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August 22, 2013

Board of Directors
Housing Authority of the City of Decatur
214 E. Monroe Street
Decatur, IN 46733

We have reviewed the audit report prepared by Barry E. Gaudette, CPA, PC, Independent Public Accountant, for the period July 1, 2011 to June 30, 2012. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountant's opinion, the financial statements included in the report present fairly the financial condition of the Housing Authority of the City of Decatur, as of June 30, 2012 and the results of its operations for the period then ended, on the basis of accounting described in the report.

We call your attention to Finding 2012-1, on page 33 of the report. This finding addresses the failure to administer the Housing Voucher Program within the budget provided. This condition was also addressed in the prior audit report, for the year ended June 30, 2011.

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

STATE BOARD OF ACCOUNTS

**HOUSING AUTHORITY OF THE CITY OF DECATUR
DECATUR, INDIANA**

FINANCIAL STATEMENTS

**FOR THE YEAR ENDED JUNE 30, 2012
AND
REPORTS ON INTERNAL CONTROL AND COMPLIANCE**

HOUSING AUTHORITY OF THE CITY OF DECATUR
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INTRODUCTION

*Barry E. Gaudette, CPA, PC
731 S. Garfield Avenue
Traverse City, MI 49686*

Independent Auditor's Report

Board of Directors
Housing Authority of the City of Decatur
Decatur, Indiana

I have audited the accompanying financial statements of the business-type activities of the Housing Authority of the City of Decatur, Indiana, (Housing Authority), as of and for the year ended June 30, 2012, which comprise the Housing Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Housing Authority's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Housing Authority of the City of Decatur, Indiana, as of June 30, 2012, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated November 13, 2012, on my consideration of the Housing Authority of the City of Decatur, Indiana's internal control over financial reporting and on my 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 my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 8 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. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

My audit was conducted for the purpose of forming an opinion on the financial statements that comprise Housing Authority of the City of Decatur, Indiana's financial statements as a whole. The accompanying Housing Authority combining financial statements and financial data schedule are presented for the purpose of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The combining financial statements, the financial data schedule and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

Barry E. Gaudette, CPA, PC

November 13, 2012

Housing Authority of the City of Decatur
Management's Discussion and Analysis (MD&A)
June 30, 2012
(Unaudited)

As management of the Housing Authority of the City of Decatur we offer reviewers of this audit report this narrative discussion and analysis of the Housing Authority of the City of Decatur's financial activities for the fiscal year ended June 30, 2012. This discussion and analysis letter of the Housing Authority of the City of Decatur's financial performance should be read in conjunction with the auditor's opinion letter and the following Financial Statements.

The combined financial statements reflect all of the Authority's federally funded programs and activities in one place. The Authority reports all its activities and programs using the Enterprise Fund type model. HUD encourages PHAs to use this accounting method as it is normally used to account for "business-type activities" – activities similar to those found in the private sector. Enterprise Fund types use the accrual method of accounting, the same accounting method employed by most private-sector businesses. Under this method, revenues and expenditures may be reported as such even though no cash transaction has actually taken place.

FINANCIAL HIGHLIGHTS

The term "net assets" refers to the difference between assets and liabilities. The Authority's total net assets as of June 30, 2012 were \$38,896. The net assets increased by \$1,821, an increase of 5.0% over the prior fiscal year.

Revenues and contributions for the Authority were \$695,959 for the fiscal year ended June 30, 2012. This was an increase of \$32,182 or 4.9% over the prior fiscal year.

Expenses for the Authority were \$694,138 for the fiscal year ended June 30, 2012. This was a decrease of \$7,635 or 1.1% from the prior fiscal year.

HUD operating grants were \$686,841 for the fiscal year ended June 30, 2012. This was an increase of \$23,389 or 3.6% over the prior fiscal year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report contains this *Management & Discussion Analysis* report, the *Basic Financial Statements* and the *Notes to the Financial Statements*. This report also contains the Financial Data Schedule (FDS) as referenced in the section of *Supplemental Information*. The Authority's financial statements are presented as fund financial statements because the Authority only has proprietary funds.

Required Financial Statements

The *Statement of Net Assets* includes the Authority's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and obligations of the Authority creditors (liabilities). It also provides the basis for evaluating the liquidity and financial flexibility of the Authority.

Housing Authority of the City of Decatur
Management's Discussion and Analysis (MD&A)
June 30, 2012
(Continued)

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

Required Financial Statements (Continued)

All of the current year's revenues and expenses are accounted for in the *Statement of Revenues, Expenses, and Changes in Net Assets*. This statement measures the success of the Authority's operations over the past year and can be used to determine whether the Authority has successfully recovered all its costs through its user fees and other charges, profitability and credit worthiness.

The final required financial statement is the *Statement of Cash Flows*. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing and financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements and provide more detailed data.

