

The accompanying financial statements and report are intended for the original recipient. They must be presented in their entirety and may not be modified in any manner.





**PUBLIC HOUSING AUTHORITY
OF BUTTE**

FINANCIAL REPORT

JUNE 30, 2014



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INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners
Public Housing Authority of Butte
Butte, Montana

Report on the Financial Statements

We have audited the accompanying financial statements of the Public Housing Authority of Butte (the Authority) as of and for the year ended June 30, 2014, and the related notes to the financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Public Housing Authority of Butte as of June 30, 2014, and the changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis 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 inquires 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.

Other Information

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplementary information Financial Data Schedule—Entity Wide Balance Sheet Summary, Financial Data Schedule—Entity Wide Revenue and Expense Summary, and Actual Modernization Cost Certificate are presented for purposes of additional analysis as required by the *Consolidated Audit Guide for Audits of HUD Programs* issued by the U.S. Department of Housing and Urban Development, Office of the Inspector General, and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The supplementary information above is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 16, 2015, on our consideration of the Public Housing Authority of Butte'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* in considering the Authority's internal control over financial reporting and compliance.

Anderson Zurmuehlen + Co, P.C.

Billings, Montana
February 16, 2015

**PUBLIC HOUSING AUTHORITY OF BUTTE
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2014**

The Public Housing Authority of Butte's Management's Discussion and Analysis is designed to (a) assist the reader in focusing on significant financial issues, (b) provide an overview of the Authority's financial activity, (c) identify changes in the Authority's financial position (its ability to address the next and subsequent year challenges), and (d) identify individual fund issues or concerns.

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

FINANCIAL HIGHLIGHTS

- During 2014 the Authority's net position decreased by \$310,658 (or 5%). Net assets were \$6,513,840 and \$6,824,498 for 2014 and 2013, respectively.
- Revenues decreased by \$85,103 (or 3%) during 2014 and were \$2,431,586 and \$2,516,689 for 2014 and 2013, respectively. A decrease in Section 8 Grants is the primary cause for the decrease in total revenue. Table 2, Statement of Revenues, Expenses, and Changes in Net Position provides more detailed information.
- The total expenses of all Authority programs increased by \$210,986 (or 8%). Total expenses were \$2,742,244 and \$2,531,258 for 2014 and 2013, respectively. Administrative and Maintenance expenses were the primary causes for the increase. Table 2, Statement of Revenues, Expenses, and Changes in Net Position provides more detailed information.

AUTHORITY-WIDE FINANCIAL STATEMENTS

The Authority-wide financial statements are designed to be corporate-like in that all business-type activities are consolidated into columns that add to a total for the entire Authority. The Authority only presents an Enterprise fund to report its operations.

These statements include a Statement of Net Position, which is similar to a Balance Sheet. The Statement of Net Position reports all financial and capital resources for the Authority. The statement is presented in the format where assets minus liabilities equal "net position," 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."

PUBLIC HOUSING AUTHORITY OF BUTTE
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
Year Ended June 30, 2014

AUTHORITY-WIDE FINANCIAL STATEMENTS (CONTINUED)

The focus of the Statement of Net Position is designed to represent the net available liquid (non-capital) assets, net of liabilities, for the entire Authority. Net position (formerly equity) is reported in three broad categories:

Net Investment in Capital 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: Consists of assets that are restricted by constraints placed on the asset by creditors (such as debt covenants), grantors, contributors, laws, regulations, etc.

Unrestricted: Consists of net assets that do not meet the definition of "Net Investment in Capital Assets," or "Restricted Net Assets."

The Authority-wide financial statements also include a Statement of Revenues, Expenses, and Changes in Net Position (similar to an income statement). This statement includes operating revenues, operating expenses (including administrative, utilities, maintenance, and depreciation), and non-operating revenue and expenses, such as investment income, extraordinary maintenance, and interest expense.

The focus of the Statement of Revenues, Expenses, and Changes in Net Position is the "Change in Net Position," which is similar to net income or loss.

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

FUND FINANCIAL STATEMENTS

Traditional users of governmental financial statements will find the Fund Financial Statements presentation more familiar. The focus is now on major funds, rather than fund types. The reporting for the Authority consists of one Enterprise Fund. Enterprise funds utilize the full accrual basis of accounting, which is similar to accounting utilized by the private sector. Supplementary information is provided in the financial statements, reporting each program of the Authority as separate "funds."

PUBLIC HOUSING AUTHORITY OF BUTTE
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
Year Ended June 30, 2014

THE AUTHORITY'S PROGRAMS

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

Capital Fund Program – The Public Housing Capital Fund provides funds to be used for the development, financing, and modernization of public housing developments and for management improvements.

Housing Choice Voucher Program (Section 8) – Under the Housing Choice Voucher Program, the Authority administers contracts with independent property owners. The Authority subsidizes the participants' rents through a Housing Assistance Payment made to the property owner. 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' rents at 30% of household income. HUD has changed the funding to a formula-based one rather than cost-based funding. This will result in lower administrative fees earned and fewer units being leased. The Authority receives fifty-five (55) Tenant Protection Vouchers.

Shelter Plus Care Program – This is a program that provides rental assistance in connection with supportive services for persons with disabilities, primarily those with serious mental illness or chronic problems with alcohol and/or drugs. These applicants must be homeless in order to qualify for assistance.

PUBLIC HOUSING AUTHORITY OF BUTTE
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
Year Ended June 30, 2014

ANALYSIS OF THE AUTHORITY-WIDE STATEMENTS

Statements of Net Position

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

**TABLE 1
STATEMENTS OF NET POSITION**

	<u>2014</u>	<u>2013</u>	<u>Difference</u>
Current assets	\$ 1,471,126	\$ 1,697,223	\$ (226,097)
Capital assets	4,762,067	4,875,533	(113,466)
Other assets	<u>553,045</u>	<u>552,927</u>	<u>118</u>
Total assets	<u>6,786,238</u>	<u>7,125,683</u>	<u>(339,445)</u>
Current liabilities	127,014	139,491	(12,477)
Other liabilities	<u>145,384</u>	<u>161,694</u>	<u>(16,310)</u>
Total liabilities	<u>272,398</u>	<u>301,185</u>	<u>(28,787)</u>
Net position:			
Net investment in capital assets	4,762,067	4,875,533	(113,466)
Restricted	3,331	3,331	-
Unrestricted	<u>1,748,442</u>	<u>1,945,634</u>	<u>(197,192)</u>
Total net position	<u>\$ 6,513,840</u>	<u>\$ 6,824,498</u>	<u>\$ (310,658)</u>

Major Factors Affecting the Statements of Net Position

The analysis above does not include inter-program receivables and payables. Current and other assets decreased by \$226,097 in 2014. The decrease occurred as a result of the Authority's total assets decreasing.

