BUTLER METROPOLITAN HOUSING AUTHORITY
HAMILTON, OHIO

BASIC FINANCIAL STATEMENTS AND SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 2011

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

Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the Butler Metropolitan Housing Authority, Butler County, prepared by James G. Zupka, CPA, Inc., for the audit period July 1, 2010 through June 30, 2011. 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.

Dave Yost
Auditor of State

February 16, 2012

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HAMILTON, OHIO
BASIC FINANCIAL STATEMENTS AND SINGLE AUDIT
FOR THE YEAR ENDED JUNE 30, 2011

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Butler Metropolitan Housing Authority
Hamilton, Ohio

Regional Inspector General of Audit
Department of Housing and Urban Development

We have audited the accompanying financial statements of the Butler Metropolitan Housing Authority, Ohio as of and for the year ended June 30, 2011, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Butler Metropolitan Housing Authority, Ohio's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Butler Metropolitan Housing Authority, Ohio, as of June 30, 2011, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 8, 2011, on our consideration of the Butler Metropolitan Housing Authority, Ohio's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Butler Metropolitan Housing Authority, Ohio's financial statements as a whole. 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 Governments, and Non-Profit Organizations,* and is not a required part of the basic financial statements. The Schedules of Expenditures and Federal Awards is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly presented in all material respects in relation to the financial statements taken as a whole.

The Authority has not presented the Financial Data Schedules (FDS) utilized by the Department of Housing and Urban Development (HUD) for additional analysis, although not required to be part of the basic financial statements. The FDS are not available as HUD has not completed its review of the Schedules as of the date of this report.

James G. Zupka, CPA, Inc.

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

December 8, 2011

The management of the Butler Metropolitan Housing Authority (the Authority) offers the readers of the financial statements this narrative overview and analysis of the Authority's financial activities for the year ended June 30, 2011. This discussion and analysis is designed to assist the reader in focusing on significant financial issues, provide an overview of the Authority's financial activity, identify changes in the Authority's financial position, and identify individual fund issues or concerns. Readers should consider the information presented here in conjunction with the Authority's financial statements to obtain a full understanding of its financial position.

FINANCIAL HIGHLIGHTS

- The Authority's net assets increased by $1,399,928 or 8.13 percent during 2011 due to an increase in operating funding. The Authority also had an increase in overall revenue which contributed to the increase in Net Assets. Since the Authority engages only in business-type activities, the increase is in the category of business-type net assets. Net Assets were $18.61 million and $17.21 million for FY2011 and FY 2010 respectively.

- The business-type activity revenue increased by $1,526,500 or 10.74 percent during FY 2011. The primary reason for the increase in revenue was due to increases in operating and in capital grant activity. Total revenue was $15.74 million and $14.22 million for FY 2011 and FY 2010 respectively.

- The total expenses of all Authority programs increased by $1,129,765 or 8.55 percent. Primary reasons for increases in expense were attributable to increased maintenance expenses, HAP expense, and depreciation. Total expenses were $14.34 million and $13.21 million for FY 2011 and FY 2010 respectively.

Required Financial Statements

The Authority-wide financial statements (see Tables 1 through 4) 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 Statement 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 (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 Debt," or "Restricted Net Assets."

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

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

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

Consolidated Financial Statements

Traditional users of governmental financial statements will find the consolidated Financial Statements presentation more familiar. The focus is now on a consolidated balance rather than the individual fund types or programs. 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 required by the Department of Housing and Urban Development. Others are segregated to enhance accountability and control.

FINANCIAL ANALYSIS OF THE AUTHORITY

Statement of Net Assets

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

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

Table 1 - Combined Statement of Net Assets

	2011	2010	Total Change	% Change
Assets				
Current Assets	$ 4,149,473	$ 2,817,347	$ 1,332,126	47.28 %
Capital Assets	16,368,952	16,372,369	(3,417)	(0.02)%
Total Assets	$ 20,518,425	$19,189,716	$ 1,328,709	6.92 %
Liabilities				
Current Liabilities	$ 757,855	$ 702,069	$ 55,786	7.95 %
Non-Current Liabilities	1,148,226	1,275,231	(127,005)	(9.96)%
Total Liabilities	1,906,081	1,977,300	(71,219)	(3.60)%
Net Assets				
Invested in Capital Assets, Net of Related Debt	15,281,568	15,115,164	166,404	1.10 %
Restricted Net Assets	1,871,770	534,309	1,337,461	250.32%
Unrestricted Net Assets	1,459,006	1,562,943	(103,937)	(6.65)%
Total Net Assets	18,612,344	17,212,416	1,399,928	8.13 %
Total Liabilities and Net Assets	$ 20,518,425	$19,189,716	$ 1,328,709	6.92 %

Major Factors Affecting the Statement of Net Assets

Current assets increased by $1,332,126 or 47.28 percent due to net operating income, thus increasing the cash position of the Authority

Capital assets decreased by $3,417 or .02 percent which is summarized in the following analysis of capital asset activity. The decrease in land of $665,226 is a reclassification of land improvements to building improvements.

Current liabilities increased by $55,786 due to increases in accounts payable vendors, and payroll liabilities.