Supplemental Information

This report also contains the Financial Data Schedule (FDS) as referenced in the section of *Supplemental Information*. HUD has established Uniform Financial Reporting Standards that require Housing Authority's to submit financial information electronically to HUD using the FDS format. This financial information was electronically transmitted to the Real Estate Assessment Center (REAC) and is required to be included in the audit reporting package.

FUND STATEMENTS

The Financial Data Schedule reports the Authority's operations in more detail. The Authority reports all its activities using Enterprise fund types. These funds are used to show activities that operate more like commercial enterprises. The Financial Data Schedule is organized by the government Catalogue of Financial Domestic Assistance (CFDA) numbers.

Section 8 Housing Choice Voucher Program: Under this program, the Housing Authority administers contracts with independent landlords to provide housing for low-income households. These units are not owned by the Housing Authority. The Housing Authority subsidizes the family's rent via a "Housing Assistance Payment" made directly to the landlord. HUD provides subsidy to the Housing Authority to enable the Housing Authority to set the rental rates at 30% to 40% of a participant's income.

Housing Authority of the City of Decatur
Management's Discussion and Analysis (MD&A)
June 30, 2012
(Continued)

FINANCIAL ANALYSIS

Net assets may serve, over time, as a useful indicator of a government's financial position. As stated in the following table, assets exceeded liabilities by \$38,896 at the close of the fiscal year ended June 30, 2012 an increase from \$37,075 in 2011. The increase in net assets of \$1,821 was due to the change in net assets for the fiscal year.

The unrestricted net assets were \$(14,014) as of June 30, 2012. If positive this amount may be used to meet the Authority's ongoing obligations. The restricted assets, if any, are for excess funding in the Housing Choice Voucher program. At the end of the current fiscal year, the Authority is not able to report positive balances in all categories of net assets.

CONDENSED STATEMENTS OF NET ASSETS
June 30,

	2012	2011	Dollar Change	Per Cent Change
Current and other assets	\$ 39,160	\$ 40,407	\$ (1,247)	(11.6)%
Capital assets	3,270	1,196	2,074	173.5%
Total Assets	<u>42,430</u>	<u>41,603</u>	<u>827</u>	2.0%
Current liabilities	2,467	3,595	(1,128)	(31.4)%
Noncurrent liabilities	1,067	933	134	14.4%
Total Liabilities	<u>3,534</u>	<u>4,528</u>	<u>(994)</u>	(22.0)%
Net Assets:				
Invested in capital assets	3,270	1,196	2,074	173.5%
Restricted	49,640	37,582	12,058	32.1%
Unrestricted	(14,014)	(1,703)	(12,311)	(722.9)%
Total Net Assets	<u>\$ 38,896</u>	<u>\$ 37,075</u>	<u>\$ 1,821</u>	5.0%

Total current assets decrease of \$1,247 was due, in large part to a negative cash flow of \$7,973 in operating activities that decreased the cash balance.

Current liabilities decreased by \$1,128, in part, due a decrease in accrued wages and payroll taxes in the amount of \$1,481.

Noncurrent liabilities increased by \$134 due to there being more unused compensated absences than the prior fiscal year.

The largest portion of the Authority's net assets reflects its investment in capital assets (e.g. land, buildings and equipment) less accumulated depreciation. The Authority uses these capital assets to provide service and consequently these assets are not available to liquidate liabilities or other spending.

Housing Authority of the City of Decatur
Management's Discussion and Analysis (MD&A)
June 30, 2012
(Continued)

FINANCIAL ANALYSIS (Continued)

While the Statement of Net Assets shows the change in financial position of net assets, the Statements of Revenues, Expenses, and Changes in Net Assets provides answers as to the nature and source of these changes.

**CONDENSED STATEMENTS OF REVENUES, EXPENSES,
AND CHANGES IN NET ASSETS**

	<u>6/30/12</u>	<u>6/30/11</u>	<u>Dollar Change</u>	<u>Per Cent Change</u>
Revenues and contributions				
Operating, non operating, capital contributions:				
HUD operating grants	\$ 686,841	\$ 663,452	\$ 23,389	3.6%
Fraud recovery	9,048	0	9,048	100.0%
Interest income	70	325	(255)	(78.5)%
Total Revenues and Contributions	<u>695,959</u>	<u>663,777</u>	<u>32,182</u>	4.9%
Expenses				
Personnel services	67,710	72,251	(4,541)	(6.3)%
Maintenance	597	923	(326)	(35.4)%
Insurance	2,668	2,532	136	5.4%
Other supplies and expenses	27,027	25,928	1,099	4.3%
Housing Assistance Payments	595,319	599,789	(4,470)	(0.8)%
Depreciation	817	350	467	133.5%
Total Expenses	<u>694,138</u>	<u>701,773</u>	<u>(7,635)</u>	(1.1)%
Change in net assets	1,821	(37,996)		
Beginning net assets	37,075	75,071		
Ending net assets	<u>\$ 38,896</u>	<u>\$ 37,075</u>		

Revenues:

As can be seen in the above table total revenues and contributions increased by \$32,182, in part, due to an increase of \$23,389 in federal grants and the recovery of monies due to fraud in the amount of \$9,048.

