other than those specified parties.

PricewaterhouseCoopers

March 9, 2001

Dayton Metropolitan Housing Authority
Schedule of Findings and Questioned Costs
Section I - Summary of Auditor's Results
For the Year Ended June 30, 2000

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? yes no
- Reportable condition(s) identified that are not considered to be material weaknesses? yes none reported

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? yes no
- Reportable condition(s) identified that are not considered to be material weaknesses? yes none reported

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

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? yes no

Identification of major programs:

<u>CFDA Number(s)</u> 14.850	<u>Name of Federal Program or Cluster</u> Low-Income Housing-PHA-Owned and Leased
---------------------------------	--

Dollar threshold used to distinguish between type A and type B programs: \$1,038,310

Auditee qualified as low-risk auditee? yes no

Dayton Metropolitan Housing Authority
Schedule of Findings and Questioned Costs
Section II – Financial Statement Findings
For the year ended June 30, 2000

00-1 Cash Procedures

Criteria:

The Authority should reconcile cash on a monthly basis.

Condition:

We noted that there were inadequate monitoring controls over the cash reconciliation process. This included:

- 1) At the time of our initial audit, it was noted that cash accounts had not been reconciled for periods of 8 to 10 months, depending on the account.
- 2) During testing of outstanding checks, there were two checks written in September 2000 that were posted to the general ledger in error as of June 30, 2000.
- 3) During the audit, we noted cash reconciling items related to voided checks not posted to the system and differences between batch totals and deposit slips at various sites.
- 4) Several manual checks were issued during 2000 and then cleared the bank, but these items were not input into the general ledger.

Cause:

- 1) Lack of preparation of account reconciliations
- 2) Lack of internal control policies and procedures
- 3) Lack of manager review over cash policies and procedures

Recommendation:

We recommend that all cash accounts be reconciled on a monthly basis. The reconciliations should be reviewed by someone in management to ensure accuracy and timeliness. By performing this function on a consistent basis, errors can be detected and corrected on a timely basis. The above issues of back dating checks, recording voided and manual checks, and reconciling deposits will be handled through the monthly cash account reconciliations and implementation of policies and procedures over cash transactions

Management's Response:

We concur. We have always made the cash reconciliation process a priority, however, with the changes in our accounting software and staff changes in various departments, we were not always timely in completing the monthly reconciliation. It should be noted that with our bank link service, we monitor every transaction daily on all of our bank accounts. This procedure is our first check for errors or potential fraudulent activity on our bank accounts.

Dayton Metropolitan Housing Authority
Schedule of Findings and Questioned Costs
Section II – Financial Statement Findings, Continued
For the year ended June 30, 2000

With regard to our change in accounting software, we were initially unable to record manual or voided checks until programming changes were completed. Nonetheless, all such transactions have since been accounted for and we have implemented specific procedures for the same with management review.

00-2 Monitoring of Financial Statements

Criteria:

The Authority should have policies and procedures in order to record financial statements in accordance with generally accepted accounting principles (GAAP).

Condition:

We noted that there were inadequate monitoring controls over the recording of transactions in accordance with GAAP. The transition from HUD accounting to GAAP was a difficult process for the Authority. Changes in accounting related to fixed asset capitalization and depreciation, accounting for New Vision properties and related mortgage payables, contribution received and revenue recognition, equity transactions, balance sheet reserves and vacation/holiday accruals.

Cause:

- 1) Lack of internal control policies and procedures
- 2) Lack of training and human resources
- 3) Lack of coordination between all aspects of finance functions

Recommendation:

Management should ensure that all accounts and funds are assigned to an individual in the accounting department and that the individual has the requisite knowledge to record the transactions and reconcile the accounts under GAAP. There also needs to be increased coordination between the accounting department and other financially-related departments, such as MIS, TARS and purchasing, to ensure that all transactions are completed and recorded timely. Management should perform a review analysis at least quarterly to ensure the activity continues to be recorded in accordance with GAAP and that reconciliations of accounts are performed timely and accurately. The policies and procedures should then be documented and distributed to the individuals in the accounting department and other financially-related departments. By implementing these procedures, the financial statements will be accurately stated in accordance with GAAP and can be produced within a reasonable time at month and year-ends.

Dayton Metropolitan Housing Authority
Schedule of Findings and Questioned Costs
Section II – Financial Statement Findings, Continued
For the year ended June 30, 2000

Management's Response:

We concur. It was a very difficult transition from HUD accounting to GAAP and even though there were many training sessions provided for finance staff, the training need was greater. We are currently utilizing staffing that will enable the recording to GAAP transactions accurately and timely and we will continue the training process routinely to enhance the knowledge needed to perform GAAP accounting.

The financial management staff is in the process of documenting all financial reporting policies and procedures which will serve as a compliance tool to help ensure consistency in recording transactions as well as serve as a training tool for current and new employees. This policy and procedure manual should be completed by third quarter 2001.

It should be noted that there are personnel in departments other than finance that should and will be trained on such financial reporting procedures.

Dayton Metropolitan Housing Authority
Schedule of Findings and Questioned Costs
Section III – Federal Award Findings and Questioned Costs
For the year ended June 30, 2000

No items noted.

Dayton Metropolitan Housing Authority
Schedule of Findings and Questioned Costs
Section IV – Summary Schedule of Prior Audit Findings
For the year ended June 30, 2000

No findings reported in the June 30, 1999 report.



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OFFICE OF THE AUDITOR

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DAYTON METROPOLITAN HOUSING AUTHORITY

MONTGOMERY 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
MAY 17, 2001**