Capital assets decreased \$113,446 in 2014. Expenditures for capital assets during the year were \$94,741. Accumulated depreciation increased \$208,207.

Total liabilities decreased \$28,787 in 2014. The decreased occurred in deferred revenue and accrued liabilities.

PUBLIC HOUSING AUTHORITY OF BUTTE
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
Year Ended June 30, 2014

ANALYSIS OF THE AUTHORITY-WIDE STATEMENTS (CONTINUED)

While the results of operations is a significant measure of the Authority's activities, the analysis of the changes in unrestricted net position provides a clearer change in financial well-being. The following schedule compares the revenues and expenses for the current and previous fiscal year. The Authority is engaged only in business-type activities.

TABLE 2
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	<u>2014</u>	<u>2013</u>	<u>Difference</u>
REVENUES			
Tenant revenue - rents and other	\$ 972,904	\$ 925,430	\$ 47,474
Operating subsidies and grants	1,354,577	1,337,253	17,324
Capital grants	94,741	226,481	(131,740)
Other income	8,515	25,951	(17,436)
Investment income	<u>849</u>	<u>1,574</u>	<u>(725)</u>
Total revenue	<u>2,431,586</u>	<u>2,516,689</u>	<u>(85,103)</u>
EXPENSES			
Administrative	701,350	660,693	40,657
Tenant services	19,581	13,390	6,191
Utilities	440,217	430,005	10,212
Maintenance	819,039	693,118	125,921
Protective services	81,673	83,527	(1,854)
General	172,216	149,600	22,616
Housing assistance payments	299,961	319,465	(19,504)
Depreciation	<u>208,207</u>	<u>181,460</u>	<u>26,747</u>
Total expenses	<u>2,742,244</u>	<u>2,531,258</u>	<u>210,986</u>
Change in net position	(310,658)	(14,569)	(296,089)
Net position, beginning of year	<u>6,824,498</u>	<u>6,839,067</u>	<u>(14,569)</u>
Net position, end of year	<u>\$ 6,513,840</u>	<u>\$ 6,824,498</u>	<u>\$ (310,658)</u>

PUBLIC HOUSING AUTHORITY OF BUTTE
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
Year Ended June 30, 2014

ANALYSIS OF THE AUTHORITY-WIDE STATEMENTS (CONTINUED)

Major factors affecting the Statements of Revenue, Expenses, and Changes in Net Position:

Total revenue decreased \$85,103. Tenant Revenue increased \$47,474. Revenue received from the Department of Housing and Urban Development decreased \$195,152. Capital Grants increased \$80,736.

Expenses increased \$210,986 in 2014. Administrative costs increased \$40,657. Utilities costs increased \$10,212. Maintenance costs increased \$125,921 in 2014 due to increased tenant damages.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2014, the Authority had \$4,762,067 invested in a variety of capital assets, as reflected in the following schedule, which represents a net decrease (additions, deductions, and depreciation) of \$113,466 or 2% from the end of last year.

**TABLE 3
CAPITAL ASSETS AT YEAR-END
(NET OF DEPRECIATION)**

	<u>2014</u>	<u>2013</u>	<u>Difference</u>
Land	\$ 723,014	\$ 723,014	\$ -
Buildings	12,687,188	12,651,686	35,502
Equipment - dwelling	19,937	-	19,937
Equipment - administrative	514,609	505,376	9,233
Leasehold Improvements	4,288,213	4,258,144	30,069
Accumulated Depreciation	<u>(13,470,894)</u>	<u>(13,262,687)</u>	<u>(208,207)</u>
Total	<u>\$ 4,762,067</u>	<u>\$ 4,875,533</u>	<u>\$ (113,466)</u>

The following reconciliation summarizes the change in capital assets. Also see Note 5 in the basic financial statements.

**TABLE 4
CHANGE IN CAPITAL ASSETS**

	<u>2014</u>	<u>2013</u>	<u>Difference</u>
Beginning of year	\$ 4,875,533	\$ 4,830,512	\$ 45,021
Additions	94,741	226,481	(131,740)
Change in accumulated depreciation	<u>(208,207)</u>	<u>(181,460)</u>	<u>(26,747)</u>
End of year	<u>\$ 4,762,067</u>	<u>\$ 4,875,533</u>	<u>\$ (113,466)</u>

PUBLIC HOUSING AUTHORITY OF BUTTE
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
Year Ended June 30, 2014

CAPITAL ASSETS AND DEBT ADMINISTRATION (CONTINUED)

Debt Administration

As of June 30, 2014 and 2013, the Authority had no outstanding capital debt and only had compensated absences. See Note 8 in the financial statements.

ECONOMIC FACTORS

Significant economic factors affecting the Authority are as follows:

- Federal funding of the Department of Housing and Urban Development can vary.
- Local labor supply and demand can affect salary and wage rates.
- Local inflationary, recessionary, employment trends, and high unemployment in the local economy can affect resident income and, therefore, the amount of rental income.

SUMMARY

The Authority operates in a heavily regulated environment under the auspices of the United States Department of Housing and Urban Development (HUD). The programs and activities of the Authority depend significantly on the annual funding from HUD. The Authority is not dependent on debt, and the cash flow remains strong. Management believes the financial position of the Authority is stable, despite the decrease in HUD funding this past year, indicating the Authority is effectively managing its costs.

FINANCIAL CONTACT

The individual to be contacted regarding this report is Teri Kellogg, Financial Manager, Public Housing Authority of Butte at (406) 782-6461. Specific requests may be submitted to Teri Kellogg, Financial Manager, Public Housing Authority of Butte, 220 Curtis Street, Butte, MT 59701.

FINANCIAL STATEMENTS

PUBLIC HOUSING AUTHORITY OF BUTTE
STATEMENT OF NET POSITION
June 30, 2014

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 688,950
Certificates of deposits	517,227
Accounts receivable - tenants, less allowance for doubtful accounts of \$1,531	1,619
Accounts receivable - miscellaneous	81,886
Accounts receivable - HUD	112,694
Inventories	<u>68,750</u>
Total current assets	<u>1,471,126</u>

CAPITAL ASSETS

Land	723,014
Buildings	12,687,188
Furniture, equipment, and machinery - dwellings	19,937
Furniture, equipment, and machinery - administration	514,609
Leasehold improvements	<u>4,288,213</u>
	18,232,961
Accumulated depreciation	<u>(13,470,894)</u>
Total capital assets	<u>4,762,067</u>

NON-CURRENT ASSETS

Restricted cash and cash equivalents	79,623
Notes receivable	<u>473,422</u>
Total non-current assets	<u>553,045</u>
Total assets	<u>\$ 6,786,238</u>

The Notes to Financial Statements are an integral part of this statement.

