

Butler Metropolitan Housing Authority

Financial statements

For the Year Ended June 30, 2005



**Auditor of State
Betty Montgomery**

Board of Directors
Butler Metropolitan Housing Authority
4110 Hamilton Middletown Road
Hamilton, Ohio 45011-6218

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, 2004 through June 30, 2005. 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

April 18, 2006

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BUTLER METROPOLITAN HOUSING AUTHORITY
AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2005

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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 financial statements of the business-type activities of Butler Metropolitan Housing Authority, Ohio, as of and for the year ended June 30, 2005, which collectively comprise the Authority basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Butler Metropolitan Housing Authority, Ohio, management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Butler Metropolitan Housing Authority, Ohio, as of June 30, 2005, and the respective change in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued a report dated January 13, 2006, 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 agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an

opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the result of my audit.

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

My Audit was performed for the purpose of forming and opinion on the financial statements that collectively comprise the Butler Metropolitan Housing Authority basic financial statements. The schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the 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 not a required part of the financial statements. The combining financial data schedule ("FDS") is presented for purposes additional analysis as required by the Department of Housing and Urban Development and is not a required part of the 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 cursive script that reads "Salvatore Consiglio". The signature is written in black ink and is positioned above a horizontal line. A vertical line is drawn to the left of the signature, extending from the top of the signature down to the bottom of the page.

Salvatore Consiglio, CPA, Inc.

January 13, 2006

**BUTLER METRO HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended JUNE 30, 2005
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 \$21.3 million and \$23.9 million for 2005 and 2004 respectively. The Authority-wide statements reflect a decrease in total assets of \$2.6 million (or 11%) during 2005. This decrease is reflective of the year's activities.
- Revenue increased by \$2.1 million (or 15%) during 2005, and was \$13.7 million and \$11.6 million for 2004 and 2005 respectively.
- Total expenses of all Authority programs increased by \$.5 million (or 4%). Total expenses were \$14.5 million and \$13.9 million for 2004 and 2005 respectively.

USING THIS ANNUAL REPORT

The following graphic outlines the format of this report:

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

BUTLER METROPOLITAN HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS – CONTINUED
Year Ended June 30, 2005
Unaudited

Authority Financial Statements

The Authority 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 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, non capital financing activities, and from capital and related financing activities.

BUTLER METROPOLITAN HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS – CONTINUED
Year Ended June 30, 2005
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.

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

The Authority's Programs:

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, 2005
 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>2005</u>	Restated <u>2004</u>
Current and Other Assets	\$ 3,563	\$ 5,556
Capital Assets	17,355	17,949
Other Long-term Assets	375	375
Total Assets	<u>\$ 21,293</u>	<u>\$ 23,880</u>
Current Liabilities	\$ 703	\$ 858
Long-Term Liabilities	2,574	2,737
Total Liabilities	<u>3,277</u>	<u>3,595</u>
Net Assets:		
Investment in Capital Assets, net of Related Debt	14,886	15,333
Unrestricted Net Assets	3,130	4,952
Total Net Assets	<u>18,016</u>	<u>20,285</u>
Total Liabilities and Net Assets	<u>\$ 21,293</u>	<u>\$ 23,880</u>

For more detailed information see the Statement of Net Assets. The 2004 net assets were restated to eliminate interprogram due to/from.

Major Factors Affecting the Statement of Net Assets

Current assets and current liabilities decreased by \$2.0 million and \$.16 million. This is a reflection of the Authority's effort to reduce outstanding debt and also from the result of current operation. The Authority reduced its investment balance by \$1.8 million to cover expenses.

The Unrestricted Net Assets decreased \$1.8 million. The decrease in the Unrestricted Net Assets balance can be attributed a portion of the Net Loss in Operations being funded by the Equity.

BUTLER METROPOLITAN HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS – CONTINUED
Year Ended June 30, 2005
 Unaudited

Capital assets also changed, decreasing from \$17.9 million to \$17.3 million. The \$.6 million decrease may be contributed primarily to a combination of total acquisitions of \$1.8 million, less current year depreciation of \$2.4 million.

The following table presents details on the change in Net Assets.

TABLE 2
Change of Unrestricted Net Assets
Omitted '000's

Beginning Balance - June 30, 2004	\$	4,952
Results of Operation Before Capital Contributions		(4,143)
Rounding Adjustments		1
Adjustments:		
Current year Depreciation Expense (1)		2,440
Capital Expenditure (2)		(1,846)
Capital Contribution		1,812
Prior Period Adjustment		62
Retirement of Debt		(148)
		(148)
Ending Balance - June 30, 2005	\$	3,130

While the results of operations are a significant measure of the Authority's activities, the analysis of the changes in Net Assets provides a clearer presentation of financial position.

The following schedule compares the revenues and expenses for the current and previous fiscal year. The Authority is engaged only in Business-Type Activities.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

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

BUTLER METROPOLITAN HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS – CONTINUED
Year Ended June 30, 2005
 Unaudited

TABLE 3
Statement of Revenue, Expenses and Change in Net Assets
Omitted '000's

	<u>2005</u>	<u>2004</u>
<u>Revenues</u>		
Total Tenant Revenues	\$ 1,475	\$ 1,734
Operating Subsidies	7,862	9,146
Capital Grants	1,812	2,291
Investment Income	43	105
Other Revenues	406	425
	<u>11,598</u>	<u>13,701</u>
<u>Expenses</u>		
Administrative	3,026	3,289
Tenant Services	6	48
Utilities	852	794
Maintenance	1,876	2,370
Protective Services	10	144
General and Interest Expenses	673	586
Housing Assistance Payments	5,049	4,860
Depreciation	2,440	2,373
Other Expenses	(3)	9
	<u>13,929</u>	<u>14,473</u>
Net Increases (Decreases)	\$ <u>(2,331)</u>	\$ <u>(772)</u>

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

Tenant revenue, operating subsidies and capital grants all decreased. Most expenses decreased due to management efforts to control the losses. Both administration and maintenance expenses were expected to increase due to negotiated union contracts. While net losses increase, the Authority would have had a surplus had it not been for unexpected decreases in grant funding.

