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STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2765

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

December 29, 2009

Board of Commissioners
The Housing Authority of the City of Charlestown
200 Jennings Street
Charlestown, Indiana 47111

We have reviewed the audit report prepared by McCauley, Nicolas & Company, LLC, Independent Public Accountants, for the period October 1, 2006 to September 30, 2007. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountants' opinion, the financial statements included in the report present fairly the financial condition of The Housing Authority of the City of Charlestown, as of September 30, 2007, and the results of its operations for the period then ended, on the basis of accounting described in the report.

The Independent Public Accountants' report is filed with this letter in our office as a matter of public record.

STATE BOARD OF ACCOUNTS

**THE HOUSING AUTHORITY OF THE
CITY OF CHARLESTOWN
Charlestown, Indiana**

**REPORT ON AUDIT OF FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

for the year ended September 30, 2007

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Independent Auditors' Report

Board of Commissioners
The Housing Authority of
the City of Charlestown
Charlestown, Indiana 47111

We have audited the accompanying basic financial statements of the Housing Authority of the City of Charlestown as of and for the year ended September 30, 2007, as listed in the table of contents. These financial statements are the responsibility of the Housing Authority of the City of Charlestown's management. 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 *Governmental Auditing Standards* issued by the Controller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Housing Authority of the City of Charlestown as of September 30, 2007, and the results of its operations, changes in equity and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3 through 7 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

702 North Shore Drive, Suite 500 Jeffersonville, IN 47130-3104 812-288-6621 fax 812-288-2885 www.mnccpa.com

Kenneth N. Nicolas, CPA Ronald F. Barnes, CPA, PFS Lee E. Pieper, CPA J. Patrick Byrne, CPA
John C. Pieper, CPA Daniel K. McCaughey, CPA, ABV J. Michael Grinnan, CPA Kenneth W. Coyle, CPA R. Kenneth Adams, CPA

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Board of Commissioners
The Housing Authority of
the City of Charlestown
Page 2

In accordance with *Government Auditing Standards*, we have also issued our report dated, April 21, 2008, on our consideration of the Housing Authority of the City of Charlestown's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the Housing Authority of the City of Charlestown taken as a whole. The accompanying Financial Data Schedule on pages 18 through 21 are presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying Schedule of Expenditures of Federal Awards on page 22 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 also not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

McCauley, Nicolas & Company, LLC

McCauley, Nicolas & Company, LLC
Certified Public Accountants

Jeffersonville, Indiana
April 21, 2008

THE HOUSING AUTHORITY OF THE CITY OF CHARLESTOWN
Charlestown, Indiana

MANAGEMENT DISCUSSION AND ANALYSIS
Year ended September 30, 2007

As management of Housing Authority of the City of Charlestown (the Authority), we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the year ended September 30, 2007.

FINANCIAL HIGHLIGHTS

- Net assets of the Authority increased \$200,994, including a prior period adjustment of \$3,133, as of September 30, 2007, over the prior year.
- Operating revenue of the Authority increased by \$197,201 from prior year results.
- The Authority's cash balance at September 30, 2007 was \$566,164 representing an increase of \$162,554 from September 30, 2006.
- The Authority purchased property and equipment totaling \$305,087 during the fiscal year ended September 30, 2007.

OVERVIEW OF THE AUTHORITY

The Housing Authority of the City of Charlestown, a nonprofit organization, is organized under the laws of the state of Indiana for the purpose of engaging in the development and administration of low-rent housing programs. The Authority owns and operates 250 public housing units and administers 70 Section 8 units under an Annual Contributions Contract 2050-V in Charlestown, Indiana.

A seven-member Board of Commissioners governs the Authority.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Authority's financial statements consist of two parts – management's discussion and analysis (this section) and the basic financial statements. The basic financial statements include the Authority-wide financial statements and notes to the financial statements.

- The Authority-wide financial statements provide information about the Authority's overall financial position and results of operations. These statements, which are presented on the accrual basis, consist of the Statement of Net Assets, the Statement of Revenues, Expenses and Changes in Net Assets and the Statement of Cash Flows (all of which are Proprietary Funds).
- The basic financial statements also include a "Notes to Financial Statements" section that provides additional information that is essential to a full understanding of the data provided in the Authority-wide statements.

The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of these statements.

THE HOUSING AUTHORITY OF THE CITY OF CHARLESTOWN
Charlestown, Indiana

MANAGEMENT DISCUSSION AND ANALYSIS-Continued
Year ended September 30, 2007

OVERVIEW OF THE FINANCIAL STATEMENTS-Continued

The primary focus of the Authority's financial statements is on the financial statements of a single business-type activity that combines all programs administered by the Authority. The Statement of Net Assets – Proprietary Fund includes all of the Authority's assets and liabilities. All of the current year's revenue and expenses are accounted for in the Statement of Revenue, Expenses and Changes in Net Assets – Proprietary Fund regardless of when cash is received or paid.

- The Authority-wide statements report the Authority's net assets and how they changed. Net assets – the difference between the Authority's assets and liabilities – are one way to measure the Authority's financial position.

AN OVERVIEW OF THE AUTHORITY-WIDE FINANCIAL POSITION AND OPERATIONS

The Authority's overall financial position and operations for the past two years are summarized below based on the information included in the current and prior financial statements.

