

Butler Metropolitan Housing Authority

Basic Financial Statements

For the Year Ended June 30, 2003



**Auditor of State
Betty Montgomery**

Board of Directors
Butler Metropolitan Housing Authority

We have reviewed the Independent Auditor's Report of the Butler Metropolitan Housing Authority, Butler County, prepared by Salvatore Consiglio, CPA, Inc., for the audit period July 1, 2002 through June 30, 2003. 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 Butler Metropolitan Housing Authority is responsible for compliance with these laws and regulations.

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

BETTY MONTGOMERY
Auditor of State

March 18, 2004

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BUTLER METROPOLITAN HOUSING AUTHORITY
AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2003

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6548 Royalton Road, Suite 104
North Royalton, Ohio 44133
Phone: (440) 877-9870
Fax: (440) 877-9237

SALVATORE CONSIGLIO, CPA, INC. E-mail: sconsiglio@aol.com

Independent Auditors' Report

Board of Directors
Butler Metropolitan Housing Authority

Regional Inspector General of Audit
Department of Housing and Urban
Development

I have audited the accompanying basic financial statements of Butler Metropolitan Housing Authority, Ohio, as of and for the year ended June 30, 2003, as listed in the table of contents. These basic financial statements are the responsibility of the Butler Metropolitan Housing Authority, Ohio, management. My responsibility is to express an opinion on these basic financial statements based on my audit.

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

In my opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Butler Metropolitan Housing Authority, Ohio, as of June 30, 2003, and the results of its operations and the cash flows of its proprietary fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1 of the basic financial statements, the Authority adopted the provisions of Government Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments, as of July 1, 2002. This results in a change to the Authority’s format and content of the basic financial statements.

In accordance with *Government Auditing Standards*, I have also issued a report dated February 5, 2004, on my consideration of Butler Metropolitan Housing Authority, Ohio's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the result of my audit.

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

My Audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements of the Butler Metropolitan Housing Authority, Ohio. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Government and Non-Profit Organizations* and is not a required part of the basic financial statements. The combining financial data schedule ("FDS") and certification of actual modernization costs are presented for purposes additional analysis as required by the Department of Housing and Urban Development and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly presented in all material respect in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink that reads "Salvatore Consiglio". The signature is written in a cursive style and is positioned above a horizontal line.

Salvatore Consiglio, CPA, Inc.

February 5, 2004

BUTLER METRO HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended JUNE 30, 2003
Unaudited

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

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

FINANCIAL HIGHLIGHTS

- Total assets were \$25.2 million and \$23.3 million for 2003 and 2002 respectively. The Authority-wide statements reflect an increase in total assets of \$1.9 (or 7.5%) during 2003. This increase is reflective of the year's activities.
- Operating Revenue decreased by \$.15 million (or 1.2%) during 2003, and was \$11.1 million and \$11.3 million for 2003 and 2002 respectively.
- Total expenses of all Authority programs increased by \$1.2 million (or 9%). Total expenses were \$14.0 million and \$12.8 million for 2003 and 2002 respectively.

USING THIS ANNUAL REPORT

The following graphic outlines the format of this report:

MD&A ~ Management Discussion and Analysis ~
Basic Financial Statements ~ Authority-wide Financial Statements ~ ~ Fund Financial Statement ~ ~ Notes to Financial Statements ~
<u>Other Required Supplementary Information</u> ~ Required Supplementary Information (other than MD&A) ~

The focus is on both the Authority as a whole (authority-wide) and the major individual funds. Both perspectives (authority-wide and major fund) allow the user to address relevant questions, broaden a basis for comparison (year to year or Authority to Authority) and enhance the Authority's accountability.

BUTLER METROPOLITAN HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS – CONTINUED
Year Ended June 30, 2003
Unaudited

Authority-Wide Financial Statements

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

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

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

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

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

Unrestricted Net Assets: Consists of Net Assets that do not meet the definition of “Net Assets in Capital Assets, Net of Related Debt”, or “Restricted Net Assets”. This account resembles the old operating reserves account.

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

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

Finally, a Statement of Cash Flows is included, which discloses net cash provided by, or used for operating activities, noncapital financing activities, and from capital and related financing activities.

BUTLER METROPOLITAN HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS – CONTINUED
Year Ended June 30, 2003
Unaudited

Fund Financial Statements

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

The Department of Housing and Urban Development requires the funds be maintained by the Authority.

Funds:

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

Comprehensive Grant Program (CGP) – The Conventional Public Housing Program also included the CGP, which was the primary funding source for physical and management improvements to the Authority's properties. CGP funding was based on a formula allocation that took into consideration the size and age of your housing stock. The Capital Fund Program replaced this program in Federal Fiscal Year 2000.

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

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

BUTLER METROPOLITAN HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS – CONTINUED
Year Ended June 30, 2003
 Unaudited

AUTHORITY-WIDE STATEMENT

Statement of Net Assets

The following table reflects the Statement of Net Assets compared to prior year.

TABLE 1
Statement of Net Assets
Omitted '000's

	<u>2003</u>		<u>2002</u>		<u>Change</u>
Current Assets	\$ 8,269	\$	6,821	\$	1,448
Capital Assets	\$ 16,417	\$	16,263	\$	154
Other Long-Term Assets	\$ 526	\$	226	\$	300
Total Assets	\$ 25,212	\$	23,310	\$	1,902
Current Liabilities	\$ 1,213	\$	533	\$	680
Long-Term Liabilities	\$ 2,848	\$	180	\$	2,668
Total Liabilities	\$ 4,061	\$	713	\$	3,348
Contrib Capt / Inv in Capt Assets	\$ 13,641	\$	13,921	\$	(280)
Unreserve Fund / Unrestricted N. A.	\$ 7,510	\$	8,436	\$	(926)
Reserved for Fixed Assets	\$ -	\$	239	\$	(239)
Total Equity and Liabilities	\$ 25,212	\$	23,309	\$	1,903

For more detailed information see the Statement of Net Assets.

Major Factors Affecting the Statement of Net Assets

Current assets were increased by \$1.4 million while current liabilities increased by \$.6 million. Most of which can be explained by a change in Accounting Practice. Previously the "Interagency Due To" and "Interagency Due From" had been netted out of the Combined Balance Sheet. Currently we are including "Interagency Due To" as a Current Asset and "Interagency Due From" as a Current Liability, which accounts for most of the increase to both subtotal amounts.

The Unreserved Fund / Unrestricted Net Assets decreased \$.9 million. The decrease in the Unreserved Fund balance can be attributed a portion of the Net Loss in Operations of \$2.9 million being funded by the Equity.

BUTLER METROPOLITAN HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS – CONTINUED
Year Ended June 30, 2003
 Unaudited

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

The following schedule compares the revenues and expenses for the current and previous fiscal year.

TABLE 2
Statement of Revenue, Expenses and Change in Net Assets
Omitted '000's

	<u>2003</u>		<u>2002</u>		<u>Change</u>
Revenue					
Tenant Revenue – Rents and Other	\$ 1,426	\$	1,468	\$	(42)
Operating Subsidies	\$ 9,231	\$	9,442	\$	(211)
Interest	\$ 178	\$	326	\$	(148)
Other Revenue	\$ 282	\$	33	\$	249
Total Revenue	<u>\$ 11,117</u>	<u>\$</u>	<u>11,269</u>	<u>\$</u>	<u>(152)</u>
Expenses					
Administrative	\$ 2,971	\$	2,735	\$	237
Utilities	\$ 833	\$	828	\$	5
Maintenance	\$ 2,322	\$	2,038	\$	284
General	\$ 406	\$	299	\$	107
Housing Assistance Payments	\$ 4,657	\$	4,483	\$	174
Depreciation	\$ 2,566	\$	2,249	\$	317
Other Expenses	\$ 265	\$	207	\$	58
Total Expenses	<u>\$ 14,020</u>	<u>\$</u>	<u>12,839</u>	<u>\$</u>	<u>1,181</u>
Net Increase(Loss)	<u>\$ (2,903)</u>	<u>\$</u>	<u>(1,570)</u>	<u>\$</u>	<u>1,333</u>

The total revenue above does not include the Capital Fund Grant revenue earned of \$1.5 million. This grant was used to fund the capital purchases for the year.