BUTLER METROPOLITAN HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS – CONTINUED
Year Ended June 30, 2005
 Unaudited

CAPITAL ASSETS

Capital Assets

As of year-end, the Authority had \$17.4 million invested in a variety of capital assets as reflected in the following schedule, which represents a net decrease of \$.6 million or .03% from the end of last year.

TABLE 4
Condensed Statement of Changes in Capital Assets
Omitted '000's

	<u>2005</u>	<u>2004</u>
Land and Land Rights	\$ 3,946	\$ 3,773
Buildings	60,158	60,158
Equipment	1,638	1,396
Leasehold Improvements	-	173
Construction in Progress	1,604	-
Accumulated Depreciation	<u>(49,991)</u>	<u>(47,551)</u>
Total	<u>\$ 17,355</u>	<u>\$ 17,949</u>

The following reconciliation identifies the change in Capital Assets.

TABLE 5
Changes in Capital Assets
Omitted '000's

Beginning Balance - June 30, 2004	\$ 17,949
Current year Additions	1,846
Current year Depreciation Expense	<u>(2,440)</u>
Ending Balance - June 30, 2005	<u>\$ 17,355</u>

The current year additions were due mainly to construction in progress in building improvements funded with capital fund program.

**BUTLER METROPOLITAN HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS – CONTINUED
Year Ended June 30, 2005
Unaudited**

Debt Outstanding

As of year-end, the Authority has \$2,469 in debt (mortgages) outstanding compared to \$2,617 last year.

**TABLE 6
Condensed Statement of Changes in Debt Outstanding
Omitted '000's**

Beginning Balance - June 30, 2004	\$	2,617
Current Year Principal Payments		<u>(148)</u>
Ending Balance - June 30, 2005	\$	<u><u>2,469</u></u>

ECONOMIC FACTORS

Significant economic factors affecting the Authority are as follows:

- Federal funding of the Department of Housing and Urban Development
- Union Contracts, which has affected 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

Richard Allen Academy has been successfully operating out of our Knightsbridge facility for some time now. BMHA has an operating surplus at Knightsbridge and will now begin to reimburse the Section 8 reserve account on a monthly basis to begin to pay back the funds borrowed to purchase the facility.

BUTLER METROPOLITAN HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS – CONTINUED
Year Ended June 30, 2005
Unaudited

THE FUTURE OF BMHA

We at BMHA are diligently trying to procure a Hope VI Revitalization Grant to rebuild Bambo Harris. We submitted an application in February, 2005 but we were not chosen to be funded. (Additionally in July 2005 another round of funding was advertised, BMHA applied and again we were denied.) We are gearing up at present for another round and we hope to have a new consultant on board to handle this new funding attempt. Our contract with the consultant this round will provide for services to plan BMHA's future regardless of whether or not we are funded with Hope VI dollars.

Our market study completed in November 2004 gave us information regarding how our properties are holding up against the market. We now know where the market is heading (seniors, single parent families) and can plan for how BMHA can capitalize on those markets. We also know that our properties are not candidates for conversion to project based Section 8. We predict that a move into 202 housing, more senior housing, and single family housing along with increased handicapped unit conversion will help us compete in the current marketplace.

Our market study also told us that to compete in the marketplace we need on site managers at our properties. This fit perfectly with HUD's move to asset management and as a result we opened a satellite office in Hamilton and Middletown. These are staffed and running and hopefully our tenants will see improved services and greater efficiencies. We have also received an FSS grant for public housing and hope to contract with an FSS Coordinator soon to provide this valuable service to our residents.

We plan to take what we have learned from the market study and work with the consultants to fund new replacement housing regardless of the outcome of the latest Hope VI funding round. Now that public housing authorities have been cleared to manage assisted living facilities, we are looking to convert one of our current properties to an assisted living site which will generate much needed cash for the Authority.

We have also looked internally to generate much needed savings. We have reduced staff, we have taken maintenance services formally contracted out, in-house and we have moved our Section 8 office from our Henry Long building back to our main office building. Additionally we are updating our computer and phone system and expect savings from those by way of efficiencies which should lead to further reduction in staff. A further emphasis on procurement which includes buying off the state procurement contract has lead to other savings as well.

BUTLER METROPOLITAN HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS – CONTINUED
Year Ended June 30, 2005
Unaudited

We will continue to pursue savings opportunities wherever and whenever they present themselves. We believe this will position the Authority well for the future. We want to continue to be good stewards of our government funds.

IN CONCLUSION

The Authority had a poor year financially that can be attributed to a reduction in subsidy as reflected in the \$2.3 million increase in net-loss and the \$2.0 million decrease in subsidy.

