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September 30, 2013

Board of Directors
Fayette County Housing Authority
326 Central Avenue
Connersville, IN 47331

We have reviewed the audit report prepared by Sailor, Khan & Co., LLC, Independent Public Accountants, for the period October 1, 2009 to September 30, 2010. 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 Fayette County Housing Authority, as of September 30, 2010 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

FAYETTE COUNTY HOUSING AUTHORITY
CONNERSVILLE, INDIANA
FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2010
AND
REPORTS ON COMPLIANCE AND
ON INTERNAL CONTROL

FAYETTE COUNTY HOUSING AUTHORITY
Connersville, Indiana

TABLE OF CONTENTS

SEPTEMBER 30, 2010

	<u>Page</u>
Section I - Auditor's Report and Management's Discussion and Analysis	
Independent Auditor's Report	i-ii
Management's Discussion and Analysis (unaudited)	iii-vii
Section II - Financial Statements and Notes to Financial Statements	
Basic Financial Statements:	
Statement of Net Assets	1
Statement of Revenue, Expenses and Changes in Net Assets	2
Statement of Cash Flows	3
Notes to Basic Financial Statements	4-11
SUPPLEMENTAL INFORMATION	
Schedule of Expenditures of Federal Awards and Notes to the Schedule of Federal Awards	12
Financial Data Schedule	Exhibit A
Section III - Reports on Compliance and on Internal Control	
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	1-2
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133	3-4
Significant Deficiencies Communicated in Prior Years	5
Schedule of Findings and Questioned Costs:	
Section I - Summary of Auditor Results	6
Section II - Financial Statement Findings	7-13
Section III - Federal Awards Findings	14

SECTION I
AUDITOR'S REPORT
AND
MANAGEMENT'S DISCUSSION AND ANALYSIS

INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Fayette County Housing Authority
Connersville, Indiana

We have audited the accompanying financial statements of the Fayette County Housing Authority, Indiana, (Authority) as of and for the year ended September 30, 2010, as listed in the table of contents. These financial statements are the responsibility of the Authority'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, 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 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.

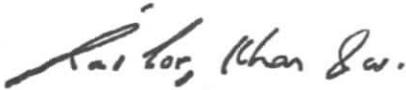
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fayette County Housing Authority, Indiana, as of September 30, 2010, and the changes in financial position and cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying basic financial statements have been prepared assuming that the Fayette County Housing Authority will continue as a going concern. As discussed in Note 4 to the financial statements, the Housing Authority has accumulated a large net assets deficit and an amount payable to Department of Housing and Urban Development. Because operations of the Authority could be substantially impeded if this liability were immediately required to be paid, raises substantial doubt about the Authority's ability to continue as a going concern. Management's plan in regard to this situation is also described in Note 4. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 19, 2011, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages iii to vii is not a required part of the financial statements but is supplemental 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 supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedule of expenditures of federal awards as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the Financial Data Schedule are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the financial statements taken as a whole.



Sailor, Khan & Co. LLC
May 19, 2011

Fayette County Housing Authority

Management's Discussion and Analysis (MD&A) September 30, 2010 (Unaudited)

This section of the Fayette County Housing Authority (Authority) annual financial report presents our management's discussion and analysis of the Authority's financial performance during the fiscal year ended on September 30, 2010. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities and to identify any significant changes in financial position. Please read and consider the information presented in conjunction with the financial statements as a whole.

For accounting purposes, the Housing Authority is classified as an enterprise fund. Enterprise funds account for activities similar to those found in the private business sector, where the determination of net income is necessary or useful to sound financial administration. Enterprise funds are reported using the full accrual method of accounting in which all assets and all liabilities associated with the operation of these funds are included on the statement of net assets. The focus of enterprise funds is on income measurement, which, together with the maintenance of equity, is an important financial indication.

