

BUTLER METROPOLITAN HOUSING AUTHORITY

BASIC FINANCIAL STATEMENTS AND SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 2008



Mary Taylor, CPA
Auditor of State

Board of Directors
Butler Metropolitan Housing Authority
4110 Hamilton-Middletown Road
Hamilton, Ohio 45012

We have reviewed the *Independent Auditor's Report* of the Butler Metropolitan Housing Authority, Butler County, prepared by James G. Zupka, CPA, Inc., for the audit period July 1, 2007 through June 30, 2008. 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.

Mary Taylor

Mary Taylor, CPA
Auditor of State

April 20, 2009

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**BUTLER METROPOLITAN HOUSING AUTHORITY
BASIC FINANCIAL STATEMENTS AND SINGLE AUDIT
FOR THE YEAR ENDED JUNE 30, 2008**

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Butler Metropolitan Housing Authority
Hamilton, Ohio

Regional Inspector General of Audit
Department of Housing and Urban
Development

We have audited the accompanying financial statements of the Butler Metropolitan Housing Authority, Ohio as of and for the year ended June 30, 2008, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Butler Metropolitan Housing Authority, Ohio's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Butler Metropolitan Housing Authority, as of June 30, 2008, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 12, 2009, on our consideration of the Butler Metropolitan Housing Authority, Ohio's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 10 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Butler Metropolitan Housing Authority, Ohio's basic financial statements. 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 also not a required part of the basic financial statements of the Butler Metropolitan Housing Authority, Ohio. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

The Authority has not presented the Financial Data Schedules (FDS) required by the Department of Housing and Urban Development for additional analysis, although not required to be part of the basic financial statements. The FDS are not available due to revisions in the reporting system that the Department is now undertaking.



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

March 12, 2009

**BUTLER METROPOLITAN HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2008
(Unaudited)**

This Management's Discussion and Analysis (MD&A) of the Butler Metropolitan Housing Authority offers the readers of the financial statements this narrative overview and analysis of the Authority's financial activities for the year ended June 30, 2008. This discussion and analysis is designed to assist the reader in focusing on significant financial issues, provide an overview of the Authority's financial activity, identify changes in the Authority's financial position, and identify individual fund issues or concerns. Readers should consider the information presented here in conjunction with the Authority's financial statements to obtain a full understanding of its financial position.

FINANCIAL HIGHLIGHTS

- The assets of the Authority exceeded its liabilities at the close of the current fiscal year by \$17,168,649 (net assets) as opposed to \$18,669,498 for the prior fiscal year.
- The Authority's cash and investments balance as of the close of the current fiscal year was \$2,447,026 representing a decrease of \$788,231 from the prior fiscal year.
- The Authority had total revenues of \$12,619,268 and total expenses of \$14,120,117 for the current fiscal year.
- The Authority expended \$1,555,180 in Capital Grant Funding for improvements to the Public Housing units.

Required Financial Statements

The Financial Statements of the Authority report information using accounting methods similar to those used by private sector companies (Enterprise Fund).

The Statement of Net Assets (Balance Sheet) included all of the Authority's assets and liabilities and provides information about the amounts and investments in assets and the obligations to Authority creditors. It also provides a basis of assessing the liquidity and financial flexibility of the Authority. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial health of the Authority is improving or deteriorating.

The current year's revenues, expenses, and changes in net assets are accounted for in the Statement of Revenues, Expenses and Net Assets. This statement measures the success of the Authority's operations over the past fiscal year.

The Statement of Cash Flows is to provide information about the Authority's cash receipts and disbursement during the reporting period. The statement reports net changes in cash resulting from operations.

**BUTLER METROPOLITAN HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2008 (Continued)
(Unaudited)**

FINANCIAL ANALYSIS OF THE AUTHORITY

Statement of Net Assets

The Statement of Net Assets and the Statement of Revenues, Expenses and Net Assets report information about the Authority's activities and are summarized in the following sections.

To begin our analysis, a summary of the Authority's Statement of Net Assets is presented in Table 1.

Table 1 - Combined Statement of Net Assets

	<u>2008</u>	<u>2007</u>	<u>Total Change</u>	<u>% Change</u>
<u>Assets</u>				
Current Assets	\$ 2,901,699	\$ 3,745,025	\$ (843,326)	-22.52%
Capital & Other Assets	<u>16,601,205</u>	<u>17,738,551</u>	<u>(1,137,346)</u>	-6.41%
Total Assets	<u>\$ 19,502,904</u>	<u>\$ 21,483,576</u>	<u>\$ (1,980,672)</u>	-9.22%
<u>Liabilities</u>				
Current Liabilities	\$ 715,970	\$ 1,022,006	\$ (306,036)	-29.94%
Non-Current Liabilities	<u>1,618,285</u>	<u>1,792,072</u>	<u>(173,787)</u>	-9.70%
Total Liabilities	<u>2,334,255</u>	<u>2,814,078</u>	<u>(479,823)</u>	-17.05%
<u>Net Assets</u>				
Invested in Capital Assets, Net of Related Debt	14,637,673	15,242,764	(605,091)	-3.97%
Restricted Net Assets	357,980	0	357,980	100.00%
Unrestricted Net Assets	<u>2,172,996</u>	<u>3,426,734</u>	<u>(1,253,738)</u>	-36.59%
Total Net Assets	<u>17,168,649</u>	<u>18,669,498</u>	<u>(1,500,849)</u>	-8.04%
Total Liabilities and Net Assets	<u>\$ 19,502,904</u>	<u>\$ 21,483,576</u>	<u>\$ (1,980,672)</u>	-9.22%

As illustrated in the Combined Statement of Net Assets, the overall Net Assets of the Authority decreased by \$1,500,849. The "Invested in Capital Assets" decreased by \$605,091; Unrestricted Net Assets decreased by \$1,253,738; and Restricted Net Assets increased by \$357,980. The decrease in Invested in Capital Assets was the result of the write off of the demolished Bambo Harris project and increased depreciation expense. Restricted Net Assets increased due to the REAC requirement to show Section 8 HAP Equity as Restricted. Unrestricted Net Assets decreased due to operations and the reclassification of HAP Equity mentioned above.

While the Statement of Net Assets shows the change in financial position, the Statement of Revenues, Expenses, and Net Assets breaks down our revenues and expenses further. Table 2, which follows, provides a combined statement of these changes.