Noncurrent liabilities decreased by $127,005 due to payment of regularly scheduled debt payments.

Net Assets increased by $1,399,928 or 8.13 percent during FY 2011.

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 change in financial well-being.

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

	2011	2010	Total Change	% Change
Revenue				
Tenant Revenue	$ 1,642,523	$ 1,726,596	$ (84,073)	(4.87)%
Operating Subsidies	11,378,341	10,332,220	1,046,121	10.12 %
Capital Grants	2,457,309	1,855,125	602,184	32.46 %
Fraud Income	24,886	14,699	10,187	69.30 %
Interest Income	4,079	13,508	(9,429)	(69.80)%
Other Income	237,040	275,530	(38,490)	(13.97)%
Total Revenue	15,744,178	14,217,678	1,526,500	10.74%
Expenses				
Administration	2,433,110	2,373,217	59,893	2.52 %
Tenant Services	28,647	934	27,713	2967.13%
Utilities	997,946	1,026,958	(29,012)	(2.83)%
Maintenance	2,320,900	2,183,773	137,127	6.28 %
Insurance	199,026	187,699	11,327	6.03 %
General	161,563	221,540	(59,977)	(27.07)%
Interest Expense	51,492	66,159	(14,667)	(22.17)%
Protective Services	30,852	2,020	28,832	1427.33 %
Housing Assistance Payments	5,654,182	5,403,746	250,436	4.63 %
Depreciation	2,466,532	1,748,439	718,093	41.07 %
Total Expenses	14,344,250	13,214,485	1,129,765	8.55 %
Change in Net Assets	1,399,928	1,003,193	396,735	39.55 %
Beginning Net Assets	17,212,416	16,209,223	1,003,193	6.19 %
Ending Net Assets	$ 18,612,344	$ 17,212,416	$ 1,399,928	8.13 %

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

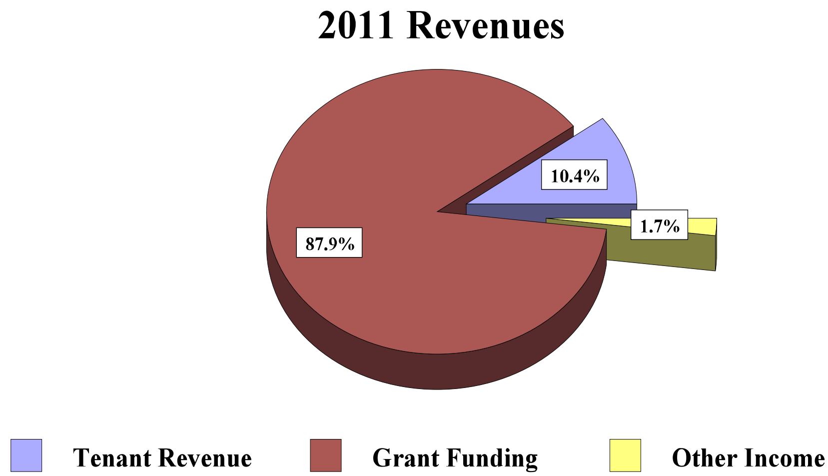
Total revenue increased by $1,526,500 or 10.74 percent during fiscal year 2011.

- Tenant revenue decreased by $84,073 or 4.87 percent due to higher paying residents moving out and lower paying residents moving in.
- Operating subsidies increased by $1,046,121 or 10.12 percent due to increases in Soft grant activity.
- Capital grants increased by $602,184 or 32.46 percent due to the increase in capital fund construction activity.
- Fraud income increased by $10,187 or 69.30 percent due to the Authority's efforts in collecting these debts.

- Interest income decreased by $9,429 or 69.80 percent due to decreases in investments of cash.

- Other income decreased by $38,490 or 13.97 percent due to the decreases in program income from development activity, late fees, and maintenance charges.

REVENUES



In fiscal year 2011, the total expenses increased by $1,129,765 or 8.55 percent.

- Administrative expenses decreased by $59,893 or 2.52 percent due primarily to decreases in allocated overhead, employee benefits, and other operating expenses.

- Tenant services increased by $27,713 or 2,967.13 percent due to an increase of $28,647 in relocation costs.

- Utilities expenses decreased by $29,012 or 2.83 percent due to decreases in consumption as a result of the EPC project implemented to increase efficiency of appliances and equipment.

- Maintenance expenses increased by $137,127 or 6.28 percent due to increases in labor, materials expenditures through the operating budget, and expenses through grants.

- Insurance expense increased by $11,327 or 6.03 percent.

- General expenses decreased by $59,977 or 27.07 percent.

- Interest expense decreased by $14,667 or 22.17 percent because of a reduction of debt outstanding due to routine debt payments being made.

- Protective services increased by $28,832 due to increases in security during the year.