FINANCIAL HIGHLIGHTS

The term "net assets" refers to the difference between assets and liabilities. The Authority's total deficit in net assets as of September 30, 2010 was \$344,669. The net assets deficit increased by \$70,923, increasing the Authority's deficit net asset by 25.9% from the prior year.

Revenues for the Authority were \$1,346,872 for the year ended September 30, 2010. This was an increase of \$185,302 or 16.0% from the prior year.

Expenses for the Authority were \$1,417,795 for the year ended September 30, 2010. This was an increase of \$26,955 or 1.9% from the prior year.

HUD operating grants was \$1,352,345 for the year ended September 30, 2010. This was an increase of \$211,557 or 18.5% from the prior year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report includes this *Management Discussion and 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 level financial statements because the Authority only has proprietary funds.

Required Financial Statements

The financial statements of the Housing Authority report information of the Authority using accounting methods similar to those used by private sector companies. These statements offer short- and long-term financial information about its activities. The Statement of Net Assets includes all 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 capital structure of the Authority and assessing the liquidity and financial flexibility of the Authority.

Fayette County Housing Authority
(Unaudited)
Management's Discussion and Analysis (MD&A) - Continued

OVERVIEW OF THE 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 Authorities to submit financial information electronically to HUD using the FDS format. This financial information was electronically transmitted to the Real Estate Assessment Center (REAC) for the year ended September 30, 2010 and is required to be included in the audit reporting package.

FINANCIAL ANALYSIS

Net assets may serve, over time, as a useful indicator of a government's financial position. As stated in the table on the following page, assets were less than liabilities by a \$344,669 at the close of the year ended September 30, 2010 which increased the deficit balance of \$273,746 in 2009. The increase in the deficit net assets of \$70,923 was due to a loss in the change in net assets for the year. The unrestricted net assets were a deficit balance of \$365,895 as of September 30, 2010.

Fayette County Housing Authority
(Unaudited)
Management's Discussion and Analysis (MD&A) - Continued

FINANCIAL ANALYSIS (CONTINUED)

CONDENSED STATEMENTS OF NET ASSETS
SEPTEMBER 30,

	<u>2010</u>	<u>2009</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Current and other assets	\$ 178,480	\$ 266,899	\$ (88,419)	-33.1%
	18,212	---	18,212	100.0%
Capital assets	<u>3,014</u>	<u>5,154</u>	<u>(2,140)</u>	-41.5%
Total Assets	<u>199,706</u>	<u>272,053</u>	<u>(72,347)</u>	-26.6%
Current liabilities	<u>544,376</u>	<u>545,799</u>	<u>(1,423)</u>	-0.3%
Total Liabilities	<u>544,376</u>	<u>545,799</u>	<u>(1,423)</u>	-0.3%
Net Assets				
Invested in capital assets	3,014	5,154	(2,140)	-41.5%
	18,212	—	18,212	100.0%
Unrestricted	<u>(365,895)</u>	<u>(278,900)</u>	<u>(86,995)</u>	31.2%
Total Net Assets	<u>\$ (344,669)</u>	<u>\$ (273,746)</u>	<u>\$ (70,923)</u>	25.9%

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.

As can be seen in the table on the following page total revenues and contributions increased by \$185,302 due to increases in HUD operating grants, which were partially offset by decreases in interest income and other income. HUD revenue will often vary from year to year since it is dependent on the federal budget (operating subsidy) and availability and/or use of grant revenues. Interest income decreased due to falling interest rates.