**BUTLER METROPOLITAN HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
FOR THE YEAR ENDED JUNE 30, 2008
(Unaudited)**

Table 2- Combined Statement of Revenues, Expenses and Change in Net Assets

	<u>2008</u>	<u>2007</u>	<u>Total Change</u>	<u>% Change</u>
Tenant Revenue	\$ 1,489,445	\$ 1,550,086	\$ (60,641)	-3.91%
Grant Funding	10,887,324	10,695,642	191,682	1.79%
Other Income	242,499	424,270	(181,771)	-42.84%
Total Revenue	<u>12,619,268</u>	<u>12,669,998</u>	<u>(50,730)</u>	-0.40%
Administration	2,506,151	2,495,773	10,378	0.42%
Tenant Services	0	17,500	(17,500)	-100.00%
Utilities	1,021,517	949,842	71,675	7.55%
Maintenance	2,260,887	1,601,007	659,880	41.22%
Protective Services	8,177	1,792	6,385	356.31%
General Expense	535,141	480,816	54,325	11.30%
Housing Assistance Payments	5,679,855	4,591,221	1,088,634	23.71%
Depreciation	<u>2,108,389</u>	<u>1,984,460</u>	<u>123,929</u>	6.24%
Total Expenses	<u>14,120,117</u>	<u>12,122,411</u>	<u>1,997,706</u>	16.48%
Change in Net Assets	(1,500,849)	547,587	(2,048,436)	-374.08%
Beginning Net Assets	18,669,498	18,189,282	480,216	2.64%
Transfer of Equity/Adjustments	<u>0</u>	<u>(67,371)</u>	<u>67,371</u>	-100.00%
Ending Net Assets	<u>\$17,168,649</u>	<u>\$ 18,669,498</u>	<u>\$ (1,500,849)</u>	-8.04%

Table 3 provides the reader with a Statement of Revenues, Expenses and Net Assets by Program.

**Table 3 - Combined Statement of Revenues, Expenses and Change in Net Assets
by Program
Fiscal year Ended June 30, 2008**

	<u>Business Activities</u>	<u>Low Rent Public Housing</u>	<u>Housing Choice Vouchers</u>	<u>Capital Fund</u>	<u>Total</u>
Tenant Revenue	\$ 0	\$ 1,489,445	\$ 0	\$ 0	\$ 1,489,445
Grant Funding	0	2,900,953	5,707,618	2,278,753	10,887,324
Other Income	99,194	67,151	76,154	0	242,499
Total Revenue	<u>99,194</u>	<u>4,457,549</u>	<u>5,783,772</u>	<u>2,278,753</u>	<u>12,619,268</u>
Administration	5,906	1,776,204	562,672	161,369	2,506,151
Utilities	0	1,021,517	0	0	1,021,517
Maintenance	16,349	2,040,731	59	203,748	2,260,887
Protective Services	0	8,177	0	0	8,177
General Expense	28,423	506,718	0	0	535,141
Housing Assistance Payments	0	0	5,679,855	0	5,679,855
Depreciation	<u>38,720</u>	<u>1,833,861</u>	<u>5,566</u>	<u>230,242</u>	<u>2,108,389</u>
Total Expenses	<u>89,398</u>	<u>7,187,208</u>	<u>6,248,152</u>	<u>595,359</u>	<u>14,120,117</u>
Change in Net Assets	9,796	(2,729,659)	(464,380)	1,683,394	(1,500,849)
Beginning Net Assets	(47,950)	14,055,468	963,176	3,698,804	18,669,498
Operating Transfers	<u>0</u>	<u>358,457</u>	<u>0</u>	<u>(358,457)</u>	<u>0</u>
Ending Net Assets	<u>\$ (38,154)</u>	<u>\$ 11,684,266</u>	<u>\$ 498,796</u>	<u>\$ 5,023,741</u>	<u>\$ 17,168,649</u>

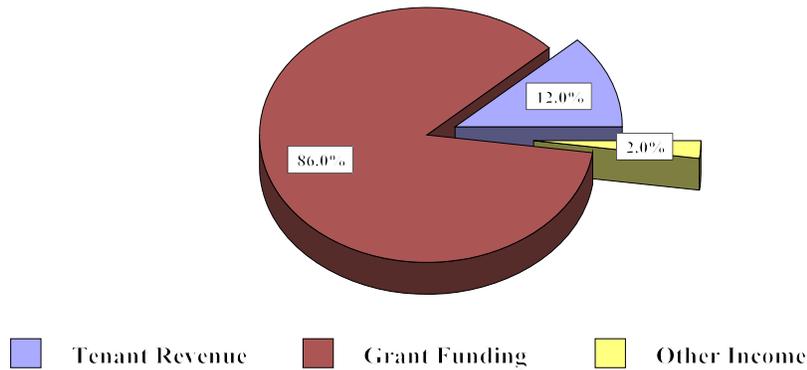
**BUTLER METROPOLITAN HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
FOR THE YEAR ENDED JUNE 30, 2008
(Unaudited)**

REVENUES

In reviewing the Statement of Revenues, Expenses, and Net Assets, you will note that 86 percent of the Authority's revenues are derived from grants from the Department of Housing and Urban Development and others. The Authority received revenue from tenants for dwelling rental charges, excess utilities, and miscellaneous charges of 12 percent of total revenue. Other Revenue including interest from investments comprise the remaining 2 percent. Compared to the fiscal year ended June 30, 2007, revenues had an overall decrease of \$50,730 (.40 percent). HUD Grant Funding increased, but tenant revenue was down slightly. The major cause of the reduction in other income was the loss on the disposition-demolition of the Bambo Harris property early in the fiscal year.

Tenant Revenue - Tenant Revenue decreased from \$1,550,086, to \$1,489,445, a decrease of 3.91

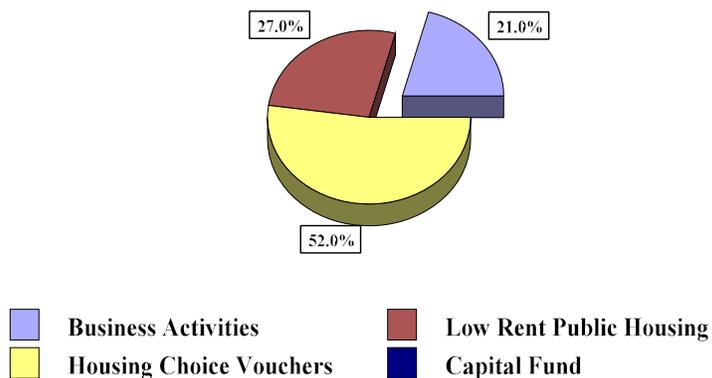
2008 Revenues



percent.

Program Grants/Subsidies - Grant revenue increased \$191,682 (1.79 percent) compared to the previous year.

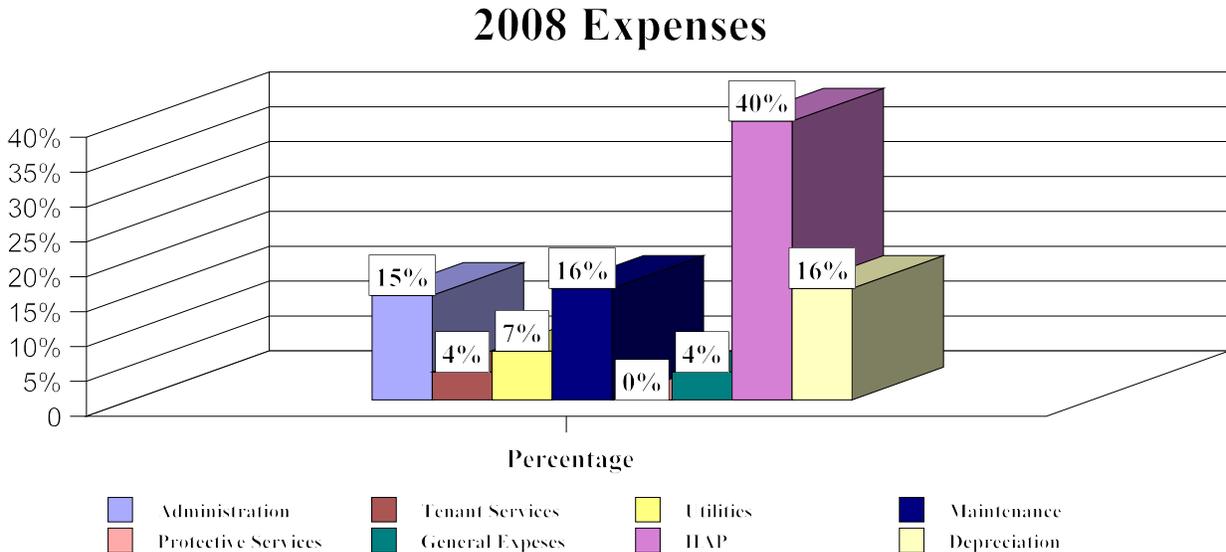
2008 Grant Funding



**BUTLER METROPOLITAN HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
FOR THE YEAR ENDED JUNE 30, 2008
(Unaudited)**