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

Tenant revenue and operating subsidies decreased modestly. Most expenses increased modestly due to inflation, and Maintenance Costs. Both Administration and Maintenance expense are expected to increase due to Union Contracts. Depreciation Expense increased due to improvements to our Fixed Assets funded through the capital funds program.

BUTLER METROPOLITAN HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS – CONTINUED
Year Ended June 30, 2003

Unaudited

ECONOMIC FACTORS

Significant economic factors affecting the Authority are as follows:

- Federal funding of the Department of Housing and Urban Development
- Union Contracts, which can affect salary and wage rates
- Local inflationary, recessionary and employment trends, which can affect resident incomes and therefore the amount of rental income
- Inflationary pressure on utility rates, supplies and other costs

KNIGHTSBRIDGE FACILITY

In June 2002, BMHA entered into an Agreement of Sale for the building at 299 Knightsbridge, formerly the Health and Fitness building for Champion Paper (now International Paper Company.) The building, appraised at \$1,000,000 was purchased for \$750,000. The financing for the building was provided by Section 8 reserves for \$325,000 and the Authority borrowed the balance of \$425,000 from 5/3 Bank. The closing for the building took place on September 10, 2002.

Originally, the building was purchased to house a health care facility for low income residents of the 2nd and 4th Wards of Hamilton, Ohio. This would include our residents at Bambo Harris and Riverside Homes. However, the Butler County Health Consortium later decided to purchase a building rather than to lease one. BMHA was disappointed as this area is an economically deprived area and the Consortium could have qualified for other loans/grants, etc. and this would have been a great service for our residents.

BMHA did not give up on finding a tenant for this building. In the meantime, the building was utilized by local groups, churches and individuals for private parties and seminars such as WMOH's Senior Expo. This building was rented at nominal rates so that even residents could use the facility.

We were approached in March 2003 by the Richard Allen Academy of Dayton, Ohio who were seeking to expand their charter school system by opening a satellite school in this area. They viewed the building and negotiations began. Ms. Jeannette Harris, head of Richard Allen Schools came before the BMHA board on May 22, 2003 and the lease for the entire building was approved at that meeting. A press announcement was issued the next day announcing the school and stating that it would be open for business in August 2003.

Richard Allen Schools signed a five year lease for \$96,000 per year. Upon signing of the lease, they began major renovations to the building. The school is up and running today with 96 children in six classes. They have plans to expand the school to a full 8 grades. Many of the children of Bambo Harris and Riverside Homes are students at the charter school. We are pleased with the choice of Richard Allen Schools as our first tenant in this building and we anticipate a long and successful relationship.

BUTLER METROPOLITAN HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS – CONTINUED
Year Ended June 30, 2003
Unaudited

TROUBLED STATUS

Unfortunately, when our PHAS scores for 2002 were submitted, BMHA was labeled as a “troubled” housing authority. Once labeled “troubled” we were ordered to submit to the jurisdiction of the Troubled Agency Recovery Center (“TARC”) rather than the Cincinnati HUD Office. The TARC team came to BMHA in November 2002 to put together the Memorandum of Agreement (“MOA”) which outlined our plan to return to standard performer status. The MOA was signed in February 2003 and will be in place until January 31, 2004. This plan encompasses every part of the Authority and requires the participation of each and every employee. All of our departments were reviewed, all policies and procedures were examined and detailed requirements were set forth in the MOA with monthly updates required to track our progress.

As of the writing of this MD&A, TARC has completed their “confirmatory review” which is required before release from “troubled” status. From all indications, we have been successful in achieving our goal and should be released from “troubled” status in January 2004. While this has been a learning experience for this Authority, we believe that we have made changes that will hopefully prevent us from ever being in a “troubled” status again.

THE FUTURE OF BMHA

We feel the future is bright for BMHA. We have made some significant personnel changes and these new individuals have skills and talents that were lacking previously. We now have a CPA on board and a Leasing Director with years of HUD experience. We put in place a Procurement Manager who will guide our procurement policy and allow us to use our funds more expeditiously. We hired an IT Manager who will oversee our purchasing of a new computer system that will improve all areas of the Authority. We have more maintenance personnel on staff now than ever before and in turn this should decrease our turnover days so that units can be rented faster. We have restructured our Leasing Department and feel that this will better serve our clientele.

As to our housing stock, we are pursuing a Hope VI Demolition/Disposition grant to demolish Bambo Harris. This project, built in 1942, is no longer physically or economically viable. This Hope VI demo grant (if received) , coupled with our application for a Hope VI Revitalization Grant will allow us to first demolish and rebuild Bambo Harris and then do the same for Riverside Homes, which was built in 1958.

BUTLER METROPOLITAN HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS – CONTINUED
Year Ended June 30, 2003
Unaudited

The Hope VI Revitalization Grant application is due on January 19, 2004 and the grants will be awarded sometime in 2004. The Hope VI Demolition/Disposition grant application is due January 5, 2004 through February 18, 2004 and is awarded on a first-come first-served basis.

If BMHA is lucky enough to receive both grants we can update our housing stock and help to revitalize the 2nd and 4th Wards along with the City of Hamilton. Whether or not we are awarded a grant in this round, we are prepared to apply in the next round as well and keep applying until we either get a grant or the Hope VI Program is terminated.

Regardless of the future status of the Hope VI Program, we feel that we need to make an investment in our housing stock so we can remain viable no matter what moves HUD may make in the future. So we are exploring all types of financing possibilities, such as tax credits, bond programs, or leveraging funds to name a few. We are also pursuing hiring a Grant Writer to seek and find sources of funds to help us in this endeavor.

We feel that BMHA is in control of its future more now than it has ever been in the past. We are laying plans to move the Authority forward, expand into other markets and secure our financial future.

IN CONCLUSION

The Authority had a poor year financially as reflected in the \$2.9 million net -loss. We do not expect similar losses again this year and BMHA has sufficient reserves to manage the foreseeable future.

Butler Metropolitan Housing Authority takes great pride in its financial management and is pleased to report on the sound financial condition of the Authority.

FINANCIAL CONTACT
Kenneth Keim, CPA, CMA
Director of Finance

If you have any questions regarding this report, you may contact Tony Blaine, Executive Director of the Butler Metropolitan Housing Authority at (513) 896-4411.