Fayette County Housing Authority
(Unaudited)
Management's Discussion and Analysis (MD&A) - Continued

FINANCIAL ANALYSIS (CONTINUED)

**CONDENSED STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED SEPTEMBER 30,**

	<u>2010</u>	<u>2009</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Revenues				
Operating - non-operating:				
HUD operating grants	\$ 1,352,345	\$ 1,140,788	\$ 211,557	18.5%
Interest income	306	1,089	(783)	-71.9%
Other income	(5,779)	19,693	(25,472)	-129.3%
Total Revenues	<u>1,346,872</u>	<u>1,161,570</u>	<u>185,302</u>	16.0%
Expenses				
Personal services	103,848	101,137	2,711	2.7%
Utilities	2,906	3,832	(926)	-24.2%
Operations and maintenance	4,936	7,070	(2,134)	-30.2%
Insurance	2,976	2,838	138	4.9%
Other supplies and expenses	49,000	49,265	(265)	-0.5%
Housing assistance payments	1,251,989	1,224,951	27,038	2.2%
Depreciation	2,140	1,747	393	22.5%
Total Expenses	<u>1,417,795</u>	<u>1,390,840</u>	<u>26,955</u>	1.9%
Change in net assets	(70,923)	(229,270)	158,347	
Beginning net assets	<u>(273,746)</u>	<u>(44,476)</u>	<u>(229,270)</u>	
Ending net assets	<u>\$ (344,669)</u>	<u>\$ (273,746)</u>	<u>\$ (70,923)</u>	

Total expenses for the Authority increased by \$26,955 due to increases in personal services, insurance, housing assistance payments and depreciation, which were partially offset by decreases in utilities, operations and maintenance and other supplies and expenses.

**Fayette County Housing Authority
(Unaudited)
Management's Discussion and Analysis (MD&A) - Continued**

CAPITAL ASSETS

Capital Assets - The Fayette County Housing Authority's investment in capital assets, as of September 30, 2010 amounts to \$3,014 (net of accumulated depreciation).

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

	<u>2010</u>	<u>2009</u>	<u>Dollar Change</u>
Furniture, equipment and machinery-administration	\$ 41,592	\$ 41,592	\$ ----
Accumulated depreciation	<u>38,578</u>	<u>36,438</u>	<u>2,140</u>
Total	<u>\$ 3,014</u>	<u>\$ 5,154</u>	<u>\$ (2,140)</u>

The total decrease in the Authority's capital assets for the current fiscal year was \$2,140 or 41.5% in terms of net book value.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The Housing Authority is primarily dependent upon HUD for the funding of operations; therefore, the Housing Authority is affected more by the Federal budget than by local economic conditions. The funding of programs could be significantly affected by the 2011 Federal budget.

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 concerning any of the information provided in this report or request for additional financial information should be addressed to Ms. Amanda Caldwell, Executive Director; Fayette County Housing Authority; 326 Central Avenue; Connersville, Indiana 47331; (765) 825-4668.

SECTION II
FINANCIAL STATEMENTS
AND
NOTES TO FINANCIAL STATEMENTS

FAYETTE COUNTY HOUSING AUTHORITY

Connersville, Indiana

STATEMENT OF NET ASSETS

September 30, 2010

ASSETS

Current Assets:

Cash and cash equivalents	\$ 91,875.24
Receivable - net of allowances:	
Accounts	84,407.35
Prepaid expenses	<u>2,197.49</u>
Total Current Assets	<u>178,480.08</u>

Noncurrent Assets:

Restricted assets:

Cash and cash equivalents	<u>18,212.00</u>
Total restricted assets	<u>18,212.00</u>

Capital assets:

Other capital assets, net of depreciation	<u>3,014.22</u>
Total capital assets- net	<u>3,014.22</u>
Total Noncurrent Assets	<u>21,226.22</u>
Total Assets	<u>\$ 199,706.30</u>

LIABILITIES

Current Liabilities:

Accounts Payable	\$ 542,842.00
Accrued salaries, wages and benefits	<u>1,533.69</u>
Total Current Liabilities	<u>544,375.69</u>
Total Liabilities	<u>544,375.69</u>

NET ASSETS

Invested in capital assets, net of related debt	3,014.22
Restricted for:	
HAP	18,212.00
Unrestricted	<u>(365,895.61)</u>
Total Net Assets	<u>(344,669.39)</u>
Total Liabilities and Net Assets	<u>\$ 199,706.30</u>