Expenses:

Total expenses for the fiscal year ending June 30, 2012 were \$694,138 while for the fiscal year ending June 30, 2011 they were \$701,773. This represents a decrease of 1.1% in our operating costs. The expenses decreased, in part, because of salaries decreasing by \$4,991 and Housing Assistance Payments to landlords decreased by \$4,470.

**Housing Authority of the City of Decatur
Management's Discussion and Analysis (MD&A)
June 30, 2012
(Continued)**

FINANCIAL ANALYSIS (Continued)

The following represents changes in Federal Assistance received:

	<u>6/30/12</u>	<u>6/30/11</u>	<u>Dollar Change</u>	<u>Per Cent Change</u>
Public Housing Operating Section 8 Housing Choice Voucher Program	<u>\$ 686,841</u>	<u>\$ 663,452</u>	<u>\$ 23,389</u>	<u>3.6%</u>

The above chart is segregated as to the Program source of funds, not the use of funds. The subsidy for Section 8 increased due to unknown reasons.

OPERATIONAL HIGHLIGHTS

The Housing Authority of the City of Decatur provided the following housing for low-income individuals and families:

	<u>6/30/12</u>	<u>6/30/11</u>
Section 8 Housing Choice Voucher Program	178	178

The Housing Choice Voucher Program had a 98,9% lease-up rate as of June 30, 2012.

CAPITAL ASSETS

The Housing Authority of the City of Decatur's investment in capital assets, as of June 30, 2012 amounts to \$3,270 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, and equipment.

**CAPITAL ASSETS
NET OF ACCUMULATED DEPRECIATION
June 30,**

	<u>2012</u>	<u>2011</u>	<u>Dollar Change</u>
Furniture, equipment and machinery			
- Administration	\$ 28,994	\$ 26,102	\$ 2,892
	28,994	26,102	2,892
Accumulated depreciation	(25,724)	(24,906)	(818)
Total	<u>\$ 3,270</u>	<u>\$ 1,196</u>	<u>\$ 2,074</u>

Capital assets increased by \$2,074, because of capital outlays of \$2,892 and depreciation of \$(818).

**Housing Authority of the City of Decatur
Management's Discussion and Analysis (MD&A)
June 30, 2012
(Continued)**

CAPITAL ASSETS (CONTINUED)

During the fiscal year ending June 30, 2012, our Capital Fund Program work projects included:

The purchase of two computers and software.

There are no capital projects planned for the next fiscal year.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The Housing Authority is primarily dependent upon HUD for the funding of operations as well as capital needs. Therefore, the Housing Authority is affected more by the Federal Budget than by local economic conditions. The funding of programs could be significantly affected by the Federal Budget.

The Housing Authority remains concerned about the future levels of HUD funding due to the state of the federal budget.

We know of no other currently known facts, decisions, or conditions that are expected to have a significant effect on financial position (net assets) or results of operations (revenues, expenses, and other changes).

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the Authority's finances for all those with an interest in its finances. Questions or comments concerning any of the information contained in this report or request for additional information should be directed to:

Janelle L. Young, Executive Director
Housing Authority of the City of Decatur
214 East Monroe Street
Decatur, Indiana 46733

FINANCIAL STATEMENTS

Housing Authority of the City of Decatur
Statement of Net Assets
June 30, 2012

ASSETS

Current Assets:

Cash and cash equivalents	\$ 28,874
Fraud recovery	6,948
Accrued interest receivable	8
Prepaid insurance and other expenses	3,330
Total Current Assets	39,160

Capital Assets:

Equipment	28,994
Less: accumulated depreciation	(25,724)
Net Capital Assets	3,270

Total Assets	\$ 42,430
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LIABILITIES and NET ASSETS

Current Liabilities:

Accrued expenses	\$ 2,467
Total Current Liabilities	2,467

Noncurrent Liabilities:

Accrued compensated absences	1,067
Total Liabilities	3,534

Net Assets:

Invested in capital assets	3,270
Restricted net assets	49,640
Unrestricted net assets	(14,014)
Total Net Assets	38,896

Total Liabilities and Net Assets	\$ 42,430
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See notes to financial statements

Housing Authority of the City of Decatur
Statement of Revenues, Expenses, And
Changes in Net Assets
Year Ended June 30, 2012

OPERATING REVENUES:

Operating grants	\$ 686,841
	686,841
Total operating revenues	686,841

OPERATING EXPENSES:

Administrative	92,415
Maintenance	597
Insurance	2,668
General expenses	2,322
Housing assistance payments	595,319
Depreciation	817
	694,138
Total operating expenses	694,138

Operating income (loss)	(7,297)
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NON OPERATING REVENUES:

Investment interest income	70
Fraud recovery	9,048
	9,118
Total non operating revenues	9,118

Change in net assets	1,821
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Net assets, beginning	37,075
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Net assets, ending	\$ 38,896
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See notes to financial statements

Housing Authority of the City of Decatur
Statement of Cash Flows
Year Ended June 30, 2012

CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from operating grants	\$ 686,841
Cash payments to other suppliers of goods and services	(625,940)
Cash payments to employees for services	<u>(68,874)</u>
Net cash (used) by operating activities	<u>(7,973)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Fraud recovery	<u>2,100</u>
Net cash provided by noncapital financing activities	<u>2,100</u>
CASH FLOW FROM CAPITAL AND RELATED FINANCING	
Payments for capital acquisitions	<u>(2,892)</u>
Net cash (used) by capital and related financing activities	<u>(2,892)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Receipts of interest income	<u>87</u>
Net cash provided by investing activities	<u>87</u>
Net increase (decrease) in cash	(8,678)
Cash and cash equivalents, beginning	<u>37,552</u>
Cash and cash equivalents, ending	<u><u>\$ 28,874</u></u>

See notes to financial statements

Housing Authority of the City of Decatur
Statement of Cash Flows (Continued)
Year Ended June 30, 2012

RECONCILIATION OF OPERATING INCOME (LOSS)
TO NET CASH PROVIDED BY OPERATING ACTIVITIES:

Operating income (loss)	\$	(7,297)
Adjustments to reconcile operating (loss) to net cash provided (used)		
By operating activities:		
Depreciation		817
Changes in assets and liabilities:		
(Increase) decrease in assets:		
Prepaid expenses		(499)
Increase (decrease) in liabilities:		
Accrued wages/payroll taxes payable		(1,481)
Accrued compensated absences		317
Accrued liabilities-other		170
		<hr/>
Net cash (used) by operating activities	\$	<u>(7,973)</u>

See notes to financial statements

Housing Authority of the City of Decatur
Notes to Financial Statements
June 30, 2012

NOTE 1: Summary of Significant Accounting Policies

1(a) Organization and Reporting Entity

The Housing Authority of the City of Decatur was established by the City pursuant to the laws of the State of Indiana, to transact business and to have powers as defined therein on May 23, 1972. The Housing Authority was established to provide low-rent housing for qualified individuals in accordance with the rules and regulations prescribed by the Department of Housing and Urban Development and other applicable Federal Agencies.

Under the United States Housing Act of 1937, as amended, the U.S. Department of Housing and Urban Development (HUD) had direct responsibility for administering low-rent housing programs in the United States. Accordingly, HUD has entered into a contract with the Authority for the purpose of assisting in financing the acquisition, construction and leasing of housing units and to make annual contributions (subsidies) to the program for the purpose of maintaining its low-rent character.

In evaluating the Authority as a reporting entity, management has addressed its relationship with the City of Decatur and concluded that the City does not maintain an oversight responsibility for the Authority's operations. An independent Board of Commissioners, appointed by the City, is responsible for the activities of the Authority. 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.

The Authority is governed by a Board of Commissioners appointed by the office of the Mayor, and has governance responsibilities over all activities related to all housing activities within the City, the Board of Commissioners has decision making authority and the power to designate management. The members do not serve at the discretion of the Mayor, i.e. they can only be removed for cause. The Authority's Board elects its own chairperson.

Consequently, in accordance with evaluating 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 Decatur is a separate entity. All funds and programs of the Housing Authority are included in these statements. The Housing Authority has no component units.

1(b) Basis of Presentation

Financial statements of the reporting entity's programs are organized and reported as an enterprise fund and are accounted for by providing a set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Enterprise funds are used to account for business-like activities provided to its tenants. These activities are financed primarily by user charges and/or Federal funding and the measurement of financial activity focuses on net income measurement similar to the private sector. The reporting entity includes all of the Housing Authority's programs as an enterprise fund.

1(b) Basis of Presentation (Continued)

Following is a description of the Housing Authority's programs:

Program	Brief Description
Housing Choice Vouchers	Accounts for activities of the Voucher program which assists very low income families, the elderly, and the disabled to afford decent, safe and sanitary housing in the private market.

1(c) Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

Measurement Focus

In the financial statements, the "economic resources" measurement focus is used as follows:

The proprietary fund utilizes an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net assets.

Basis of Accounting

In the financial statements, the proprietary fund utilizes the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

The Housing Authority applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. The funds apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict or contradict GASB pronouncements, in which case, GASB prevails.