PUBLIC HOUSING AUTHORITY OF BUTTE
STATEMENT OF NET POSITION
(CONTINUED)
June 30, 2014

LIABILITIES AND NET POSITION

CURRENT LIABILITIES

Accounts payable	\$ 29,651
Accrued wages and payroll taxes payable	55,203
Other current liabilities	5,538
Accrued compensated absences - current	<u>36,622</u>
Total current liabilities	127,014

OTHER LIABILITIES

Tenant security deposits	79,623
Accrued compensated absences - non current	<u>65,761</u>
Total liabilities	<u>272,398</u>

NET POSITION

Net investment in capital assets	4,762,067
Restricted	3,331
Unrestricted	<u>1,748,442</u>
Total net position	<u>6,513,840</u>
Total liabilities and net position	<u>\$ 6,786,238</u>

PUBLIC HOUSING AUTHORITY OF BUTTE
STATEMENT OF REVENUE, EXPENSES, AND
CHANGE IN NET POSITION
Year Ended June 30, 2014

OPERATING REVENUE	
Net tenant revenues	\$ 944,437
Other operating revenues	<u>28,467</u>
Total operating revenue	<u>972,904</u>
OPERATING EXPENSE	
Administrative	701,350
Tenant services	19,581
Utilities	440,217
Ordinary maintenance and operation	819,039
Protective services	81,673
General	172,216
Depreciation	208,207
Housing assistance payments	<u>299,961</u>
Total operating expenses	<u>2,742,244</u>
Deficiency of operating revenue over expense	<u>(1,769,340)</u>
NON-OPERATING REVENUE	
Other income	8,515
Other government grants	6,666
HUD grant revenue - operations	1,347,911
HUD grant revenue - capital grants	94,741
Investment income	<u>849</u>
Total non-operating revenue	<u>1,458,682</u>
Change in net position	(310,658)
Net position, beginning of year	<u>6,824,498</u>
Net position, end of year	<u>\$ 6,513,840</u>

The Notes to Financial Statements are an integral part of this statement.

PUBLIC HOUSING AUTHORITY OF BUTTE
STATEMENT OF CASH FLOWS
Year Ended June 30, 2014

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from rentals	\$ 952,960
Other cash received	<u>(193)</u>
Cash received from operating activities	<u>952,767</u>
Cash paid for operating activities:	
Administrative	(733,531)
Tenant services	(19,581)
Utilities	(440,217)
Ordinary maintenance	(831,991)
Protective services	(81,673)
General	(172,216)
Housing assistance	<u>(299,961)</u>
Cash paid for operating activities	<u>(2,579,170)</u>
Net cash flows from operating activities	<u>(1,626,403)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Receipts from capital - related grants	55,966
Acquisition and construction of capital assets	<u>(94,741)</u>
Net cash flows from capital and related financing activities	<u>(38,775)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Receipts from other grants	<u>1,392,709</u>
Net cash flows from noncapital financing activities	<u>1,392,709</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of investments	(1,420)
Investment income	<u>849</u>
Net cash flows from investing activities	<u>(571)</u>
Net change in cash and cash equivalents	(273,040)
Cash and cash equivalents, beginning of year	<u>1,041,613</u>
Cash and cash equivalents, end of year	<u>\$ 768,573</u>

The Notes to Financial Statements are an integral part of this statement.

PUBLIC HOUSING AUTHORITY OF BUTTE
STATEMENT OF CASH FLOWS
(CONTINUED)
Year Ended June 30, 2014

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Unrestricted cash and cash equivalents	\$ 688,950
Cash and cash equivalents - tenant security deposits	<u>79,623</u>
Total cash and cash equivalents	<u><u>\$ 768,573</u></u>

CASH FLOWS FROM OPERATING ACTIVITIES

Deficiency of operating revenue over expenses	\$ (1,769,340)
Adjustments to reconcile deficiency of operating revenue over expenses to net cash used by operating activities:	
Depreciation	208,207
(Increase) decrease in:	
Tenant receivables	4,173
Prepaid expenses	956
Other receivables	(28,660)
Inventories	(12,952)
Increase (decrease) in:	
Accounts payable	29,316
Deferred revenue	(5,664)
Other current liabilities	(55,290)
Tenant security and escrow deposits	4,350
Compensated absences payable	<u>(1,499)</u>
Net cash flows from operating activities	<u><u>\$ (1,626,403)</u></u>

The Notes to Financial Statements are an integral part of this statement.

PUBLIC HOUSING AUTHORITY OF BUTTE
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE 1. ORGANIZATION

The Public Housing Authority of Butte, Montana (the Authority) was organized November 27, 1940. The purpose of the Authority is to provide high-quality, well-managed, affordable housing to the citizens of Butte-Silver Bow County as well as providing residents with opportunities for economic self-sufficiency and enhanced quality of life.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The financial statements of the Authority include the accounts of all Authority operations for which the Board of Commissioners has significant oversight responsibility. The Chief Executive of Butte-Silver Bow Council of Commissioners appoints the Board of Commissioners. It was determined that the Authority is a primary government based on the fact that it is legally separate, its governing body is separately selected, and it is fiscally independent of other primary governments, including Butte-Silver Bow. The following criteria for oversight were considered by the Authority in its evaluation of organizations and activities:

- Financial interdependency – The Authority has no financial accountability to Butte-Silver Bow, and does not obtain the approval from Butte-Silver Bow for annual budgets.
- Appointment of governing authority – The Butte-Silver Bow Chief Executive appoints five members of the Board of Commissioners (the governing body) of the Authority to serve a five-year term. There are two resident members selected to the Board, based on approval from the residents. The Butte-Silver Bow confirms the appointment.
- Legal control – Butte-Silver Bow has no legal or supervisory control over the Authority in the operation and maintenance of the housing project.

Measurement Focus, Basis of Accounting and Basis of Presentation

Accounting principles generally accepted in the United States of America (GAAP) establish standards for external financial reporting for all state and local governmental entities, which includes a statement of net position, a statement of revenues, expenses, and changes in net position, and a statement of cash flows. It requires the classification of net position into three components—net investment in capital assets; restricted; and unrestricted. These classifications are defined as follows:

- Net investment in capital assets – This component of net position consists of capital assets, net of accumulated depreciation, costs to be recovered from future revenues, and unamortized debt expense 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. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds.

PUBLIC HOUSING AUTHORITY OF BUTTE
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
June 30, 2014

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- Restricted – This component of net position consists of constraints placed on net assets used through external constraints imposed by creditors (such as through debt covenants), contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted net assets – This component of net position consists of net assets that do not meet the definition of “restricted” or “net investment in capital assets.”

New Accounting Pronouncements

The Authority has adopted the provisions of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* for the year ended June 30, 2014. This statement defines new financial statement items, called deferred inflows of resources and deferred outflows of resources, and reclassifies certain items previously classified as asset or liabilities and deferred outflows or deferred inflows, respectively.

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, addresses accounting and financial reporting for pensions that are provided to the employees of state and local governmental employers. This Statement establishes standards for measuring and recognizing net pension liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. This Statement is effective for fiscal years beginning after June 15, 2014. The effect of adopting the Standard cannot be determined at this time.