Respectfully submitted,

Tony Blaine
Executive Director

Butler Metropolitan Housing Authority
Statement of Net Assets
June 30, 2003

ASSETS

CURRENT ASSETS

Cash and Cash Equivalents	\$922,589
Investments	5,963,707
Accounts Receivable - Net of Allowance	583,901
Inventories - net of allowance	92,304
Prepaid Expenses and other assets	169,661
Interprogram due from	537,368
Total current assets	<u>8,269,530</u>

NONCURRENT ASSETS:

Capital assets, net	16,417,154
Other noncurrent assets	525,542
Total noncurrent assets	<u>16,942,696</u>

Total assets	<u>\$25,212,226</u>
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LIABILITIES AND FUND EQUITY

CURRENT LIABILITES:

Accounts Payable	\$120,631
Accrued liabilities	177,829
Intergovernmental payables	14,567
Tenant security deposits	173,574
Deferred revenue	5,572
Bonds, notes, and loans payable	148,155
Other current liabilities	35,432
Interprogram due to	537,368
Total current liability	<u>1,213,128</u>

NONCURRENT LIABILITIES:

Bonds, notes, and loan payable	2,627,776
Accrued compensated absences noncurrent	220,000
Total noncurrent liabilities	<u>2,847,776</u>
Total liabilities	<u>4,060,904</u>

NET ASSETS

Invested in capital assets, net of related debt	13,641,223
Unrestricted net assets	7,510,099
Total net Assets	<u>21,151,322</u>

Total Liabilities and Net Assets	<u>\$25,212,226</u>
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The notes to the financial statements are an integral part of these statements

Butler Metropolitan Housing Authority
Statement of Revenue, Expenses and Change in Fund Net Assets
For the Year Ended June 30, 2003

OPERATING REVENUE

Tenant Revenue	\$1,425,508
Government operating grants	9,231,350
Other revenue	282,433
Total operating revenues	<u>10,939,291</u>

OPERATING EXPENSES

Administrative Expenses	2,971,232
Tenant Services	11,397
Utilities Expenses	833,467
Maintenance	2,322,060
Protective services	237,260
General Expenses	406,362
Housing Assistance payment	4,656,901
Other operating expenses	(7,896)
Depreciation	2,566,111
Total operating expenses	<u>13,996,894</u>
Operating income (loss)	<u>(3,057,603)</u>

NONOPERATING REVENUES (EXPENSES)

Interest and investment revenue	177,685
Interest expense	(22,995)
Capital grants	1,454,411
Total nonoperating revenues (expenses)	<u>1,609,101</u>

OTHER FINANCING SOURCES

Operating transfers in	306,537
Operating transfer out	(306,537)
Total other financing sources	<u>-0-</u>

Change in net assets	(1,448,502)
Prior period adjustment	3,182
Total net assets-Beginning	22,596,642
Total net assets-ending	<u>\$21,151,322</u>

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

Butler Metropolitan Housing Authority
Statement of Cash Flows
For the Year Ended June 30, 2003

<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>	
Cash received from tenants	\$1,449,207
Cash received from HUD	9,125,310
Cash Paid to suppliers and employees	(6,764,321)
Cash Paid for housing assistance	(4,656,901)
Interest received	177,685
Net Cash provided by operating activities	<u>(669,020)</u>
 <u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>	
Cash transfer to investments	<u>(2,246,406)</u>
 Net Cash used by investing activities	 <u>(2,246,406)</u>
 <u>CASH FLOWS FROM CAPITAL AND FINANCING ACTIVITIES:</u>	
Capital grant received	1,401,701
Property and equipment purchased	(2,720,491)
Proceeds from long-term borrowings	2,408,066
Payment of long-term borrowings	(7,135)
Interest paid on debt	(22,995)
 Net Cash used by Capital and financing activities	 <u>1,059,146</u>
 Net Increase (Decrease) in cash	 (1,856,280)
 Cash and cash equivalents- Beginning of Year	 <u>2,778,869</u>
 Cash and Cash equivalents-End of Year	 <u>\$922,589</u>

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

Butler Metropolitan Housing Authority
Statement of Cash Flows
For the Year Ended June 30, 2003

**RECONCILIATION OF NET INCOME CASH PROVIDED BY
OPERATING ACTIVITIES:**

Net income	(\$3,057,603)
Adjustments to Reconcile Net Income to net Cash Provided by Operating Activities:	
Depreciation	2,566,111
Increase In accounts receivable	(213,055)
Increase in Prepaid expenses	(17,809)
Decrease in inventory	18,393
Decrease in accounts payable	(136,896)
Decrease in deferred revenue	(2,136)
Increase in accrued expenses	123,620
Decrease in other liabilities	39,738
Increase in tenant security deposits	<u>10,617</u>
Net cash provided by operating activities	<u>(\$669,020)</u>

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

BUTLER METROPOLITAN HOUSING AUTHORITY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Summary of Significant Accounting Policies

The financial statements of the Butler Metropolitan Housing Authority (the Authority) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Authority's accounting policies are described below.

In June 1999, GASB approved Statement No. 34, Basic Financial Statements – Management's Discussion and Analysis – for State and Local Governments. Certain of the significant changes in the Statements include the following:

- For the first time the financial statements include a Management Discussion and Analysis (MD&A) section providing analysis of the Authority's overall financial position and results of operation.

These and other changes are reflected in the accompanying financial statements (including notes to the financial statements). The Authority has elected to implement GASB 34 in the current fiscal year.

Reporting Entity

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

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

Section 2100 indicates that the reporting entity consists of a) the primary government, b) organizations for which the primary government is financially

BUTLER METROPOLITAN HOUSING AUTHORITY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003
(CONTINUED)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

Basis of Presentation

The Authority's basic financial statements consist of a statement of net assets, a statement of revenue, expenses and changes net assets, and a statement of cash flows.

Fund Accounting

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

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

BUTLER METROPOLITAN HOUSING AUTHORITY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003
(CONTINUED)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Proprietary Fund Types

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

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

Measurement Focus/Basis of Accounting

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

Description of programs

The following are the various programs which are included in the single enterprise fund:

A. **Public Housing Program**

The public housing program is designed to provide low-cost housing within the Butler County. Under this program, HUD provides funding via an annual contribution contract. These funds, combined with the rental income received from tenants, are available solely to meet the operating expenses of the program.

B. **Capital Fund Program**

The capital fund program provides funds annually, via a formula, to Public Housing Agencies for capital and management activities, including modernization and development housing.

BUTLER METROPOLITAN HOUSING AUTHORITY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003
(CONTINUED)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. **Housing Choice Voucher Program**

The Housing Choice Voucher Program was authorized by Section 8 of the National Housing Act and provides housing assistance payments to private, not-for-profit or public landlords to subsidize rentals for low-income persons.

D. **Public Housing Drug Elimination Program**

The Authority administers the Public Housing Drug Elimination Program to provide its communities with services such as community policing, drug education intervention, and drug prevention programs for youths. Funding for the services is provided by grants from HUD and the services from local youth organizations.

E. **Business Activity**

The business activity represents a fund to account for the activities for Knight-Bridge building. This is a commercial building purchased during the year and is leased for the purpose of providing additional income for the Housing Authority.

Investments

The provisions of the HUD Regulations restrict investments. Investments are valued at market value. Interest income earned in fiscal year ending June 30, 2003 totaled \$177,685

Fixed Assets

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

Net Assets

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

Operating Revenues and Expenses

Operating revenues and expenses are those revenues that are generated directly from the primary activities of the proprietary fund and expenses incurred for the day to day operation. For the Authority, operating revenues are tenant rent charges, operating subsidy from HUD and other miscellaneous revenue.

BUTLER METROPOLITAN HOUSING AUTHORITY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003
(CONTINUED)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Contributions

This represents contributions made available by HUD with respect to all federally aided projects under an annual contribution contract.

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.

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.

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

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

Budgetary Accounting

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

BUTLER METROPOLITAN HOUSING AUTHORITY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003
(CONTINUED)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Estimates

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

NOTE 2: CASH AND INVESTMENTS

Deposits – The PHA deposits are categorized to give an indication of the level of risk assumed by the PHA at fiscal year end. The categories are described as follows:

Category 1 – Insured or collateralized with securities held by the PHA or by its agent in the PHA’s name.

Category 2 – Collateralized with securities held by the pledging financial institution’s trust department or agent in the PHA’s name.