EXPENSES

The Butler Metropolitan Housing Authority experienced an increase in expenses for the current year from \$12,122,411 to \$14,120,117 or \$1,997,706 (16.48 percent). The highlights of the expenses for the current year are as follows:



Administrative - Administrative costs include all non-maintenance and non-resident service personnel costs (including benefits and accrued leave), legal costs, auditing costs, travel and training costs, and other administrative costs such as supplies, telephone expense, etc. Compared to 2007, administrative costs increased by \$10,378 (.42 percent), a negligible amount.

Tenant Services - Tenant Services costs include all costs incurred by the Authority to provide social services to the residents. Compared to 2007, tenant services costs decreased by \$17,500 (100.00 percent) due to no funding for the ROSS grant this year.

Utilities - The total utilities expense for the Authority increased by \$71,765 (7.55 percent) due to increased consumption and rates.

Maintenance - Maintenance costs are all costs incurred by the Authority to maintain the public housing units in a safe and sanitary manner. Costs include personnel costs, materials used to maintain the units, contracts for waste management and telephone/radio service, etc. The Maintenance Expense for the Authority increased by \$659,880 (41.22 percent) due to increases in all categories, but most notably in contract costs.

**BUTLER METROPOLITAN HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
FOR THE YEAR ENDED JUNE 30, 2008
(Unaudited)**

General Expenses - General Expenses include insurance costs (property, auto, liability, workers' compensation, public officials' liability, etc.) collection losses, severance pay and interest expense. These expenses increased by \$54,325 (11.30 percent) due to increased collection loss and severance expense.

Housing Assistance Payments - HAP payments consist of rental payments to owners of private property for which the Housing Authority has a HAP agreement with the tenant and the owner for the difference between the tenant's rent and the applicable payment standard. During the year HAP expense increased by \$1,088,634 (23.71 percent) due to the dramatic increase in average HAP payments which reflects the general state of the economy of Butler Metropolitan Housing Authority and declining incomes and layoffs.

Depreciation - Because the costs of all capitalized additions are spread over the estimated useful life of an asset, the estimated current year costs of capitalized items is recorded as depreciation. Depreciation Expense for the current year increased by \$123,929 (6.24 percent) as the result of placing more Capital Fund assets into service.

CAPITAL ASSETS

At the end of fiscal year 2007 the Authority had invested in Capital Assets \$17,381,551 net of depreciation. As of June 30, 2008, the investment in Capital Assets had decreased by \$780,346 to \$16,601,205. The following illustrates the Capital Asset values for 2007 and 2008.

Table 4 - Combined Statement of Capital Assets

	<u>2008</u>	<u>2007</u>	<u>Total Change</u>	<u>% Change</u>
Land	\$ 3,930,314	\$ 3,944,479	\$ (14,165)	-0.36%
Buildings and Improvements	57,872,317	63,468,660	(5,596,343)	-8.82%
Equipment	1,818,734	1,641,299	177,435	10.81%
Construction in Progress	3,417,228	2,036,162	1,381,066	67.83%
	67,038,593	71,090,600	(4,052,007)	-5.70%
Accumulated Depreciation	(50,437,388)	(53,709,049)	3,271,661	-6.09%
Total Capital Assets	<u>\$ 16,601,205</u>	<u>\$ 17,381,551</u>	<u>\$ (780,346)</u>	-4.49%

LONG-TERM DEBT OBLIGATIONS

At the end of fiscal year 2008, the Authority owed the following:

\$1,252,479 on a bank note to provide funding to acquire and install certain energy saving items in the dwelling units

354,053 on a bank loan to finance the purchase of Knightsbridge, a commercial building

**BUTLER METROPOLITAN HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
FOR THE YEAR ENDED JUNE 30, 2008
(Unaudited)**

ECONOMIC FACTORS AND EVENTS AFFECTING OPERATIONS

Certain economic factors may affect the financial position of the Authority in subsequent fiscal years. Several of these factors are listed below.

- The Department of Housing and Urban Development has historically underestimated the subsidy needs of public housing authorities. HUD has implemented the Calendar Year Shift for operating subsidy payments. However, due to funding constraints, it is never clear until late in the federal fiscal year what proration percentage will be used to fund the program for the current authority fiscal year. This makes planning more difficult.
- Our fiscal year ending June 30, 2008 was the first year that Public Housing Authorities had to manage their properties in a whole new way. HUD has mandated that all Authorities managing 250 or more public housing units shall do so according to an asset management model, consistent with the management norms of the broader multi-family housing industry. According to HUD, this method of management will improve the operational efficiency and effectiveness of managing public housing assets, and better preserve and protect those assets. This shall be accomplished via project-based management, project-based budgeting, and project-based accounting. The Butler Metropolitan Housing Authority used one AMP structure for the current fiscal year, but has already received approval from HUD to change the mix of the projects in the AMP's for the 2009 fiscal year.
- Budget deficits and funding for the Departments of Defense and Homeland Security will probably result in reduced appropriations for domestic program spending which will place further pressure on day to day operations.
- At the close of fiscal year 2008, the funding and collection of low rent public housing end of year utility adjustments has been halted, and will not restart as the result of changes in the Operating Fund subsidy program regulations.
- Health care and other insurance costs are expected to increase dramatically over the next several years.

**BUTLER METROPOLITAN HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
FOR THE YEAR ENDED JUNE 30, 2008
(Unaudited)**

CONCLUSION

Overall, the Butler Metropolitan Housing Authority faced challenges in the year managing major changes in personnel and procedures, along with the implementation of Asset Management. Analyses are ongoing to try to determine the best way to bring Public Housing back to a healthy, stable financial position. The management is committed to staying abreast of regulations and appropriations as well as maintaining an ongoing analysis of all budgets and expenses to ensure that the Authority continues to operate at the highest standards established by the Real Estate Assessment Center and the Department of Housing and Urban Development.

FINANCIAL CONTACT

This financial report is designed to provide our residents, the citizens of Butler County, all federal and state regulatory bodies, and any creditors with a general overview of the Authority's finances. If you have any questions regarding these financial statements or supplemental information, you may contact Phyllis Hitte, Executive Director, at (513) 896-4411 or by writing: Butler Metropolitan Housing Authority, 4110 Hamilton-Middletown Road, Hamilton, Ohio 45011-6218.