Postemployment Benefits other than Pension Plans

The Authority has been required to adopt the provisions of GASB Statement 45, “Accounting and Financial Reporting by Employers for Postemployment Benefits other than Pension Plans.” GASB 45 requires employers to calculate the actuarial liability for future retiree benefits and the annual required contribution for retirees. The Authority has reviewed the potential impact of this Standard and has determined any adjustment to the accompanying financial statements would not be material.

Cash and Cash Equivalents

Management considers all short-term highly liquid investments with an original maturity of three months or less to be cash equivalents, excluding tenant security deposits and escrow reserves.

PUBLIC HOUSING AUTHORITY OF BUTTE
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
June 30, 2014

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment

Property and equipment over the \$500 capitalization policy amount that are used in operations are recorded at historical cost or estimated historical cost. Depreciation of fixed assets is calculated using the straight-line method with estimated useful lives as follows:

Buildings and improvements	27.5-50 years
Machinery and equipment	3-10 years
Improvements other than buildings	10-27.5 years

Maintenance and repair costs are expensed as incurred. Replacements that improve or extend the lives of fixed assets are capitalized. Interest incurred on construction related funding sources is capitalized during the construction period.

Receivables

Receivables include amounts due from tenants and the U.S. Department of Housing and Urban Development. The allowance for doubtful accounts adjusts for those accounts management deems uncollectible.

Inventory

Inventory consists of operating supplies for repair and maintenance of the properties and is stated at the lower of cost (first-in, first-out) or market value.

Tax Exempt Status

The Authority is a municipal corporation and, therefore, is not liable for federal and state income taxes pursuant to Internal Revenue Code §501(c)(1).

Compensated Absences

Employees earn 15 to 24 days of vacation time per year, depending on length of service. The maximum accrual is two times the number of days earned annually. Upon termination, employees are paid 100% of the accrual. Employees earn 12 days of sick leave per year. There is a maximum of 1,000 hours that can be accrued for sick time, and upon termination, employees are paid 25% of the accrual. The costs of accumulated unpaid vacation and sick leave payable upon termination are reported in the period earned.

Grant Revenue

The Authority recognizes grant income on government-mandated and voluntary non-exchange transactions when all eligibility requirements have been met. Cash or other assets provided in advance are reported as advances and as deferred revenue until all eligibility requirements have been met. Grant revenue is included in non-operating revenues on the statement of revenues, expenses, and change in net position.

PUBLIC HOUSING AUTHORITY OF BUTTE
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
June 30, 2014

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 3. CASH AND CASH EQUIVALENTS

The Authority is limited by state law to the following types of investments:

- Interest bearing savings accounts, certificates of deposits, and time deposits insured by the Federal Deposit Insurance Corporation or which are fully collateralized.
- Direct obligations of the U.S. Government payable within 189 days from the time of the investment.
- S.T.I.P investments.
- Repurchase agreements.

Cash and cash equivalents are stated at cost and consist of balances in federally insured checking and money markets and 3-month certificates of deposit.

The following shows the custodial credit risk for the deposits:

	Bank Balance
Insured	\$ 250,000
Uninsured and unregistered, with securities held by the bank, but not in the Authority's name	1,022,678
Uninsured	58,657
Bank balance	\$ 1,331,335

As of June 30, 2014, the Authority had the following investments:

Investment	Maturities	Fair Value
Certificates of Deposit	Less than one year	\$ 517,227

PUBLIC HOUSING AUTHORITY OF BUTTE
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
June 30, 2014

NOTE 4. SUPPORT FROM GOVERNMENT AGENCIES

The Authority received approximately 62% of its support from the U.S. Department of Housing and Urban Development. A significant reduction in the level of this support, if this were to occur, may have a significant effect on the Authority's programs and activities.

NOTE 5. CAPITAL ASSETS

A summary of changes in capital assets is as follows:

	Balance July 1, 2013	Additions	Disposals	Balance June 30, 2014
Land	\$ 723,014	\$ -	\$ -	\$ 723,014
Depreciable property:				
Buildings	12,651,686	35,502	-	12,687,188
Equipment - dwellings	499,084	15,525	-	514,609
Equipment - administration	6,292	13,645	-	19,937
Building improvements	4,258,144	30,069	-	4,288,213
	17,415,206	94,741	-	17,509,947
Accumulated depreciation	(13,262,687)	(208,207)	-	(13,470,894)
Total depreciable property	4,152,519	(113,466)	-	4,039,053
Total capital assets	<u>\$ 4,875,533</u>	<u>\$ (113,466)</u>	<u>\$ -</u>	<u>\$ 4,762,067</u>

NOTE 6. NOTES RECEIVABLE AND RELATED PARTY TRANSACTIONS

Proceeds of the HOME Investment Partnership grant were provided to the Butte Affordable Housing I, LLC in the form of a loan at 0% interest for a 20-year term. Repayment of principal is due upon maturity. This loan is carried as a note receivable for \$473,422 on the Authority's statement of net position. Butte Affordable Housing I, LLC is a related party of the Authority because the executive director is the same for both entities, the Authority provides management services, and one board member from the Authority is also a board member of the Butte Affordable Housing I, LLC.

At June 30, 2014, the Authority had an outstanding receivable of \$19,719 due from Butte Affordable Housing I, LLC. The Authority does not have any outstanding payables due to the entity.

PUBLIC HOUSING AUTHORITY OF BUTTE
 NOTES TO FINANCIAL STATEMENTS
 (CONTINUED)
 June 30, 2014

NOTE 7. PENSION PLANS

The Authority participates in the Public Employees' Retirement System (PERS), a statewide retirement plan established in 1945 and governed by Title 19, chapters 2 & 3 of the Montana Code Annotated providing retirement services to substantially all public employees. The PERS is a mandatory, multiple-employer cost-sharing plan administered by the Montana Public Employees' Retirement Administration (MPERA).

The PERS offers retirement, disability, and death benefits to plan members and their beneficiaries. Benefit eligibility is age 60 with at least five years of service; age 65 regardless of service; or 30 years of service regardless of age. Actuarial reduced benefits may be taken with 25 years of service or at age 50 with at least five years of service. Monthly retirement benefits are determined by taking 1/56th times the number of years of service times the final average salary. A guaranteed annual benefit adjustment (GABA) of 1.5% or 3%, depending on date of hire, is provided each January for benefit recipients if they have been receiving a benefit for at least 12 months. Members' rights become vested after five years of service. The State Legislature has the authority to establish, amend, and provide cost of living adjustments for the plan.

The Board of Directors for MPERA issues a publicly-available financial report that includes financial statements and required supplementary information for PERS. The report is available from the MPERA at 1712 Ninth Avenue, P.O. Box 200131, Helena, Montana, 59620-0131, (406) 444-3154.