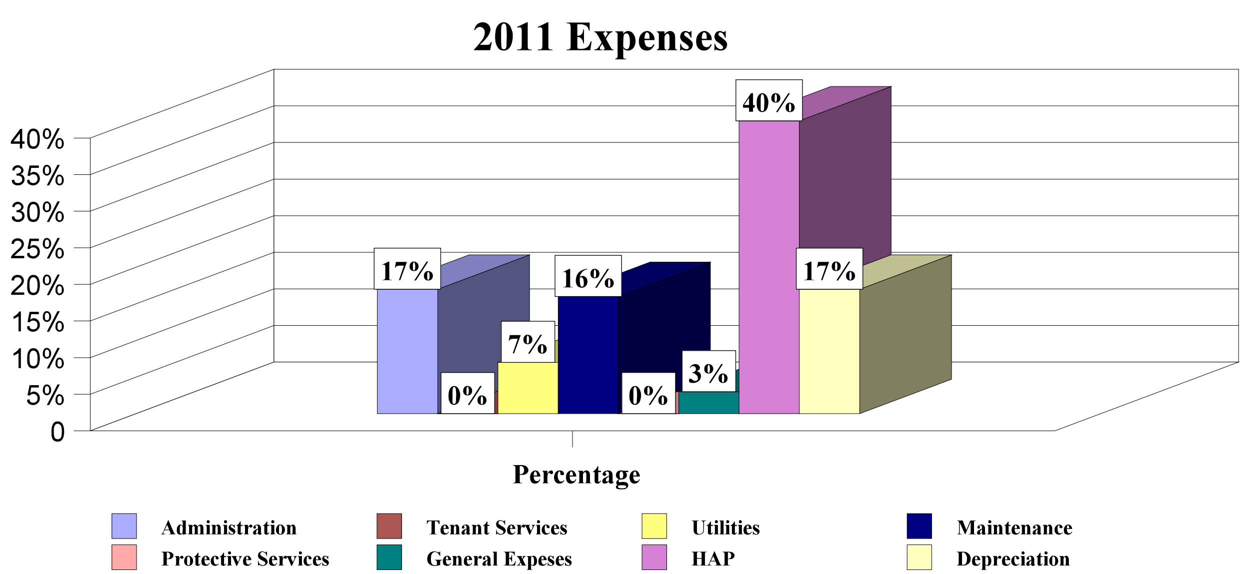
- Casualty losses that are non-capitalized decreased by $3,254 or 37.71 percent and cannot be anticipated from one year to the next.

- Housing Assistance Payments increased by $250,436 or 4.63 percent due to increased leasing rates.

- Depreciation expense increased by $718,093 or 41.07 percent, which is explained in greater detail in the Capital Assets section of this report.

EXPENSES

The Authority experienced an increase in expenses for the current year from $13,214,485 to $14,344,250 or $1,129,765 (8.55 percent). The highlights of the expenses for the current year are as follows:



CAPITAL ASSETS

As of year-end, the Authority had $16,188,253 invested in a variety of capital assets as reflected in the following schedule, which represents a net decrease (addition, deductions, and depreciation) of $184,116 from the end of last fiscal year.

The following reconciliation summarizes the change in Capital Assets.

Table 3 - Combined Statement of Capital Assets

	2011	2010	Total Change	% Change
Land	$ 3,265,088	$ 3,930,314	$ (665,226)	(16.93)%
Buildings and Improvements	65,308,437	57,872,317	7,436,120	12.85 %
Equipment	1,737,165	1,731,356	5,809	0.34 %
Construction in Progress	2,189,329	6,502,917	(4,313,588)	(66.33)%
	72,500,019	70,036,904	2,463,115	3.52 %
Accumulated Depreciation	(56,131,067)	(53,664,535)	(2,466,532)	4.60 %
Total Capital Assets	$ 16,368,952	$ 16,372,369	$ (3,417)	(0.02)%

Net (additions minus disposals) depreciation expense for the fiscal year was $2,466,532 which was a 41.07 percent increase over the prior year's net depreciation expense. The significant change in depreciation expense was due to a reclassification of construction in process to buildings and depreciation beginning on certain assets.

LONG-TERM DEBT OBLIGATIONS

The Authority had the following debt outstanding at the end of its fiscal year.

Table 4 - Butler Metropolitan Housing Authority - Schedule of Notes Payable Activity

Notes Payable at June 30, 2010	$ 1,257,204
Retirements	(169,820)
Notes Payable at June 30, 2011	$ 1,087,384

ECONOMIC FACTORS

The Housing Authority is primarily dependent upon HUD for the funding of operations; therefore, the Housing Authority is affected more by the federal budget than by local economic conditions. The funding of programs could be significantly affected by the 2012 federal budget.

FINANCIAL CONTACT

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

BUTLER METROPOLITAN HOUSING AUTHORITY
HAMILTON, OHIO
STATEMENT OF NET ASSETS
JUNE 30, 2011

ASSETS	
Current Assets	
Cash and Cash Equivalents - Unrestricted	$ 1,291,862
Cash and Cash Equivalents - Restricted	2,017,328
Investments	255,590
Accounts Receivable	273,994
Prepaid Expense	176,199
Inventories	134,500
Total Current Assets	4,149,473
Noncurrent Assets	
Non-depreciable Capital Assets	5,454,417
Depreciable Capital Assets, Net	10,914,535
Total Noncurrent Assets	16,368,952
TOTAL ASSETS	$ 20,518,425
LIABILITIES AND NET ASSETS	
Current Liabilities	
Accounts Payable	$ 196,637
Accrued Expenses	218,832
Deferred Revenue	24,055
Long-Term Debt - Current Portion	192,682
Tenant Security Deposits	125,649
Total Current Liabilities	757,855
Noncurrent Liabilities	
Long Term Debt - Net of Current Portion	894,702
Noncurrent Liabilities - Other	19,909
Accrued Compensated Absences	233,615
Total Noncurrent Liabilities	1,148,226
Total Liabilities	1,906,081
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	15,281,568
Restricted	1,871,770
Unrestricted	1,459,006
Total Net Assets	18,612,344
TOTAL LIABILITIES AND NET ASSETS	$ 20,518,425

See accompanying notes to the basic financial statements.

