

Preble Metropolitan Housing Authority

Financial Statements

For the Year Ended March 31, 2006



**Auditor of State
Betty Montgomery**

Board of Directors
Preble Metropolitan Housing Authority
719 South Main Street
Dayton, Ohio 45402

We have reviewed the *Independent Auditor's Report* of the Preble Metropolitan Housing Authority, Preble County, prepared by Salvatore Consiglio, CPA, Inc., for the audit period April 1, 2005 through March 31, 2006. 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 Preble 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

December 19, 2006

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PREBLE METROPOLITAN HOUSING AUTHORITY
AUDIT REPORT
FOR THE YEAR ENDED MARCH 31, 2006

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6548 Royalton Road, Suite 104
North Royalton, Ohio 44133
Phone (440) 877-9870
Fax (440) 877-9237
sconsiglio@aol.com

Independent Auditors' Report

Board of Directors
Preble Metropolitan Housing Authority

I have audited the accompanying financial statements of the business-type activities of Preble Metropolitan Housing Authority, Ohio, as of and for the year ended March 31, 2006, which collectively comprise the Authority financial statements, as listed in the table of contents. These financial statements are the responsibility of the Preble 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 Preble Metropolitan Housing Authority, Ohio, as of March 31, 2006, 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 October 24, 2006, on my consideration of Preble 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 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 Preble Metropolitan Housing Authority 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 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 financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in my opinion, is fairly presented in all material respect in relation to the financial statements taken as a whole.



Salvatore Consiglio, CPA, Inc.

October 24, 2006

**PREBLE METROPOLITAN HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
MARCH 31, 2006**

UNAUDITED

The Preble 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 position, 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 statement.

FINANCIAL HIGHLIGHTS

- The Authority's net assets decreased by \$16,821 (or 507 %) during 2006, resulting from change from Operations. Since the Authority engages only in business-type activities, the increase is all in the category of business-type net assets. Net Assets were (\$13,504) and \$3,317 for 2006 and 2005 respectively.
- The Authority's total assets at March 31, 2006 were \$18,505 representing a decrease of \$10,855 from March 31, 2005.
- Revenues decreased by \$27,032 (or 12.7%) during 2006, and were \$185,789 and \$212,821 for 2006 and 2005 respectively.
- The total expenses of all Authority programs decreased by \$13,613 (or 6.44%). Total expenses were \$197,642 and \$211,255 for 2006 and 2005 respectively.

USING THIS ANNUAL REPORT

This Report includes three major sections, the "Management's Discussion and Analysis (MD&A)", "Financial statements", and "Other Required Supplementary information":

| |
|--|
| MD&A ~Management's Discussion and Analysis – pgs 3-7~ |
|--|

| |
|---|
| Basic Financial Statement ~Authority Financial statements – pgs 8-10~ |
|---|

| |
|---|
| Other Required Supplementary Information ~Required Supplementary Information - pgs 17-18~ |
|---|

**PREBLE METROPOLITAN HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
MARCH 31, 2006**

UNAUDITED

Authority financial statements

The Authority financial statements are designed to be corporate-like in that all business type 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, equals "Net Assets", formerly know 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 represent the net available liquid (non-capital) assets, net of liabilities, for the entire Authority. Net Assets (formerly equity) 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), grantors, contributors, laws, regulations, etc.

Unrestricted Net Assets: Consists of Net Assets that do not meet the definition of "Net Assets Invested in Capital Assets, Net of Related or Debt", or "Restricted Net Assets".

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 Revenue, such as rental income, Operating Expenses, such as administrative, utilities, and maintenance, and depreciation, and Non-Operating Revenue and Expenses, such as capital 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.

Fund financial statements

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.

**PREBLE METROPOLITAN HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
MARCH 31, 2006**

UNAUDITED

The Authority's Programs

The program maintained by the Authority is required by the Department of Housing and Urban Development:

Housing Choice Voucher Program – The Authority administers contracts with independent landlords that own the property. The Authority subsidizes the family's rent through a Housing Assistance Payment made to the landlord. The program is administered under an Annual Contributions Contract (ACC) with HUD. HUD provides Annual Contributions Funding to enable the Authority to structure a lease that sets the participants' rent at 30% of household income.