1(d) Assets, Liability, and Equity

Cash and Investments

For the purpose of the Statement of Net Assets, "cash and cash equivalents" includes all demand, savings accounts, and certificates of deposits or short-term investments with an original maturity of three months or less. For the purpose of the Statement of Cash Flows, "cash and cash equivalents" include all demand and savings accounts, and certificates of deposit or short-term investments with an original maturity of three months or less.

1(d) Assets, Liability, and Equity (Continued)

Cash and Investments (Continued)

Investments are carried at fair value except for short-term U.S. Treasury obligations, if any, with a remaining maturity at the time of purchase of one year or less. Those investments, if any, are reported at amortized cost. Fair value is based on quoted market price. Additional cash and investment disclosures are presented in Note 2(b) and 3(a).

Receivables

Receivables consist of all revenues earned at year-end and not yet received. Tenant accounts receivable, accrued interest receivable and accounts receivable from U.S. Department of Housing and Urban Development compose the majority of receivables. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable.

Insurance

The premiums on all major insurance policies are charged to prepaid insurance and amortized over the life of the policy.

Budgets and Budgetary Accounting

The Housing Authority adopts a formal operating budget each year for its operating programs and on a project length basis for its capital expenditures which are approved by the Board of Directors and submitted to the Department of Housing and Urban Development for their approval, if required.

Estimates and Assumptions

The Housing Authority uses estimates and assumptions in preparing financial statements. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and reported revenues and expenses.

Capital Assets

The accounting treatment over property, plant, and equipment (capital assets) is as follows:

In the financial statements, capital assets purchased or acquired with an original cost of \$500 or more are accounted for as capital assets. All capital assets are valued at historical cost, or estimated historical cost if actual is unavailable, except for donated capital assets which are recorded at their estimated fair value at the date of donation.

Depreciation of all exhaustible capital assets are recorded as an allocated expense depending on the program where the asset is shown, in the Statement of Revenues, Expenses, and Changes in Net Assets, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Equipment and furniture	5 - 10 years
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1(d) Assets, Liabilities, and Equity (Continued)

Compensated Absences

The Housing Authority's policies regarding vacation time permit employees to accumulate earned but unused vacation leave. The liability for these compensated absences is recorded as short-term and long-term liabilities based on historical trends. In accordance with the provisions of GASB Statement No. 16, no liability is recorded for non-vesting accumulating rights to receive sick pay benefits.

Equity Classifications

Equity is classified as net assets and displayed in three components:

- a) Invested in capital assets, net of related debt – Consists of capital assets including restricted capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowing that are attributable to the acquisition, construction, or improvement of those assets. The Housing Authority had no related debt.
- b) Unrestricted net assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt”.
- c) Restricted net assets – Consists of net assets of the Housing Choice Voucher program that are restricted for payments by HUD over the Housing Assistance Payments made to landlords.

1(e) Revenues, Expenditures, and Expenses

Operating Revenues and Expenses

Proprietary funds distinguish *operating* revenues and expenses from *non operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the government's enterprise fund are charges to tenants for rents, non dwelling rents, and operating grants from HUD. Operating expenses for the operating fund include the cost of administrative, tenant services, utilities, ordinary maintenance and operation, general, casualty losses, housing assistance payments, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non operating revenues and expenses.

Post Employment Benefits

The provision for pension cost is recorded on an accrual basis, and the Authority's policy is to fund pension costs as they accrue.

Income Taxes

The Authority, organized as a non-profit corporation subsidized by the Federal government is exempt from federal and state income taxes. The Housing Authority has no unrelated business income.

NOTE 2: Stewardship, Compliance, and Accountability

The Housing Authority and its component units, if any, are subject to various Federal, state, and local laws and contractual regulations. An analysis of the Housing Authority’s compliance with significant laws and regulations and demonstration of its stewardship over Housing Authority resources follows.

2(a) Program Accounting Requirements

The Housing Authority complies with all state and local laws and regulations requiring the use of separate programs. The programs used by the Housing Authority are as follows:

Program	Required By
Housing Choice Vouchers	U.S. Department of HUD

2(b) Deposits and Investments Laws and Regulations

In accordance with state law, all uninsured deposits of the Housing Authority in financial institutions must be secured with acceptable collateral valued at the lower of market or par. All financial institutions pledging collateral to the Housing Authority must have a written Depositary Agreement. As reflected in Note 3(a), all deposits were fully insured or collateralized.

Investments of the Housing Authority are limited by state law to the following:

- a) Direct obligations of the U.S. Government or its agencies or instrumentalities to which acceptable collateral is pledged.
- b) Certificates of deposit or savings accounts that are either insured or secured with acceptable collateral.

NOTE 3: Detail Notes on Transactions Classes/Accounts

The following notes present detail information to support the amounts reported in the basic financial statements for its various assets, liabilities, equity, revenues, and expenditures/expenses.