Category 3 – Uncollateralized

Deposits, categorized by level of risk, are:

DESCRIPTION	BANK BALANCE	1	CATEGORY 2	3	CARRYING AMOUNT
Cash and Cash					
Equivalents	\$1,029,293	\$620,040	\$409,253	\$-0-	\$922,589
Investments	5,968,877	1,354,388	4,614,489	-0-	5,963,707
Total Deposits	<u>\$6,998,170</u>	<u>\$1,974,428</u>	<u>\$5,023,742</u>	<u>\$-0-</u>	<u>\$6,886,296</u>

Investments - HUD Handbook 7475.1 Chapter 4, Section 1 authorizes the PHA to make investments in:

- Direct Obligations of the Federal Government;
- Obligations of Federal Government Agencies;
- Securities of Government-Sponsored Agencies; and
- Demand and Savings Deposits and Certificates of Deposit.

BUTLER METROPOLITAN HOUSING AUTHORITY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003
(CONTINUED)

NOTE 2: CASH AND INVESTMENTS (Continued)

The PHA investments are categorized to give an indication of the level of risk assumed by the PHA at fiscal year end. The categories are described as follows:

Category 1 – Insured, registered, or securities held by the PHA or its agent in the PHA’s name.

Category 2 – Uninsured and unregistered, with securities held by the counterparty’s trust department or agent in the PHA’s name.

Category 3 – Uninsured and unregistered, with securities held by the counterparty, or its trust department or agent but not in the PHA’s name.

The PHA’s nonnegotiable certificates of deposit are classified as investments on the balance sheet but are considered as deposits for GASB 3 purposes.

NOTE 3: NOTE TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES

The accompanying Schedule of Federal Awards expenditures is a summary of the activity of the Authority’s federal awards programs. The schedule has been prepared on the accrual basis of accounting.

NOTE 4: RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year ending June 30, 2003 the Authority maintains comprehensive insurance coverage with private carriers for health, real property, building contents and vehicles. Vehicle policies include liability coverage for bodily injury and property damage.

Settled claims have not exceeded this coverage in any of the last three years. There has been no significant reduction in coverage from last year.

BUTLER METROPOLITAN HOUSING AUTHORITY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003
(CONTINUED)

NOTE 5: FIXED ASSETS

The following is a summary:

Land	\$3,266,142
Buildings	52,714,984
Furniture, Machinery and Equipment	1,333,638
Leasehold Improvement	172,618
Construction in Progress	4,226,834
Total Fixed Assets	61,714,216
Accumulated Depreciation	(45,297,062)
Net Fixed Assets	\$16,417,154

The following is a summary of changes:

	Balance 06/30/02	Additions	Deletion	Balance 06/30/03
Land	\$3,147,250	\$118,892	\$-0-	\$3,266,142
Buildings	52,114,984	600,000	-0-	52,714,984
Furniture, Mach. and Equipment	1,228,864	104,774	-0-	1,333,638
Leasehold Improvement	172,618	-0-	-0-	172,618
Construction in Progress	2,330,009	1,896,825	-0-	4,226,834
Total Fixed Assets	\$58,993,725	\$2,720,491	\$-0-	\$61,714,216

The depreciation expense for the year ended June 30, 2003 was \$2,566,111.

**NOTE 6: DEFINED BENEFIT PENSION PLANS -PUBLIC EMPLOYEES
RETIREMENT SYSTEM**

All full-time employees of Authority participate in the Ohio Public Employees Retirement System (OPERS), a cost-sharing multiple-employer public employee retirement system administered by the Public Employees Retirement Board. OPERS provide basic retirement, disability and survivor benefits, based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 145 of the Ohio Revised Code. OPERS issue a publicly available financial report that includes financial statements and required supplementary information for OPERS. 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 or (800) 222-PERS.

BUTLER METROPOLITAN HOUSING AUTHORITY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003
(CONTINUED)

**NOTE 6: DEFINED BENEFIT PENSION PLANS -PUBLIC EMPLOYEES
RETIREMENT SYSTEM** (Continued)

Plan members are required to contribute 8.5 percent of their annual covered salary to fund pension obligations. The 2003 employer pension contribution rate for AUTHORITY was 13.55 percent. Contributions are authorized by state statute. The contribution rates are determined actuarially. The Authority required contributions to PERS for the years ended June 30, 2003, 2002, and 2001 \$265,692, \$257,267 and \$163,268 respectively. Ninety-Two percent has been contributed for 2003. All required contributions for the two previous years have been paid.

**NOTE 7: POSTEMPLOYMENT BENEFITS PUBLIC EMPLOYEES
RETIREMENT SYSTEM**

The Public Employees Retirement System of Ohio (OPERS) provides post-employment health care benefits to age and service retirants with ten or more years of qualifying Ohio service credit and to primary survivor recipients of such retirants. Health care coverage for disability recipients is also available. The health care coverage provided by the OPERS is considered an Other Post-employment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to the OPERS is set aside for the funding of post retirement health care. The Ohio Revised Code provides statutory authority requiring public employers to fund post-employment health care through their contributions to the OPERS. The portion of the 2002 employer contribution rate (identified above) that was used to fund health care for the year ended June 30, 2003 was 5.0 percent of covered payroll, which amounted to \$98,041. The significant actuarial assumptions and calculations relating to post-employment health care benefits were based on the OPERS' latest actuarial review performed as of December 31, 2001. 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. All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used.

Under this approach assets are adjusted annually to reflect 25 percent of unrealized market appreciation or depreciation on investment assets. The investment assumption rate for 2001 was 8.0 percent. An annual increase of 4.0 percent compounded annually is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.0 percent

BUTLER METROPOLITAN HOUSING AUTHORITY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003
(CONTINUED)

**NOTE 7: POSTEMPLOYMENT BENEFITS PUBLIC EMPLOYEES
RETIREMENT SYSTEM (Continued)**

base increase, were assumed to range from 0.51 percent to 6.3 percent. Health care costs were assumed to increase 4.0 percent annually.

Benefits are advanced-funded on an actuarially determined basis. The number of active contributing participants was 402,041. The actuarial value of the OPERS' net assets available for OPEB at December 31, 2001 was \$11.6 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$16.4 billion and \$4.8 billion, respectively.

NOTE 8: LONG-TERM DEBT

Energy Performance Contract

On May 1, 2003 the Authority issued a note for \$1,983,066 to provide funding to acquire and install certain energy management equipment. The note is scheduled to mature on May 1, 2015 and is secured by a trust indenture dated May 1, 2003 to Fifth Third Bank, Cincinnati, Ohio as the lender. The note bearers an interest rate of 4.230%, payable in quarterly installments.

Knights-Bridge Loan

On September 10, 2002 the Authority obtain a loan from Fifth Third Bank, Cincinnati, Ohio for \$425,000 to finance the purchase of a commercial building. The \$425,000 note bears an interest rate of 6.5% fixed rate over 5 years. The interest is calculated based on a 30 days calendar month over a 360-day year. The note is scheduled to mature on October 1, 2007 with a balloon payment of \$365,000. Monthly payments of \$3,169 are being made.

The Authority borrowed \$375,000 from the Housing Choice Voucher Program to provide a down payment on the purchase of the Knights-Bridge building. The amount borrowed will be repaid back to the voucher program, as excess funds are available from rental income. This loan is not amortized.

The following is a summary of the change in the Long-Term Debt for the year ended June 30, 2003:

<u>Description</u>	<u>Balance</u> <u>07/01/02</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance</u> <u>06/30/03</u>	<u>Due Within</u> <u>One Year</u>
Multifamily Mortgage Revenue Bond	\$0	\$2,783,066	\$7,135	\$2,775,931	\$148,155

BUTLER METROPOLITAN HOUSING AUTHORITY
 NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2003
 (CONTINUED)

NOTE 8: LONG-TERM DEBT (Continued)

Debt maturities for the next five years are as follows:

<u>YEAR</u>	<u>AMOUNT</u>
2004	\$148,155
2005	147,754
2006	154,456
2007	161,467
2008	521,534
Later Years	<u>1,642,565</u>
 Total	 <u>\$2,775,931</u>

NOTE 9: Prior Period Adjustment

The beginning net asset balance needed to be adjusted for the following:

- a. Comprehensive Improvement Grant was adjusted by \$3,050 to properly classify soft costs.
- b. HUD adjusted the Voucher Program administrations fees earned for fiscal year 2002 by \$132.