See notes to financial statements

FAYETTE COUNTY HOUSING AUTHORITY

Connersville, Indiana

STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS

For Year Ended September 30, 2010

Operating Revenues:	
Operating subsidies- HUD grants	\$ 1,352,345.00
Other revenues	<u>(5,779.14)</u>
Total operating revenues	<u>1,346,565.86</u>
Operating Expenses:	
Personal services	103,847.72
Utilities	2,905.04
Operations and maintenance	4,936.61
Insurance	2,976.20
Other supplies and expenses	49,000.69
Housing assistance payments	1,251,988.91
Depreciation	<u>2,140.03</u>
Total operating expenses	<u>1,417,795.20</u>
Operating income (loss)	<u>(71,229.34)</u>
Non-operating revenues (expenses):	
Interest and investment earnings	<u>305.60</u>
Net non-operating revenues (expenses)	<u>305.60</u>
Change in net assets	(70,923.74)
Net assets at beginning of year	<u>(273,745.65)</u>
Net assets at end of year	<u>\$ (344,669.39)</u>

See notes to financial statements

FAYETTE COUNTY HOUSING AUTHORITY

Connersville, Indiana

STATEMENT OF CASH FLOWS

For Year Ended September 30, 2010

Cash flows from operating activities:

Cash received from HUD grants- operating	\$ 1,352,345.00
Cash received from other operating activities	5,469.18
Cash payments for goods and services	(1,313,134.88)
Cash payments to employees-salaries	(97,686.48)
Cash payments for employee benefit contributions	<u>(7,307.20)</u>
Net cash provided (used) by operating activities	<u>(60,314.38)</u>

Cash flows from investing activities:

Interest and dividends	<u>305.60</u>
Net cash provided (used) from investing activities	<u>305.60</u>

Net increase (decrease) in cash and cash equivalents	(60,008.78)
Cash and cash equivalents at beginning of year	<u>170,096.02</u>

Cash and cash equivalents at end of year	<u>\$ 110,087.24</u>
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Cash and cash equivalents	\$ 91,875.24
Restricted cash and cash equivalents	<u>18,212.00</u>

Total cash and cash equivalents at end of year	<u>\$ 110,087.24</u>
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Reconciliation of operating income (loss) to net cash provided (used) by operating activities:

Operating income (loss)	\$ (71,229.34)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation expense	2,140.03
Allowance for doubtful accounts	1,383.32
Changes in assets and liabilities:	
Receivables	9,865.00
Prepaid expenses	(1,050.47)
Accounts and other payables	(276.96)
Accrued expenses	<u>(1,145.96)</u>
Net cash provided (used) by operating activities	<u>\$ (60,314.38)</u>

See notes to financial statements

FAYETTE COUNTY HOUSING AUTHORITY

Connersville, Indiana

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

September 30, 2010

NOTE 1 - Summary of Significant Accounting Policies (Continued)

1b. Basis of Presentation (Continued)

Following is a description of the 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.

1c. 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.

1d. Assets, Liabilities, and Equity

Cash

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.

FAYETTE COUNTY HOUSING AUTHORITY

Connersville, Indiana

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

September 30, 2010

NOTE 1 - Summary of Significant Accounting Policies (Continued)

1d. Assets, Liabilities, and Equity (Continued)

Receivables

Receivables consist of all revenues earned at year-end and not yet received. Accounts receivable-other and fraud recovery compose the majority of receivables. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable.

Budgets and Budgetary Accounting

The 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 Commissioners and submitted to the Department of Housing and Urban Development for their approval, if required.

Estimates and Assumptions

The 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 \$500.00 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 is 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:

Furniture, equipment and machinery - administration	3 - 7 years
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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.