The Housing Authority of the City of Charlestown
Statement of Net Assets - Proprietary Fund

	<u>2007</u>	<u>2006</u>	Total Percentage Change
Current Assets	\$ 1,337,472	\$ 1,114,741	20.0%
Property and equipment, net	<u>5,086,114</u>	<u>5,082,631</u>	<u>0.1%</u>
Total Assets	<u>\$ 6,423,586</u>	<u>\$ 6,197,372</u>	<u>3.7%</u>
Current Liabilities	\$ 187,689	\$ 166,180	12.9%
Non-current liabilities	<u>86,908</u>	<u>83,198</u>	<u>4.5%</u>
Total Liabilities	<u>\$ 274,597</u>	<u>\$ 249,378</u>	<u>10.1%</u>
Net Assets			
Invested in capital assets	\$ 5,086,114	\$ 5,082,631	0.1%
Unrestricted net assets	1,024,307	865,363	18.4%
Restricted net assets	<u>38,568</u>	<u>-</u>	<u>0.0%</u>
Total Net Assets	<u>\$ 6,148,989</u>	<u>\$ 5,947,994</u>	<u>3.4%</u>

THE HOUSING AUTHORITY OF THE CITY OF CHARLESTOWN
Charlestown, Indiana

MANAGEMENT DISCUSSION AND ANALYSIS-Continued
Year ended September 30, 2007

AN OVERVIEW OF THE AUTHORITY-WIDE FINANCIAL POSITION AND OPERATIONS-
Continued

The Authority's total assets at September 30, 2007 were \$6,423,586, an increase of approximately \$226,000, or 3.7%, from September 30, 2006. The change in total assets consisted primarily of a net increase of approximately \$194,000 in cash and certificates of deposit and \$32,000 in accounts receivable from HUD.

Cash and Certificates of Deposits

Total cash and certificates of deposit increased by approximately \$194,000 or 5.4% as of September 30, 2007 compared to September 30, 2006.

Accounts Receivable - tenant

Accounts receivable, net, decreased by \$755 in 2007.

Accounts Receivable – HUD

At September 30, 2007, the Authority had a receivable of \$50,207 from HUD related to expenditures in the Capital Fund program.

Long-term Debt

The Authority does not have any long-term liabilities at this time.

Net Assets

The Authority's financial position improved as net assets increased by \$200,944, or 3.4%, including a prior period adjustment of \$3,133, during 2007. The Authority continued to maintain a positive change in net assets to cover operating expenses.

The results of operations for the Authority are presented on the following page:

THE HOUSING AUTHORITY OF THE CITY OF CHARLESTOWN
Charlestown, Indiana

MANAGEMENT DISCUSSION AND ANALYSIS-Continued
Year ended September 30, 2007

AN OVERVIEW OF THE AUTHORITY-WIDE FINANCIAL POSITION AND OPERATIONS-
Continued

The Housing Authority of the City of Charlestown
Statement of Revenue, Expenses and Changes in Net Assets - Proprietary Fund

	2007	2006	Increase/Decrease	
			Amount	Percentage
OPERATING REVENUE				
Tenant rental revenue	\$ 684,083	\$ 635,353	\$ 48,730	7.7%
HUD PHA grants	694,571	562,521	132,050	23.5%
Other revenue	<u>25,096</u>	<u>8,675</u>	<u>16,421</u>	<u>189.3%</u>
TOTAL OPERATING REVENUE	<u>1,403,750</u>	<u>1,206,549</u>	<u>197,201</u>	<u>16.3%</u>
OPERATING EXPENSES				
Administration	264,768	246,540	18,228	7.4%
Tenant service	8,718	7,945	773	9.7%
Utilities	206,482	205,301	1,181	0.6%
Ordinary maintenance and operations	369,835	350,240	19,595	5.6%
Protective services	26,000	26,000	-	0.0%
General expenses	108,824	115,560	(6,736)	-5.8%
Housing assistance payments	232,675	235,355	(2,680)	-1.1%
Depreciation	<u>301,603</u>	<u>277,531</u>	<u>24,072</u>	<u>8.7%</u>
TOTAL OPERATING EXPENSES	<u>1,518,905</u>	<u>1,464,472</u>	<u>54,433</u>	<u>3.7%</u>
Operating loss	<u>(115,155)</u>	<u>(257,923)</u>	<u>142,768</u>	<u>55.4%</u>
NONOPERATING REVENUE				
Gain (Loss) on disposal of fixed assets	500	(1,264)	1,764	0.0%
Interest and investment revenue	<u>37,128</u>	<u>25,763</u>	<u>11,365</u>	<u>44.1%</u>
TOTAL NONOPERATING REVENUE	<u>37,628</u>	<u>24,499</u>	<u>13,129</u>	<u>53.6%</u>
Loss before capital grant	(77,527)	(233,424)	155,897	66.8%
Capital fund grant	<u>275,389</u>	<u>273,360</u>	<u>2,029</u>	<u>0.7%</u>
CHANGE IN NET ASSETS	<u>\$ 197,862</u>	<u>\$ 39,936</u>	<u>\$ 157,926</u>	<u>395.4%</u>

The details of the changes are explained in the Results of Operations section.

THE HOUSING AUTHORITY OF THE CITY OF CHARLESTOWN
Charlestown, Indiana

MANAGEMENT DISCUSSION AND ANALYSIS-Continued
Year ended September 30, 2007

RESULTS OF OPERATIONS

Net assets of the Authority increased \$197,862 from the September 30, 2006 amount of \$5,951,127 (as restated following a \$3,133 prior year correction) by 3.4% to \$6,148,989.

Revenues of the Authority's activities are generated principally from HUD operating subsidies. In 2007 the Authority's revenues for its activities totaled \$1,716,767. Of this total, \$969,960, or 56.5%, is from HUD operating subsidies. Operating expense of the Authority's activities consist primarily of maintenance and operations, depreciation, administration and housing assistance payments. The total expenses are \$1,518,905, of which \$232,675, or 15.3%, were housing assistance payments.