**BUTLER METROPOLITAN HOUSING AUTHORITY
HAMILTON, OHIO
STATEMENT OF NET ASSETS
JUNE 30, 2008**

ASSETS

Current Assets

Cash and Cash Equivalents	\$ 2,447,026
Accounts Receivable	279,753
Prepaid Insurance	68,661
Inventories	<u>106,259</u>
Total Current Assets	<u>2,901,699</u>

Capital Assets

Land	3,930,314
Buildings and Improvements	57,872,317
Furniture and Equipment	1,818,734
Construction in Progress	<u>3,417,228</u>
	67,038,593
Less: Accumulated Depreciation	<u>(50,437,388)</u>
Capital Assets, Net	<u>16,601,205</u>

TOTAL ASSETS **\$ 19,502,904**

LIABILITIES AND NET ASSETS

Current Liabilities

Accounts Payable	\$ 243,204
Tenant Security Deposits	123,206
Accrued Expenses	179,058
Long-term Liabilities - Current Portion	<u>170,502</u>
Total Current Liabilities	<u>715,970</u>

Noncurrent Liabilities

Long-Term Liabilities - Net of Current Portion	1,436,030
Accrued Compensated Absences	<u>182,255</u>
Total Noncurrent Liabilities	<u>1,618,285</u>
Total Liabilities	<u>2,334,255</u>

NET ASSETS

Invested in Capital Assets, Net of Related Debt	14,994,673
Restricted	357,980
Unrestricted	<u>1,815,996</u>
Total Net Assets	<u>17,168,649</u>

TOTAL LIABILITIES AND NET ASSETS **\$ 19,502,904**

See accompanying notes to the basic financial statements.

**BUTLER METROPOLITAN HOUSING AUTHORITY
HAMILTON, OHIO
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2008**

<u>Operating Revenues</u>	
Dwelling Rent	\$ 1,489,445
Governmental Grants and Subsidy	9,332,144
Other Income	<u>314,125</u>
Total Operating Revenues	<u>11,135,714</u>
<u>Operating Expenses</u>	
Administrative	2,506,151
Utilities	1,021,517
Ordinary Maintenance and Operations	2,260,887
Protective Services	8,177
General Expense	454,155
Housing Assistance Payments	5,679,855
Depreciation Expense	<u>2,108,389</u>
Total Operating Expenses	<u>14,039,131</u>
Operating Income (Loss)	<u>(2,903,417)</u>
<u>Non-Operating Revenues (Expenses)</u>	
Investment Income	159,563
Loss on Disposition of Assets	(231,189)
Interest Expense	<u>(80,986)</u>
Total Non-Operating Revenues (Expenses)	<u>(152,612)</u>
Income (Loss) Before Capital Grants	(3,056,029)
Capital Grants	<u>1,555,180</u>
Net Increase/(Decrease) in Net Assets	(1,500,849)
Total Net Assets, Beginning of Year	<u>18,669,498</u>
Net Assets, End of Year	<u>\$ 17,168,649</u>

See accompanying notes to the basic financial statements.

**BUTLER METROPOLITAN HOUSING AUTHORITY
HAMILTON, OHIO
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2008**

<u>Cash Flows from Operating Activities</u>	
Receipts from Customers and Users	\$ 1,711,593
Governmental Grants and Subsidy - Operations	9,340,894
Payments to Suppliers	(3,908,350)
Payments for Housing Assistance	(5,679,855)
Payments to Employees	<u>(2,157,783)</u>
Net Cash (Provided) by Operating Activities	<u>(693,501)</u>
 <u>Cash Flows from Investing Activities</u>	
Interest Received	<u>159,563</u>
Net Cash Provided from Investing Activities	<u>159,563</u>
 <u>Cash Flows from Capital and Related Financing Activities</u>	
Repayment of Mortgage Loan	(169,255)
Payment of Interest on Debt	(80,986)
Grant Revenue - Capital Grants	1,555,180
Proceeds from the Sale of Assets	11,781
Purchase of Capital Assets - Capital Grant Program	(1,555,180)
Purchase of Capital Assets - Other Programs	<u>(15,833)</u>
Net Cash Provided by Capital and Related Financing Activities	<u>(254,293)</u>
 Net Increase in Cash	 (788,231)
Cash at Beginning of Period	<u>3,235,257</u>
 Cash at End of Period	 <u>\$ 2,447,026</u>
 <u>Reconciliation of Operating Loss to Net Cash Provided by Operating Activities</u>	
Net Operating (Loss)	\$ (2,903,417)
Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities:	
Depreciation	2,108,389
Decrease (Increase) in Accounts Receivable	63,500
Decrease (Increase) in Prepaid Expenses	814
Decrease (Increase) in Inventory	(15,219)
Increase (Decrease) in Accounts Payable	122,783
Increase (Decrease) in Accrued Expenses	(6,050)
Increase (Decrease) in Security/Trust Deposits	<u>(64,301)</u>
Net Cash Used by Operating Activities	<u>\$ (693,501)</u>
 <u>Supplemental Disclosure of Cash Flow Information</u>	
Payment of Interest	<u>\$ 80,986</u>

See accompanying notes to the basic financial statements.

**BUTLER METROPOLITAN HOUSING AUTHORITY
HAMILTON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

**NOTE 1: SUMMARY OF ORGANIZATION, SIGNIFICANT ACCOUNTING POLICIES
AND REPORTING ENTITY**

Introduction

The financial statements of the Authority have been prepared in conformity with generally accepted accounting principles (GAAP). As permitted by GAAP, the Authority has elected pursuant to GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Accounting*, to apply all relevant Government Accounting Standards Board (GASB) pronouncements and only applicable Financial Accounting Standards Board (FASB) pronouncements opinion issued on or after November 30, 1989 that do not contradict GASB pronouncements in the preparation of the financial statements. The more significant of the government's accounting policies are described below:

Organization

The Butler Metropolitan Housing Authority ("The Authority") is a public body and a body corporate and politic organized under the laws of the State of Ohio Revised Code, Section 3735.27 for the purpose of providing adequate housing for qualified low-income individuals. To accomplish this purpose, a Governing Board is appointed but the Board designates its own management. Additionally, the Authority has entered into annual contribution contracts with the U.S. Department of Housing and Urban Development ("HUD") to be the administrator of the housing and housing related programs described herein. The Authority is not subject to Federal or State income taxes and is not required to file Federal or State income tax returns.

The Board of Commissioners of the Authority is appointed to five-year terms by the Cities of Hamilton and Middletown, but the Authority designates its own management. The Cities provide no financial support to the Authority and are not responsible for the debts or entitled to the surpluses of the Authority. The Authority has the power to approve its own budget and maintains its own accounting system. Although the Cities of Hamilton and Middletown appoint the governing board of the Authority, no other criteria established by Government Accounting Standards Board for inclusion of the Authority in the financial reports of those cities are met. Therefore, a separate financial report is prepared for the Authority.