FAYETTE COUNTY HOUSING AUTHORITY

Connersville, Indiana

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

September 30, 2010

NOTE 1 - Summary of Significant Accounting Policies (Continued)

1d. Assets, Liabilities, and Equity (Continued)

Equity Classifications

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

- a. Invested in capital assets, net of related debt—Consists of 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 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.”

1e. Revenues, Expenditures, and Expenses

Operating Revenues and Expenses

Operating revenues and expenses are those that result from providing services and delivering goods and/or services. It also includes all revenue and expenses not related to capital and related financing, noncapital financing, or investing activities.

Non-operating revenues and expenses are those that are not operating in nature.

NOTE 2 - Stewardship, Compliance, and Accountability

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

2a. Program Accounting Requirements

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

Program	Required By
Housing Choice Vouchers	U.S. Department of Housing and Urban Development

FAYETTE COUNTY HOUSING AUTHORITY

Connersville, Indiana

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

September 30, 2010

NOTE 2 - Stewardship, Compliance, and Accountability (Continued)

2b. Deposits and Investments Laws and Regulations

In accordance with state law, all uninsured deposits of the 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 Authority must have a written collateral agreement. As reflected in Note 3a., all deposits were fully insured or collateralized.

Investments of the 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 Transaction 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.

3a. Cash

Deposits

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it or the Authority will not be able to recover collateral securities in the possession of an outside party. As of September 30, 2010, the Authority's bank balances of \$114,482.15, were insured by federal depository insurance or collateralized with securities held by the pledging financial institutions in the Authority's name.

3b. Restricted Assets

The restricted assets as of September 30, 2010, are as follows:

Type of Restricted Assets	Cash Including Time Deposits	Investments	Total
Unspent HAP	\$ 18,212.00	\$ ----	\$ 18,212.00
	<u>\$ 18,212.00</u>	<u>\$ ----</u>	<u>\$ 18,212.00</u>

Restricted assets are considered non-current since their utilization in the next operating cycle is neither required nor expected.

FAYETTE COUNTY HOUSING AUTHORITY

Connersville, Indiana

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

September 30, 2010

NOTE 3 - Detail Notes on Transaction Classes/Accounts (Continued)

3c. Accounts Receivable

Receivables detail at September 30, 2010, is as follows:

Fraud recovery	\$ 2,877.58
Allowance for doubtful accounts	<u>(2,657.58)</u>
Fraud recovery - net	220.00
Accounts receivable - other	<u>84,187.35</u>
	<u>\$ 84,407.35</u>

3d. Capital Assets

Capital asset activity for the year ended September 30, 2010, was as follows:

	<u>Balance October 1, 2009</u>	<u>Additions</u>	<u>(Deductions)</u>	<u>Balance September 30, 2010</u>
Furniture, equipment and machinery- administration	\$ 41,591.71	\$ -----	\$ -----	\$ 41,591.71
Accumulated depreciation	<u>36,437.46</u>	<u>\$ 2,140.03</u>	\$ -----	<u>38,577.49</u>
Total	<u>\$ 5,154.25</u>			<u>\$ 3,014.22</u>

3e. Accounts Payable

Payable detail at September 30, 2010, is as follows:

Accounts payable - vendors	\$ 300.00
Accounts payable - HUD PHA program	<u>542,542.00</u>
	<u>\$ 542,842.00</u>

3f. Compensated Absences

The Housing Authority had no liability for compensated absences at September 30, 2010.