Change in net assets for the year ended September 30, 2007 was \$197,862, before a prior period adjustment of \$3,133 compared to \$39,936 for the year ended September 30, 2006.

CAPITAL ASSETS

At September 30, 2007, the Authority has approximately \$5 million invested in a variety of capital assets reflected in the following schedule, which represents an increase of \$3,483 (net of depreciation) from the preceding year.

	<u>2007</u>	<u>2006</u>
Land	\$ 1,217,739	\$ 1,217,739
Buildings	8,301,741	7,955,613
Dwelling equipment	191,649	236,830
Office furniture and equipment	119,556	126,316
Construction in progress	<u>431,494</u>	<u>517,242</u>
Total property and equipment	10,262,179	10,053,740
Less accumulated depreciation	<u>(5,176,065)</u>	<u>(4,971,109)</u>
Property and equipment, net	<u>\$ 5,086,114</u>	<u>\$ 5,082,631</u>

Additions consisted primarily of capital improvements to the Authority's public housing units and were supported largely through capital fund grants.

REQUEST FOR INFORMATION

The financial report is designed to provide a general overview of the Authority's finances. Questions concerning any of the information provided in this report should be addressed to the following address:

The Housing Authority of the City of Charlestown
Attn: Executive Director
200 Jennings Street
Charlestown, IN 47111

THE HOUSING AUTHORITY OF THE CITY OF CHARLESTOWN
Charlestown, Indiana

STATEMENT OF NET ASSETS-PROPRIETARY FUND
September 30, 2007

<u>ASSETS</u>	
CURRENT ASSETS	
Cash	\$ 566,164
Certificates of deposit	677,967
Accounts receivable - tenants	2,281
Accounts receivable - HUD	50,207
Other assets	38,163
Inventory - materials and supplies	<u>2,690</u>
TOTAL CURRENT ASSETS	<u>1,337,472</u>
PROPERTY AND EQUIPMENT	
Land	1,217,739
Buildings	8,301,741
Furniture, equipment and machinery - dwellings	191,649
Furniture, equipment and machinery - administration	119,556
Construction in progress	<u>431,494</u>
Total property and equipment	10,262,179
Less accumulated depreciation	<u>(5,176,065)</u>
PROPERTY AND EQUIPMENT, NET	<u>5,086,114</u>
TOTAL ASSETS	<u>\$ 6,423,586</u>
<u>LIABILITIES AND NET ASSETS</u>	
CURRENT LIABILITIES	
Accounts payable	\$ 50,207
Accounts payable - other government	48,413
Accrued compensated absences - current portion	50,340
Security deposits	34,384
Accrued wages/payroll taxes payable	1,165
Deferred revenues	<u>3,180</u>
TOTAL CURRENT LIABILITIES	187,689
NONCURRENT LIABILITIES	
Accrued compensated absences - noncurrent portion	<u>86,908</u>
TOTAL LIABILITIES	<u>274,597</u>
NET ASSETS	
Invested in capital assets	5,086,114
Unrestricted net assets	1,024,307
Restricted net assets	<u>38,568</u>
TOTAL NET ASSETS	<u>6,148,989</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 6,423,586</u>

See notes to financial statements.

THE HOUSING AUTHORITY OF THE CITY OF CHARLESTOWN
Charlestown, Indiana

STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS-PROPRIETARY FUND
September 30, 2007

OPERATING REVENUE		
Tenant revenue	\$	684,083
HUD PHA operating grants		694,571
Other revenue		<u>25,096</u>
TOTAL OPERATING REVENUE		<u>1,403,750</u>
OPERATING EXPENSES		
Administration		264,768
Tenant service		8,718
Utilities		206,482
Ordinary maintenance and operations		369,835
Protective services		26,000
General expenses		108,824
Housing assistance payments		232,675
Depreciation		<u>301,603</u>
TOTAL OPERATING EXPENSES		<u>1,518,905</u>
Operating loss		<u>(115,155)</u>
NONOPERATING REVENUE		
Gain on disposal of fixed assets		500
Interest and investment revenue		<u>37,128</u>
TOTAL NONOPERATING REVENUE		<u>37,628</u>
Loss before capital grant		(77,527)
Capital fund grant		<u>275,389</u>
CHANGE IN NET ASSETS		197,862
NET ASSETS, beginning of year, as previously reported	\$	5,947,994
Prior year correction		<u>3,133</u>
NET ASSETS, BEGINNING OF YEAR, as restated	5,951,127	<u>5,951,127</u>
NET ASSETS, END OF YEAR	\$	<u>6,148,989</u>

See notes to financial statements.

THE HOUSING AUTHORITY OF THE CITY OF CHARLESTOWN
Charlestown, Indiana

STATEMENT OF CASH FLOWS - PROPRIETARY FUND
for year ended September 30, 2007

OPERATING ACTIVITIES

Cash received from tenant	\$ 683,577
HUD PHA grants	940,995
Interest earned	37,128
Other cash received	<u>25,096</u>
	<u>1,686,796</u>
Administrative expenses	263,526
Tenant service	8,718
Utilities	206,482
Ordinary maintenance and operating	363,761
Protective services	26,000
General expenses	101,297
Housing assistance payments	<u>232,675</u>
	<u>1,202,459</u>
Net cash provided by operating activities	<u>484,337</u>

INVESTING ACTIVITIES

Purchase of property and equipment	(291,447)
Proceeds from disposal of fixed assets	500
Proceeds from redemption of certificates of deposit	645,311
Payments for the purchase of certificates of deposit and interest retained in account	<u>(676,147)</u>
Net cash (used) by investing activities	<u>(321,783)</u>