3(a) Cash

Deposits

The Housing Authority’s policies regarding deposits of cash are discussed in Note 1(d). The table presented below is designed to disclose the level of custody credit risk assumed by the Housing Authority based upon how its deposits were insured or secured with collateral at June 30, 2012.

The categories of credit risk are defined as follows:

- Category 1 – Insured by FDIC or collateralized with securities held by the Housing Authority (or public trust) or by its agent in its name.

3(a) Cash (Continued)

Deposits (Continued)

Category 2 – Uninsured but collateralized with securities held by the pledging financial institution's trust department or agent in the Housing Authority's name.

Category 3 – Uninsured and uncollateralized; or collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the Housing Authority's name; or collateralized with no written or approved collateral agreement.

	Total Bank Balance	Custody Credit Risk			Total Carrying Value
		Category 1	Category 2	Category 3	
Demand Deposits	\$ 20,156	\$ 20,156	\$ 0	\$ 0	\$ 18,701
Certificate of deposits	10,173	10,173	0	0	10,173
	<u>\$ 30,329</u>	<u>\$ 30,329</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 28,874</u>

A reconciliation of cash as shown on the combined statement of net assets is as follows:

Carrying amount of deposits	\$ 18,701
Certificate of deposits	10,173
Total	<u>\$ 28,874</u>
Cash and investments:	
Enterprise activities	\$ 30,329
Enterprise activities – outstanding checks	(1,455)
Total	<u>\$ 28,874</u>

3(b) Capital Assets

Capital asset activity for the year ended June 30, 2012, was as follows:

	Balance 06/30/11	Additions/ Transfers	Retirements/ Transfers	Balance 06/30/12
Housing Choice Voucher Program				
Furniture, equipment & machinery - administration	\$ 26,102	\$ 2,892	\$ 0	\$ 28,994
Less accumulated depreciation	(24,906)	(818)	0	(25,724)
Total	<u>\$ 1,196</u>			<u>\$ 3,270</u>

3(c) Prepaid Expenses and other expenses

Deferred charges detail at June 30, 2012, is as follows:

Prepaid insurance	\$	2,102
Prepaid expenses		1,228
	\$	<u>3,330</u>

3(d) Accrued Expenses

Accrued expense detail at June 30, 2012, is as follows:

Accrued wage/payroll taxes payable	\$	1,964
Accrued compensated absences-current portion		333
Accrued liabilities-other		170
	\$	<u>2,467</u>

3(e) Non-current Liabilities

As of June 30, 2012, the non-current liabilities are comprised of the following:

Accrued compensated absences- Noncurrent portion	\$	<u>1,067</u>
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The following is a summary of changes in non-current liabilities for the year ended June 30, 2012:

	<u>Balance 06/30/11</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 06/30/12</u>	<u>Amounts Due within One Year</u>
Accrued compensated absences	\$ 933	\$ 2,456	\$ (2,322)	\$ 1,067	\$ 333

NOTE 4: Other Notes

4(a) Employee Retirement Plans

The Housing Authority participates in a defined contribution plan provided by PERF. The Housing Authority contributes 5.5% of total wages, then the employees contribute 50% of that amount. For the fiscal year ended June 30, 2012, actual contributions by the Housing Authority was \$1,107. As of June 30, 2012 the status of the plan was changed to non-covered PERF employees to save the Housing Authority money.

4(b) Risk Management

The Housing Authority is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; employees health and life; and natural disasters. The Housing Authority manages these various risks of loss as follows:

Management believes such coverage is sufficient to preclude any significant uninsured losses to the Housing Authority. Settled claims have not exceeded this insurance coverage in any of the past three fiscal years.

4(c) Contingencies

Contingencies

The Housing Authority is subject to possible examination by Federal and State authorities who determine compliance with terms, conditions, laws and regulations governing other grants given to the Housing Authority in the current and prior years. No significant violations of finance-related legal or contractual provisions occurred.

SUPPLEMENTARY INFORMATION

**Housing Authority of the City of Decatur
Schedule of Expenditures of Federal Awards
And Notes to the Schedule of Federal Awards
Year Ended June 30, 2012**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

<u>Fiscal Year</u>	<u>Federal Grantor</u>	<u>CFDA No.</u>	<u>Expenditures</u>
	<u>U.S. Department of HUD</u>		
	<u>Low Income Public Housing Major – Direct Program</u>		
2012	Housing Choice Vouchers	14.871	\$ 686,841
	Total		<u>\$ 686,841</u>

NOTES TO THE SCHEDULE OF FEDERAL AWARDS

NOTE 1: Significant Accounting Policies

The schedule of federal awards has been prepared on the accrual basis of accounting.