FAYETTE COUNTY HOUSING AUTHORITY

Connersville, Indiana

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

September 30, 2010

NOTE 4 - Going Concern

The Housing Authority has accumulated a large deficit in its net assets and has an amount of \$542,542.00 owed to HUD. The Housing Authority does not have a plan in writing to begin to liquidate the liability and reduce the deficit. The Housing Authority does plan to increase lease up thereby increasing income. The Housing Authority intends to provide benefits (healthcare, retirement, etc), if the income increases. If a 'profit' is still shown once these benefits have been provided, that profit may then be used by the Housing Authority to reduce the debt owed to HUD. Payments made to HUD from October 2000 through September 30, 2007 had been made in the form of HUD's offset towards the PHA account under an unwritten understanding. Subsequent offsets will most likely not be made due to Fayette County Housing Authority's lack of available funding. If offsets were made to recover the debt, Fayette County Housing Authority would be unable to operate and pay HAP payments. The financial statements do not include any adjustments that may be necessary should the PHA be unable to continue as a going concern.

The Housing Authority's unrestricted net assets (equity) is a deficit of \$365,895.61. Coupled with the Housing Authority's investment in capital assets and restricted net assets the Housing Authority has a total net asset (equity) deficit of \$344,669.39.

NOTE 5 - Other Notes

5a. Employee Retirement Plan

The Authority does not provide a retirement plan for it's employees.

5b. Risk Management

The 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 Authority manages these various risks of loss as follows:

Type of Loss	Method Managed
a. Torts, errors and omissions	Purchased insurance with Auto Owners Insurance Company.
b. Injuries to employees (workers' compensation)	Purchased insurance with Auto Owners Insurance Company. Claims are administered by First Financial Insurance Company.
c. Physical property loss and natural disasters	Purchased commercial insurance with \$250 deductibles.

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

FAYETTE COUNTY HOUSING AUTHORITY

Connersville, Indiana

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

September 30, 2010

NOTE 5 - Other Notes (Continued)

5c. Economic Dependency

The Fayette County Housing Authority receives a significant portion of its revenue from funds provided through Federal grants. The grant amounts are appropriated each year at the Federal level. The amount of the funds the Authority receives could be reduced significantly and have an adverse impact on its operations.

5d. Contingencies

Contingencies

The 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 Authority in the current and prior years. No significant violations of finance-related legal or contractual provisions occurred.

The Authority has not signed a repayment agreement with the U.S. Department of Housing and Urban Development. The ultimate amount of an executed repayment agreement, if any, cannot presently be determined, and no provision for any liability that may result, if any, has been made in the financial statements.

FAYETTE COUNTY HOUSING AUTHORITY

Connersville, Indiana

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND
NOTES TO THE SCHEDULE OF FEDERAL AWARDS**

Year Ended September 30, 2010

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

<u>Fiscal Year</u>	<u>Federal Grantor</u>	<u>Federal CFDA No.</u>	<u>Expenditures</u>
	<u>U.S. Department of HUD</u>		
	<u>Low Income Public Housing Major - Direct Program</u>		
2010	Housing Choice Vouchers	14.871	\$ <u>1,352,345.00</u>
	Total		\$ <u>1,352,345.00</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.

EXHIBIT A
FINANCIAL DATE SCHEDULE

Housing Authority of the County of Fayette (IN073)
 Connersville, IN
 Entity Wide Balance Sheet Summary

Submission Type: Audited/A-133

Fiscal Year End: 09/30/2010

	14,871 Housing Choice Vouchers	Subtotal	Total
111 Cash - Unrestricted	\$91,875	\$91,875	\$91,875
112 Cash - Restricted - Modernization and Development			
113 Cash - Other Restricted		\$18,212	\$18,212
114 Cash - Tenant Security Deposits			
115 Cash - Restricted for Payment of Current Liabilities			
100 Total Cash	\$110,087	\$110,087	\$110,087
121 Accounts Receivable - PHA Projects			
122 Accounts Receivable - HUD Other Projects			
124 Accounts Receivable - Other Government			
125 Accounts Receivable - Miscellaneous	\$84,187	\$84,187	\$84,187
126 Accounts Receivable - Tenants			
126.1 Allowance for Doubtful Accounts - Tenants			
126.2 Allowance for Doubtful Accounts - Other	\$0	\$0	\$0
127 Notes, Loans, & Mortgages Receivable - Current			
128 Fraud Recovery	\$2,878	\$2,878	\$2,878
128.1 Allowance for Doubtful Accounts - Fraud	-\$2,658	-\$2,658	-\$2,658
129 Accrued Interest Receivable			
120 Total Receivables, Net of Allowances for Doubtful Accounts	\$84,407	\$84,407	\$84,407
131 Investments - Unrestricted			
132 Investments - Restricted			
135 Investments - Restricted for Payment of Current Liability			
142 Prepaid Expenses and Other Assets	\$2,198	\$2,198	\$2,198
143 Inventories			