Net increase in cash 162,554

OPERATING CASH

Beginning of year	<u>403,610</u>
End of year	<u>\$ 566,164</u>

OPERATING ACTIVITIES

Change in net assets	\$ 197,862
Adjustments to reconcile changes in net assets to net cash provided by operating activities:	
Depreciation expense	301,603
Collection losses	7,568
Gain on disposal of fixed assets	(500)
(Increase) in:	
Accounts receivable - tenants	(6,813)
Accounts receivable - HUD	(28,965)
Inventory - materials and supplies	(118)
Other assets	2,120
Increase (decrease) in:	
Accounts payable	(1,813)
Accounts payable - other government	5,407
Accrued compensated absences	9,158
Security deposits	609
Accrued wages/payroll taxes payable	89
Deferred revenue	<u>(1,870)</u>
Net cash provided by operating activities	<u>\$ 484,337</u>

Noncash transaction:

During the year ended September 30, 2007 and 2006, the Authority financed the purchase of property and equipment through \$50,207 and \$36,567 of trade accounts payable, respectively.

THE HOUSING AUTHORITY OF THE CITY OF CHARLESTOWN
Charlestown, Indiana

NOTES TO FINANCIAL STATEMENTS

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of the Housing Authority of Charlestown (the "Authority") is presented to assist in understanding the Authority's financial statements. The financial statements and notes are representations of the Authority's management, who is responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of the financial statements.

Nature of Operations

The Authority, a nonprofit organization, is organized under the laws of the State of Indiana for the purpose of engaging in the development and administration of low-rent housing programs. The Authority owns and operates 250 public housing units and administers 70 Section 8 units under an Annual Contributions Contract 2050-V in Charlestown, Indiana.

Reporting Entity

In evaluating the Authority as a reporting entity, management has addressed its relationship with the City of Charlestown and concluded that the City does not maintain an oversight responsibility for the Authority's operations. The Authority recruits and employs its executive staff and has substantial legal authority to control its affairs without requiring approval of the City government. Debt incurred by the Authority is not an obligation of the City; the City does not review or approve the Authority's budget; is not entitled to any surplus funds generated by the Authority's operations; and is not responsible for any deficits incurred by the Authority. Consequently, in accordance with the criteria set forth in Section 2100 and 2600 of the Governmental Accounting Standards Board Codification, management has concluded that the Housing Authority of the City of Charlestown is a separate reporting entity.

Basis of Presentation

All of the Authority's programs are accounted for as one business-type activity for financial reporting purposes. This financial statement presentation provides an indication of the financial performance of the Authority as a whole. Enterprise designations are used to account for activities (a) which are financed with debt that is solely secured by pledge of the net revenues from fees and charges of the activity; (b) which are governed by laws or regulations that require that the activity's costs of providing services be recovered with fees and charges, rather than taxes or similar revenues; or (c) that the pricing policies of the activity establish fees and charges designated to recover its costs.

In accordance with Governmental Accounting Standards Board (GASB) Statement 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Authority's proprietary funds follow all GASB pronouncements and those Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins that were issued on or before November 30, 1989, except those that conflict with or contradict a GASB pronouncement.

THE HOUSING AUTHORITY OF THE CITY OF CHARLESTOWN
Charlestown, Indiana

NOTES TO FINANCIAL STATEMENTS—Continued

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Basis of Accounting

The financial statements of the Authority have been prepared on the accrual basis of accounting.

Use of Estimates

The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities (and disclosure of contingent assets and liabilities, if any) 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.

Cash Equivalents

The Authority considers all short-term investments with an original maturity of three months or less to be cash equivalents. There were no cash equivalents at September 30, 2007.

Allowance for Doubtful Accounts

The Authority uses the allowance for bad debts method of valuing doubtful accounts receivable which is based on historical experience, coupled with a review of the current status of existing receivables. Management has determined that no allowance for doubtful accounts was required at September 30, 2007.

Inventories

Inventories, consisting of materials and supplies, are stated at the lower of cost or market, reported on a first-in, first-out basis.

Property and Equipment

Property and equipment are stated at cost. Maintenance and repairs are charged to expense as incurred; renewals or betterments are capitalized. Gain or loss on retirements and disposition of assets is credited or charged to operations, and respective costs and accumulated depreciation are eliminated from the accounts.

Depreciation is provided on the basis of the estimated useful lives of the assets using the straight-line method. The estimated useful lives are 10 - 39 years for building and improvements and 5 - 7 years for building equipment, furniture, maintenance equipment and miscellaneous assets.

Revenue and Expenses

Revenue is recorded as earned and expenses are charged against such revenue as incurred without regard to the date of receipt or payment of cash.

Budget Approval

The Authority adopts a budget annually. The budget is submitted to the Department of Housing and Urban Development for approval. Subsequent budget revisions may also be required to be submitted to HUD for approval.

THE HOUSING AUTHORITY OF THE CITY OF CHARLESTOWN
Charlestown, Indiana

NOTES TO FINANCIAL STATEMENTS—Continued

NOTE 2—CASH DEPOSITS

In March 2003, the GASB issued Statement No. 40 "Deposits and Investment Risk Disclosures," which is effective for periods beginning after June 15, 2004. Risk disclosures in previous financial statements (under the provisions of GASB Statement No. 3) focused only on custodial credit risk. GASB Statement No. 40 not only addresses custodial credit risk but other common areas of investment risk as well, including interest rate risk, credit risk, and concentration of credit risk.