The State Legislature has the authority to establish and amend contribution rates to the PERS plan. Plan members are required to contribute 7.9% of their monthly gross pay while the Authority and the State of Montana are required to contribute 8.07% and 0.1%, respectively, of monthly gross pay to the retirement plan.

The amounts contributed by both the Authority and its employees (including additional voluntary contributions by employees as permitted by State Law) for the past three years were as follows:

<u>Year Ended</u>	<u>Employees</u>	<u>Employer</u>
June 30, 2014	\$ 53,640	\$ 54,794
June 30, 2013	47,285	48,224
June 30, 2012	46,980	48,138

Laborers International Union Pension Plan

In addition to PERS, the Authority also contributes \$222 per month for exempt employees and \$1.28 per hour for non-exempt employees to the above union pension fund. Contributions from the Authority were \$42,676 for the year ended June 30, 2014. This pension fund is administered by the Union and the Authority is not a participant, only the employees participate.

PUBLIC HOUSING AUTHORITY OF BUTTE
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
June 30, 2014

NOTE 8. CHANGE IN COMPENSATED ABSENCES

The following is a summary of changes in compensated absences for the year ended June 30, 2014:

	<u>Compensated Absences</u>
Balance July 1, 2013	\$ 103,882
Net change	<u>(1,499)</u>
Balance June 30, 2014	<u>\$ 102,383</u>

SUPPLEMENTARY INFORMATION

PUBLIC HOUSING AUTHORITY OF BUTTE
 FINANCIAL DATA SCHEDULE – ENTITY WIDE
 BALANCE SHEET SUMMARY
 June 30, 2014

Number	Description	Project Total	Housing Choice Vouchers
111	Cash - unrestricted	\$ 362,028	\$ 7,080
114	Cash-tenant security deposits	79,623	-
115	Cash-restricted for payment of current liability	-	-
100	Total Cash	<u>441,651</u>	<u>7,080</u>
122	Accounts receivable - HUD other projects	86,933	-
125	Accounts receivable miscellaneous	-	-
126	Accounts receivable - tenants	3,150	-
126.1	Allowance for doubtful accounts - tenants	(1,531)	-
129	Accrued interest receivable	-	-
120	Total receivables, net of allowance for doubtful accounts	<u>88,552</u>	<u>-</u>
131	Investments - unrestricted	244,932	-
143	Inventories	68,750	-
144	Interprogram - due from	-	-
145	Assets held for sale	-	-
150	Total Current Assets	<u>843,885</u>	<u>7,080</u>
161	Land	717,189	-
162	Buildings	12,687,188	-
163	Furniture, equipment and machinery - dwellings	19,937	-
164	Furniture, equipment and machinery - administration	494,357	4,250
165	Leasehold improvements	4,288,213	-
166	Accumulated depreciation	(13,450,642)	(4,250)
168	Infrastructure	-	-
160	Total capital assets, net of accumulated depreciation	<u>4,756,242</u>	<u>-</u>
171	Notes, loans & mortgages receivable - noncurrent	-	-
176	Investment in joint venture	-	-
180	Total Noncurrent Assets	<u>4,756,242</u>	<u>-</u>
190	Total Assets	<u>\$ 5,600,127</u>	<u>\$ 7,080</u>

PUBLIC HOUSING AUTHORITY OF BUTTE
 FINANCIAL DATA SCHEDULE – ENTITY WIDE
 BALANCE SHEET SUMMARY
 (CONTINUED)
 June 30, 2014

State and Local	Shelter Plus Care	Other Federal Program	Resident Opportunity & Supportive Services	Central Office Cost Center	Eliminations	Total
\$ 388	\$ -	\$ 6,341	\$ -	\$ 313,113	\$ -	\$ 688,950
-	-	-	-	-	-	79,623
-	-	-	-	-	-	-
<u>388</u>	<u>-</u>	<u>6,341</u>	<u>-</u>	<u>313,113</u>	<u>-</u>	<u>768,573</u>
-	25,761	-	-	-	-	112,694
865	-	-	-	81,021	-	81,886
-	-	-	-	-	-	3,150
-	-	-	-	-	-	(1,531)
-	-	-	-	-	-	-
<u>865</u>	<u>25,761</u>	<u>-</u>	<u>-</u>	<u>81,021</u>	<u>-</u>	<u>196,199</u>
-	-	-	-	272,295	-	517,227
-	-	-	-	-	-	68,750
-	-	-	-	28,596	(28,596)	-
-	-	-	-	-	-	-
<u>1,253</u>	<u>25,761</u>	<u>6,341</u>	<u>-</u>	<u>695,025</u>	<u>(28,596)</u>	<u>1,550,749</u>
-	-	-	-	5,825	-	723,014
-	-	-	-	-	-	12,687,188
-	-	-	-	-	-	19,937
-	-	-	-	16,002	-	514,609
-	-	-	-	-	-	4,288,213
-	-	-	-	(16,002)	-	(13,470,894)
-	-	-	-	-	-	-
-	-	-	-	<u>5,825</u>	<u>-</u>	<u>4,762,067</u>
-	-	-	-	473,422	-	473,422
-	-	-	-	-	-	-
-	-	-	-	<u>479,247</u>	<u>-</u>	<u>5,235,489</u>
<u>\$ 1,253</u>	<u>\$ 25,761</u>	<u>\$ 6,341</u>	<u>\$ -</u>	<u>\$ 1,174,272</u>	<u>\$ (28,596)</u>	<u>\$ 6,786,238</u>

PUBLIC HOUSING AUTHORITY OF BUTTE
 FINANCIAL DATA SCHEDULE – ENTITY WIDE
 BALANCE SHEET SUMMARY
 (CONTINUED)
 June 30, 2014

Line Item Number	Description	Project Total	Housing Choice Vouchers
311	Bank overdraft	\$ -	\$ -
312	Accounts payable less than 90 days	3,890	-
321	Accrued wage/payroll taxes payable	-	-
322	Accrued compensated absences - current portion	36,622	-
341	Tenant security deposits	79,623	-
345	Other current liabilities	5,538	-
347	Interprogram - due to	-	-
348	Loan liability - current	-	-
310	Total Current Liabilities	<u>125,673</u>	<u>-</u>
354	Accrued compensated absences - non-current	28,868	1,160
357	Accrued pension and OPEB liability	-	-
350	Total Noncurrent Liabilities	<u>28,868</u>	<u>1,160</u>
300	Total Liabilities	<u>154,541</u>	<u>1,160</u>
508.1	Invested in capital asset, net of related debt	4,756,242	-
511.1	Restricted net assets	-	3,331
512.1	Unrestricted net assets	689,344	2,589
513	Total Equity/Net Assets	<u>5,445,586</u>	<u>5,920</u>
600	Total Liabilities and Equity/Net Assets	<u>\$ 5,600,127</u>	<u>\$ 7,080</u>