Housing Authority of the County of Fayette (IN073)
 Connersville, IN
 Entity Wide Balance Sheet Summary

Submission Type: Audited/A-133

Fiscal Year End: 09/30/2010

	14.871 Housing Choice Vouchers	Subtotal	Total
143.1 Allowance for Obsolete Inventories			
144 Inter Program Due From			
145 Assets Held for Sale			
150 Total Current Assets	\$196,692	\$196,692	\$196,692
161 Land			
162 Buildings			
163 Furniture, Equipment & Machinery - Dwellings			
164 Furniture, Equipment & Machinery - Administration	\$41,592	\$41,592	\$41,592
165 Leasehold Improvements			
166 Accumulated Depreciation	-\$38,578	-\$38,578	-\$38,578
167 Construction in Progress			
168 Infrastructure			
160 Total Capital Assets, Net of Accumulated Depreciation	\$3,014	\$3,014	\$3,014
171 Notes, Loans and Mortgages Receivable - Non-Current			
172 Notes, Loans, & Mortgages Receivable - Non Current - Past Due			
173 Grants Receivable - Non Current			
174 Other Assets			
176 Investments in Joint Ventures			
180 Total Non-Current Assets	\$3,014	\$3,014	\$3,014
190 Total Assets	\$199,706	\$199,706	\$199,706
311 Bank Overdraft			
312 Accounts Payable <= 90 Days	\$300	\$300	\$300

Housing Authority of the County of Fayette (IN073)
 Connersville, IN
 Entity Wide Balance Sheet Summary

Submission Type: Audited/A-133

Fiscal Year End: 09/30/2010

	14,871 Housing Choice Vouchers	Subtotal	Total
313	Accounts Payable >90 Days Past Due		
321	Accrued Wage/Payroll Taxes Payable	\$1,534	\$1,534
322	Accrued Compensated Absences - Current Portion		
324	Accrued Contingency Liability		
325	Accrued Interest Payable		
331	Accounts Payable - HUD PHA Programs	\$542,542	\$542,542
332	Account Payable - PHA Projects		
333	Accounts Payable - Other Government		
341	Tenant Security Deposits		
342	Deferred Revenues		
343	Current Portion of Long-term Debt - Capital Projects/Mortgage		
344	Current Portion of Long-term Debt - Operating Borrowings		
345	Other Current Liabilities		
346	Accrued Liabilities - Other		
347	Inter Program - Due To		
348	Loan Liability - Current		
310	Total Current Liabilities	\$544,376	\$544,376
351	Long-term Debt, Net of Current - Capital Projects/Mortgage Revenue		
352	Long-term Debt, Net of Current - Operating Borrowings		
353	Non-current Liabilities - Other		
354	Accrued Compensated Absences - Non Current		
355	Loan Liability - Non Current		
356	FASB 5 Liabilities		
357	Accrued Pension and OPEB Liabilities		
350	Total Non-Current Liabilities	\$0	\$0

Housing Authority of the County of Fayette (IN073)