BUTLER METROPOLITAN HOUSING AUTHORITY
HAMILTON, OHIO
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2011

Operating Revenues	
Dwelling Rent	$ 1,642,523
Governmental Grants and Subsidy	11,378,341
Other Income	261,926
Total Operating Revenues	13,282,790
Operating Expenses	
Administrative	2,433,110
Tenant Services	28,647
Utilities	997,946
Ordinary Maintenance and Operations	2,320,900
Protective Services	30,852
General Expense	360,589
Housing Assistance Payments	5,654,182
Depreciation Expense	2,466,532
Total Operating Expenses	14,292,758
Operating Income (Loss)	(1,009,968)
Non-Operating Revenues (Expenses)	
Investment Income	4,079
Interest Expense	(51,492)
Total Non-Operating Revenues (Expenses)	(47,413)
Income (Loss) Before Capital Grants	(1,057,382)
Capital Grants	2,457,309
Net Increase/(Decrease) in Net Assets	1,399,928
Total Net Assets at Beginning of Year	17,212,416
Net Assets at End of Year	$ 18,612,344

See accompanying notes to the basic financial statements.

BUTLER METROPOLITAN HOUSING AUTHORITY
HAMILTON, OHIO
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2011

Cash Flows from Operating Activities	
Receipts from Tenants	$ 1,662,214
Governmental Grants and Subsidy - Operations	11,264,312
Receipts - Other	240,001
Payments for Administrative Expenses	(2,395,687)
Payments for Housing Assistance	(5,654,182)
Payments for Other Operating Expenses	(3,720,421)
Net Cash (Provided) by Operating Activities	1,396,237
Cash Flows from Investing Activities	
Interest Received	4,079
Investments Redeemed	8,941
Net Cash Provided from Investing Activities	13,020
Cash Flows from Capital and Related Financing Activities	
Repayment of Mortgage Loan	(169,821)
Payment of Interest on Debt	(51,492)
Grant Revenue - Capital Grants	2,457,309
Purchase of Capital Assets	(2,463,115)
Net Cash Provided by Capital and Related Financing Activities	(227,119)
Net Increase in Cash	1,182,138
Cash at Beginning of Period	2,127,052
Cash at End of Period	$ 3,309,190
Reconciliation of Operating Loss to Net Cash Provided by Operating Activities	
Net Operating (Loss)	$ (1,009,968)
Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities:	
Depreciation	2,466,532
Decrease (Increase) in Accounts Receivable	(85,664)
Decrease (Increase) in Prepaid Expenses	(75,230)
Decrease (Increase) in Inventory	1,965
Increase (Decrease) in Accounts Payable	14,675
Increase (Decrease) in Accrued Expenses	64,102
Increase (Decrease) in Deferred Revenue	(32,881)
Increase (Decrease) in Non-Current Liabilities	50,424
Increase (Decrease) in Security Deposits	2,282
Net Cash Used by Operating Activities	$ 1,396,237
Supplemental Disclosure of Cash Flow Information	
Payment of Interest	$ 51,492

See accompanying notes to the basic financial statements.

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

Organization

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

The Board of Commissioners of the Authority is appointed to five-year terms by the Mayor of the City of Hamilton, Probate Court, Commons Pleas Court, and the Butler County Commissioners, but the Authority designates its own management. The City and County provide no financial support to the Authority and are not responsible for the debts or entitled to the net assets of the Authority. The Authority has the power to approve its own budget and maintains its own accounting system. Although the officials of the City of Hamilton and Butler County appoint the governing board of the Authority, no other criteria established by Government Accounting Standards Board for inclusion of the Authority in the financial reports of those entities are met. Therefore, a separate financial report is prepared for the Authority.

Reporting Entity

In determining how to define the reporting entity, management has considered all potential component units by applying the criteria set forth in Section 2100 and 2600 of the *Codification of Government Accounting Standards Board and Financial Accounting Standards Board* and GASB Statement No. 14, *The Financial Reporting Entity*.

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

Imposition of Will - The Authority's Board of Commissioners has the responsibility to oversee the Authority's operations. This includes, but is not limited to, adoption of the budget, personnel management, sole title to, and residual interest in all assets (including facilities and properties), signing contracts, issuing bonds, and deciding which programs are to be provided.

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

Reporting Entity (Continued)

Imposition of Will

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

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

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

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

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

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

Basis of Presentation, Basis of Accounting, and Measurement Focus

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

The financial statements of 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 Authority has elected under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Activities That Use Proprietary Fund Accounting*, to apply all applicable GASB pronouncements as well as any applicable pronouncements of the Financial Accounting Standards Board, the Accounting Principles Board, or any Accounting Research Bulletins issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements. The Authority has elected not to follow FASB guidance issued after November 30, 1989.