Butler Metropolitan Housing Authority takes great pride in its financial management and is pleased to report on the 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
Proprietary Funds
June 30, 2005

ASSETS

Current assets

Cash and cash equivalents	\$503,608
Investments	2,579,991
Receivables, net	221,202
Inventories, net	88,371
Prepaid expenses and other assets	169,382
Total current assets	<u>3,562,554</u>

Noncurrent assets

Capital assets:	
Land	3,945,532
Building and equipment	61,796,702
Construction in Progress	1,604,089
Less accumulated depreciation	<u>(49,991,260)</u>
Total capital assets	<u>17,355,063</u>
Other Non-current assets	<u>375,000</u>
Total assets	<u><u>\$21,292,617</u></u>

LIABILITIES

Current liabilities

Accounts payable	\$97,106
Accrued liabilities	198,433
Tenant security deposits	160,724
Deferred revenue	27,535
Bonds, notes, and loans payable	154,653
Other current liabilities	64,416
Total current liabilities	<u>702,867</u>

Noncurrent liabilities

Bonds, notes, and loans payable	2,313,987
Accrued compensated absences non-current	260,347
Total noncurrent liabilities	<u>2,574,334</u>
Total liabilities	<u><u>\$3,277,201</u></u>

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

BUTLER METROPOLITAN HOUSING AUTHORITY
Statement of Net Assets - Continued
Proprietary Funds
June 30, 2005

NET ASSETS

Invested in capital assets, net of related debt	\$14,886,423
Unrestricted net assets	3,128,993
Total net assets	<u>18,015,416</u>

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

BUTLER METROPOLITAN HOUSING AUTHORITY
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended June 30, 2005

OPERATING REVENUES

Tenant Revenue	\$1,475,227
Government operating grants	7,862,405
Other revenue	405,920
Total operating revenues	<u>9,743,552</u>

OPERATING EXPENSES

Administrative	3,026,490
Tenant services	5,992
Utilities	851,544
Maintenance	1,876,359
Protective services	10,088
General	571,106
Housing assistance payment	5,049,326
Other operating expenses	(3,232)
Depreciation	2,440,346
Total operating expenses	<u>13,828,019</u>
Operating income (loss)	<u>(4,084,467)</u>

NONOPERATING REVENUES (EXPENSES)

Interest and investment revenue	43,401
Interest expense	(101,739)
Total nonoperating revenues (expenses)	<u>(58,338)</u>
Income (loss) before contributions and transfers	<u>(4,142,805)</u>

Capital grants	1,812,316
Change in net assets	(2,330,489)
Prior Period Adjustment	61,509
Total net assets - beginning	20,284,396
Total net assets - ending	<u><u>\$18,015,416</u></u>

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

BUTLER METROPOLITAN HOUSING AUTHORITY
Statement of Cash Flows
Proprietary Fund Type
For the Year Ended June 30, 2005

CASH FLOWS FROM OPERATING ACTIVITIES

Operating grants received	\$7,862,405
Tenant revenue received	1,483,002
Other revenue received	405,920
General and administrative expenses paid	(6,314,237)
Housing assistance payments	(5,049,326)

Net cash provided (used) by operating activities **(1,612,236)**

CASH FLOWS FROM INVESTING ACTIVITIES

Transfer from investment	1,765,328
Interest earned	43,401

Net cash provided (used) by investing activities **1,808,729**

CASH FLOWS FROM CAPITAL AND RELATED ACTIVITIES

Capital grant funds received	1,789,426
Debt principal payment	(147,995)
Interest paid on Debt	(101,739)
Property and equipment purchased	(1,846,035)

Net cash provided (used) by capital and related activities **(306,343)**

Net increase (decrease) in cash	(109,850)
Cash and cash equivalents - Beginning of year	613,458

Cash and cash equivalents - End of year **\$503,608**

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

BUTLER METROPOLITAN HOUSING AUTHORITY
Statement of Cash Flows (Continued)
Proprietary Funds
For the Year Ended June 30, 2005

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES

Net Operating Income (Loss)	(\$4,084,467)
Adjustment to Reconcile Operating Loss to Net Cash Used by Operating Activities	
- Depreciation	2,440,346
- (Increases) Decreases in Accounts Receivable	185,559
- (Increases) Decreases in Prepaid Assets	16,472
- (Increases) Decreases in Inventory	(14,430)
- Increases (Decreases) in Accounts Payable	(186,365)
- Increases (Decreases) in Accounts Payable - Intergovernmental	(48,721)
- Increases (Decreases) in Accrued Expenses Payable	8,370
- Increases (Decreases) in Deferred Revenue	21,963
- Increases (Decreases) in Other Current Liabilities	26,153
- Increases (Decreases) in Other Noncurrent Liabilities	15,066
- Increases (Decreases) in Accrued Compensated Absences	2,927
- Increases (Decreases) in Tenant Security Deposits	4,891
	4,891
Net cash provided by operating activities	(\$1,612,236)

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

BUTLER METROPOLITAN HOUSING AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

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.

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

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

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

BUTLER METROPOLITAN HOUSING AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005
(CONTINUED)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

Basis of Presentation

The Authority's 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.

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.

BUTLER METROPOLITAN HOUSING AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005
(CONTINUED)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus/Basis of Accounting

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

Description of programs

The following 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.

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. **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, 2005 totaled \$43,401.

BUTLER METROPOLITAN HOUSING AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005
(CONTINUED)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital assets

Capital assets are stated at cost. The capitalization policy of the Authority is to depreciate all non-expendable personal property having a useful life of more than one year and purchase price of \$1,000 or more per unit. Depreciation is calculated using the straight-line method over the estimated useful lives of three years to forty years. Expenditures for repairs and maintenance are charged directly to expense as they are incurred. Expenditures determined to represent additions or betterments are 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.

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.

BUTLER METROPOLITAN HOUSING AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005
(CONTINUED)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Vacation leave and other compensated absences with similar characteristics are accrued as a liability as the benefits are earned by the employees if both of the following conditions are met: (1) the employees' rights to receive compensation are attributable to services already rendered and are not contingent on a specific event that is outside the control of the employer and employee. (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.