A. Custodial Credit Risk

Custodial credit risk for deposits and investments is the risk that, in the event of failure by a financial institution, the Authority may not be able to recover the value of its deposits and investments or collateral securities that are in the possession of the financial institution. Statutes authorize the Authority to invest in certificates of deposit, money market funds, United States government securities and repurchase agreements fully collateralized by United States government securities. All cash and investments are insured up to \$100,000 by the Federal Deposit Insurance Corporation (FDIC) or other equivalent insurance company of depository financial institutions. The deposits exceeding the insured or registered limits are public funds covered by the State of Indiana Public Deposit Fund.

B. Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of investments will adversely affect the fair value of an investment. The Authority's investment policy limits investments to provide the optimum return on the investment consistent with the cash management program of the Authority.

Investments are made based upon prevailing market conditions at the time of the transaction. The Authority reviews its cash and investment needs in order to maintain adequate liquidity to meet its cash flow needs. Investments will typically be limited to securities maturing in periods of up to one year, or such lesser period that coincides with expected disbursements by the Authority.

C. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Investments are made under the 'prudent investor' standard to ensure that (a) due diligence is exercised in accordance with State law, (b) any negative deviations are reported timely and (c) reasonable action is taken to control any adverse developments. The Authority's investment policy requires investment in instruments authorized by HUD Notice PIH 95-27.

THE HOUSING AUTHORITY OF THE CITY OF CHARLESTOWN
Charlestown, Indiana

NOTES TO FINANCIAL STATEMENTS—Continued

NOTE 2—CASH DEPOSITS—Continued

D. Concentration of Credit Risk

The Authority's investment policy requires diversification of the overall portfolio to eliminate the risk of loss resulting from an over-concentration of assets in a specific maturity, a specific issuer and/or a specific class of securities.

The carrying value of cash and certificates of deposit owned at September 30, 2007 was \$566,164 and \$677,967, respectively. The bank balance of cash and certificates of deposit owned at September 30, 2007 was \$602,918 and \$677,967, respectively.

NOTE 3—PROPERTY AND EQUIPMENT

The following is the detailed transactions of property and equipment during the year ended September 30, 2007:

	Balance at 10/01/06	Additions	Disposals	Transfers	Balance at 09/30/07
Land	\$ 1,217,739	\$ -	\$ -	\$ -	\$ 1,217,739
Buildings	7,955,613	17,541	(42,098)	370,685	8,301,741
Dwelling equipment	236,830	-	(18,093)	(27,088)	191,649
Office furniture and equipment	126,316	29,697	(36,457)	-	119,556
Construction in progress	517,242	257,849	-	(343,597)	431,494
	<u>\$ 10,053,740</u>	<u>\$ 305,087</u>	<u>\$ (96,648)</u>	<u>\$ -</u>	<u>\$ 10,262,179</u>

Total depreciation expense for the year ended September 30, 2007 was \$301,603.

NOTE 4—RESTRICTED NET ASSETS

In accordance with guidelines established by HUD, any housing assistance payment (HAP) budget authority provided to a housing authority in excess of actual program expenses for the same period must be maintained as restricted net assets to be used only for HAP payments incurred in the running of the Housing Choice Voucher program. Accordingly, the Authority has recorded \$38,568 as restricted net assets at September 30, 2007.

NOTE 5—RETIREMENT PLAN

The Authority contributes to a simplified employee pension plan for all of the eligible employees in the amount of 13% of wages. All employees are eligible who are at least 21 years of age and have worked at least 3 of the preceding 5 years. Contributions to the SEPP IRA are fully vested with the employees when made. Pension expense for the year ended September 30, 2007 was \$40,352.

THE HOUSING AUTHORITY OF THE CITY OF CHARLESTOWN
Charlestown, Indiana

NOTES TO FINANCIAL STATEMENTS—Continued

NOTE 7—COMPENSATED ABSENCES

Regular full and part-time employees receive sick leave each year and vacation leave based upon length of employment. The vacation and sick leave benefits accumulate and can be carried forward to successive years; vacation and sick leave is also paid to employees upon termination. Accordingly, at September 30, 2007, a liability of \$137,248 has been recorded for accrued compensated absences of which \$50,340 is current and \$86,908 is non-current.

NOTE 8—INCOME TAXES

The Authority has qualified with the Internal Revenue Service and the Indiana Department of Revenue as a tax-exempt organization for income tax purposes and, accordingly, there is no provision in the financial statements for federal or state income taxes.

NOTE 9—MAJOR FUNDING SOURCE

The Authority is substantially funded by Federal awards. Management does not anticipate any material change in funding.

NOTE 10—PRIOR YEAR CORRECTION

During the year ended September 30, 2007, a correction was made to increase beginning net assets totaling \$3,133. The correction was made to record revenue received from HUD for the September 30, 2006 year end settlement.



INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURE

Board of Commissioners
The Housing Authority of
the City of Charlestown
Charlestown, Indiana 47111

We have performed the procedure described in the second paragraph, which was agreed to by the Housing Authority of the City of Charlestown (the Housing Authority) and the U.S. Department of Housing and Urban Development, Real Estate Assessment Center (REAC), solely to assist them in determining whether the electronic submission of certain information agrees with related hard copy documents included within the OMB Circular A-133 reporting package. The Housing Authority is responsible for the accuracy and completeness of the electronic submission. This agreed-upon procedures engagement was conducted in accordance with the attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedure is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedure described below either for the purpose for which this report has been requested or for any other purpose.

We compared the electronic submission of the items listed in the "UFRS Rule Information" column with the corresponding printed documents listed in the "Hard Copy Documents" column. The results of the performance of our agreed-upon procedure indicate agreement or non-agreement of the electronically submitted information and hard copy documents as shown in the attached chart.