The Authority's basic financial statements consist of a Statement of Net Assets, a Statement of Revenues, Expenses, and Changes in Net Assets, and a Statement of Cash Flows.

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

Consolidated Proprietary Fund

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

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

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

Basis of Presentation (Continued)

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Authority's enterprise fund are charges to tenants for rent and operating subsidies from HUD. Operating expenses for the enterprise fund include the costs of facility maintenance, housing assistance payments, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Revenues and Expenses

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

Encumbrances

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

Budgets

The Authority adopts budgets on the basis of accounting consistent with the basis of accounting for the program to which the budget applies. The Authority prepares annual operating budgets, which are formally adopted by its Governing Board of Commissioners and submitted to HUD when required.

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

Inventories

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

Capital Assets and Depreciation

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

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

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

Collection Losses

Collection losses on accounts receivable are expended in the appropriate fund on the specific write-off method as well as the establishment of an allowance for doubtful accounts.

Insurance

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

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

Cash and Investments

a. The Authority's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with an original maturity of three months or less when purchased to be cash equivalents.

b. Investments are stated at fair value, except for U.S. Treasury Bills, which are reported at amortized cost. The Authority reports all money market investments having a remaining maturity at time of purchase of one year or less at amortized cost. Investment securities are normally held to mature at par value and adjustments are made to the investment portfolio to reflect gains or losses made.

Compensated Absences

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

Operating Revenue

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

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

NOTE 2: DEPOSITS AND INVESTMENTS

Deposits

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

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

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

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

At year-end, the carrying amount of the Authority's deposits was $193,010 (including $1,200 of petty cash) and the bank balance was $349,848.

Investments

At June 30, 2011, the Authority's investment balances were as follows:

Investment Type	Market Value	Maturity	Rating
Federal Home Loan Bank	$ 255,590	12/09/2011	AAA
Repurchase Agreements	3,116,180	07/01/2011	AAA
Total	$ 3,371,770		

Interest Rate Risk

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

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

Credit Risk

The credit risk of the Authority's investments are in the table above. The Authority has no formal policy regarding credit risk.

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a bank failure, the Authority's deposits may not be returned. The Authority's policy is to place deposits with major local banks approved by the Board. Multiple financial institution collateral pools that insure public deposits must maintain collateral in excess of 105 percent of deposits, as permitted by Chapter 135 of the Ohio Revised Code. As of year-end, deposits totaling $349,848 were covered by Federal Depository Insurance and no deposits were uninsured and collateralized with securities held by the financial institution's trust department or agent, pledged as a pool of collateral against the public deposits it holds, or as specific collateral held in the name of the Authority.

Concentration of Credit Risk

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

A reconciliation of cash and investments as shown on the Statement of Net Assets at June 30, 2011 to the deposits and investments included in this note is as follows:

Cash and Cash Equivalents	$ 1,291,862
Cash - Restricted	2,017,328
Investments - Unrestricted	255,590
Total	$ 3,564,780
Carrying Amount of Deposits	$ 193,010
Carrying Amount of Investments	3,371,770
Total	$ 3,564,780

NOTE 3: RESTRICTED CASH

The restricted cash balance of $2,017,328 on the financial statements represents the following:

Excess Cash Advanced to the Housing Choice Voucher Program by HUD for Housing Assistance Payments	$ 1,871,770
FSS Escrow Funds	19,909
Tenant Security Deposits	125,649
Total Restricted Cash	$ 2,017,328

NOTE 4: ACCOUNTS RECEIVABLE

Accounts receivables at June 30, 2011, consisted of the following:

HUD	$ 57,198
Accounts Receivable - Tenants (Net of Allowance of $37,431)	45,897
Fraud Recovery	22,353
Accounts Receivable - Other Government	148,546
Total Accounts Receivable	$ 273,994

Accounts receivable does not include interprogram amounts totaling $1,225,358. This has been eliminated from the consolidated financial statements.

NOTE 5: CAPITAL ASSETS

The following is a summary of changes:

	Beginning Balances	Additions	Adjustments/ Transfers	Deletions	Ending Balances
ENTERPRISE ACTIVITIES					
Capital Assets Not being Depreciated					
Land	$ 3,930,314	$ 0	$ (665,226)	$ 0	$ 3,265,088
Construction in Progress	6,502,917	1,021,572	(5,335,160)	0	2,189,329
Total Capital Assets Not Being Depreciated	10,433,231	1,021,572	(6,000,386)	0	5,454,417
Capital Assets Being Depreciated					
Buildings and Improvements	57,872,317	1,435,737	6,000,383	0	65,308,437
Furniture, Equipment, and Machinery	1,731,356	5,806	3	0	1,737,165
Total Capital Assets Being Depreciated	59,603,673	1,441,543	6,000,386	0	67,045,602
Less Accumulated Depreciation for:					
Buildings & Improvements	(52,253,448)	(2,389,849)	0	0	54,643,297
Furniture & Equipment	(1,411,087)	(76,683)	0	0	1,487,770
Total Accumulated Depreciation	(53,664,535)	(2,466,532)	0	0	56,131,067
Total Capital Assets Being Depreciation	5,939,138	(1,024,989)	6,000,386	0	10,914,535
Total Capital Assets, Net	$ 16,372,369	$ (3,417)	$ 0	$ 0	$ 16,368,952