**BUTLER METROPOLITAN HOUSING AUTHORITY
HAMILTON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2008**

NOTE 1: **SUMMARY OF ORGANIZATION, SIGNIFICANT ACCOUNTING POLICIES
AND REPORTING ENTITY** (Continued)

Reporting Entity

In determining how to define the reporting entity, management has considered all potential component units by applying the criteria set forth in Section 2100 and 2600 of the *Codification of Government Accounting Standards Board and Financial Accounting Standards Board and Statement Number 14 of the Government Accounting Standards Board, the Financial Reporting Entity*.

Financial Accountability - The Authority is responsible for its debt, does not impose a financial burden on the Cities or County and is entitled to all surpluses. No separate agency receives a financial benefit nor imposes a financial burden on the Authority.

Appointment of a Voting Majority - The Authority is governed by a Board of Commissioners appointed by the Cities of Hamilton and Middletown and has governance responsibilities over all activities related to all housing activities within Butler County. The Board of Commissioners has decision-making authority and the power to designate management. The members do not serve at the discretion of the Cities, i.e., they can be removed only for cause. The Authority's Board elects its own chairperson.

Imposition of Will - The City has no influence over the management, budget, or policies of the Authority. The Authority's Board of Commissioners has the responsibility to significantly influence the Authority's operations. This includes, but is not limited to, adoption of the budget, personnel management, sole title to, and residual interest in all assets (including facilities and properties), signing contracts, issuing bonds, and deciding which programs are to be provided.

On the basis of the application of these criteria, the Authority is a legally separate entity that is fiscally independent of other governments, and there is no other entities that are to be reported as component units of the Authority. Nor is the Authority to be included in the Cities of Hamilton or Middletown financial reports therefore, the Authority reports independently. During the review of the Authority's budgets, annual contributions contract, minutes of the Board of Commissioner's meetings, cash receipts and cash disbursements for the reporting period disclosed that the Authority operated the following programs under Annual Contributions Contracts with HUD:

**BUTLER METROPOLITAN HOUSING AUTHORITY
HAMILTON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2008**

NOTE 1: **SUMMARY OF ORGANIZATION, SIGNIFICANT ACCOUNTING POLICIES AND REPORTING ENTITY** (Continued)

Reporting Entity (Continued)

Low Income Public Housing - Funding for the Butler Metropolitan Housing Authority is primarily from the United States Department of Housing and Urban Development (HUD) and from payments received from tenants of the Authority owned housing. Under the Low Rent Housing Program, low income tenants pay a portion of the rental cost of public housing, based upon the income and need of the tenants. HUD funds the difference between the actual costs to operate the Low Rent Housing Program and the amounts paid by tenants through operating subsidies. These subsidies and debt service payments are made to or on behalf of the Authority under the terms and conditions of the Annual Contributions Contract with HUD.

Capital Fund Program - The objective of this program is to improve the physical condition of the Low-Income Public Housing units and upgrade the management of the program.

The Housing Choice Voucher Program - The Section 8 Program provides rental supplements to the owners of existing private housing who rent to qualifying individuals. The Authority processes all applicants for the Section 8 Housing Assistance Payments Program, places approved applicants in housing and pays the owner of the private housing a monthly rental supplement. Under the conditions of an Annual Contributions Contract, HUD reimburses the Authority for the rental supplements and the administrative cost of managing the Program.

Business Activities - The business activities represent a fund to account for the activities of the Knightsbridge building which is a commercial property purchased in 2002 and which is leased for the purpose of providing additional income for the Authority.

Basis of Presentation, Basis of Accounting and Measurement Focus

Basis of Accounting - The Authority uses the accrual basis of accounting in the proprietary funds. Under this method, revenues are recorded when earned, and expenses are recorded when liabilities are incurred, regardless of when the related cash flow takes place.

**BUTLER METROPOLITAN HOUSING AUTHORITY
HAMILTON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008
(CONTINUED)**

NOTE 1: **SUMMARY OF ORGANIZATION, SIGNIFICANT ACCOUNTING POLICIES AND REPORTING ENTITY** (Continued)

Basis of Presentation, Basis of Accounting and Measurement Focus (Continued)

Basis of Presentation - The financial statements of the Authority are presented from a fund perspective. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain Authority functions. The fund is a separate accounting entity with a self-balancing set of accounts. The accounting and financial reporting method applied by a fund is determined by the fund's measurement focus. The accounting objectives are determination of net income, financial position and cash flows. All assets and liabilities associated with the Proprietary Fund's activities are included on the statement of net assets. The Authority uses the following fund:

Consolidated Proprietary Fund:

Enterprise Fund - This type of fund is reported using an economic resources measurement focus. Additionally, it is used to account for operations that are financed and operated in a manner similar to private businesses where a fee is charged to external users for services provided.

Revenues and Expenses

Revenues and expenses are recognized in essentially the same manner as used in commercial accounting. Revenues relating to the Authority's operating activities including rental related income, interest income and other sources of revenues are recognized in the accounting period in which they are earned. Other major sources of revenues include the operating subsidy from HUD and other HUD funding for capital and operating expenses.

Encumbrances

Encumbrances represent commitments related to unperformed contracts for goods or services. The Authority does not utilize encumbrance accounting.

Budgets

The Authority adopts budgets on the basis of accounting consistent with the basis of accounting for the fund to which the budget applies. The Authority prepares annual operating budgets, which are formally adopted by its Governing Board of Commissioners. The budgets for programs funded by HUD form the basis of the Federal Financial Assistance received through HUD.

**BUTLER METROPOLITAN HOUSING AUTHORITY
HAMILTON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008
(CONTINUED)**

NOTE 1: **SUMMARY OF ORGANIZATION, SIGNIFICANT ACCOUNTING POLICIES AND REPORTING ENTITY** (Continued)

Inventories

Inventories are recorded at average cost. The consumption method is used to account for inventories. Under the consumption method, inventories are charged to expense when consumed.

Capital Assets and Depreciation

Capital assets are stated at historical cost. Donated capital assets are stated at their fair value on the date donated. This includes site acquisition and improvement, structures and equipment. All infrastructure assets were capitalized at the conclusion of development then dedicated to the Cities of Hamilton and Middletown for maintenance and repairs. Depreciation of exhaustible capital assets used by proprietary funds is charged as an expense against operations, and accumulated depreciation is reported on the proprietary funds' Statement of Net Assets.

The estimated useful lives for each major class of depreciable capital assets are as follows:

Buildings and Improvements	10-20 years
Furniture, Fixtures, and Equipment	3-10 years
Vehicles	5 years

Collection Losses

Collection losses on accounts receivable are expensed, in the appropriate fund, on the specific write-off method.

Insurance

The primary technique used for risk financing is the purchase of insurance policies from carriers in the open market. As of the fiscal year end, the Authority had the required coverage in force.

**BUTLER METROPOLITAN HOUSING AUTHORITY
HAMILTON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008
(CONTINUED)**

NOTE 1: **SUMMARY OF ORGANIZATION, SIGNIFICANT ACCOUNTING POLICIES
AND REPORTING ENTITY** (Continued)

Cash and Investments

- a. The Authority cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with an original maturity of three months or less when purchased to be cash equivalents.
- b. Investments are stated at fair value, except for U.S. Treasury Bills, which are reported at amortized cost. The Authority reports all money market investments having a remaining maturity at time of purchase of one year or less at amortized cost. Investment securities are normally held to mature at par value and adjustments are made to the investment portfolio to reflect gains or losses made.