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

Legal and Other Requirements - The investment and deposit of Authority monies are governed by the provisions of the Ohio Revised Code and the Authority's written investment policy. Only banks located in Ohio and domestic building and loan associations are eligible to hold public deposits. The Authority is also generally permitted to invest its monies in certificates of deposit, savings accounts, money market accounts, certain highly rated commercial paper, and obligations of certain political subdivisions of Ohio and the United States government and its agencies. These investments must mature within five years of their purchase. The Authority may also enter into repurchase agreements with any eligible depository or any eligible dealer for a period not exceeding thirty days. Public depositories must give

BUTLER METROPOLITAN HOUSING AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005
(CONTINUED)

NOTE 2: CASH AND INVESTMENTS (Continued)

security for all public funds on deposit. HUD requires specific collateral on individual accounts in excess of amounts insured by the Federal Deposit Insurance Corporation. Repurchase agreements must be secured by the specific qualifying securities upon which the repurchase agreements are based. These securities must mature or be redeemable within five years of the date of the related repurchase agreement. The market value of the securities subject to a repurchase agreement must exceed the value of the principal by 2 percent and be marked to market daily. State law does not require security for public deposits and investments to be maintained in the Authority's name.

The Authority is prohibited from investing in any financial instruments, contracts, or obligations whose value or return is based upon or linked to another asset or index, or both, separate from the financial instrument, contract, or obligation itself (commonly known as a derivative). The Authority is also prohibited from investing in reverse purchase agreements. Governmental Accounting Standards Board Statement No. 3 (GASB No. 3) has established custodial credit risk categories for deposits and investments as follows:

Deposits

Category 1 Insured or collateralized with securities held by the Authority or by its agent in the Authority's name.

Category 2 Collateralized with securities held by the pledging financial institution's trust department or agent in the Authority's name.

Category 3 Uncollateralized as defined by the GASB (securities pledged with the pledging financial institution's trust department or agent, but not in the Authority's name).

Investments

Category 1 Insured or registered, or securities held by the Authority or its agent in the Authority's name.

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

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

BUTLER METROPOLITAN HOUSING AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005
(CONTINUED)

NOTE 2: CASH AND INVESTMENTS (Continued)

Deposits - At year-end, the carrying amount of the Authority's deposits was \$503,608 and the bank balance was \$528,694. The difference represents outstanding checks and deposits in transit. Of the bank balance, \$100,000 was covered by Federal depository insurance. The remainder was covered by pooled collateralization held by the banks for the Authority's deposits. This is not in compliance with HUD requirements. The carrying amount showing above includes \$1,150 of petty cash balance.

Investments - The Authority's investments are categorized below to give an indication of the level of custodial credit risk assumed by the entity at year end. The risk categories were described previously in this footnote.

<u>Category</u>		<u>Cost</u>	<u>Fair Value</u>
1	Cash and Cash Equivalent	\$320,065	\$320,065
3	U.S. Treasury / Agency Securities	\$2,300,000	\$2,259,926

A reconciliation of cash and investments as shown on the statement of net assets follows:

Cash and Cash Equivalent	\$823,673
Investments – U.S. Treasury / Agency Securities	<u>2,259,926</u>
 Total	 <u>\$3,083,599</u>
 Carrying Amount - Cash and Cash Equivalent	 \$503,608
Carrying Amount – Investments	<u>2,579,991</u>
 Total	 <u>\$3,083,599</u>

NOTE 3: NOTE TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES

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

BUTLER METROPOLITAN HOUSING AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005
(CONTINUED)

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, 2005 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.

NOTE 5: CAPITAL ASSETS

The following is a summary:

Land	\$3,945,532
Buildings	60,158,594
Furniture, Machinery and Equipment	1,638,108
Leasehold Improvement	0
Construction in Progress	1,604,089
Total Capital assets	67,346,323
Accumulated Depreciation	(49,991,260)
Net Capital assets	\$17,355,063

The following is a summary of changes:

	Balance 06/30/04	Adjustment	Additions	Deletion	Balance 06/30/05
Land	\$3,772,914	\$172,618	\$-0-	\$-0-	\$3,945,532
Buildings	60,158,594	-0-	-0-	-0-	60,158,594
Furnt, Mach. and Equip.	1,396,162	-0-	241,946	-0-	1,638,108
Leasehold Improvement	172,618	(172,618)	-0-	-0-	0
Construction in Progress	0	-0-	1,604,089	-0-	1,604,089
Total Capital assets	\$65,500,288	\$-0-	\$1,846,035	\$-0-	67,346,323

The depreciation expense for the year ended June 30, 2005 was \$2,440,346.

BUTLER METROPOLITAN HOUSING AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005
(CONTINUED)

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

All full-time employees of MCTA 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.

Ohio Public Employees Retirement System administers three separate pension plans as described below:

1. The Traditional Pension Plan – A cost sharing, multiple-employer defined benefit pension plan.
2. The Member-Direct Plan – A defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the Member-Direct Plan, members accumulate retirement assets equal to the value of member and (vested) employer contributions, plus any investment earnings.
3. The Combined Plan – A cost sharing, multiple-employer defined pension plan. Under the Combined Plan, OPERS invests employer contributions to provide a formula retirement benefits 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.

Plan members are required to contribute 8.5 percent of their annual covered salary to fund pension obligations. The 2005 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 OPERS for the years ended June 30, 2005, 2004, and 2003 \$284,918, \$286,484 and \$265,692 respectively. Ninety-Two percent has been contributed for 2005. All required contributions for the two previous years have been paid.

BUTLER METROPOLITAN HOUSING AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005
(CONTINUED)

**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 2005 employer contribution rate (identified above) that was used to fund health care for the year ended June 30, 2005 was 4.0 percent of covered payroll, which amounted to \$84,109. 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, 2004. 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 2004 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 base increase, were assumed to range from 0.50 percent to 6.3 percent. Health care costs were assumed to increase at a project wage inflation rate plus an additional factor ranging from 1% to 6% for the next 8 years. In subsequent years (9 and beyond), health care costs were assumed to increase at 4% (the projected wage inflation rate).