PUBLIC HOUSING AUTHORITY OF BUTTE
 FINANCIAL DATA SCHEDULE – ENTITY WIDE
 BALANCE SHEET SUMMARY
 (CONTINUED)
 June 30, 2014

State and Local	Shelter Plus Care	Other Federal Program	Resident Opportunity & Supportive Services	Central Office Cost Center	Eliminations	Total
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	25,761	-	-	-	-	29,651
-	-	-	-	55,203	-	55,203
-	-	-	-	-	-	36,622
-	-	-	-	-	-	79,623
-	-	-	-	-	-	5,538
-	-	28,596	-	-	(28,596)	-
-	-	-	-	-	-	-
<u>-</u>	<u>25,761</u>	<u>28,596</u>	<u>-</u>	<u>55,203</u>	<u>(28,596)</u>	<u>206,637</u>
-	-	-	-	35,733	-	65,761
-	-	-	-	-	-	-
-	-	-	-	<u>35,733</u>	-	<u>65,761</u>
-	<u>25,761</u>	<u>28,596</u>	<u>-</u>	<u>90,936</u>	<u>(28,596)</u>	<u>272,398</u>
-	-	-	-	5,825	-	4,762,067
-	-	-	-	-	-	3,331
<u>1,253</u>	<u>-</u>	<u>(22,255)</u>	<u>-</u>	<u>1,077,511</u>	<u>-</u>	<u>1,748,442</u>
<u>1,253</u>	<u>-</u>	<u>(22,255)</u>	<u>-</u>	<u>1,083,336</u>	<u>-</u>	<u>6,513,840</u>
<u>\$ 1,253</u>	<u>\$ 25,761</u>	<u>\$ 6,341</u>	<u>\$ -</u>	<u>\$ 1,174,272</u>	<u>\$ (28,596)</u>	<u>\$ 6,786,238</u>

PUBLIC HOUSING AUTHORITY OF BUTTE
 FINANCIAL DATA SCHEDULE – ENTITY WIDE
 REVENUE AND EXPENSE SUMMARY
 Year Ended June 30, 2014

Line Item Number	Description	Project Total	Housing Choice Vouchers
70300	Net tenant rental revenue	\$ 944,437	\$ -
70400	Tenant revenue - other	<u>28,467</u>	<u>-</u>
70500	Total Tenant Revenue	<u>972,904</u>	<u>-</u>
70600	HUD PHA operating grants	990,247	247,807
70610	Capital grants	94,741	-
70710	Management Fee	-	-
70730	Book-Keeping Fee	-	-
70750	Other Fees	<u>-</u>	<u>-</u>
70700	Total Fee Revenue	<u>-</u>	<u>-</u>
70800	Other government grants	-	-
71100	Investment income - unrestricted	398	-
71500	Other revenue	6,636	-
72000	Investment income - restricted	<u>-</u>	<u>-</u>
70000	Total Revenue	<u>2,064,926</u>	<u>247,807</u>
91100	Administrative salaries	207,753	11,375
91200	Auditing fees	33,876	-
91300	Management Fee	248,018	-
91310	Book-Keeping Fee	31,636	-
91400	Advertising and Marketing	276	-
91500	Employee benefit contributions - administrative	78,257	15,208
91600	Office Expenses	70,125	135
91700	Legal Expense	3,204	-
91800	Travel	10,955	-
91810	Allocated Overhead	-	-
91900	Other	<u>-</u>	<u>-</u>
91000	Total Operating-Administrative	<u>684,100</u>	<u>26,718</u>
92100	Tenant services - salaries	3,200	-
92400	Tenant services - other	<u>3,360</u>	<u>-</u>
92500	Total Tenant Services	<u>6,560</u>	<u>-</u>

PUBLIC HOUSING AUTHORITY OF BUTTE
FINANCIAL DATA SCHEDULE – ENTITY WIDE
REVENUE AND EXPENSE SUMMARY
(CONTINUED)
Year Ended June 30, 2014

State and Local	Shelter Plus Care	Other Federal Program	Resident Opportunity & Supportive Services	Central Office Cost Center	Eliminations	Total
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 944,437
-	-	-	-	-	-	28,467
-	-	-	-	-	-	972,904
-	88,474	-	21,383	-	-	1,347,911
-	-	-	-	-	-	94,741
-	-	-	-	249,897	(248,018)	1,879
-	-	-	-	31,636	(31,636)	-
-	-	-	-	-	-	-
-	-	-	-	281,533	(279,654)	1,879
2,000	-	4,666	-	-	-	6,666
-	-	-	-	451	-	849
-	-	-	-	-	-	6,636
-	-	-	-	-	-	-
2,000	88,474	4,666	21,383	281,984	(279,654)	2,431,586
-	4,700	18,841	4,278	137,405	-	384,352
-	-	-	-	-	-	33,876
-	-	-	-	-	(248,018)	-
-	-	-	-	-	(31,636)	-
-	-	-	-	-	-	276
-	-	2,820	379	61,409	-	158,073
-	-	-	5,851	12,603	-	88,714
-	-	-	-	306	-	3,510
-	-	598	50	14,348	-	25,951
-	-	-	-	-	-	-
-	-	6,598	-	-	-	6,598
-	4,700	28,857	10,558	226,071	(279,654)	701,350
-	-	-	10,825	-	-	14,025
2,151	-	-	-	45	-	5,556
2,151	-	-	10,825	45	-	19,581

PUBLIC HOUSING AUTHORITY OF BUTTE
 FINANCIAL DATA SCHEDULE – ENTITY WIDE
 REVENUE AND EXPENSE SUMMARY
 (CONTINUED)
 Year Ended June 30, 2014

Line Item Number	Description	Project Total	Housing Choice Vouchers
93100	Water	58,840	-
93200	Electricity	114,379	-
93300	Gas	135,069	-
93600	Sewer	131,929	-
93800	Other utilities expense	-	-
93000	Total Utilities	<u>440,217</u>	<u>-</u>
94100	Ordinary maintenance and operations - labor	350,317	1,688
94200	Ordinary maintenance and operations - materials and other	182,312	-
94300	Ordinary maintenance and operations - contracts	102,817	-
94500	Employee benefit contribution - ordinary maintenance	<u>176,805</u>	<u>1,015</u>
94000	Total Maintenance	<u>812,251</u>	<u>2,703</u>
95200	Protective services - other contract costs	81,673	-
95500	Employee benefit contributions - protective services	-	-
95000	Total Protective Services	<u>81,673</u>	<u>-</u>
96110	Property Insurance	102,984	-
96130	Workmen's Compensation	18,955	91
96140	All Other Insurance	<u>2,487</u>	<u>173</u>
96100	Total Insurance Premiums	<u>124,426</u>	<u>264</u>
96200	Other general expenses	-	-
96210	Compensated absences	4,159	259
96400	Bad debt - tenant rents	37,592	-
96800	Severance expense	-	-
96000	Total Other General Expenses	<u>41,751</u>	<u>259</u>
96900	Total Operating Expenses	<u>2,190,978</u>	<u>29,944</u>
97000	Excess Revenue Over Operating Expenses	(126,052)	217,863