AUTHORITY STATEMENTS

Statement of Net Assets

The following table reflects the condensed Statement of Net Assets compared to prior year. The Authority is engaged only in Business-Type Activities.

TABLE 1

STATEMENT OF NET ASSETS

| | <u>2006</u> | <u>2005</u> |
|----------------------------------|------------------|------------------|
| Current and Other Assets | \$ 18,505 | \$ 29,360 |
| Total Assets | <u>\$ 18,505</u> | <u>\$ 29,360</u> |
| Current Liabilities | \$ 32,009 | \$ 26,043 |
| Total Liabilities | <u>32,009</u> | <u>26,043</u> |
| Net Assets: | | |
| Unrestricted Net Assets | (13,504) | 3,317 |
| Total Net Assets | <u>(13,504)</u> | <u>3,317</u> |
| Total Liabilities and Net Assets | <u>\$ 18,505</u> | <u>\$ 29,360</u> |

For more detail information see Statement of Net Assets presented elsewhere in this report.

Major Factors Affecting the Statement of Net Assets

During 2006, current and other assets decreased by \$10,855, and total liabilities increased by \$5,966. The current and other assets, primarily cash, decreased due to result from operation.

**PREBLE METROPOLITAN HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
MARCH 31, 2006**

UNAUDITED

TABLE 2 CHANGES OF UNRESTRICTED NET ASSETS

Table 2 presents details on the change in Unrestricted Net Assets

| | | |
|-------------------------------------|--------|---------------------|
| Beginning Balance - March 31, 2005 | \$ | 3,317 |
| Prior Period Adjustment | | (4,968) |
| Results of Operation | | <u>(11,853)</u> |
| Ending Balance - March 31, 2006 | \$ | <u>(13,504)</u> |

While the results of operations are a significant measure of the Authority's activities, the analysis of the changes in Unrestricted Net Assets provides a clearer change in financial well-being.

**TABLE 3
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**

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

| | <u>2006</u> | <u>2005</u> |
|--------------------------------------|------------------------|-----------------------|
| <u>Revenues</u> | | |
| Operating Subsidies | \$ 185,704 | \$ 212,414 |
| Investment Income | 85 | 407 |
| Total Revenues | <u>185,789</u> | <u>212,821</u> |
| <u>Expenses</u> | | |
| Administrative | 25,177 | 44,618 |
| General and Interest Expenses | 902 | 901 |
| Housing Assistance Payments | 171,563 | 165,736 |
| Total Expenses | <u>197,642</u> | <u>211,255</u> |
| Net Increases (Decreases) | \$ (11,853) | \$ 1,566 |

**PREBLE METROPOLITAN HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
MARCH 31, 2006**

UNAUDITED

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

Total revenue decreased by \$27,032 in comparison with prior year. Total revenue was \$185,789 and \$212,821 for fiscal year 2006 and 2005 respectively. The decrease in revenue was mainly due to the change in how HUD is funding the authority for the Housing Choice Voucher Program.

The expenses decreased by \$13,613 in comparison with prior year. Total expenses were \$197,642 and \$211,255 for fiscal year 2006 and 2005 respectively. The decrease was due to the administrative expenses charged to the program. Housing assistance expenses increased for the year.

Capital Assets

As of March 31, 2006 the Authority's had no investment in capital assets.

Long-Term Liability

The Housing Authority has no long term liabilities.