NOTE 10: CHANGE IN ACCOUNTING PRINCIPLES

For the fiscal year 2003 the Authority Implemented GASB 34. The implementation had no effect on the total enterprise fund equity. However, it did effect the classification of the equity. The table bellow shows the reclassification adjustment necessary.

BUTLER METROPOLITAN HOUSING AUTHORITY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003
(CONTINUED)

NOTE 10: CHANGE IN ACCOUNTING PRINCIPLES (Continued)

	Contributed Capital	Fund Balance Reserved for Capital Activities	Retained Earnings	Invested in Capital Assets, Net Of Debt	Unrestricted Net Assets	Total
Beginning Balance	\$13,921,169	\$239,151	\$8,436,322	\$0	\$0	22,596,642
Reclassification- GASB 34	(13,921,169)	(239,151)	(8,436,322)	16,262,773	6,333,869	0
Restated Beginning Balance	0	0	0	16,262,773	6,333,869	2,596,642
Prior Period Adjustment	0	0	0	0	3,182	3,182
Fixed Assets Addition	0	0	0	2,720,491	0	2,720,491
Debt Related to Investment in Capital Assets	0	0	0	(2,775,930)	0	(2,775,930)
Depreciation Expense	0	0	0	(2,566,111)	0	(2,566,111)
Current Year Income	0	0	0	0	1,173,048	1,173,048
Ending Net Assets	\$0	\$0	\$0	\$13,641,223	\$7,510,099	\$21,151,322

NOTE 11: CONTINGENCIES

In the normal course of operations the Authority may be subject to litigation and claims. At June 30, 2003 the PHA was involved in such matters. While the outcome of these matters cannot presently be determined, management believes that their ultimate resolution will not have a material effect on the financial statements.

Butler Metropolitan Housing Authority
Combining Balance Sheet
FDS Schedule Submitted To REAC
Propriety Fund Type- Enterprise Fund
June 30, 2003

Line Item No.	Account Description	Business Activities	Low Rent Public Housing	Public and Indian Housing Drug Elimination Program	Public Housing Comprehensive Grant Program	Housing Choice Vouchers	Public Housing Capital Fund Program	Total
111	Cash – Unrestricted	\$13,174	\$135,402	\$0	\$0	\$610,414	\$0	\$758,990
114	Cash – Tenant Security Deposits	0	163,599	0	0	0	0	163,599
100	Total Cash	13,174	299,001	0	0	610,414	0	922,589
121	Accounts Receivable – PHA Projects	0	237,638	0	6,124	95,443	46,586	385,791
124	Accounts Receivable – Other Government	0	0	0	0	147,845	0	147,845
125	Accounts Receivable – Miscellaneous	0	0	0	0	19,240	0	19,240
126	Accounts Receivable – Tenants – Dwelling Rents	0	174,783	0	0	0	0	174,783
126.1	Allowance for Doubtful Accounts – Dwelling Rents	0	(143,758)	0	0	0	0	(143,758)
126.2	Allowance for Doubtful Accounts – Other	0	0	0	0	0	0	0
120	Total Receivables, net of allowances for doubtful accounts	0	268,663	0	6,124	262,528	46,586	583,901
131	Investments – Unrestricted	0	5,928,275	0	0	35,432	0	5,963,707
142	Prepaid Expenses and Other Assets	0	169,661	0	0	0	0	169,661
143	Inventories	0	92,304	0	0	0	0	92,304
143.1	Allowance for Obsolete Inventories	0	0	0	0	0	0	0
144	Interprogram Due From	0	531,325	0	0	6,043	0	537,368
150	Total Current Assets	13,174	7,289,229	0	6,124	914,417	46,586	8,269,530
161	Land	118,892	3,147,250	0	0	0	0	3,266,142
162	Buildings	600,000	44,820,021	0	7,294,963	0	0	52,714,984
164	Furniture, Equipment & Machinery – Administration	34,195	542,535	243,351	445,780	37,968	29,809	1,333,638
165	Leasehold Improvements	0	0	0	172,618	0	0	172,618

Butler Metropolitan Housing Authority
Combining Balance Sheet
FDS Schedule Submitted To REAC
Propriety Fund Type- Enterprise Fund
June 30, 2003

Line Item No.	Account Description	Business Activities	Low Rent Public Housing	Public and Indian Housing Drug Elimination Program	Public Housing Comprehensive Grant Program	Housing Choice Vouchers	Public Housing Capital Fund Program	Total
166	Accumulated Depreciation	(28,738)	(42,210,024)	(83,360)	(2,954,827)	(16,194)	(3,919)	(45,297,062)
167	Construction In Progress	0	495,767	0	2,715,957	0	1,015,110	4,226,834
160	Total Fixed Assets, Net of Accumulated Depreciation	724,349	6,795,549	159,991	7,674,491	21,774	1,041,000	16,417,154
171	Notes, Loans, & Mortgages Receivable – Non Current	0	0	0	0	375,000	0	375,000
174	Other Assets	0	150,542	0	0	0	0	150,542
180	Total Non-Current Assets	724,349	6,946,091	159,991	7,674,491	396,774	1,041,000	16,942,696
190	Total Assets	\$737,523	\$14,235,320	\$159,991	\$7,680,615	\$1,311,191	\$1,087,586	\$25,212,226
312	Accounts Payable <= 90 Days	\$6,396	\$114,235	\$0	\$0	\$0	\$0	\$120,631
321	Accrued Wage/Payroll Taxes Payable	0	78,769	0	0	7,686	0	86,455
322	Accrued Compensated Absences – Current Portion	0	85,705	0	0	5,669	0	91,374
333	Accounts Payable – Other Government	14,567	0	0	0	0	0	14,567
341	Tenant Security Deposits	8,650	164,924	0	0	0	0	173,574
342	Deferred Revenues	0	5,572	0	0	0	0	5,572
343	Current Portion of Long-term Debt – Capital Projects/Mortgage Revenue Bonds	11,249	136,906	0	0	0	0	148,155
345	Other Current Liabilities	0	0	0	0	35,432	0	35,432
347	Interprogram Due To	6,043	0	0	6,124	478,615	46,586	537,368
310	Total Current Liabilities	46,905	586,111	0	6,124	527,402	46,586	1,213,128
351	Long-term Debt, Net of Current – Capital Projects/Mortgage Revenue Bonds	781,616	1,846,160	0	0	0	0	2,627,776
354	Accrued Compensated Absences – Non Current	0	200,000	0	0	20,000	0	220,000

Butler Metropolitan Housing Authority
Combining Statement of Revenue, Expenses and change in Retained Earnings
FDS Schedule submitted to REAC
Propriety Fund Type-Enterprise Fund
Year Ended June 30, 2003