PUBLIC HOUSING AUTHORITY OF BUTTE
 FINANCIAL DATA SCHEDULE – ENTITY WIDE
 REVENUE AND EXPENSE SUMMARY
 (CONTINUED)
 Year Ended June 30, 2014

State and Local	Shelter Plus Care	Other Federal Program	Resident Opportunity & Supportive Services	Central Office Cost Center	Eliminations	Total
-	-	-	-	-	-	58,840
-	-	-	-	-	-	114,379
-	-	-	-	-	-	135,069
-	-	-	-	-	-	131,929
-	-	-	-	-	-	-
-	-	-	-	-	-	440,217
-	389	-	-	-	-	352,394
-	-	-	-	-	-	182,312
-	-	-	-	1,145	-	103,962
-	-	-	-	2,551	-	180,371
-	389	-	-	3,696	-	819,039
-	-	-	-	-	-	81,673
-	-	-	-	-	-	-
-	-	-	-	-	-	81,673
-	-	-	-	-	-	102,984
-	-	-	-	3,526	-	22,572
-	-	143	-	963	-	3,766
-	-	143	-	4,489	-	129,322
-	-	-	-	-	-	-
-	-	-	-	884	-	5,302
-	-	-	-	-	-	37,592
-	-	-	-	-	-	-
-	-	-	-	884	-	42,894
2,151	5,089	29,000	21,383	235,185	(279,654)	2,234,076
(151)	83,385	(24,334)	-	46,799	-	197,510

PUBLIC HOUSING AUTHORITY OF BUTTE
FINANCIAL DATA SCHEDULE – ENTITY WIDE
REVENUE AND EXPENSE SUMMARY
(CONTINUED)
Year Ended June 30, 2014

Line Item Number	Description	Project Total	Housing Choice Vouchers
97300	Housing assistance payments	1,302	215,274
97400	Depreciation expense	208,207	-
97800	Dwelling units rent expense	-	-
90000	Total Expenses	<u>2,400,487</u>	<u>245,218</u>
10093	Transfers between Programs and Projects - in	28,200	-
10094	Transfers between Programs and Projects - out	<u>(28,200)</u>	-
10100	Total other financing sources (uses)	<u>-</u>	<u>-</u>
10000	Excess (Deficiency) of Revenue Over (Under) Expenses	<u>\$ (335,561)</u>	<u>\$ 2,589</u>
11020	Required Annual Debt Principal Payments	\$ -	\$ -
11030	Beginning equity	5,781,147	3,331
11040	Prior period adjustments, Equity transfers and Correction of errors	-	-
11170	Administrative Fee Equity	-	-
11180	Housing Assistance Payments Equity	-	5,920
11190	Number of Unit Months Available	4,128	912
11210	Number of Unit Months Leased	4,110	677
11270	Excess Cash	484,663	-
11610	Land Purchases	-	-
11620	Building Purchases	35,504	-
11630	Furniture and equipment-Dwelling purchases	28,326	-
11640	Furniture and equipment-Administrative purchases	843	-
11650	Leasehold Improvements Purchases	30,068	-
11660	Infrastructure Purchases	-	-
13510	CFFP Debt Service Payments	-	-
13901	Replacement Housing Factor Funds	-	-

PUBLIC HOUSING AUTHORITY OF BUTTE
FINANCIAL DATA SCHEDULE – ENTITY WIDE
REVENUE AND EXPENSE SUMMARY
(CONTINUED)
Year Ended June 30, 2014

State and Local	Shelter Plus Care	Other Federal Program	Resident Opportunity & Supportive Services	Central Office Cost Center	Eliminations	Total
-	83,385	-	-	-	-	299,961
-	-	-	-	-	-	208,207
-	-	-	-	-	-	-
<u>2,151</u>	<u>88,474</u>	<u>29,000</u>	<u>21,383</u>	<u>235,185</u>	<u>(279,654)</u>	<u>2,742,244</u>
-	-	-	-	-	-	28,200
-	-	-	-	-	-	<u>(28,200)</u>
-	-	-	-	-	-	-
<u>\$ (151)</u>	<u>\$ -</u>	<u>\$ (24,334)</u>	<u>\$ -</u>	<u>\$ 46,799</u>	<u>\$ -</u>	<u>\$ (310,658)</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
1,404	-	2,079	-	1,036,537	-	6,824,498
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	5,920
-	-	-	-	-	-	5,040
-	-	-	-	-	-	4,787
-	-	-	-	-	-	484,663
-	-	-	-	-	-	-
-	-	-	-	-	-	35,504
-	-	-	-	-	-	28,326
-	-	-	-	-	-	843
-	-	-	-	-	-	30,068
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-

PUBLIC HOUSING AUTHORITY OF BUTTE
ACTUAL MODERNIZATION COST CERTIFICATE
Year Ended June 30, 2014

	Project No.
	<u>MT06P003501-10</u>
A. Original Funds Approved	\$ 533,670
B. Funds Disbursed	\$ 518,654
C. Funds Expended (Actual Modernization Cost)	\$ 518,654
D. Amount to be Recaptured (A-C)	\$ 15,016
E. Excess of Funds Disbursed (B-C)	\$ -

SINGLE AUDIT SECTION

PUBLIC HOUSING AUTHORITY OF BUTTE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2014

Federal Grantor / Pass-through Grantor	CFDA Number	Amount Awarded	Program Expenses
U.S. Department of Housing and Urban Development:			
Capital Fund - 501 10	14.872	\$ 533,670	\$ 3,796
Capital Fund - 501 11	14.872	429,725	35,039
Capital Fund - 501 12	14.872	368,135	166,614
Capital Fund - 501 13	14.872	<u>381,770</u>	<u>101,768</u>
Total Capital Fund		<u>1,713,300</u>	<u>307,217</u>
Operating Subsidy Amp 1	14.850	527,460	527,460
Operating Subsidy Amp 2	14.850	151,549	151,549
Operating Subsidy Amp 3	14.850	77,101	77,101
Operating Subsidy Amp 4	14.850	<u>21,660</u>	<u>21,660</u>
Total Operating Subsidy		<u>777,770</u>	<u>777,770</u>
Housing Choice Voucher Program	14.871	246,328	247,808
Public Housing Neighborhood Networks	14.870	21,383	21,383
Special Needs Assistance Program	14.238	<u>92,963</u>	<u>88,474</u>
Total Other Direct Programs		<u>360,674</u>	<u>357,665</u>
<i>Total U.S. Department of Housing and Urban Development</i>		2,851,744	1,442,652
<i>Pass-through:</i>			
Montana Department of Public Health & Human Services			
U.S. Department of Health and Human Services	Unknown	<u>5,000</u>	<u>404</u>
TOTAL FEDERAL AWARDS		<u>\$ 2,856,744</u>	<u>\$ 1,443,056</u>

See Notes to Schedule of Expenditures of Federal Awards.