ECONOMIC FACTORS

Significant economic factors affecting the Authority are as follows:

- Federal funding provided by Congress to the Department of Housing and Urban Development
- Local labor supply and demand, which can affect salary and wage rates
- Local inflationary, recessionary and employment trends, which can affect resident incomes and therefore the amount of housing assistance payments
- Inflationary pressure on utility rates, supplies and other costs

FINANCIAL CONTACT

The individual to be contacted regarding this report is Stephen V. Pipenger, Vice President and CFO of the Preble Metropolitan Housing Authority, at (937) 341-5000. Specific requests may be submitted to the Preble Metropolitan Housing Authority at 719 South Main Street, Dayton, Ohio 45402.

PREBLE METROPOLITAN HOUSING AUTHORITY
Statement of Net Assets
Proprietary Funds
March 31, 2006

ASSETS

Current assets

| | |
|-----------------------------|----------------------|
| Cash and cash equivalents | \$18,505 |
| Total current assets | <u>18,505</u> |

Noncurrent assets

| | |
|--------------------------------|-------------------------------|
| Capital assets: | |
| Building and equipment | 295 |
| Less accumulated depreciation | <u>(295)</u> |
| Total noncurrent assets | <u>0</u> |
| Total assets | <u><u>\$18,505</u></u> |

LIABILITIES

Current liabilities

| | |
|---------------------------|-------------------------------|
| Accounts payable | \$7,003 |
| Other current liabilities | <u>25,006</u> |
| Total liabilities | <u><u>\$32,009</u></u> |

NET ASSETS

| | |
|-------------------------|---------------------------------|
| Unrestricted net assets | (\$13,504) |
| Total net assets | <u><u>(\$13,504)</u></u> |

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

PREBLE METROPOLITAN HOUSING AUTHORITY
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended March 31, 2006

| | |
|--|---------------------------------|
| <i>OPERATING REVENUES</i> | |
| Government operating grants | \$185,704 |
| Total operating revenues | <u>185,704</u> |
| <i>OPERATING EXPENSES</i> | |
| Administrative | 25,177 |
| General | 902 |
| Housing assistance payment | 171,563 |
| Total operating expenses | <u>197,642</u> |
| Operating income (loss) | <u>(11,938)</u> |
| <i>NONOPERATING REVENUES (EXPENSES)</i> | |
| Interest and investment revenue | 85 |
| Total nonoperating revenues (expenses) | <u>85</u> |
| Change in net assets | (11,853) |
| Total net assets - beginning | 3,317 |
| Prior Period Adjustment | (4,968) |
| Total net assets - ending | <u><u>(\$13,504)</u></u> |

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

**Preble Metropolitan Housing Authority
 Combined Statement of Cash Flows
 Proprietary Fund Type - Enterprise Fund
 For the Year Ended March 31, 2005**

CASH FLOWS FROM OPERATING ACTIVITIES

| | |
|----------------------------------|------------------|
| Cash received from grantor | \$185,704 |
| Cash paid Operating Activities | (23,662) |
| Cash Paid for Housing Assistance | <u>(171,563)</u> |

Net cash provided by oprating activities (9,521)

CASH FLOWS FROM INVESTING ACTIVITIES

| | |
|-----------------|-----------|
| Interest earned | <u>85</u> |
|-----------------|-----------|

Net cash provided (used) by investing activities 85

Net Increase (Decrease) in Cash (9,436)

Cash and cash equivalentents - Beginning of Year 27,941

Cash and cash equivalentents - End of Year \$18,505

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES

Net Operating Income (Loss) (\$11,938)

Adjustments to Reconcile Net Income to net Cash Provided by Operating Activities:

| | |
|---|--------------|
| Increase (Decrease) in accounts payable | 2,347 |
| Increase (Decrease) in accrued expenses | (194) |
| Increase (Decrease) in payable HUD | (7,099) |
| Increase (Decrease) in FSS Escrow payable | <u>7,363</u> |

Net cash provided by operating activities (\$9,521)

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

PREBLE METROPOLITAN HOUSING AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2006

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Summary of Significant Accounting Policies

The financial statements of the Preble Metropolitan Housing Authority (the Authority) have been prepared in conformity with generally accepted accounting principles (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 Preble 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.