Compensated Absences

Compensated absences are absences for which, employees will be paid, i.e., sick leave, vacation, and other approved leaves. In accordance with *GASB Statement No. 16, Accounting for Compensated Absences*, the Authority accrues the liability for those absences that the employee has earned the rights to the benefits. Accrued amounts are based on the current salary rates. Vacation and sick pay is recorded as an expense and related liability in the year earned by employees.

Operating Revenue

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary fund's principal ongoing operations. The principal operating revenues of the Authority are charges to customers for rents. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Subsidies received from HUD or other grantor agencies, for operating purposes, are recorded as operating revenue in the operating statement while capital grant funds are added to the net assets below the non-operating revenue and expense.

**BUTLER METROPOLITAN HOUSING AUTHORITY
HAMILTON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008
(CONTINUED)**

NOTE 2: **DEPOSITS AND INVESTMENTS**

In 2005, the Authority adopted the provisions of GASB Statement No. 40, *Deposit and Investment Risk Disclosures*. This new standard revised the existing requirements regarding disclosure of custodial credit risk and establishes requirements for disclosures regarding credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. Adoption of GASB Statement No. 40 had no effect on net assets and change in net assets in the prior or current year.

Deposits

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

Active deposits are public deposits necessary to meet demands on the treasury. Such monies must be maintained either as cash in the Authority's Treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the Authority has identified as not required for use within the current two year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to passbook accounts.

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**BUTLER METROPOLITAN HOUSING AUTHORITY
HAMILTON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008
(CONTINUED)**

NOTE 2: **DEPOSITS AND INVESTMENTS** (Continued)

Deposits (Continued)

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

At year-end, the carrying amount of the Authority's deposits were \$1,673,482 (including \$252,815 of restricted funds, and \$1,750 of petty cash) and the bank balance was \$1,747,876.

Investments - At June 30, 2008, the Authority's investment balances were as follows:

<u>Investment Type</u>	<u>Market Value</u>	<u>Maturity</u>	<u>Rating</u>
Federal Home Loan Bank	\$ 100,531	09/12/2008	Not Available
Federal Home Loan Bank	<u>673,013</u>	12/09/2011	Not Available
Total	<u>\$ 773,544</u>		

Interest Rate Risk - As a means of limiting its exposure to market value losses arising from rising interest rates, the Authority's typically limits its investment portfolio to maturities of 12 months or less. The Butler Metropolitan Housing Authority has no specific policy regarding interest rate risk.

Credit Risk - The Authority has no policy regarding credit risk.

Custodial Credit Risk - Custodial Credit Risk is the risk that, in the event of a bank failure, the Authority's deposits may not be returned. The Authority's policy is to place deposits with major local banks approved by the Board. Multiple financial institution collateral pools that insure public deposits must maintain collateral in excess of 105 percent of deposits, as permitted by Chapter 135 of the Ohio Revised Code. As of year-end, deposits totaling \$100,000 were covered by Federal Depository Insurance and deposits totaling \$1,647,876 were uninsured and collateralized with securities held by the financial institution's trust department or agent, pledged as a pool of collateral against the public deposits it holds, or as specific collateral held in the name of the Authority.

Concentration of Credit Risk - The Authority places no limit on the amount that it may invest in any one issuer. The Authority has no policy regarding credit risk.

**BUTLER METROPOLITAN HOUSING AUTHORITY
HAMILTON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008
(CONTINUED)**

NOTE 3: ACCOUNTS RECEIVABLE

Accounts receivables at June 30, 2008, consisted of the following:

HUD	\$ 133,789
Portability HAP's due from other Housing Authorities	47,352
Accounts Receivable - Tenants (Net of Allowances \$144,373)	<u>98,612</u>
 Total	 <u>\$ 279,753</u>

Accounts receivable does not include interprogram amounts totaling \$250,746. This has been eliminated from the consolidated financial statements.

NOTE 4: CAPITAL ASSETS

The following is a summary of changes:

	Balance <u>July 30, 2007</u>	<u>Additions</u>	Adjustments/ <u>Retirements</u>	<u>Depreciation</u>	Balance June 30, 2008
Capital Assets					
Land	\$ 3,944,479	\$ 0	\$ (14,165)	\$ 0	\$ 3,930,314
Buildings	63,468,660	0	(5,596,343)	0	57,872,317
Equipment and Furniture	1,641,299	189,947	(12,512)	0	1,818,734
Construction in Progress	<u>2,036,162</u>	<u>1,381,066</u>	<u>0</u>	<u>0</u>	<u>3,417,228</u>
	71,090,600	1,571,013	(5,623,020)	0	67,038,593
Accumulated Depreciation	<u>(53,709,049)</u>	<u>0</u>	<u>5,380,049</u>	<u>(2,108,388)</u>	<u>(50,437,388)</u>
 Net Capital Assets	 <u>\$ 17,381,551</u>	 <u>\$ 1,571,013</u>	 <u>\$ (242,971)</u>	 <u>\$(2,108,388)</u>	 <u>\$16,601,205</u>

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**BUTLER METROPOLITAN HOUSING AUTHORITY
HAMILTON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008
(CONTINUED)**

NOTE 4: CAPITAL ASSETS (Continued)

The following transactions affected capital assets during the audit period:

Balance as of July 1, 2007	\$ 17,381,551
CFP Program Additions	1,555,180
Equipment Paid from Operations - Section 8	15,833
Write-off of Equipment and Bambo Harris Project	(242,971)
Current Year Depreciation	<u>(2,108,388)</u>
Balance as of June 30, 2008	<u>\$ 16,601,205</u>

Depreciation by Asset Class	<u>Balance at July 1, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2008</u>
Buildings	\$52,506,469	\$ 1,809,351	\$(5,367,537)	\$48,948,283
Furniture, Equipment and Machinery	<u>1,202,580</u>	<u>299,037</u>	<u>(12,512)</u>	<u>1,489,105</u>
Totals	<u>\$53,709,049</u>	<u>\$ 2,108,388</u>	<u>\$(5,380,049)</u>	<u>\$50,437,388</u>

NOTE 5: ACCOUNTS PAYABLE

Accounts payable at June 30, 2008, consisted of the following:

Vendors and Contractors Payable	\$ 243,204
Tenant Security Deposits	<u>123,206</u>
Totals	<u>\$ 366,410</u>

Accounts payable does not include interprogram amounts totaling \$250,746. This has been eliminated from the consolidated financial statements.

NOTE 6: ACCRUED EXPENSES

Accrued expenses and unearned revenue at June 30, 2008, consisted of the following:

Accrued Wages/Payroll Tax Liabilities	\$ 116,559
Accrued Compensated Absences - Current	45,563
Accrued Interest Payable	2,168
Other	<u>14,768</u>
Total	<u>\$ 179,058</u>

**BUTLER METROPOLITAN HOUSING AUTHORITY
HAMILTON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008
(CONTINUED)**

NOTE 7: OTHER NONCURRENT LIABILITIES

Other noncurrent liabilities at June 30, 2008 consisted of the following:

Accrued Compensated Absences \$ 182,255

	Balance <u>July 1, 2007</u>	<u>Increases</u>	<u>Decreases</u>	Balance <u>June 30, 2008</u>	Current Portion <u>of Balance</u>
Compensated Absences	\$ 228,238	\$ 68,239	\$ (68,659)	\$ 227,818	\$ 45,563

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 saving equipment. The note is scheduled to mature on May 1, 2015, and is secured by a trust indenture dated May 1, 2006 to Fifth Third Bank, Cincinnati, Ohio as the lender. The note bears interest at the rate of 4.230% payable in monthly installments of \$17,614.55. The outstanding balance as of June 30, 2008 is \$1,252,479.