NOTE 6: ACCOUNTS PAYABLE

Accounts payable at June 30, 2011, consisted of the following:

Vendors and Contractors Payable	$ 196,637
Total Accounts Payable	$ 196,637

NOTE 7: ACCRUED EXPENSES

Accrued expenses at June 30, 2011, consisted of the following:

Accrued Wages/Payroll Tax Liabilities	$ 158,788
Accrued Compensated Absences - Current	58,403
Other Current Liabilities	1,641
Total Accrued Expenses	$ 218,832

NOTE 8: OTHER NONCURRENT LIABILITIES

Other noncurrent liabilities at June 30, 2011 consisted of the following:

FSS Escrow Deposits	$ 19,909
Accrued Compensated Absences	233,615
Total Noncurrent Liabilities	$ 253,524

	Balance June 30, 2010	Increases	Decreases	Balance June 30, 2011	Current Portion of Balance
Compensated Absences	$ 245,240	$ 134,661	$(87,883)	$ 292,018	$ 58,403

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 saving equipment. The note is scheduled to mature on May 1, 2015, and is secured by a trust indenture dated May 1, 2006 to Fifth Third Bank, Cincinnati, Ohio as the lender. The note bears interest at the rate of 4.230 percent payable in monthly installments of $17,647.39. The outstanding balance as of June 30, 2011, is $762,682.

Knightsbridge Loan - On September 10, 2002, the Authority obtained a loan from Fifth Third Bank, Cincinnati, Ohio for $425,000 to finance the purchase of a commercial building. This note bore an interest rate of 6.5 percent fixed rate over 5 years. The interest was calculated based on a 30 day calendar month over a 360 day year. The original note matured on October 1, 2007, and was refinanced with First Financial Bank with an interest rate of 6.5 percent in the amount of $340,000 on September 29, 2009. Monthly payments of $2,553.66 are being made until maturity in September 2014. The outstanding balance as of June 30, 2011, is $324,702.

NOTE 9: **LONG TERM DEBT** (Continued)

In addition, the Authority borrowed $375,000 from the Housing Choice Voucher Program to provide a down payment on the purchase of the Knightsbridge building. The amount borrowed will be repaid back to the Voucher Program as excess funds are available from rental income The building has been leased, and the Authority made the required $500 monthly payments during the current year. The outstanding balance as of June 30, 2011, is $339,000. This balance is eliminated in the statement of net assets as it is an interprogram transaction.

Principal and interest payments for the years following June 30, 2011, are as follows:

For the Year Ended June, 30	Principal	Interest	Total Payments
2012	$ 192,682	$ 49,731	$ 242,413
2013	201,284	41,129	242,413
2014	210,276	32,137	243,413
2015	483,142	8,811	491,953
Totals	$ 1,087,384	$ 131,808	$ 1,219,192

The following is a summary of changes in long-term debt for the year ended June 30, 2011:

Description	Balance June 30, 2010	Additions	Retired	Balance June 30, 2011	Current Portion
Energy Performance Loan	$ 923,573	$ 0	$ 160,891	$ 762,682	$ 182,821
First Financial Bank-Knightsbridge	333,631	0	8,929	324,702	9,861
Total Changes in Long-Term Debt	$ 1,257,204	$ 0	$ 169,820	$1,087,384	$ 192,682

NOTE 10: **PENSION PLAN**

Ohio Public Employees Retirement System

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

- The Traditional Pension Plan (TP) - a cost sharing multiple-employer defined benefit pension plan;

- The Member-Directed Plan (MD) - a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20 percent per year). Under the Member-Directed Plan, members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings;

NOTE 10: **PENSION PLAN** (Continued)

Ohio Public Employees Retirement System (Continued)

- The Combined Plan (CO) - a cost-sharing multiple-employer defined benefit pension plan. Under the Combined Plan employer contributions are invested by the retirement system to provide a formula retirement benefit similar in nature to the Traditional Pension Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member Directed Plan.

OPERS provides retirement, disability, survivor and death benefits, and annual cost of living adjustments to members of both the Traditional Pension and Combined plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 E. Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6701 or 1-800-222-7377 or by using the OPERS website at www.opers.org.

The Ohio Revised Code provides statutory authority for member and employer contributions. For 2010 - 2011, member and employer contribution rates were consistent across all three plans (TP, MD, and CO). Plan members are required to contribute 10 percent of their annual covered salary to fund pension obligations. The employer pension contribution rate for the Authority was 14.00 percent of covered payroll. The Authority's required contributions to OPERS for the years ended June 30, 2011, 2010, and 2009 were $253,008, $254,431, and $274,405, respectively. Included in those amounts were employer contributions to the Combined Plan of $11,887, $10,806 and $10,149, and employer contributions to the Member-Directed Plan of $6,804, $6,697 and $4,244 for the years ended June 30, 2011, 2010 and 2009, respectively. The full amounts have been contributed for 2011, 2010, and 2009.