Benefits are advanced-funded on an actuarially determined basis. The number of active contributing participants was 376,109. The actuarial value of the OPERS' net assets available for OPEB at December 31, 2004 was \$10.8 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$29.5 billion and \$18.7 billion, respectively.

BUTLER METROPOLITAN HOUSING AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

NOTE 8: Prior Period Adjustment

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

Housing Choice Voucher:

- HUD adjustment to the administration fee earned of prior year	(\$8,386)
- Transfer from comprehensive improvement assistance program	6,799,137
- Transfer from drug elimination program	178,709

Low Rent Public Housing:

- Prior year adjustment not posted to tenant account receivable	69,894
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Comprehensive Improvement Assistance Program:

- Transfer of equity to public housing to close program	(6,799,137)
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Drug Elimination Program:

- Transfer of equity to public housing to close program	(178,709)
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Business Activities:

- Rounding adjustment	1
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Total Prior Period Adjustment	<u>\$61,509</u>
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NOTE 9: 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 bears interest rate of 4.230%, payable in quarterly installments. The outstanding balance as of June 30, 2005 is \$1,698,831.

BUTLER METROPOLITAN HOUSING AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

NOTE 9: LONG-TERM DEBT (Continued)

Knight-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 outstanding balance as of June 30, 2005 is \$394,809.

The Authority borrowed \$375,000 from the Housing Choice Voucher Program to provide a down payment on the purchase of the Knight-Bridge building. The amount borrowed will be repaid back to the voucher program, as excess funds are available from rental income. Now that the building has been leased, the Authority is anticipating that it will be able to start repaying the loan back at an estimated amount of \$500 per month.

Principal and interest payments for the years following June 30, 2005 are as follows:

<u>Years</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$154,653	\$95,144	\$249,797
2007	167,923	87,874	255,797
2008	529,234	64,942	594,176
2009	167,495	50,274	217,769
2010	174,511	43,258	217,769
2011 - 2015	953,824	99,975	1,053,799
2016 - 2020	30,000	0	30,000
2021 - 2025	30,000	0	30,000
2026 - 2030	30,000	0	30,000
2031 - 2035	30,000	0	30,000
2036 - 2040	30,000	0	30,000
2041 - 2045	30,000	0	30,000
2046 - 2050	30,000	0	30,000
2051 - 2055	30,000	0	30,000
2056 - 2060	30,000	0	30,000
2061 - 2065	30,000	0	30,000
2066 - 2070	21,000	0	21,000
Total	\$2,468,640	\$441,467	\$2,910,107

BUTLER METROPOLITAN HOUSING AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

NOTE 9: LONG-TERM DEBT (Continued)

The following is a summary of changes in long-term debt for the year ended June 30, 2005:

DESCRIPTION	BALANCE 06/30/04	ISSUED	RETIRED	BALANCE 06/30/05
Energy Performance Loan	\$1,835,066	0	\$136,235	\$1,698,831
Fifth Third Bank - Knight-Bridge	406,569	0	11,760	394,809
Voucher - Knight-Bridge	375,000	0	0	375,000
TOTAL	<u>\$2,616,635</u>	<u>\$ 0</u>	<u>\$147,995</u>	<u>\$2,468,640</u>

Butler Metropolitan Housing Authority
FDS Schedule submitted to REAC
Propriety Fund Type-Enterprise Fund
Year Ended June 30, 2005

Line Item No.	Account Description	Business Activities	Low Rent Public Housing	Public Housing Comprehensive Improvement Assistance Program	Public and Indian Housing Drug Elimination Program	Housing Choice Vouchers	Public Housing Capital Fund Program	Total
111	Cash - Unrestricted	\$48,219	\$119,193	\$0	\$0	\$176,136	\$0	\$343,548
114	Cash - Tenant Security Deposits	\$0	\$160,060	\$0	\$0	\$0	\$0	\$160,060
100	Total Cash	\$48,219	\$279,253	\$0	\$0	\$176,136	\$0	\$503,608
121	Accounts Receivable - PHA Projects	\$0	\$0	\$0	\$0	\$25,416	\$0	\$25,416
122	Accounts Receivable - HUD Other Projects	\$0	\$0	\$0	\$0	\$0	\$50,420	\$50,420
126	Accounts Receivable - Tenants - Dwelling Rents	\$0	\$289,124	\$0	\$0	\$0	\$0	\$289,124
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	\$145,366	\$0	\$0	\$25,416	\$50,420	\$221,202
131	Investments - Unrestricted	\$0	\$2,116,441	\$0	\$0	\$463,550	\$0	\$2,579,991
142	Prepaid Expenses and Other Assets	\$0	\$169,382	\$0	\$0	\$0	\$0	\$169,382
143	Inventories	\$0	\$93,022	\$0	\$0	\$0	\$0	\$93,022
143.1	Allowance for Obsolete Inventories	\$0	(\$4,651)	\$0	\$0	\$0	\$0	(\$4,651)
144	Interprogram Due From	\$0	\$909,403	\$0	\$0	\$0	\$27,535	\$936,938
150	Total Current Assets	\$48,219	\$3,708,216	\$0	\$0	\$665,102	\$77,955	\$4,499,492
161	Land	\$118,892	\$3,319,868	\$0	\$0	\$0	\$506,772	\$3,945,532
162	Buildings	\$600,000	\$56,806,506	\$0	\$0	\$0	\$2,752,088	\$60,158,594
164	Furniture, Equipment & Machinery - Administration	\$39,915	\$1,295,978	\$0	\$0	\$64,179	\$238,036	\$1,638,108
165	Leasehold Improvements	\$0	\$0	\$0	\$0	\$0	\$0	\$0
166	Accumulated Depreciation	(\$99,032)	(\$49,408,060)	\$0	\$0	(\$37,946)	(\$446,222)	(\$49,991,260)