Knights-Bridge Loan - On September 10, 2002 the Authority obtained a loan from Fifth Third Bank, Cincinnati, Ohio for \$425,000 to finance the purchase of a commercial building. This note bore an interest rate of 6.5% fixed rate over 5 years. The interest was calculated based on a 30 day calendar month over a 360 day year. The original note matured on October 1, 2007 and was refinanced for an additional two years with Fifth Third Bank with an interest rate of 7.35%. Monthly payments of \$3,352 are being made. The outstanding balance as of June 30, 2008 is \$354,053.

In addition, 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. The building has been leased, and the Authority made the required \$500 monthly payments during the current year. The outstanding balance as of June 30, 2008 is \$357,000. This loan is eliminated in the statement of net assets as it is an interprogram transaction.

**BUTLER METROPOLITAN HOUSING AUTHORITY
HAMILTON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008
(CONTINUED)**

NOTE 8: LONG TERM DEBT (Continued)

Principal and interest payments for the years following June 30, 2008 are as follows:

For the Year Ended June, 30	<u>Principal</u>	<u>Interest</u>	<u>Total Payments</u>
2009	\$ 170,502	\$ 81,491	\$ 251,993
2010	507,648	50,079	557,727
2011	175,209	36,560	211,769
2012	182,821	28,948	211,769
2013	190,762	21,007	211,769
2014-2018	<u>379,590</u>	<u>26,301</u>	<u>405,891</u>
Totals	<u>\$ 1,606,532</u>	<u>\$ 244,386</u>	<u>\$ 1,850,918</u>

The following is a summary of changes in long-term debt for the year ended June 30, 2008:

<u>Description</u>	<u>Balance June 30, 2007</u>	<u>Additions</u>	<u>Eliminated</u>	<u>Retired</u>	<u>Balance June 30, 2008</u>	<u>Current Portion</u>
Energy Performance Loan	\$ 1,407,304	\$ 0	\$ 0	\$ 154,825	\$ 1,252,479	\$ 156,182
Fifth Third Bank - Knight - Bridge Voucher - Knight- Bridge	368,483	0	0	14,430	354,053	14,320
	<u>363,000</u>	<u>0</u>	<u>(363,000)</u>	<u>0</u>	<u>0</u>	<u>0</u>
Totals	<u>\$ 2,138,787</u>	<u>\$ 0</u>	<u>\$ (363,000)</u>	<u>\$ 169,255</u>	<u>\$ 1,606,532</u>	<u>\$ 170,502</u>

NOTE 9: RELATED PARTY TRANSACTIONS

There were no related party transactions to be reported for the fiscal year ended June 30, 2008.

BUTLER METROPOLITAN HOUSING AUTHORITY
HAMILTON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008
(CONTINUED)

NOTE 10: ECONOMIC DEPENDENCY

Both the PHA Owned Housing Program and the Section 8 Program are economically dependent on annual contributions and grants from HUD. Both programs operate at a loss prior to receiving the contributions and grants.

NOTE 11: RISK MANAGEMENT

The Authority is exposed to all common perils associated with the ownership and rental of real estate properties. A risk management program has been established to minimize loss occurrence and to transfer risk through various levels of insurance. Property, casualty, employee dishonesty and public official's liability forms are used to cover the respective perils.

Commercial carriers insure all common perils such as business auto, computer and other miscellaneous policies. There was no significant reduction in coverage and no settlements exceeding coverage during the past three years.

NOTE 12: CONTINGENCIES

The entity is subject to possible examinations made by federal regulators who determine compliance with terms, conditions, laws and regulations governing grants given to the entity in the current and prior years. These examinations may result in required refunds by the entity to federal grantors and/or program beneficiaries.

NOTE 13: IMPAIRMENT OF CAPITAL ASSETS

In accordance with new financial reporting standards issued by the Government Accounting Standards Board's, Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*" requires certain note disclosures. During the fiscal year ended June 30, 2008, the Butler Metropolitan Housing Authority experienced no impairments of capital assets that require disclosure.

**BUTLER METROPOLITAN HOUSING AUTHORITY
HAMILTON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008
(CONTINUED)**

NOTE 14: **DEFINED BENEFIT PENSION PLAN**

Ohio Public Employees Retirement System

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

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

OPERS provides retirement, disability, survivor, death benefits, and annual cost of living adjustments to members of both the Traditional Pension and the Combined plans. Members of the Member-Directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by State statute per Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling 1-800-222-7377 or by using the OPERS website at www.opers.org.

The Ohio Revised Code provides statutory authority for member and employer contributions. Effective January 1, 2007, the members of all three plans were required to contribute 9.5 percent of their annual covered salaries; the percent of contributions increased to 10.0 percent effective January 1, 2008. The Authority's contribution rate for pension benefits was 7.85 percent from July 1, 2007 through December 31, 2007; effective January 1, 2008, the percent decreased to 7.00 percent of covered payroll. The Authority's required contributions to OPERS for the years ended June 30, 2008, 2007, and 2006 were \$266,885, \$288,888, and \$312,627, respectively; 100 percent has been contributed for 2008, 2007 and 2006.

**BUTLER METROPOLITAN HOUSING AUTHORITY
HAMILTON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008
(CONTINUED)**

NOTE 15: POST-EMPLOYMENT BENEFITS

Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides post-retirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and primary survivor recipients is available with both the Traditional and the Combined Plan; however, health care benefits are not statutorily guaranteed. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage. The health care coverage provided by the retirement system is considered an Other Post-Employment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The 2007 local government employer contribution rate was 13.85 percent of covered payroll; 6.00 percent of covered payroll from July 1, 2007 through December 31, 2007 was the portion used to fund healthcare benefits. Effective January 1, 2008, the Authority's contribution rate was 14.00 percent of covered payroll; 7.0 percent of covered payroll was the portion that was used to fund healthcare.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS' latest actuarial review performed as of December 31, 2007, include a rate of return on investments of 6.50 percent, an annual increase in active employee total payroll of 4 percent compounded annually (assuming no change in the number of active employees), and an additional increase in total payroll of between .50 percent and 6.30 percent based on additional annual pay increases. Health care premiums were assumed to increase at the projected wage inflation rate plus an additional factor ranging from .50 percent to 4 percent annually for the next 7 years. In subsequent years (8 and beyond), health care costs were assumed to increase at 4 percent (the projected wage inflation rate).

All investments are carried at market. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted to reflect 25 percent of unrealized market appreciation or depreciation on investment assets annually, not to exceed a 12 percent corridor.