PUBLIC HOUSING AUTHORITY OF BUTTE
NOTES TO SCHEDULE OF
EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2014

NOTE 1. BASIS OF ACCOUNTING

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Public Housing Authority of Butte and is presented on the 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*. Therefore, some amounts presented in this schedule may differ from amounts presented in the basic financial statements.

INDEPENDENT AUDITOR'S 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*

To the Board of Commissioners
Public Housing Authority of Butte
Butte, Montana

We have audited, in accordance with the 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, the financial statements of the Public Housing Authority of Butte (the Authority), as of and for the year ended June 30, 2014, and the related notes to the financial statements, and have issued our report thereon dated February 16, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

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 entity's financial statements will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as findings 2014-001 – 2014-002 that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority’s financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity’s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Anderson Zurmuehlen + Co, P.C.

Billings, Montana
February 16, 2015

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY OMB CIRCULAR A-133

Board of Commissioners
Public Housing Authority of Butte
Butte, Montana

Report on Compliance for Each Major Federal Program

We have audited Public Housing Authority of Butte's (the Authority) 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 the Authority's major federal program for the year ended June 30, 2014. The Authority's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on the compliance for each of the Authority's major federal programs based on our audit of the types of compliance requirements referred to above. 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 Authority'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 on compliance for each major federal program. However, our audit does not provide a legal determination of the Authority's compliance.

Opinion on Each Major Federal Program

In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2014.

Report on Internal Control over Compliance

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program 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 Authority'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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Anderson Zurmuehlen + Co, P.C.

Billings, Montana
February 16, 2015

PUBLIC HOUSING AUTHORITY OF BUTTE
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 Year Ended June 30, 2014

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weaknesses identified?	No
Significant deficiencies identified that are not considered material weaknesses?	Yes
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weakness identified?	No
Significant deficiencies identified that are not considered material weaknesses?	None reported
Type of auditors' report issued on compliance for major programs:	Unmodified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? No

The major program for the year ended June 30, 2014, was as follows:

U.S. Department of Housing and Urban Development Operating Subsidy,
 CFDA No. 14.850

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? Yes

Section II – Financial Statement Findings:

2014-001 Section 125 Medical Flex Plan Administration:

Condition: There is a lack of internal controls over the administration of the Section 125 Medical Flex Plan that resulted in several errors. One participant was paid more than was withheld from their wages, one participant was paid 30 days after the last date allowed by IRS regulations, two participants were given more credit in their accounts than was withheld from their wages, and three claims were not approved and one claim was self-approved.

Criteria: Proper controls should be established to ensure compliance with federal laws governing Section 125 plans.

PUBLIC HOUSING AUTHORITY OF BUTTE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(CONTINUED)
Year Ended June 30, 2014

2014-001 Section 125 Medical Flex Plan Administration (Continued):

Cause: Lack of proper checks and balances in place and lack of understanding of the Federal compliance requirements governing these plans.

Effect: IRS could disallow the plan and therefore make all prior withholding taxable to the employees and the Authority would be required to pay FICA and Medicare tax and penalties on the amount disallowed.

Recommendation:

Someone other than the person preparing payroll should manage the subsidiary ledger of account balances for the plan. All claims should be reviewed and approved by a second person and tied to the subsidiary ledger. Training on the federal compliance required for Section 125 plans should be obtained or administration of the plan should be outsourced to experts.

Client Response:

We have hired an accounting clerk that is now entering all of the invoices and tracking the expenditure from the flex plan. She has gone to the IRS website and read everything she can on the Section 125 plans. We will consult with staff from Newland and Company and AZ when needed to clarify any questions we may have concerning the Section 125 plan.

2014-002 Financial Management and Reporting:

Condition: Based upon the results of observations made during our audit, we feel several areas of financial management are no longer following the approved processes and procedures of the organization. These include:

1. Bank reconciliations are not being performed and reviewed timely. Sometimes several months were prepared at once.
2. HUD Capital and other grants (not including the operating subsidy) were not drawn on for several months through-out the year.
3. Payroll penalties of \$10,017 for incorrect and late filing of payroll reports were charged to the Authority.
4. QuickBooks payroll was not set up correctly resulting in employees being taxed on pre-taxed benefits starting in January, 2014. This also resulted in 941 payroll reports being filed incorrectly.
5. Payroll expenses were not entered into the YARDI general ledger from the QuickBooks software on a timely basis which resulted in incorrect financial statements for management and the Board.

PUBLIC HOUSING AUTHORITY OF BUTTE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(CONTINUED)
Year Ended June 30, 2014

2014-002 Financial Management and Reporting (Continued):

6. Many checks were issued in the accounting software with different check numbers than the actual check stock printed on, there were gaps in check sequences, and check numbers were not used in date order.
7. The Board of Commissioners did not receive financial statements on a monthly basis and some of the financial statements they did receive included incorrect or incomplete information because of the findings above.

Criteria: The Authority should have procedures in place for timely and accurate financial reporting and fiscal management.

Cause: Financial management is not following best practice procedures for accurate and timely financial information.

Effect: Inaccurate and incorrect monthly financial reporting. Penalties costs paid to payroll agencies of \$10,017 with the potential for more penalties being charged.

Recommendation:

Bank reconciliations should be prepared and reviewed no more than one week after receiving the bank statement. Draw-down of grant funds should be done monthly and recorded in the general ledger as they are done. Check stock should be safeguarded and used in number order and accuracy of the check numbers should be double checked before printing. The Authority should hire a payroll expert to check the accuracy of QuickBooks payroll set up, 2014 941's and W2's should be verified for the accuracy of taxable wages and amended if needed. General ledger reconciliations and closing entries should be prepared monthly to ensure accurate financial information is being provided to the executive director and Board of Commissioners timely so that appropriate decisions can be made to run the organization.

Client Response:

We have hired an accounting tech to take some of the work load off of the financial manager, so that reports and drawdowns will get done in a timely manner. We have also worked with Anderson ZurMuehlen in Butte to ensure the accuracy of our payroll set-up. Both the financial manager and the accounting tech have been looking for QuickBooks payroll training. The problem with the check numbers stemmed with writing checks out of QuickBooks for payroll and the rest of the checks out of Yardi. This problem has been solved by going to direct deposit for all PHA employees.

PUBLIC HOUSING AUTHORITY OF BUTTE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(CONTINUED)
Year Ended June 30, 2014

Section III – Federal Awards Findings and Questions Costs:

None reported.

PUBLIC HOUSING AUTHORITY OF BUTTE
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2014

No findings were reported in the prior year.



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