We were engaged to perform an audit in accordance with OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, for the Housing Authority as of and for the year ended September 30, 2007, and have issued our reports thereon dated April 21, 2008. The information in the "Hard Copy Documents" column was included within the scope, or was a by-product of that audit. Further, our opinion on the fair presentation of the Financial Data Schedule (FDS) dated April 21, 2008 was expressed in relation to the basic financial statements of the Housing Authority taken as a whole.

A copy of the financial statement package required by OMB Circular A-133, which includes the auditors' reports, is available in its entirety from the Housing Authority. We have not performed any additional auditing procedures since the date of the aforementioned audit reports. Further, we take no responsibility for the security of the information transmitted electronically to the U.S. Department of Housing and Urban Development, REAC.

This report is intended solely for the information and use of the Housing Authority and the U.S. Department of Housing and Urban Development, REAC, and is not intended to be and should not be used by anyone other than these specified parties.

McCauley, Nicolas & Company, LLC

McCauley, Nicolas & Company, LLC
Certified Public Accountants

Jeffersonville, Indiana
May 21, 2008

ATTACHMENT TO INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURE

UFRS Rule Information	Hard Copy Document(s)	Findings
Balance Sheet and Revenue and Expense (data line items 111 to 1121)	Financial Data Schedule, all CFDA's	Agrees
Footnotes (data element G5000-010)	Footnotes to audited basic financial statements.	Agrees
Type of opinion on FDS (data element G5100-010)	Auditor's supplemental report on FDS	Agrees
Audit Findings Narrative (data element G5200-010)	Schedule of Findings and Questioned Costs	Agrees
General information (data element series G2000, G2100, G2200, G2300, G9000, G9100)	OMB Data Collection Form	Agrees
Financial statement report information (data element G3000-010 to G3000-050, G3100-010 to G3100-030, G3200-010 to G3200-030, G3300-010 to G3300-060, G3400-010 to G3400-020)	Schedule of Findings and Questioned Costs, Part 1 and OMB Data Collection Form	Agrees
Federal program report information (data element G4000-010 to G4000-040)	Schedule of Findings and Questioned Costs, Part 1 and OMB Data Collection Form	Agrees
Federal agencies required to receive reporting package (data element G4000-050)	OMB Data Collection Form	Agrees
Basic financial statements and auditor's reports required to be submitted electronically	Basic financial statements (inclusive of auditor reports)	Agrees

THE HOUSING AUTHORITY OF THE CITY OF CHARLESTOWN
Charlestown, Indiana

FINANCIAL DATA SCHEDULE

PHA: IN025 FYED: 09/30/2007

Line Item No.	Account Description	Low Rent Public Housing	Public Housing Comprehensive Grant Program	Housing Choice Vouchers	Public Housing Capital Fund Program	Total
111	Cash - Unrestricted	\$433,194	\$0	\$60,018	\$0	\$493,212
113	Cash - Other Restricted	\$0	\$0	\$38,568	\$0	\$38,568
114	Cash - Tenant Security Deposits	\$34,384	\$0	\$0	\$0	\$34,384
100	Total Cash	\$467,578	\$0	\$98,586	\$0	\$566,164
121	Accounts Receivable - PHA Projects	\$2,281	\$0	\$0	\$0	\$2,281
122	Accounts Receivable - HUD Other Projects	\$0	\$0	\$0	\$50,207	\$50,207
126.1	Allowance for Doubtful Accounts - Dwelling Rents	\$0	\$0	\$0	\$0	\$0
126.2	Allowance for Doubtful Accounts - Other	\$0	\$0	\$0	\$0	\$0
120	Total Receivables, net of allowances for doubtful accounts	\$2,281	\$0	\$0	\$50,207	\$52,488
131	Investments - Unrestricted	\$623,822	\$0	\$54,145	\$0	\$677,967
142	Prepaid Expenses and Other Assets	\$38,163	\$0	\$0	\$0	\$38,163
143	Inventories	\$2,690	\$0	\$0	\$0	\$2,690
143.1	Allowance for Obsolete Inventories	\$0	\$0	\$0	\$0	\$0
144	Interprogram Due From	\$13,166	\$0	\$0	\$0	\$13,166
150	Total Current Assets	\$1,147,700	\$0	\$152,731	\$50,207	\$1,350,638
161	Land	\$1,175,675	\$17,783	\$0	\$24,281	\$1,217,739
162	Buildings	\$5,463,472	\$793,763	\$0	\$2,044,506	\$8,301,741
163	Furniture, Equipment & Machinery - Dwellings	\$176,639	\$0	\$0	\$15,010	\$191,649
164	Furniture, Equipment & Machinery - Administration	\$114,833	\$0	\$2,254	\$2,469	\$119,556
166	Accumulated Depreciation	(\$4,647,397)	(\$210,201)	(\$2,254)	(\$316,213)	(\$5,176,065)
167	Construction In Progress	\$0	\$0	\$0	\$431,494	\$431,494
160	Total Fixed Assets, Net of Accumulated Depreciation	\$2,283,222	\$601,345	\$0	\$2,201,547	\$5,086,114
180	Total Non-Current Assets	\$2,283,222	\$601,345	\$0	\$2,201,547	\$5,086,114
190	Total Assets	\$3,430,922	\$601,345	\$152,731	\$2,251,754	\$6,436,752