Line Item No.	Account Description	Business Activities	Low Rent Public Housing	Public and Indian Housing Drug Elimination Program	Public Housing Comprehensive Grant Program	Housing Choice Vouchers	Public Housing Capital Fund Program	Total
703	Net Tenant Rental Revenue	\$0	\$1,396,114	\$0	\$0	\$0	\$0	\$1,396,114
704	Tenant Revenue - Other	0	29,394	0	0	0	0	29,394
705	Total Tenant Revenue	0	1,425,508	0	0	0	0	1,425,508
706	HUD PHA Operating Grants	0	2,851,662	275,214	198,026	5,228,138	678,310	9,231,350
706.1	Capital Grants	0	0	17,294	705,938	0	731,179	1,454,411
711	Investment Income - Unrestricted	14	146,032	0	0	27,627	0	173,673
715	Other Revenue	16,802	176,692	0	0	88,939	0	282,433
720	Investment Income - Restricted	0	4,012	0	0	0	0	4,012
700	Total Revenue	16,816	4,603,906	292,508	903,964	5,344,704	1,409,489	12,571,387
911	Administrative Salaries	2,562	895,899	0	0	456,549	0	1,355,010
912	Auditing Fees	0	5,200	0	0	9,700	0	14,900
915	Employee Benefit Contributions - Administrative	666	331,349	0	0	175,500	0	507,515
916	Other Operating - Administrative	7,491	406,474	42,057	14,011	89,819	533,955	1,093,807
922	Relocation Costs	0	0	0	7,085	0	4,232	11,317
924	Tenant Services - Other	80	0	0	0	0	0	80
931	Water	12,198	122,453	0	0	0	0	134,651
932	Electricity	4,467	354,802	0	0	0	0	359,269
933	Gas	0	185,242	0	0	0	0	185,242
938	Other Utilities Expense	0	154,305	0	0	0	0	154,305
941	Ordinary Maintenance and Operations - Labor	0	543,643	0	0	0	0	543,643
942	Ordinary Maintenance and Operations - Materials and Other	401	170,026	0	0	0	13,564	183,991

Butler Metropolitan Housing Authority
Combining Statement of Revenue, Expenses and change in Retained Earnings
FDS Schedule submitted to REAC
Propriety Fund Type-Enterprise Fund
Year Ended June 30, 2003

Line Item No.	Account Description	Business Activities	Low Rent Public Housing	Public and Indian Housing Drug Elimination Program	Public Housing Comprehensive Grant Program	Housing Choice Vouchers	Public Housing Capital Fund Program	Total
943	Ordinary Maintenance and Operations - Contract Costs	16,050	1,344,941	0	0	21,589	0	1,382,580
945	Employee Benefit Contributions - Ordinary Maintenance	0	211,846	0	0	0	0	211,846
952	Protective Services - Other Contract Costs	0	4,104	233,156	0	0	0	237,260
961	Insurance Premiums	2,062	208,406	0	0	0	0	210,468
962	Other General Expenses	110	1,027	0	0	589	0	1,726
963	Payments in Lieu of Taxes	9,994	0	0	0	0	0	9,994
964	Bad Debt - Tenant Rents	0	162,427	0	0	0	0	162,427
967	Interest Expense	22,995	0	0	0	0	0	22,995
968	Severance Expense	0	21,747	0	0	0	0	21,747
969	Total Operating Expenses	79,076	5,123,891	275,213	21,096	753,746	551,751	6,804,773
970	Excess Operating Revenue over Operating Expenses	(62,260)	(519,985)	17,295	882,868	4,590,958	857,738	5,766,614
972	Casualty Losses - Non-Capitalized	0	(7,896)	0	0	0	0	(7,896)
973	Housing Assistance Payments	0	0	0	0	4,656,901	0	4,656,901
974	Depreciation Expense	28,738	1,481,300	24,757	1,017,118	10,279	3,919	2,566,111
900	Total Expenses	107,814	6,597,295	299,970	1,038,214	5,420,926	555,670	14,019,889
1001	Operating Transfers In	0	306,537	0	0	0	0	306,537
1002	Operating Transfers Out	0	0	0	(179,978)	0	(126,559)	(306,537)
1010	Total Other Financing Sources (Uses)	0	306,537	0	(179,978)	0	(126,559)	0
1000	Excess (Deficiency) of Operating Revenue Over (Under) Expenses	(90,998)	(1,686,852)	(7,462)	(314,228)	(76,222)	727,260	(1,448,502)

Butler Metropolitan Housing Authority
Combining Statement of Revenue, Expenses and change in Retained Earnings
FDS Schedule submitted to REAC
Propriety Fund Type-Enterprise Fund
Year Ended June 30, 2003

Line Item No.	Account Description	Business Activities	Low Rent Public Housing	Public and Indian Housing Drug Elimination Program	Public Housing Comprehensive Grant Program	Housing Choice Vouchers	Public Housing Capital Fund Program	Total
1103	Beginning Equity	0	13,289,898	167,453	7,985,670	839,880	313,741	22,596,642
1104	Prior Period Adjustments, Equity Transfers and Correction of Errors	0	3	0	3,049	131	(1)	3,182
	Ending Equity	(\$90,998)	\$11,603,049	\$159,991	\$7,674,491	\$763,789	\$1,041,000	\$21,151,322
1102	Debt Principal Payments - Enterprise Funds	\$7,135	\$0	\$0	\$0	\$0	\$0	\$7,135
1113	Maximum Annual Contributions Commitment (Per ACC)	\$0	\$0	\$0	\$0	\$1,789,286	\$0	\$1,789,286
1114	Prorata Maximum Annual Contributions Applicable to a Period of less than Twelve Months	0	0	0	0	3,343,409	0	3,343,409
1115	Contingency Reserve, ACC Program Reserve	0	0	0	0	0	0	0
1116	Total Annual Contributions Available	\$0	\$0	\$0	\$0	\$5,132,695	\$0	\$5,132,695
1120	Unit Months Available	0	15,504	0	0	11,520	0	27,024
1121	Number of Unit Months Leased	0	12,986	0	0	11,339	0	24,325

Butler Metropolitan Housing Authority
PHA's Statement and Certification of Actual Modernization Cost
June 30, 2003

Comprehensive Grant Program Number OH10P01570798

1. The Actual Modernization Costs are as follows:

Funds Approved	\$1,883,947
Funds Expended	<u>1,883,947</u>
Excess (Deficiency) of Funds Approved	<u><u>\$-0-</u></u>

2. All costs have been paid and there are no outstanding obligations.
3. The actual modernization cost certification was signed and filed on October 29, 2002.
4. The final costs on the certification agree to the Authority's records.

Butler Metropolitan Housing Authority
Schedule of Federal Award Expenditures
For the Year Ended June 30, 2003

FEDERAL GRANTOR / PASS THROUGH GRANTOR PROGRAM TITLES	CFDA NUMBER	EXPENDITURES
U.S. Department of Housing and Urban Development Direct Program		
Low Rent Public Housing	14.850a	\$2,851,662
Drug Elimination Program	14.854	292,508
Public Housing Comprehensive Grant Program	14.859	903,964
Housing Choice Voucher	14.871	5,228,138
Public Housing Capital Fund Program	14.872	<u>1,409,489</u>
Total Expenditure of Federal Award		<u><u>\$10,685,761</u></u>

6548 Royalton Road, Suite 104
North Royalton, Ohio 44133
Phone: (440) 877-9870
Fax: (440) 877-9237

SALVATORE CONSIGLIO, CPA, INC. E-mail: sconsiglio@aol.com

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

Board of Directors
Butler Metropolitan Housing Authority

Regional Inspector General of Audit
Department of Housing and Urban
Development

I have audited the general purpose financial statements of the Butler Metropolitan Housing Authority, Ohio, as of and for the year ended June 30, 2003, and have issued my report thereon dated February 5, 2004. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Butler Metropolitan Housing Authority, Ohio's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. However, I noted certain matters involving the internal control over financial reporting and its operation that I have consider being reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my

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judgment, could adversely affect the Butler Metropolitan Housing Authority 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 GAS-2003-1 and GAS-2003-5.

A material weakness is a condition in which the design or operation of one or more of the internal component 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 auditing may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, I consider items GAS-2003-3 and GAS-2003-4 to be material weaknesses.