PREBLE METROPOLITAN HOUSING AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2006
(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.

PREBLE METROPOLITAN HOUSING AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2006
(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 Authority operates the Housing Choice Voucher Program as a single enterprise fund.

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.

Investments

The provisions of the HUD Regulations restrict investments. Investments are valued at market value. Interest income earned in fiscal year ending March 31, 2006 totaled \$85.

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 \$250 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.

PREBLE METROPOLITAN HOUSING AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2006
(CONTINUED)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

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: DEPOSITS AND INVESTMENTS

Deposits

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

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

PREBLE METROPOLITAN HOUSING AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2006
(CONTINUED)

NOTE 2: DEPOSITS AND INVESTMENTS (Continued)

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

Government Accounting Standards Board Statement No. 3 (GASB #3) has established custodial credit risk categories for deposits and investments as follows:

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).

The carrying amount of the Authority’s deposits was \$18,505 at March 31, 2006. The corresponding bank balance was \$25,817. The entire bank balance was covered by federal deposit insurance (FDIC). The custodial credit risk for the Authority deposit is Category 1.

NOTE 3: 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 March 31, 2006 the Authority contracted with Cincinnati Insurance Company for liability and property coverage of \$1,000,000.

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.

PREBLE METROPOLITAN HOUSING AUTHORITY
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED MARCH 31, 2006
 (CONTINUED)

NOTE 4: CAPITAL ASSETS

The following is a summary:

| | |
|------------------------------------|-------|
| Furniture, Machinery and Equipment | \$295 |
| Total Capital Assets | 295 |
| Accumulated Depreciation | (295) |
| Net Capital Assets | \$0 |

There was no change in capital assets from prior year. The depreciation expense For the Year Ended March 31, 2006 was \$0.

NOTE 5: MANAGEMENT CONTRACT / RELATED PARTY TRANSACTION

The Authority Contract with the Community Action Partnership of the Greater Dayton Area, a non-profit corporation, for the management and operations of its Housing Choice Voucher Program. The Authority does not have any employees; all staffs are subcontracted from the Community Action Agency.

NOTE 6: PRIOR PERIOD ADJUSTMENT

The prior period adjustment of \$4,968 represents the following:

- Write of \$1,419 receivable from HUD that was determined that is will not be collected due to the changes implemented by HUD for funding the program.
- Adjustment to properly record \$3,549 payment to the FSS Escrow for the short fall in fiscal year ending March 31, 2005. The adjustment was necessary to properly record the expense in the correct fiscal year.

Preble Metropolitan Housing Authority
Combining FDS Schedule Submitted To REAC
Propriety Fund Type- Enterprise Fund
March 31, 2006

| Line Item No. | Account Description | Housing Choice Vouchers | Total |
|------------------|---|-------------------------------|------------|
| 111 | Cash - Unrestricted | \$745 | \$745 |
| 113 | Cash - Other Restricted | \$17,760 | \$17,760 |
| 100 | Total Cash | \$18,505 | \$18,505 |
| | | | |
| 150 | Total Current Assets | \$18,505 | \$18,505 |
| | | | |
| 163 | Furniture, Equipment & Machinery - Dwellings | \$295 | \$295 |
| 166 | Accumulated Depreciation | (\$295) | (\$295) |
| 160 | Total Fixed Assets, Net of Accumulated Depreciation | \$0 | \$0 |
| | | | |
| 190 | Total Assets | \$18,505 | \$18,505 |
| | | | |
| 312 | Accounts Payable <= 90 Days | \$7,003 | \$7,003 |
| 321 | Accrued Wage/Payroll Taxes Payable | \$0 | \$0 |
| 345 | Other Current Liabilities | \$25,006 | \$25,006 |
| 310 | Total Current Liabilities | \$32,009 | \$32,009 |
| | | | |
| 300 | Total Liabilities | \$32,009 | \$32,009 |
| | | | |
| 508.1 | Invested in Capital Assets, Net of Related Debt | \$0 | \$0 |
| 512.1 | Unrestricted Net Assets | (\$13,504) | (\$13,504) |
| 513 | Total Equity/Net Assets | (\$13,504) | (\$13,504) |
| | | | |
| 600 | Total Liabilities and Equity/Net Assets | \$18,505 | \$18,505 |
| | | | |
| 706 | HUD PHA Operating Grants | \$185,704 | \$185,704 |
| 711 | Investment Income - Unrestricted | \$85 | \$85 |
| 700 | Total Revenue | \$185,789 | \$185,789 |
| | | | |
| 911 | Administrative Salaries | \$0 | \$0 |
| 912 | Auditing Fees | \$2,163 | \$2,163 |
| 913 | Outside Management Fees | \$23,014 | \$23,014 |
| 915 | Employee Benefit Contributions - Administrative | \$0 | \$0 |