**BUTLER METROPOLITAN HOUSING AUTHORITY
HAMILTON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008
(CONTINUED)**

NOTE 15: **POST-EMPLOYMENT BENEFITS** (Continued)

Ohio Public Employees Retirement System (Continued)

As of December 31, 2007, the number of active contributing participants in the Traditional Pension and Combined plans totaled 364,076. The number of active contributing participants for both plans used in the December 31, 2006, actuarial valuation was 362,130. Actual Authority contributions for 2008 which were used to fund post-employment benefits were \$109,766. The actual contribution and the actuarially required contribution amounts are the same. The actuarial value of OPERS' net assets available for payment of benefits at December 31, 2007 (the latest information available) was \$12.8 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$29.8 billion and \$17.0 billion, respectively.

On September 9, 2004, the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to increasing health care costs. Member and employer contribution rates increased as of January 1, 2006, January 1, 2007, and January 1, 2008, which allowed additional funds to be allocated to the health care plan.

Under the HCPP, retirees eligible for health care coverage will receive a graded monthly allocation based on their years of service at retirement. The Plan incorporates a cafeteria approach, offering a broad range of health care options that allow the benefit recipients to use their monthly allocation to purchase health care coverage customized to meet their individual needs. If the monthly allocation exceeds the cost of the options selected, the excess is deposited into a Retiree Medical Account that can be used to fund future health care expenses.

NOTE 16: **CHANGES IN ACCOUNTING PRINCIPLES**

For fiscal year ended June 30, 2008, the Authority implemented GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*. GASB Statement No. 48 establishes criteria that governments will use to ascertain whether certain transactions should be regarded as sales or as collateralized borrowings. The statement also includes disclosure requirements for future revenues that are pledged and sold. The implementation of GASB Statement No. 48 did not affect the presentation of the financial statements of the Authority.

**BUTLER METROPOLITAN HOUSING AUTHORITY
HAMILTON, OHIO
SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2008**

Federal Grantor/ Pass Through Grantor/ Program Title	Federal CFDA Number	Expenditures
<u>U.S. Department of Housing and Urban Development</u>		
<i>Direct Programs:</i>		
<u>Public Housing Programs</u>		
Low Rent Public Housing Program	14.850	\$ 2,900,953
Capital Fund Program	14.872	<u>2,278,753</u>
Total Public Housing Programs		<u>5,179,706</u>
<u>Section 8 Tenant Based Programs</u>		
Section 8 Housing Choice Voucher Program	14.871	<u>5,707,618</u>
Total Section 8 Tenant Based Programs		<u>5,707,618</u>
Total U.S. Department of Housing and Urban Development		<u>10,887,324</u>
Total Federal Expenditures		<u>\$ 10,887,324</u>

This schedule is prepared on the accrual basis of accounting.

**BUTLER METROPOLITAN HOUSING AUTHORITY
HAMILTON, OHIO
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2008**

NOTE A: **BASIS OF PRESENTATION**

The accompanying Schedule of Federal Awards Expenditures includes the federal grant activity of the Butler Metropolitan Housing Authority and is presented on the full accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

NOTE B: **SUBRECIPIENTS**

The Butler Metropolitan Housing Authority provided no federal awards to subrecipients during the fiscal year ending June 30, 2008.

NOTE C: **DISCLOSURE OF OTHER FORMS OF ASSISTANCE**

The Butler Metropolitan Housing Authority received no federal awards of non-monetary assistance that are required to be disclosed for the year ended June 30, 2008.

The Butler Metropolitan Housing Authority had no loans, loan guarantees, or federally restricted endowment funds required to be disclosed for the fiscal year ended June 30, 2008.

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

Board of Directors
Butler Metropolitan Housing Authority
Hamilton, Ohio

Regional Inspector General for Audit
Department of Housing and Urban
Development

We have audited the financial statements of the Butler Metropolitan Housing Authority, Ohio, as of and for the year ended June 30, 2008, and have issued our report thereon dated March 12, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Butler Metropolitan Housing Authority, Ohio's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Butler Metropolitan Housing Authority, Ohio's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Butler Metropolitan Housing Authority, Ohio's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Butler Metropolitan Housing Authority, Ohio's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Butler Metropolitan Housing Authority, Ohio's financial statements that is more than inconsequential will not be prevented or detected by the Butler Metropolitan Housing Authority, Ohio's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Butler Metropolitan Housing Authority, Ohio's internal control.

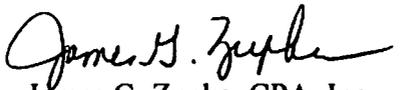
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies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

We noted certain additional matters that we reported to the management of the Butler Metropolitan Housing Authority in a separate letter dated March 12, 2009.

Compliance and Other Matters

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

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


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

March 12, 2009

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

*Certified Public Accountants
5240 East 98th Street
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**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
Hamilton, Ohio

Regional Inspector General of Audit
Department of Housing and Urban
Development

Compliance

We 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, 2008. The Butler Metropolitan Housing Authority, Ohio'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 the Butler Metropolitan Housing Authority, Ohio's management. Our responsibility is to express an opinion on the Butler Metropolitan Housing Authority, Ohio's compliance based on our audit.

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

In our opinion, the Butler Metropolitan Housing Authority, Ohio, 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, 2008.

Internal Control Over Compliance

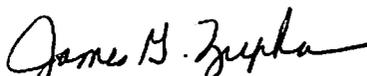
The management of the Butler Metropolitan Housing Authority, Ohio, is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Butler Metropolitan Housing Authority, Ohio's internal control over compliance with the 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Butler Metropolitan Housing Authority, Ohio's internal control over compliance.

A *control deficiency* is an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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


James G. Zupka CPA, Inc.
Certified Public Accountants

March 12, 2009

**BUTLER METROPOLITAN HOUSING AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 & .505
JUNE 30, 2008**

1. SUMMARY OF AUDITOR'S RESULTS

2008(i)	Type of Financial Statement Opinion	Unqualified
2008(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
2008(ii)	Were there any significant deficiencies in internal control reported at the financial statements level (GAGAS)?	No
2008(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
2008(iv)	Were there any material internal control weakness conditions reported for major Federal programs?	No
2008(iv)	Were there any other significant deficiency conditions reported for major Federal programs?	No
2008(v)	Type of Major Programs' Compliance Opinion	Unqualified
2008(vi)	Are there any reportable findings under .510?	No
2008(vii)	Major Programs (list): Low Rent Public Housing Program - CFDA # 14.850 Capital Fund Program - CFDA # 14.872 Housing Choice Voucher Program - CFDA #14.871	
2008(viii)	Dollar Threshold: Type A\B Programs	Type A: >\$326,620 Type B: all others
2008(ix)	Low Risk Auditee?	No

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

None.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.

BUTLER METROPOLITAN HOUSING AUTHORITY
STATUS PRIOR YEAR FINDINGS
OMB CIRCULAR A-133 & .505
JUNE 30, 2008

2007-1 Financial Statements

Condition: Financial Statements provided by the client were not complete and significant audit adjustments were required.

Status at June 30, 2008

The finding is resolved.

2007-2 Supporting Documentation

Condition: Supporting documentation was lacking in tenant files for both the Low Rent Public Housing Program and Housing Choice Voucher Program.

Status at June 30, 2008

The finding is resolved.



Mary Taylor, CPA
Auditor of State

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
MAY 7, 2009**