Butler Metropolitan Housing Authority
FDS Schedule submitted to REAC
Propriety Fund Type-Enterprise Fund
Year Ended June 30, 2005

Line Item No.	Account Description	Business Activities	Low Rent Public Housing	Public Housing Comprehensive Improvement Assistance Program	Public and Indian Housing Drug Elimination Program	Housing Choice Vouchers	Public Housing Capital Fund Program	Total
167	Construction In Progress	\$0	\$0	\$0	\$0	\$0	\$1,604,089	\$1,604,089
160	Total Fixed Assets, Net of Accumulated Depreciation	\$659,775	\$12,014,292	\$0	\$0	\$26,233	\$4,654,763	\$17,355,063
171	Note, Loans & Mortgage Receivable - Non Current	\$0	\$0	\$0	\$0	\$375,000	\$0	\$375,000
180	Total Non-Current Assets	\$659,775	\$12,014,292	\$0	\$0	\$401,233	\$4,654,763	\$17,730,063
190	Total Assets	\$707,994	\$15,722,508	\$0	\$0	\$1,066,335	\$4,732,718	\$22,229,555
312	Accounts Payable <= 90 Days	\$0	\$46,686	\$0	\$0	\$0	\$50,420	\$97,106
321	Accrued Wage/Payroll Taxes Payable	\$0	\$99,834	\$0	\$0	\$9,683	\$0	\$109,517
322	Accrued Compensated Absences - Current Portion	\$0	\$78,628	\$0	\$0	\$8,154	\$0	\$86,782
325	Accrued Interest Payable	\$2,134	\$0	\$0	\$0	\$0	\$0	\$2,134
341	Tenant Security Deposits	\$8,000	\$152,724	\$0	\$0	\$0	\$0	\$160,724
342	Deferred Revenues	\$0	\$0	\$0	\$0	\$0	\$27,535	\$27,535
343	Current Portion of Long-term Debt - Capital Projects/Mortgage Revenue Bonds	\$12,500	\$142,153	\$0	\$0	\$0	\$0	\$154,653
345	Other Current Liabilities	\$0	\$0	\$0	\$0	\$64,416	\$0	\$64,416
347	Interprogram Due To	\$0	\$27,535	\$0	\$0	\$909,403	\$0	\$936,938
310	Total Current Liabilities	\$22,634	\$547,560	\$0	\$0	\$991,656	\$77,955	\$1,639,805
351	Long-term Debt, Net of Current - Capital Projects/Mortgage Revenue Bonds	\$757,309	\$1,556,678	\$0	\$0	\$0	\$0	\$2,313,987
354	Accrued Compensated Absences - Non Current	\$0	\$235,887	\$0	\$0	\$24,460	\$0	\$260,347
350	Total Noncurrent Liabilities	\$757,309	\$1,792,565	\$0	\$0	\$24,460	\$0	\$2,574,334

Butler Metropolitan Housing Authority
FDS Schedule submitted to REAC
Propriety Fund Type-Enterprise Fund
Year Ended June 30, 2005

Line Item No.	Account Description	Business Activities	Low Rent Public Housing	Public Housing Comprehensive Improvement Assistance Program	Public and Indian Housing Drug Elimination Program	Housing Choice Vouchers	Public Housing Capital Fund Program	Total
300	Total Liabilities	\$779,943	\$2,340,125	\$0	\$0	\$1,016,116	\$77,955	\$4,214,139
508.1	Invested in Capital Assets, Net of Related Debt	(\$110,034)	\$10,315,461	\$0	\$0	\$26,233	\$4,654,763	\$14,886,423
512.1	Unrestricted Net Assets	\$38,085	\$3,066,922	\$0	\$0	\$23,986	\$0	\$3,128,993
513	Total Equity/Net Assets	(\$71,949)	\$13,382,383	\$0	\$0	\$50,219	\$4,654,763	\$18,015,416
600	Total Liabilities and Equity/Net Assets	\$707,994	\$15,722,508	\$0	\$0	\$1,066,335	\$4,732,718	\$22,229,555
703	Net Tenant Rental Revenue	\$0	\$1,455,015	\$0	\$0	\$0	\$0	\$1,455,015
704	Tenant Revenue - Other	\$0	\$20,212	\$0	\$0	\$0	\$0	\$20,212
705	Total Tenant Revenue	\$0	\$1,475,227	\$0	\$0	\$0	\$0	\$1,475,227
706	HUD PHA Operating Grants	\$0	\$2,471,822	\$0	\$0	\$5,041,851	\$348,732	\$7,862,405
706.1	Capital Grants	\$0	\$0	\$0	\$0	\$0	\$1,812,316	\$1,812,316
711	Investment Income - Unrestricted	\$98	\$40,146	\$0	\$0	\$3,157	\$0	\$43,401
715	Other Revenue	\$96,000	\$215,328	\$0	\$0	\$94,592	\$0	\$405,920
700	Total Revenue	\$96,098	\$4,202,523	\$0	\$0	\$5,139,600	\$2,161,048	\$11,599,269
911	Administrative Salaries	\$0	\$1,060,415	\$0	\$0	\$530,212	\$0	\$1,590,627
912	Auditing Fees	\$0	\$11,458	\$0	\$0	\$5,000	\$0	\$16,458
914	Compensated Absences	\$0	\$0	\$0	\$0	(\$1,711)	\$0	(\$1,711)
915	Employee Benefit Contributions - Administrative	\$0	\$429,979	\$0	\$0	\$215,779	\$0	\$645,758
916	Other Operating - Administrative	\$1,769	\$350,176	\$0	\$0	\$105,770	\$317,643	\$775,358
922	Relocation Costs	\$0	\$0	\$0	\$0	\$0	\$5,992	\$5,992