NOTE 11: **POST-EMPLOYMENT BENEFITS**

A. **Plan Description**

The Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: the Traditional Pension Plan - a cost-sharing, multiple-employer defined benefit pension plan; the Member-Directed Plan - a defined contribution plan; and the Combined Plan - a cost sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

NOTE 11: **POST-EMPLOYMENT BENEFITS** (Continued)

A. **Plan Description** (Continued)

OPERS maintains a cost-sharing, multiple-employer defined benefit post-employment health care plan, which includes a medical plan, prescription drug program, and Medicare Part B premium reimbursement, to qualifying members of both the Traditional Pension and the Combined plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage.

In order to qualify for post-employment health care coverage, age and service retirees under the Traditional Pension and Combined plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post-Employment Benefit (OPEB) as described in GASB Statement No. 45.

The Ohio Revised Code permits, but does not mandate, OPERS to provide OPEB benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

OPERS issues a stand-alone financial report. Interested parties may obtain a copy by writing OPERS, 277 East Town Street, Columbus, OH 43215-4642, or by calling 614-222-5601 or 1-800-222-7377.

B. **Funding Policy**

The Ohio Revised Code provides the statutory authority requiring public employers to fund post-retirement health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care benefits.

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In fiscal year ending 2011, the Authority contributed at a rate of 14.00 percent of covered payroll. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14.00 percent of covered payroll for state and local employer units. Active members do not make contributions to the OPEB Plan.

NOTE 11: **POST-EMPLOYMENT BENEFITS** (Continued)

B. **Funding Policy** (Continued)

OPERS' Post-Employment Health Care Plan was established under, and is administered in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post-employment health care benefits. The portion of employer contributions allocated to health care for members in the Traditional Plan was 5.0 percent from April 1 through December 31, 2010, and 4.0 percent from January 1, through June 30, 2011.

The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care coverage by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. Actual Authority contributions for the year ended June 30, 2011, 2010, and 2009 which were used to fund post-employment benefits were $83,357, $99,955, and $135,081, respectively.

On September 9, 2004, the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. Member and employer contribution rates increased as of January 1, 2006, January 1, 2007, and January 1, 2008, which allowed additional funds to be allocated to the health care plan.

NOTE 12: **COMPENSATED ABSENCES**

Vacation and sick leave policies are established by the Board of Authority based on local and state laws. All permanent employees will earn 4.6 hours of sick leave per eighty (80) hours of service. Unused sick leave may accumulate without limit. At the time of retirement, employees shall be paid the value of twenty-five percent of unused sick leave subject to a maximum payment equal to 120 days of sick leave. All permanent employees will earn vacation hours accumulated based on length of service. Employees will be paid for all unused vacation time upon their separation from service.

NOTE 13: **ECONOMIC DEPENDENCY**

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

NOTE 14: **RISK MANAGEMENT**

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

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

NOTE 15: **CONTINGENCIES**

The Authority is party to various legal proceedings which seek damages or injunctive relief generally incidental to its operations and projects. The Authority's management is of the opinion that the ultimate disposition of various claims and legal proceedings will not have a material effect, if any, on the financial condition of the Authority.

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

BUTLER METROPOLITAN HOUSING AUTHORITY
HAMILTON, OHIO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2011

Federal Grantor/ Pass Through Grantor/ Program Title	Federal CFDA Number	Expenditures
U.S. Department of Housing and Urban Development		
Direct Programs:		
Public Housing Programs		
Low Rent Public Housing Program	14.850	$ 3,642,640
Capital Fund Program Cluster:		
Capital Fund Program	14.872	2,014,355
Public Housing Capital Fund Stimulus (Formula) Recovery Act Funded - ARRA	14.885	1,007,122
Total Capital Fund Program Cluster		3,021,477
Total Public Housing Programs		6,664,117
Section 8 Tenant Based Programs		
Section 8 Housing Choice Voucher Program	14.871	7,171,533
Total U.S. Department of Housing and Urban Development		13,835,650
Total Expenditures of Federal Awards		$ 13,835,650

This schedule is prepared on the accrual basis of accounting.

NOTE A: **BASIS OF PRESENTATION**

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

NOTE B: **SUBRECIPIENTS**

The Authority provided no federal awards to subrecipients during the fiscal year ending June 30, 2011.

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

The Authority received no federal awards of non-monetary assistance that are required to be disclosed for the year needed June 30, 2011.

The Authority had no loans, loan guarantees, or federally restricted endowment funds required to be disclosed for the fiscal year ended June 30, 2011.

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

Board of Directors
Butler Metropolitan Housing Authority
Hamilton, Ohio

Regional Inspector General for Audit
Department of Housing and Urban Development

We have audited the financial statements of the Butler Metropolitan Housing Authority, Ohio, as of and for the year ended June 30, 2011, and have issued our report thereon dated December 8, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Butler Metropolitan Housing Authority, Ohio's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Questioned costs that we consider to be a significant deficiency in internal control over financial reporting as **Finding 2011-1.** A significant deficiency is a deficiency or combination of deficiencies in internal control that is less severe than a material weaknesses, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

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

We noted certain matters that we reported to management of the Butler Metropolitan Housing Authority, Ohio, in a separate letter dated December 8, 2011.