THE HOUSING AUTHORITY OF THE CITY OF CHARLESTOWN
Charlestown, Indiana

FINANCIAL DATA SCHEDULE—Continued

PHA: IN025 FYED: 09/30/2007

Line Item No.	Account Description	Low Rent Public Housing	Public Housing Comprehensive Grant Program	Housing Choice Vouchers	Public Housing Capital Fund Program	Total
312	Accounts Payable <= 90 Days	\$0	\$0	\$0	\$50,207	\$50,207
321	Accrued Wage/Payroll Taxes Payable	\$1,165	\$0	\$0	\$0	\$1,165
322	Accrued Compensated Absences - Current Portion	\$50,340	\$0	\$0	\$0	\$50,340
333	Accounts Payable - Other Government	\$48,413	\$0	\$0	\$0	\$48,413
341	Tenant Security Deposits	\$34,384	\$0	\$0	\$0	\$34,384
342	Deferred Revenues	\$3,180	\$0	\$0	\$0	\$3,180
347	Interprogram Due To	\$0	\$0	\$13,166	\$0	\$13,166
310	Total Current Liabilities	\$137,482	\$0	\$13,166	\$50,207	\$200,855
354	Accrued Compensated Absences - Non Current	\$86,908	\$0	\$0	\$0	\$86,908
350	Total Noncurrent Liabilities	\$86,908	\$0	\$0	\$0	\$86,908
300	Total Liabilities	\$224,390	\$0	\$13,166	\$50,207	\$287,763
508	Total Contributed Capital	\$0	\$0	\$0	\$0	\$0
508.1	Invested in Capital Assets, Net of Related Debt	\$2,283,222	\$601,345	\$0	\$2,201,547	\$5,086,114
511	Total Reserved Fund Balance	\$0	\$0	\$0	\$0	\$0
511.1	Restricted Net Assets	\$0	\$0	\$38,568	\$0	\$38,568
512.1	Unrestricted Net Assets	\$923,310	\$0	\$100,997	\$0	\$1,024,307
513	Total Equity/Net Assets	\$3,206,532	\$601,345	\$139,565	\$2,201,547	\$6,148,989
600	Total Liabilities and Equity/Net Assets	\$3,430,922	\$601,345	\$152,731	\$2,251,754	\$6,436,752

THE HOUSING AUTHORITY OF THE CITY OF CHARLESTOWN
Charlestown, Indiana

FINANCIAL DATA SCHEDULE—Continued

PHA: IN025 FYED: 09/30/2007

Line Item No.	Account Description	Low Rent Public Housing	Public Housing Comprehensive Grant Program	Housing Choice Vouchers	Public Housing Capital Fund Program	Total
703	Net Tenant Rental Revenue	\$666,575	\$0	\$0	\$0	\$666,575
704	Tenant Revenue - Other	\$17,508	\$0	\$0	\$0	\$17,508
705	Total Tenant Revenue	\$684,083	\$0	\$0	\$0	\$684,083
706	HUD PHA Operating Grants	\$299,143	\$0	\$286,578	\$108,850	\$694,571
706.1	Capital Grants	\$0	\$0	\$0	\$275,389	\$275,389
711	Investment Income - Unrestricted	\$34,187	\$0	\$2,634	\$0	\$36,821
715	Other Revenue	\$25,096	\$0	\$0	\$0	\$25,096
716	Gain/Loss on Sale of Fixed Assets	\$500	\$0	\$0	\$0	\$500
720	Investment Income - Restricted	\$0	\$0	\$307	\$0	\$307
700	Total Revenue	\$1,043,009	\$0	\$289,519	\$384,239	\$1,716,767
911	Administrative Salaries	\$109,454	\$0	\$25,835	\$0	\$135,289
912	Auditing Fees	\$8,300	\$0	\$0	\$0	\$8,300
914	Compensated Absences	\$9,158	\$0	\$0	\$0	\$9,158
915	Employee Benefit Contributions - Administrative	\$47,061	\$0	\$0	\$0	\$47,061
916	Other Operating - Administrative	\$44,811	\$0	\$10,149	\$10,000	\$64,960
921	Tenant Services - Salaries	\$5,460	\$0	\$0	\$0	\$5,460
923	Employee Benefit Contributions - Tenant Services	\$2,353	\$0	\$0	\$0	\$2,353
924	Tenant Services - Other	\$905	\$0	\$0	\$0	\$905
931	Water	\$126,397	\$0	\$0	\$0	\$126,397
932	Electricity	\$34,076	\$0	\$0	\$0	\$34,076
933	Gas	\$46,009	\$0	\$0	\$0	\$46,009
941	Ordinary Maintenance and Operations - Labor	\$170,360	\$0	\$0	\$0	\$170,360
942	Ordinary Maintenance and Operations - Materials and Other	\$29,791	\$0	\$0	\$0	\$29,791
943	Ordinary Maintenance and Operations - Contract Costs	\$68,596	\$0	\$0	\$32,850	\$101,446
945	Employee Benefit Contributions - Ordinary Maintenance	\$68,238	\$0	\$0	\$0	\$68,238
953	Protective Services - Other	\$0	\$0	\$0	\$26,000	\$26,000
961	Insurance Premiums	\$57,747	\$0	\$0	\$0	\$57,747
963	Payments in Lieu of Taxes	\$48,413	\$0	\$0	\$0	\$48,413
964	Bad Debt - Tenant Rents	\$2,664	\$0	\$0	\$0	\$2,664
969	Total Operating Expenses	\$879,793	\$0	\$35,984	\$68,850	\$984,627
970	Excess Operating Revenue over Operating Expenses	\$163,216	\$0	\$253,535	\$315,389	\$732,140
973	Housing Assistance Payments	\$0	\$0	\$232,675	\$0	\$232,675
974	Depreciation Expense	\$178,923	\$28,865	\$0	\$93,815	\$301,603
900	Total Expenses	\$1,058,716	\$28,865	\$268,659	\$162,665	\$1,518,905
1001	Operating Transfers In	\$40,000	\$0	\$0	\$0	\$40,000
1002	Operating Transfers Out	\$0	\$0	\$0	(\$40,000)	(\$40,000)
1010	Total Other Financing Sources (Uses)	\$40,000	\$0	\$0	(\$40,000)	\$0
1000	Excess (Deficiency) of Total Revenue Over (Under) Total Expenses	\$24,293	(\$28,865)	\$20,860	\$181,574	\$197,862