Butler Metropolitan Housing Authority
FDS Schedule submitted to REAC
Propriety Fund Type-Enterprise Fund
Year Ended June 30, 2005

Line Item No.	Account Description	Business Activities	Low Rent Public Housing	Public Housing Comprehensive Improvement Assistance Program	Public and Indian Housing Drug Elimination Program	Housing Choice Vouchers	Public Housing Capital Fund Program	Total
931	Water	\$0	\$110,990	\$0	\$0	\$0	\$0	\$110,990
932	Electricity	\$0	\$329,042	\$0	\$0	\$0	\$0	\$329,042
933	Gas	\$0	\$266,598	\$0	\$0	\$0	\$0	\$266,598
938	Other Utilities Expense	\$0	\$144,914	\$0	\$0	\$0	\$0	\$144,914
941	Ordinary Maintenance and Operations - Labor	\$200	\$609,667	\$0	\$0	\$0	\$0	\$609,867
942	Ordinary Maintenance and Operations - Materials and Other	\$0	\$144,236	\$0	\$0	\$0	\$25,097	\$169,333
943	Ordinary Maintenance and Operations - Contract Costs	\$18,646	\$836,610	\$0	\$0	\$40	\$0	\$855,296
945	Employee Benefit Contributions - Ordinary Maintenance	\$0	\$241,863	\$0	\$0	\$0	\$0	\$241,863
952	Protective Services - Other Contract Costs	\$0	\$9,780	\$0	\$0	\$308	\$0	\$10,088
961	Insurance Premiums	\$3,500	\$246,968	\$0	\$0	\$0	\$0	\$250,468
962	Other General Expenses	\$0	\$7,184	\$0	\$0	\$333	\$0	\$7,517
964	Bad Debt - Tenant Rents	\$0	\$284,985	\$0	\$0	\$0	\$0	\$284,985
967	Interest Expense	\$26,205	\$75,534	\$0	\$0	\$0	\$0	\$101,739
968	Severance Expense	\$0	\$28,136	\$0	\$0	\$0	\$0	\$28,136
969	Total Operating Expenses	\$50,320	\$5,188,535	\$0	\$0	\$855,731	\$348,732	\$6,443,318
970	Excess Operating Revenue over Operating Expenses	\$45,778	(\$986,012)	\$0	\$0	\$4,283,869	\$1,812,316	\$5,155,951
972	Casualty Losses - Non-Capitalized	\$0	(\$3,232)	\$0	\$0	\$0	\$0	(\$3,232)
973	Housing Assistance Payments	\$0	\$0	\$0	\$0	\$5,049,326	\$0	\$5,049,326
974	Depreciation Expense	\$35,409	\$2,035,297	\$0	\$0	\$8,459	\$361,181	\$2,440,346
900	Total Expenses	\$85,729	\$7,220,600	\$0	\$0	\$5,913,516	\$709,913	\$13,929,758
1000	Excess (Deficiency) of Operating Revenue Over (Under) Expenses	\$10,369	(\$3,018,077)	\$0	\$0	(\$773,916)	\$1,451,135	(\$2,330,489)

Butler Metropolitan Housing Authority
FDS Schedule submitted to REAC
Propriety Fund Type-Enterprise Fund
Year Ended June 30, 2005

Line Item No.	Account Description	Business Activities	Low Rent Public Housing	Public Housing Comprehensive Improvement Assistance Program	Public and Indian Housing Drug Elimination Program	Housing Choice Vouchers	Public Housing Capital Fund Program	Total
1103	Beginning Equity	(\$82,319)	\$9,352,720	\$6,799,137	\$178,709	\$832,521	\$3,203,628	\$20,284,396
1104	Prior Period Adjustments, Equity Transfers and Correction of Errors	\$1	\$7,047,740	(\$6,799,137)	(\$178,709)	(\$8,386)	\$0	\$61,509
	Ending Equity	(\$71,949)	\$13,382,383	\$0	\$0	\$50,219	\$4,654,763	\$18,015,416
1102	Debt Principal Payments - Enterprise Funds	\$7,135	\$136,234	\$0	\$0	\$0	\$0	\$143,369
1113	Maximum Annual Contributions Commitment (Per ACC)	\$0	\$0	\$0	\$0	\$5,129,231	\$0	\$5,129,231
1114	Prorata Maximum Annual Contributions Applicable to a Period of less than Twelve Months	\$0	\$0	\$0	\$0	\$0	\$0	\$0
1115	Contingency Reserve, ACC Program Reserve	\$0	\$0	\$0	\$0	\$208,682	\$0	\$208,682
1116	Total Annual Contributions Available	\$0	\$0	\$0	\$0	\$5,337,913	\$0	\$5,337,913
1120	Unit Months Available	0	14,798	0	0	11,520	0	26,318
1121	Number of Unit Months Leased	0	11,543	0	0	11,475	0	23,018

Butler Metropolitan Housing Authority
 Schedule of Federal Award Expenditures
 For the Year Ended June 30, 2005

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	\$2,471,822
Housing Choice Voucher	14.871	5,041,851
Public Housing Capital Fund Program	14.872	<u>2,161,048</u>
Total Expenditure of Federal Award		<u><u>\$9,674,721</u></u>



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

Board of Directors
Butler Metropolitan Housing Authority

I have audited the financial statements of the Butler Metropolitan Housing Authority, Ohio, as of and for the year ended June 30, 2005, and have issued my report thereon dated January 13, 2006. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered 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 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 consider to be 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 judgment, could adversely affect Butler Metropolitan Housing Authority, Ohio's ability to record, process, summarize, and report financial data consistent with the assertion of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2005-GAS-1 through 2005-GAS-2.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. 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 2005-BMHA-1 and 2005-BMHA-2 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Butler Metropolitan Housing Authority, Ohio's financial statements are free of material misstatement, I 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 my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. I noted certain matters that I have reported to management of Butler Metropolitan Housing Authority in a separate letter dated January 13, 2006.