The Butler Metropolitan Housing Authority, Ohio's responses to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the Butler Metropolitan Housing Authority, Ohio's responses and, accordingly, we express no opinion on them.

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

James G. Zupka, CPA, Inc.

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

December 8, 2011

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REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Directors
Butler Metropolitan Housing Authority
Hamilton, Ohio

Regional Inspector General of Audit
Department of Housing and Urban Development

Compliance

We have audited the Butler Metropolitan Housing Authority, Ohio's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Butler Metropolitan Housing Authority, Ohio's major federal programs for the year ended June 30, 2011. The Butler Metropolitan Housing Authority, Ohio's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Butler Metropolitan Housing Authority, Ohio's management. Our responsibility is to express an opinion on the Butler Metropolitan Housing Authority, Ohio's compliance based on our audit.

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

In our opinion, the Butler Metropolitan Housing Authority, Ohio, complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

Management of the Butler Metropolitan Housing Authority, Ohio, is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Butler Metropolitan Housing Authority, Ohio's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Butler Metropolitan Housing Authority, Ohio's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

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

James G. Zupka, CPA, Inc.

James G. Zupka CPA, Inc.
Certified Public Accountants

December 8, 2011

BUTLER METROPOLITAN HOUSING AUTHORITY
HAMILTON, OHIO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 & .505
JUNE 30, 2011

1. SUMMARY OF AUDITOR'S RESULTS

2011(i)	Type of Financial Statement Opinion	Unqualified
2011(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
2011(ii)	Were there any significant deficiencies in internal control reported at the financial statements level (GAGAS)?	Yes
2011(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
2011(iv)	Were there any material internal control weakness conditions reported for major Federal programs?	No
2011(iv)	Were there any other significant deficiency conditions reported for major Federal programs?	No
2011(v)	Type of Major Programs' Compliance Opinion	Unqualified
2011(vi)	Are there any reportable findings under .510?	No
2011(vii)	Major Programs (list): Low Income Public Housing - CFDA #14.850 Public Housing Capital Fund - CFDA #14.872 Public Housing Capital Fund Stimulus (Formula) Recovery Act Funded - CFDA#14.885	
2011(viii)	Dollar Threshold: Type A\B Programs	Type A: >$415,070 Type B: all others
2011(ix)	Low Risk Auditee?	Yes

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

Finding 2011-1: Significant Deficiency in Internal Control - Untimely Submission of Unaudited Financial Data Schedule (FDS) and Accounting Errors

Condition:
The Financial Data Schedule (FDS) is required to be submitted electronically to HUD using HUD's controlled Real Estate Assessment Center within 60 days of the Authority's fiscal year-end, unless the Authority requests and receives an extension from HUD to the time to make the submission. The Authority failed to submit the FDS within the prescribed time frame and did not obtain an extension from HUD to make the submission. In addition, the Authority reported amounts incorrectly related to their Capital Fund Grants revenue and expenses; however, the adjustments were made prior to the completion of our audit. These errors did not involve the cash management system as the receipt and expenditures of Capital Fund Grants were within Federal guidelines.

Criteria:
A proper system of internal control would ensure that the accounting function would meet financial reporting deadlines set by HUD and correct accounting errors.

Cause:
This condition is the result of the lack of an effective financial reporting system.

Effect:
This deficiency resulted in an untimely filing of the unaudited FDS. In addition, accounting errors were not detected until after the FDS was submitted.

Recommendation
We recommend that an effective system of internal controls be implemented to ensure that financial reporting deadlines set by HUD.

Auditee Response
The Financial Data Schedule (FDS) was submitted late this year because of extenuating circumstances of our consultant hired to perform the year-end closing procedures. The consultant started the analysis in the beginning of August, 2011 at the PHA, with ample time and resources to complete the reconciliation for FDS submission by the due date of August 31, 2011. After several conversations with the consultant after this visit, the consultant stated that he would need to re-visit for additional analysis. This visit was then scheduled with the PHA for the middle of September, 2011 (still within the grace period allowable). Time progressed and after many conversations with the consultant asking why the FDS had not been filed, receiving no

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

Finding 2011-1: Significant Deficiency in Internal Control - Untimely Submission of Unaudited Financial Data Schedule (FDS) and Accounting Errors (Continued)

reasonable explanation, the PHA then went to the consultant's superior for an explanation. It was at this time that the PHA was informed that the consultant hired for this engagement was diagnosed with a malignant brain tumor on October 16, 2011. Consequently, because of the medical condition of the consultant certain items were not reconciled and adjusted at the end of the year and by the due date of the electronic FDS submission. The Financial Data Schedule was submitted on October 25, 2011 with this reason given as an explanation for the late filing.

The Housing Authority has already put controls in place to make sure that the filing for June 30, 2012 is done on a timely and accurate basis. A CPA firm has been engaged to facilitate this submission and adequate personnel are trained to accomplish this task.

3. **FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

None.

STATUS PRIOR YEAR FINDINGS
OMB CIRCULAR A-133 & .505
JUNE 30, 2011

There were no prior findings. There were no prior management comments that were either corrected or repeated.

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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
MARCH 8, 2012

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