CFDA = Catalog of Federal Domestic Assistance

**Housing Authority of the City of Decatur
Financial Data Schedule
Year Ended June 30, 2012**

FDS Line Item No.		Housing Choice Vouchers <u>14,871</u>
	ASSETS	
	Current assets:	
113	Cash-restricted	\$ 28,874
100	Total cash	<u>28,874</u>
	Receivables:	
128	Fraud recovery	6,948
129	Accrued interest receivable	8
120	Total receivables, net	<u>6,956</u>
	Other Current Assets:	
142	Prepaid expenses	<u>3,330</u>
150	Total current assets	<u>39,160</u>
	Noncurrent Assets:	
	Fixed Assets:	
164	Furniture, equipment & machinery-administration	28,994
166	Accumulated depreciation	<u>(25,724)</u>
160	Total fixed assets, net	<u>3,270</u>
180	Total non-current assets	<u>3,270</u>
190	Total Assets	<u>\$ 42,430</u>

Housing Authority of the City of Decatur
Financial Data Schedule
(Continued)
Year Ended June 30, 2012

FDS Line Item No.		Housing Choice Vouchers 14,871
LIABILITIES and NET ASSETS		
	Current liabilities:	
321	Accrued wage/payroll taxes payable	\$ 1,964
322	Accrued compensated absences-current portion	333
346	Accrued liabilities-other	170
	Total current liabilities	2,467
	Noncurrent liabilities:	
354	Accrued compensated absences	1,067
350	Total noncurrent liabilities	1,067
300	Total liabilities	3,534
	Net assets:	
508.1	Invested in capital assets	3,270
511.1	Restricted net assets	49,640
512.1	Unrestricted net assets	(14,014)
513	Total net assets	38,896
600	Total Liabilities and Net Assets	\$ 42,430

Housing Authority of the City of Decatur
Financial Data Schedule
(Continued)
Year Ended June 30, 2012

FDS Line Item No.		Housing Choice Vouchers 14.871
	Revenues:	
70600	HUD PHA operating grants	\$ 686,841
71400	Fraud recovery	9,048
72000	Investment income-restricted	70
70000	Total revenue	<u>695,959</u>
	Expenses	
	Administrative:	
91100	Administrative salaries	52,847
91200	Auditing fees	2,287
91500	Employee benefit contributions	12,541
91600	Office expenses	13,539
91700	Legal expense	851
91800	Travel	1,875
91900	Other	8,475
91000	Total operating-administrative	<u>92,415</u>
	Ordinary maintenance & operation:	
94200	Materials and other	557
94300	Contracts	40
94000	Total maintenance	<u>597</u>
	Insurance:	
96120	Liability insurance	1,244
96130	Workmen's compensation	420
96140	All other insurance	1,004
96100	Total insurance premiums	<u>2,668</u>
	General Expenses:	
96210	Compensated absences	2,322
96000	Total other general expenses	<u>2,322</u>
96900	Total operating expenses	<u>98,002</u>
97000	Excess of operating revenue over operating expenses	<u>597,957</u>
	Other Expenses:	
97300	Housing assistance payments	595,319
97400	Depreciation expense	817
	Total other expenses	<u>596,136</u>
90000	Total expenses	<u>694,138</u>

Housing Authority of the City of Decatur
Financial Data Schedule
(Continued)
Year Ended June 30, 2012

FDS Line Item No.		Housing Choice Vouchers 14,871
10000	Excess(deficiency) of revenue over(under) expenses	1,821
11030	Beginning equity	37,075
	Ending equity	<u>\$ 38,896</u>
11190	Unit months available	2,136
11210	Number of Unit months leased	2,047

Barry E. Gaudette, CPA, PC
731 S. Garfield Avenue
Traverse City, MI 49686

**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 Housing Directors
Housing Authority of the City of Decatur
Decatur, Indiana

I have audited the financial statements of the business-type activities of Housing Authority of the City of Decatur, Indiana, (Housing Authority) as of and for the year ended June 30, 2012, which comprise the Housing Authority's basic financial statements and have issued my report thereon dated November 13, 2012. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

The management of the Housing Authority is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing my audit, I considered the Housing Authority's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Housing Authority's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Housing Authority's internal control over financial reporting.

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

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

Compliance and Other Matters

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

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

Barry E. Gaudette, CPA, PC

November 13, 2012

Barry E. Gaudette, CPA, PC
731 S. Garfield Avenue
Traverse City, MI 49686

**Independent Auditor's Report On Compliance With Requirements
That Could Have A Direct And Material Effect
On Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133**

Board of Housing Directors
Housing Authority of the City of Decatur
Decatur, Indiana

Compliance

I have audited the Housing Authority of the City of Decatur, Indiana's, (Housing 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 Housing Authority's major federal program for the year ended June 30, 2012. The Housing Authority's major federal program is 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 its major federal program is the responsibility of the Housing Authority's management. My responsibility is to express an opinion on the Housing Authority's compliance based on my audit.