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 than these specified parties.



Salvatore Consiglio, CPA, Inc.

January 13, 2006



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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

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, 2005. 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.

In my opinion, 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, 2005.

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.

I have noted certain matters involving the internal control over compliance and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in my judgment, could adversely affect Butler Metropolitan Housing Authority, Ohio's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2005-BMHA-1 through 2005-BMHA-3.

A material weakness is a reportable condition in which the design or operation of one or more of internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major program being audited 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 compliance 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 2005-BMHA-1 and 2005-BMHA-2 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.

January 13, 2006

Butler Metropolitan Housing Authority
 Schedule of Findings and Questioned Costs
 OMB Circular A-133 § .505
 June 30, 2005

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)?	No
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?	Yes
Was there any other reportable internal control weakness conditions reported for major federal programs?	Yes
Type of Major Programs' Compliance Opinion	Unqualified
Are there any reportable findings under § .510?	No
Major Programs (list):	CFDA #14.871, 14.872- Housing Choice Voucher & Capital Fund
Dollar Threshold: Type A/B Programs	Type A: > \$300,000 Type B: All Others
Low Risk Audit?	No

Butler Metropolitan Housing Authority
Schedule of Findings and Questioned Costs
OMB Circular A-133 § .505
June 30, 2005

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

REPORTABLE CONDITION

FINDING NUMBER	2005-GAS -1
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Operating Reserve

Changes by HUD for funding the housing assistance payment cost for the Housing Choice Voucher Program have resulted in the Butler Metropolitan Housing Authority to operate the program in a deficit of \$773,916 for the fiscal year. This resulted in eliminating the program excess reserve. See federal finding 2005-BMHA-1 below, this finding is also required to be reported for major federal program.

FINDING NUMBER	2005-GAS-2
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Cost Allocation Plan

The Authority cost allocation plan is based on a time study performed in 2003. It is anticipated the Housing Choice Voucher Program maybe absorbing an excess amount of the agency administrative costs that has contributed in current year operating deficit. See federal finding 2005-BMHA-2 below, this finding is also required to be reported for major federal program.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

MATERIAL WEAKNESS

FINDING NUMBER	2005-BMHA -1
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Operating Reserve

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

In prior year HUD reimbursed the housing authorities (PHA) for 100% of the housing assistance payments expenditure as long as the Authority did not over issued vouchers and stayed within its maximum annual contribution contract amount. However, starting with the calendar year 2004, HUD provides the PHAs with a budget authority amount. The authority must operate the program within the amount authorized or cover expenditure not funded with its operating reserve.

Butler Metropolitan Housing Authority
 Schedule of Findings and Questioned Costs
 OMB Circular A-133 § .505
 June 30, 2005

Management was under the understanding that as long as the Authority did not over issued vouchers; HUD would continue to cover 100% of the housing assistance payment expenses. The Authority was trying to maximize the funding and assure that future funding stayed at maximum levels by attempting to utilize all of the vouchers up to the base line that HUD had designed for the Authority. This may have resulted in an operating deficit in the Housing Choice Voucher Program of \$773,916, eliminating all but \$24,000 of unrestricted net assets.

Recommendation:

Management must calculate how many vouchers it can fund based on the budget authority provided by HUD. A continues monitoring system must be implemented to track the average housing assistance payment amount and number of vouchers that can be funded.

FINDING NUMBER	2005-BMHA-2
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Cost Allocation Plan

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

The Authority cost allocation plan is based on a time study performed in 2003. It is anticipated the Housing Choice Voucher Program maybe absorbing an excess amount of the agency administrative costs that has contributed in current year operating deficit. Not using a proper cost allocation plan can result in disallowed costs in the voucher program.

Recommendation:

Management must review its cost allocation plan and determine if current basis for allocating administrative costs is still valid. At a minimum, a study must be performed to document the accuracy of the allocation plan.

REPORTABLE CONDITION

FINDING NUMBER	2005-BMHA-3
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Cash Management

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

At the end of the fiscal year, the Low Rent Public Housing Program had an interprogram due from the Housing Choice Voucher Program of \$909,403. The Authority, for

Butler Metropolitan Housing Authority
Schedule of Findings and Questioned Costs
OMB Circular A-133 § .505
June 30, 2005

simplicity purpose pays all operating expenses from the public housing checking account and records a receivable (interprogram due from) for the expenses allocated to other programs. During the fiscal year the Voucher Program did not reimburse the Public Housing Program for its share of expenses for the entire year.

Recommendation:

To ascertain compliance with proper cash management system, interprogram reimbursements must be made on a monthly basis.

Butler Metropolitan Housing Authority
 Schedule of Prior Audit Findings
 June 30, 2005

The following are the status of the June 30, 2004 and prior year audit findings.

Finding Number	Finding Summary	Fully Corrected?	Not Corrected; Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
GAS-2003-5	Outstanding Checks	Yes	Corrected. Stale dated checks were written off.
FED-2003-1	Davis-Bacon Act	Yes	Corrected. No exception noted during the audit period.



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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 4, 2006**