THE HOUSING AUTHORITY OF THE CITY OF CHARLESTOWN
Charlestown, Indiana

FINANCIAL DATA SCHEDULE—Continued

PHA: IN025 FYED: 09/30/2007

Line Item No.	Account Description	Low Rent Public Housing	Public Housing_Comprehensive Grant Program	Housing Choice Vouchers	Public Housing Capital Fund Program	Total
1102	Debt Principal Payments - Enterprise Funds	\$0	\$0	\$0	\$0	\$0
1103	Beginning Equity	\$3,182,239	\$630,210	\$115,572	\$2,019,973	\$5,947,994
1104	Prior Period Adjustments, Equity Transfers and Correction of Errors	\$0	\$0	\$3,133	\$0	\$3,133
1120	Unit Months Available	3,000	0	840	0	3,840
1121	Number of Unit Months Leased	3,000	0	752	0	3,752
1117	Administrative Fee Equity	\$0	\$0	\$100,997	\$0	\$100,997
1118	Housing Assistance Payments Equity	\$0	\$0	\$38,568	\$0	\$38,568

THE HOUSING AUTHORITY OF THE CITY OF CHARLESTOWN
Charlestown, Indiana

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
for the year ended September 30, 2007

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
U.S. Department of Housing and Urban Development:		
Low Rent Public Housing	14.850	<u>\$299,143</u>
Section 8 Housing Choice Vouchers	14.871	<u>286,578</u>
Public Housing Capital Fund Program		
Grant year 2004	14.872	17,542
Grant year 2005	14.872	93,247
Grant year 2006	14.872	<u>273,450</u>
		<u>384,239</u>
		<u>\$969,960</u>

Basis of Presentation

The above schedule of expenditures of federal awards includes the federal grant activity of the Authority 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, or used in the preparation of, the basic financial statements.

THE HOUSING AUTHORITY OF THE CITY OF CHARLESTOWN
Charlestown, Indiana

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
for the year ended September 30, 2007

A. SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unqualified opinion on the financial statements of Housing Authority of the City of Charlestown.
2. No significant deficiencies relating to the audit of the financial statements are reported in the 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*.
3. No instances of noncompliance material to the financial statements of the Housing Authority of the City of Charlestown were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal award programs are reported in the Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133.
5. The auditors' report on compliance for the major federal award programs for Housing Authority of the City of Charlestown expresses an unqualified opinion.
6. The audit disclosed no audit findings relating to major federal award programs for Housing Authority of the City of Charlestown which are required to be reported under Section 510(a) of OMB Circular A-133.

7. The programs tested as major programs included:

<u>Description</u>	<u>Federal CFDA No.</u>
Housing Choice Vouchers	14.871

8. The threshold for distinguishing Type A and B programs was \$300,000.
9. The Authority was determined to be a low-risk auditee.

B. FINDINGS—FINANCIAL STATEMENTS AUDIT

None.

C. FINDING—MAJOR FEDERAL AWARD PROGRAMS AUDIT

There were no findings or questioned costs.

THE HOUSING AUTHORITY OF THE CITY OF CHARLESTOWN
Charlestown, Indiana

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
for the year ended September 30, 2007

None



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 Commissioners
The Housing Authority of the City of Charlestown
Charlestown, Indiana 47111

We have audited the financial statements of the Housing Authority of the City of Charlestown (the "Authority") as of and for the year ended September 30, 2007, and have issued our report thereon dated April 21, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial statements 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 Housing Authority of the City of Charlestown's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Housing Authority of the City of Charlestown's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Housing Authority of the City of Charlestown's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of deficiencies, that adversely affects the Authority's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is no more than a remote likelihood that a misstatement of the Authority's financial statements that is more than inconsequential will not be prevented or detected by the Authority's internal control.

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

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

Compliance and Other Matters

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

This report is intended solely for the information and use of the Board of Commissioners, management, specific legislative or regulatory bodies and federal awarding agencies and is not intended to be and should not be used by anyone other than these specific parties.

McCauley, Nicolas & Company, LLC

McCauley, Nicolas & Company, LLC
Certified Public Accountants

Jeffersonville, Indiana
April 21, 2008



REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Commissioners
The Housing Authority of
the City of Charlestown
Charlestown, Indiana 47111

Compliance

We have audited the compliance of the Housing Authority of the City of Charlestown (the "Authority") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2007. The Authority'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 Authority's management. Our responsibility is to express an opinion on the Authority'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 Housing Authority of the City of Charlestown'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 on the Housing Authority of the City of Charlestown's compliance with those requirements.

In our opinion, the Housing Authority of the City of Charlestown complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended September 30, 2007.

Internal Control Over Compliance

The management of the Housing Authority of the City of Charlestown 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 Housing Authority of the City of Charlestown's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Housing Authority of the City of Charlestown's internal control over compliance.

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

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

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

This report is intended solely for the information and use of the Board of Commissioners, management, specific legislative or regulatory bodies and federal awarding agencies and is not intended to be and should not be used by anyone other than these specific parties.

McCauley, Nicolas & Company, LLC

McCauley, Nicolas & Company, LLC
Certified Public Accountants

Jeffersonville, Indiana
April 21, 2008