Preble Metropolitan Housing Authority
Combining FDS Schedule Submitted To REAC
Propriety Fund Type- Enterprise Fund
March 31, 2006

| Line Item No. | Account Description | Housing Choice Vouchers | Total |
|------------------|---|-------------------------------|------------|
| 916 | Other Operating - Administrative | \$0 | \$0 |
| 961 | Insurance Premiums | \$902 | \$902 |
| 969 | Total Operating Expenses | \$26,079 | \$26,079 |
| | | | |
| 970 | Excess Operating Revenue over Operating Expenses | \$159,710 | \$159,710 |
| | | | |
| 973 | Housing Assistance Payments | \$171,563 | \$171,563 |
| 900 | Total Expenses | \$197,642 | \$197,642 |
| | | | |
| 1000 | Excess (Deficiency) of Operating Revenue Over (Under) Expenses | (\$11,853) | (\$11,853) |
| | | | |
| 1103 | Beginning Equity | \$3,317 | \$3,317 |
| 1104 | Prior Period Adjustments, Equity Transfers and Correction of Errors | (\$4,968) | (\$4,968) |
| | | | |
| | Ending Equity | (\$13,504) | (\$13,504) |
| | | | |
| 1113 | Maximum Annual Contributions Commitment (Per ACC) | \$185,704 | \$185,704 |
| 1114 | Prorata Maximum Annual Contributions Applicable to a Period of less than Twelve Months | \$0 | \$0 |
| 1115 | Contingency Reserve, ACC Program Reserve | \$0 | \$0 |
| 1116 | Total Annual Contributions Available | \$185,704 | \$185,704 |
| | | | |
| 1120 | Unit Months Available | 624 | 624 |
| 1121 | Number of Unit Months Leased | 522 | 522 |



6548 Royalton Road, Suite 104
North Royalton, Ohio 44133
Phone (440) 877-9870
Fax (440) 877-9237
sconsiglio@aol.com

**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
Preble Metropolitan Housing Authority

I have audited the financial statements of the business-type activities of Preble Metropolitan Housing Authority, Ohio, as of and for the year ended March 31, 2006, which collectively comprise the Preble Metropolitan Housing Authority, Ohio, financial statements and have issued my report thereon dated October 24, 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 Preble 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 Preble 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 as items 2006-1 and 2006-2.

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, I believe that the reportable conditions described are not material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Preble 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 grants 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standard* which are described in the accompanying schedule of findings as item 2006-1 and 2006-2.

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

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

Salvatore Consiglio, CPA, Inc.

October 24, 2006

Preble Metropolitan Housing Authority
Schedule of Findings
March 31, 2006

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

FINDING NUMBER 2006-1

Reportable Condition / Noncompliance Citation

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

Section 984.305 of the code of federal regulation requires that the PHA shall deposit the FSS account funds of all families participating in the PHA's FSS program into a single depository account. The PHA must deposit the FSS accounts in one or more of the HUD approved investments.