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

As described in item 2012-1 in the accompanying schedule of findings and questioned costs, the Housing Authority of the City of Decatur, Indiana, did not comply with requirements regarding the Administrative Fee Equity that is applicable to its Housing Choice Voucher Program. Compliance with this requirement is necessary, in my opinion, for the Housing Authority of the City of Decatur, Indiana, to comply with the requirements applicable to that program.

Compliance (Continued)

In my opinion, except for the noncompliance described in the preceding paragraph, the Housing Authority, complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2012.

Internal Control over Compliance

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

My consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, I identified a deficiency in internal control over compliance that I consider to be a significant deficiency

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. I consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2012-1 to be a significant deficiency.

The Housing Authority of the City of Decatur, Indiana's response to the finding identified in my audit is described in the accompanying schedule of findings and questioned costs. I did not audit the Housing Authority of the City of Decatur, Indiana's response and, accordingly, I express no opinion on the response.

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

Barry E. Gaudette, CPA, PC

November 13, 2012

Housing Authority of the City of Decatur
Status of Prior Audit Findings
June 30, 2012

There was one Federal Award Finding in the prior fiscal year as follows:

Finding 2011-1: Housing Choice Voucher Program Administrative Fee Equity

Condition and Criteria: HUD provides the Housing Authority with Administrative Fee Subsidy to cover administrative/operating expenditures of the Housing Choice Voucher Program. At the end of the year, the Administrative Equity of the Housing Authority showed a deficit balance of \$507.

Effect: The Housing Authority is operating the program with funds “borrowed” from the Restricted HAP Equity or other programs.

Status: The Housing Authority has begun to reduce operating expenses to resolve this finding, but as of June 30, 2012 there was a deficit of \$(14,014) in the Administrative Equity. Therefore, this finding **has not been cleared**.

**Housing Authority of the City of Decatur
Schedule of Findings and Questioned Costs
June 30, 2012**

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued: Unqualified

Internal control over financial reporting:

- Material weaknesses(es) identified? _____ Yes X No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? _____ Yes X No

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major programs:

- Material weaknesses(es) identified? _____ Yes X No
- Significant deficiency(ies) identified that are Not considered to be material weaknesses? X Yes _____ No

Type of auditor’s report issued on compliance for major programs: Qualified

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

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>	<u>Opinion</u>
14.871	Housing Choice Voucher Program	Qualified

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

Auditee qualified as low-risk auditee? _____ Yes X No

Housing Authority of the City of Decatur
Schedule of Findings and Questioned Costs
(Continued)
June 30, 2012

SECTION II – FINANCIAL STATEMENT FINDINGS

There were no findings.

SECTION III – FEDERAL AWARDS FINDINGS

Finding 2012-1: Housing Voucher Program Administrative Fee Equity

Condition and Criteria: HUD provides the Housing Authority with Administrative Fee Subsidy to cover administrative/operating expenditures of the Housing Voucher Program. At the end of the year, the Administrative Equity of the Housing Authority showed a deficit balance of \$(14,014). Under HUD requirements, each housing authority is to administer the program within the budget (subsidy) provided.

Effect: The Housing Authority is operating the program with funds “borrowed” from the Restricted HAP Equity or other programs.

Cause: The Housing Authority has failed to monitor expenses to ensure that the program was run efficiently and within the budget provided by HUD. The Housing Authority is not properly managing cash flows.

Auditor’s Recommendation: The Administration and the Board of the Housing Authority must continue to monitor agency expenditures. The allocation of shared expenses should be closely scrutinized to assure that only necessary and reasonable expenditures are being approved. In 2012/2013, the administrative fee subsidy will be paid based on unit months leased, therefore, the PHA should also make every effort to continue to increase its units leased to the maximum, thus increasing administrative fees earned.

Grantee Response: The Housing Authority was aware of the shortage and recommendation from the prior auditor on February 1, 2012 the last day of fieldwork. Shortly thereafter, HUD informed us that we were going to receive some monies that would help us eliminate the equity deficit, but then on May 18, 2012 we were told that there was a mistake and we would be getting much less than we were originally told. As a result, we didn’t have time to make many reductions before the fiscal year ending June 30, 2012.

Staff as of May 1, 2012 has been reduced and now consists of the Executive Director and a part-time office employee. The Executive Director, as of May 1, 2012, changed her status to non-covered employee for the defined contribution pension plan. The Executive Director increased the deductible on her health insurance plan to save on any scheduled premium increases. The changing of auditors’ and preparing our own MD&A will save about \$1,500. The annual Christmas party expense for the employees and the Board of Directors will be eliminated this year. Christmas cards will not be sent out to all the landlords this year. The Housing Authority’s cell phone has been eliminated. Any time we can find a way to reduce our expenditures we are doing that.