This report is intended solely for the information and use of the board of directors, management, and federal awarding agencies and is not intended to be and should not be used by anyone other that these specified parties.

A handwritten signature in black ink that reads "Salvatore Consiglio". The signature is written in a cursive style and is positioned above a horizontal line.

Salvatore Consiglio, CPA, Inc.

February 5, 2004

6548 Royalton Road, Suite 104
North Royalton, Ohio 44133
Phone: (440) 877-9870
Fax: (440) 877-9237

SALVATORE CONSIGLIO, CPA, INC. E-mail: sconsiglio@aol.com

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

Board of Directors
Butler Metropolitan Housing Authority

Regional Inspector General of Audit
Department of Housing and Urban
Development

Compliance

I have audited the compliance of the Butler Metropolitan Housing Authority, Ohio, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2003. Butler Metropolitan Housing Authority, Ohio major federal programs are identified in the Summary of Auditor's result 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 Butler Metropolitan Housing Authority, Ohio's management. My responsibility is to express an opinion on Butler Metropolitan Housing Authority, Ohio's compliance based on my audit.

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

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As described in item FED-2003-1 through FED-2003-8 in the accompanying schedule of findings and questioned costs, Butler Metropolitan Housing Authority, Ohio, did not comply with requirements regarding Special Test and Provisions that are applicable to its Low Rent Public Housing and Housing Choice Voucher Programs; and did not comply with the Davis Bacon Act requirement that is applicable to the Capital Fund Program. Compliance with such requirements is necessary, in my opinion, for Butler Metropolitan Housing Authority, Ohio, to comply with requirements applicable to that program.

Internal Control Over Compliance

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

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

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



Salvatore Consiglio, CPA, Inc.

February 5, 2004

Butler Metropolitan Housing Authority
 Schedule of Findings and Questioned Costs
 OMB Circular A-133 § .505
 June 30, 2003

1. SUMMARY OF AUDITOR'S RESULTS
--

Type of Financial Statement Opinion	Unqualified
Was there any material control weakness conditions reported at the financial statement level (GAGAS)?	Yes
Was there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	Yes
Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
Was there any material internal control weakness conditions reported for major federal programs?	No
Was there any other reportable internal control weakness conditions reported for major federal programs?	No
Type of Major Programs' Compliance Opinion	Qualified
Are there any reportable findings under § .510?	Yes
Major Programs (list):	CFDA #14.850, 14.871, 14.872- Low Rent Public Housing, Housing Choice Voucher & Capital Fund
Dollar Threshold: Type A/B Programs	Type A: > \$320,572 Type B: All Others
Low Risk Audit?	No

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS
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FINDING NUMBER	GAS-2003 -1
----------------	-------------

Accounting System

The PHA accounting records are setup to follow the old HUD accounting. The chart of account has not been updated to reflect the new HUD accounts in accordance with REAC instructions. In addition, I also have noted the following in the accounting records:

- 1.) Year-end GAAP conversion adjustments performed by Fee Accountant were not posted in the accounting records.
- 2.) The general ledger still shows account balances for items that should have been written off:

Butler Metropolitan Housing Authority
Schedule of Findings and Questioned Costs
OMB Circular A-133 § .505
June 30, 2003

- Project Notes payable
- Accrued interest payable on project notes
- Unreserved fund balance
- Cumulative HUD contributions
- Project account balances

This can result in errors in preparing the financial statements. Also it required several additional year-end adjustments by Fee Accountant to convert these balances to the REAC line items. This finding was noted in prior year audit report.

Recommendation:

Management is responsible for the preparation of the financial statements. Therefore, all adjustments prepared by the Fee Accountant should be reviewed and approved. Once approved, then it should be posted in the accounting records. Also, it is recommended that the Project Notes Payable and the Accrued Interest Payable be written off, since these are not true liabilities that PHA will be required to pay.

PHA Response:

Management is in the process of evaluating accounting systems. Once the new system is purchased, the chart of account will be revised to follow REAC numbering.

FINDING NUMBER	GAS-2003 -2
----------------	-------------

Written Fiscal Procedural Manual

The PHA does not maintain a written fiscal procedural manual. The PHA did have certain written policies and procedural in place, but not a manual that documents the day to day operation of the fiscal department. This manual will assure consistent treatment of accounting transactions from year to year and also can be very helpful in training new personnel.

Recommendation:

A written procedural manual should be prepared.

PHA Response:

Butler Metropolitan Housing Authority has recently hired a new fiscal director. One of its first priority is to prepare a written procedural manual.

Butler Metropolitan Housing Authority
Schedule of Findings and Questioned Costs
OMB Circular A-133 § .505
June 30, 2003

FINDING NUMBER	GAS-2003 - 3
----------------	--------------

Contracts

The result of audit procedural over contracts awarded revealed the following:

- One contract did not have Board Resolution authorizing the award.
- One contract selected for audit procedures could not be located.

This can result in the PHA been obligated for unauthorized expenditures. This finding was noted in prior year audit.

Recommendation:

The PHA should consider creating a centralized purchasing/contract department. .

PHA Response:

A new procurement officer has been hired to handle all purchases except for capital funding program. The new officer is scheduled to begin May 1, 2004. The capital fund procurement will continue to be handed by the development director. With the addition of the new procurement officer, management believes that that this oversight will not happen again.

FINDING NUMBER	GAS-2003 - 4
----------------	--------------

Year End Accrual Adjustments

The result of audit procedures over the year-end GAAP conversion revealed several errors resulting in understatements of Accounts Payable and Payroll Liabilities at June 30, 2003. This can finding was noted in prior year audit.

Recommendation:

Due care must be exercised at year-end to identify all GAAP conversion adjustments. A checklist should be prepared and reviewed to ascertain that all required adjustments have been identified and reported. In addition, once the adjusting entries are made, reconciliation must be performed with subsidiary ledgers.

PHA Response:

Controls will be implemented to ascertain that all year end adjustments are properly reported.

FINDING NUMBER	GAS-2003 - 5
----------------	--------------

Outstanding Checks

The result of audit procedures over the bank reconciliation process revealed that Butler MHA does not have a policy in place on how to deal with checks that are not cashed by

Butler Metropolitan Housing Authority
Schedule of Findings and Questioned Costs
OMB Circular A-133 § .505
June 30, 2003

payee. The bank reconciliation revealed many outstanding checks carried forward from year to year.

Recommendation:

The PHA must establish the policy on how to deal with staled checks.

PHA Response:

A written procedure will be implemented.

3. FINDINGS REALTED TO FEDERAL AWARDS
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FINDING NUMBER	FED-2003-1
----------------	------------

Davis-Bacon Act

U.S. Department of HUD

Public Housing Capital Project Fund (CFDA # 14.872)

The Davis-Bacon Act requires that all laborers and mechanics employed by contractors or subcontractors to work on construction contracts in excess of \$2,000 financed by federal awards must be paid wages not less than those established for the locality of the project by the Department of Labor.

Audit procedures over procurement revealed that documentation from contractors is obtained, however no one is reviewing the information to ascertain compliance. Also, onsite review is not performed.

Recommendation:

The PHA must comply with the above requirement.

PHA Response:

Recommendation will be implemented.

Butler Metropolitan Housing Authority
Schedule of Findings and Questioned Costs
OMB Circular A-133 § .505
June 30, 2003

FINDING NUMBER	FED-2003-2
----------------	------------

Release of Information Form

**U.S. Department of HUD
Housing Choice Voucher Program (CFDA # 14.871)**

The result of audit procedures over the Housing Choice Voucher tenant files revealed that the Authority was using the wrong form for release of authorization. The Authority was using form HUD-9887. The correct form that should have been used is HUD-9886.