In addition, the above regulation requires that each PHA is required to make a report, at least once annually, to each FSS family on the status of the family's FSS account. At a minimum, the report will include:

- The balance at the beginning of the reporting period
- The amount of the family payments credited into the account
- Any deductions made
- The amount of interest earned during the year
- The total in the account at the end of the reporting period

The PHA failed to deposit the family shares of the escrow balance into the FSS bank account. As of March 31, 2006 the total FSS Escrow balance was \$25,016. However, the bank balance in the FSS escrow bank account was only \$17,760. The PHA failed to deposit \$7,256. In addition, no reporting was made to the families.

It was explained that the reason for the error was due to the resignation of the FSS Coordinator. The information was not provided to the fiscal department to make the necessary transfer into the escrow bank account. Once the error was discovered, the transfer was made. The cash was properly transferred in October 2006.

This resulted into the PHA not been in compliance with the HUD requirement and understating its liability (audit adjustment was made to properly state the FSS escrow liability amount).

Preble Metropolitan Housing Authority
Schedule of Findings
March 31, 2006

Recommendation:

The PHA must comply with the above regulations. Cash transfer to the FSS Escrow Bank Accounts should be made on a monthly basis. Also, a report should be filed with each family at least once a year.

PHA Response:

The PHA will comply with the above requirement. Cash balance as already been brought to date and a report was filed with the family. The Program Manager will be responsible to ascertain that the program will continued to be properly operated in compliance with HUD regulations.

FINDING NUMBER 2006-2

Reportable Condition / Noncompliance Citation

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

Section 982.516 of the Code of Federal Regulations states the following:

The PHA must obtain and document in the tenant file third party verification of the following factors, or must document in the tenant file why third party verification was not available:

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

A review of 16 tenant files (Total base line of number of vouchers 52) revealed 3 errors:

1. One of the files reviewed showed child support income calculated using the obligated amount on the divorce decree judgment of \$281.67. However, the confirmation amount documented in the tenant files showed average monthly payment received of \$161.50. This resulted in income reported on the form HUD-50058 to be overstated by \$1,442 which resulted in under payment of housing assistance payment of \$36 per month.

The PHA staff explained that the confirmation was not received until December 19, 2005, after the effective date of the HUD-50058 form of December 1, 2005.

Preble Metropolitan Housing Authority
Schedule of Findings - Continued
March 31, 2006

FINDING NUMBER 2006-2 (Continued)

2. Error in one of the file in calculating child support and wages. The amount reported on the form HUD-50058 was: \$1,896 for child support and \$12,480 for wages. The information provided during the audit showed that the actual income should have been: \$2,238 for child support and \$13,497 for wages. This resulted in overpayment of housing assistance payment amount of \$34 per month.
3. Error in reporting TANF income for one of the files reviewed. No documentation was in the file to support the \$2,940 of TANF income reported on the form HUD-50058. After further review by the PHA staff, it was determined that the amount reported was in error. The tenant received \$305 of monthly TANF income for the period of January through September 2005. The monthly TANF assistance changed to \$245 on October 2005. The PHA used the \$245 monthly income on the form HUD-50058 that was effective on July 1, 2005.

The PHA should have used \$305 monthly assistance on the HUD-50058 effective July 1, 2005 and then perform an interim adjustment when the income changed to \$245 per month. This resulted in the housing assistance payment to be over stated by \$18 per month for 3 months.

Recommendation:

The PHA must comply with the above regulations. Proper third party verification must be obtained and documented in the files. The files should be reviewed to ascertain that the documentation is properly obtained and income is correctly calculated.

PHA Response:

The PHA will comply with the above requirement. The files identified above have been reviewed and errors corrected. The Program Manager will be responsible to ascertain that the above errors have been resolved and that a proper review procedure is implemented immediately.

Preble Metropolitan Housing Authority
Schedule of Prior Audit Findings
March 31, 2006

The audit report for the fiscal year ended March 31, 2005 contained no audit findings.



**Auditor of State
Betty Montgomery**

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

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

PREBLE METROPOLITAN HOUSING AUTHORITY

PREBLE 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
JANUARY 2, 2007**