24 CFR 5.230 states “Each member of the family of an assistance applicant or participant who is at least 18 years of age, and each family head and spouse regardless of age, shall sign one or more consent forms. The assistance applicant shall submit the signed consent forms to the processing entity when eligibility ... is being determined. A regular participant shall sign and submit consent forms at the next regularly scheduled income reexamination”.

Recommendation:

The correct form, HUD-9886, should be used at the next schedule certification.

PHA Response:

Recommendation will be implemented. At next scheduled recertification the correct form will be obtained.

FINDING NUMBER	FED-2003-3
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Third Party Verification

**U.S. Department of HUD
Low Rent Public Housing (CFDA # 14.850a)
Housing Choice Voucher (CFDA # 14.871)**

A review of 25 Low Rent Public Housing tenant files and 25 Housing Choice Voucher tenant files revealed that proper third party verification of income reported is not obtained. Information is directly obtained from families.

Section 24 CFR 960.259 (c)(1) and 982.51(a)(2) states “The PHA must obtain and document in the family file third party verification of the following factors, or must document in the file why third party verification was not available:

Butler Metropolitan Housing Authority
Schedule of Findings and Questioned Costs
OMB Circular A-133 § .505
June 30, 2003

- (i) Reported family annual income;
- (ii) The value of assets;
- (iii) Expenses related to deductions from annual income; and
- (iv) Other factors that affect the determination of adjusted income or income based rent.”

Third party verification is defined as independent verification of income and/or expenses by contacting the individual income/expense source supplied by the family. The verification documentation must be supplied directly to the independent source by the Public Housing Authority (PHA) and returned directly to the PHA from the independent source.

Recommendation:

The PHA must comply with the above requirement.

PHA Response:

Third party verification will be required from applicant as well as residents. BMHA has been obtaining 3rd party verifications since July 2003 and has developed a new verification process that will be implemented immediately.

FINDING NUMBER	FED-2003-4
----------------	------------

Utility Allowance

**U.S. Department of HUD
Housing Choice Voucher (CFDA # 14.871)**

The result of audit procedures over tenant files revealed that the PHA is not updating the utility allowance schedule annually. In addition, some of the files reviewed did not document the schedule used for calculating the allowance amount.

Section 24 CFR 982.517 requires that The PHA must maintain a utility allowance schedule for all tenant-paid utilities for cost of tenant-supplied refrigerators and ranges, and for other tenant-paid housing services. In addition, PHA must review its schedule of utility allowances each year, and must revise its allowance for a utility category if there is a change of 10 percent or more in the utility rate since the last time the utility allowance schedule was revised.

Butler Metropolitan Housing Authority
Schedule of Findings and Questioned Costs
OMB Circular A-133 § .505
June 30, 2003

Recommendation:

The utility allowance schedule must be updated annually and the current form must be used and documented in the tenant files.

PHA Response:

Recommendation will be implemented.

FINDING NUMBER	FED-2003-5
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Rent Reasonableness

**U.S. Department of HUD
Housing Choice Voucher Program (CFDA # 14.871)**

A review of 25 tenant files revealed 12 errors where no documentation was noted in file that rent reasonableness was determined to support the landlord rent increase.

24 CFR 982.507 requires that the PHA must determine whether the rent to owner is a reasonable rent in comparison to rent for other comparable unassisted units.

Recommendation:

The PHA must document that the landlord request for rent increase is reasonable.

PHA Response:

Recommendation will be implemented.

FINDING NUMBER	FED-2003-6
----------------	------------

Payment Standard

**U.S. Department of HUD
Housing Choice Voucher Program (CFDA # 14.871)**

A review of 25 tenant files revealed 5 errors where the wrong payment standard was used to calculate the rent amount. This resulted in errors in calculating housing assistance amounts.

Butler Metropolitan Housing Authority
Schedule of Findings and Questioned Costs
OMB Circular A-133 § .505
June 30, 2003

24 CFR 982.503 requires that the PHA adopt a payment standard that is used to calculate the monthly housing assistance payments. Also, it requires that each PHA must establish a separate payment standard amount by unit size.

Recommendation:

The PHA should review tenant files to ascertain that the correct payment standard is used. A quality control procedure should be implemented where someone other than the person completing the certification or recertification review the tenant's files.

PHA Response:

Recommendation will be implemented.

FINDING NUMBER	FED-2003-7
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Lease Agreement

**U.S. Department of HUD
Housing Choice Voucher Program (CFDA # 14.871)**

A review of 25 files revealed that 12 files did not have a properly documented copy of the signed lease agreements. Therefore, for those files we were not able to ascertain that the contract rent amount documented on the form HUD-50058 is correct. This can result in wrong housing assistance payment.

24 CFR982.308 (b) requires that the tenant and the owner must enter into a written lease for the unit. The lease must be executed by the owner and the tenant.

Recommendation:

The PHA must obtain copy of the lease agreement for the file.

PHA Response:

Recommendation will be implemented.

Butler Metropolitan Housing Authority
Schedule of Findings and Questioned Costs
OMB Circular A-133 § .505
June 30, 2003

FINDING NUMBER	FED-2003-8
----------------	------------

Birth Certificate / Drivers License

**U.S. Department of HUD
Low Rent Public Housing (CFDA # 14.850a)
Housing Choice Voucher (CFDA # 14.871)**

A review of 25 Low tenant files and 25 voucher files revealed several errors. The files did not contain a copy of the participant birth certificate or driver's license.

24 CFR 982.158 requires that the PHA maintain complete and accurate accounts and other records for the program in accordance with HUD requirements, in a manner that permits a speedy and effective audit.

Recommendation:

The PHA must make sure that proper supporting documentation is retained in the files.

PHA Response:

Birth Certificates and drivers' license are required for all applicants upon entry into the Low Income Program. There was only one file that did not have a driver license and one file that had a birth certificate that was not legible. However, the file was missing a driver's license and social security card. All other birth certificates and drivers' license that were missing on the first review were shown to the auditor on his second visit. The information was always here, however it was in the first tenant file and the auditor was looking at the 2nd, 3rd or even the 4th file. The Public Housing Department is in the process of changing file folders and bringing forth the applicable information.

Butler Metropolitan Housing Authority
Schedule of Prior Audit Findings
June 30, 2003

The following are the status of the June 30, 2003 audit findings. Those findings not fully corrected are repeated in the 2003 audit report.

Finding Number	Finding Summary	Fully Corrected?	Not Corrected; Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
GAS-2002-1	Cost Allocation Plan	Yes	Corrected. New time stud was implemented December 5, 2002.
GAS-2002-2	Accounting System	No	Not corrected. The PHA is in the process of soliciting bids for a new accounting software system. Finding is repeated as GAS-2003-2
GAS-2002-3	Written Fiscal Procedural Manual	No	Not Corrected. This task as been assigned to the new Fiscal Director. Finding is repeated as GAS-2003-3
GAS-2002-4	Contracting	No	Not Corrected. The PHA as hired a Procurement Officer who will be responsible for all procurements with the exception of the Capital Fund Activities. Findings is repeated as GAS-2003-4
GAS-2002-5	Tenant Files	No	Partially corrected. Files are reviewed for accuracy, however, result of audit procedures still revealed errors.
GAS-2002-6	Management and Efficiency Study	Yes	Finding no longer valid.
GAS-2002-7	Year End Accrual Adjustment	No	Not corrected. Same error as in prior year noted. This finding was not corrected because change in Fiscal Directors. Steps have been taking by new Director to resolve this finding. Finding is repeated as GAS-2003-5
GAS-2002-8	Purchase Order	Yes	Finding no longer valid.



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

BUTLER METROPOLITAN HOUSING AUTHORITY

BUTLER 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
APRIL 6, 2004**