Connersville, IN

Entity Wide Balance Sheet Summary

Submission Type: Audited/A-133

Fiscal Year End: 09/30/2010

		14,871 Housing Choice Vouchers	Subtotal	Total
300 Total Liabilities	\$544,376	\$544,376	\$544,376	\$544,376
508.1 Invested in Capital Assets, Net of Related Debt	\$3,014	\$3,014	\$3,014	\$3,014
509.2 Fund Balance Reserved				
511.2 Unreserved, Designated Fund Balance				
511.1 Restricted Net Assets	\$18,212	\$18,212	\$18,212	\$18,212
512.1 Unrestricted Net Assets	-\$365,896	-\$365,896	-\$365,896	-\$365,896
512.2 Unreserved, Undesignated Fund Balance				
513 Total Equity/Net Assets	-\$344,670	-\$344,670	-\$344,670	-\$344,670
600 Total Liabilities and Equity/Net Assets	\$199,706	\$199,706	\$199,706	\$199,706

Housing Authority of the County of Fayette (IN073)
 Connersville, IN
 Entity Wide Revenue and Expense Summary

Submission Type: Audited/A-133

Fiscal Year End: 09/30/2010

	14,871 Housing Choice Vouchers	Subtotal	Total
70300			Net Tenant Rental Revenue
70400			Tenant Revenue - Other
70500		\$0	Total Tenant Revenue
70600	\$1,352,345	\$1,352,345	HUD PHA Operating Grants
70610			Capital Grants
70710			Management Fee
70720			Asset Management Fee
70730			Book Keeping Fee
70740			Front Line Service Fee
70750			Other Fees
70700			Total Fee Revenue
70800			Other Government Grants
71100	\$74	\$74	Investment Income - Unrestricted
71200			Mortgage Interest Income
71300			Proceeds from Disposition of Assets Held for Sale
71310			Cost of Sale of Assets
71400	\$5,272	\$5,272	Fraud Recovery
71500	\$9	\$9	Other Revenue
71600			Gain or Loss on Sale of Capital Assets
72000	\$231	\$231	Investment Income - Restricted
70000	\$1,357,931	\$1,357,931	Total Revenue
91100	\$96,541	\$96,541	Administrative Salaries

Housing Authority of the County of Fayette (IN073)
 Connersville, IN
 Entity Wide Revenue and Expense Summary

Submission Type: Audited/A-133

Fiscal Year End: 09/30/2010

		14,871 Housing Choice Vouchers	Subtotal	Total
91200 Auditing Fees	\$9,200	\$9,200	\$9,200	\$9,200
91300 Management Fee				
91310 Book-keeping Fee				
91400 Advertising and Marketing	\$539	\$539	\$539	\$539
91500 Employee Benefit contributions - Administrative	\$7,307	\$7,307	\$7,307	\$7,307
91600 Office Expenses	\$15,103	\$15,103	\$15,103	\$15,103
91700 Legal Expense	\$1,234	\$1,234	\$1,234	\$1,234
91800 Travel	\$6,582	\$6,582	\$6,582	\$6,582
91810 Allocated Overhead				
91900 Other	\$16,343	\$16,343	\$16,343	\$16,343
91000 Total Operating - Administrative	\$152,849	\$152,849	\$152,849	\$152,849
92000 Asset Management Fee				
92100 Tenant Services - Salaries				
92200 Relocation Costs				
92300 Employee Benefit Contributions - Tenant Services				
92400 Tenant Services - Other				
92500 Total Tenant Services	\$0	\$0	\$0	\$0
93100 Water	\$463	\$463	\$463	\$463
93200 Electricity	\$1,133	\$1,133	\$1,133	\$1,133
93300 Gas	\$1,308	\$1,308	\$1,308	\$1,308
93400 Fuel				
93500 Labor				
93600 Sewer				
93700 Employee Benefit Contributions - Utilities				

Housing Authority of the County of Fayette (IN073)

Connersville, IN

Entity Wide Revenue and Expense Summary

Submission Type: Audited/A-133

Fiscal Year End: 09/30/2010

	14,871 Housing Choice Vouchers	Subtotal	Total
93800 Other Utilities Expense			
93000 Total Utilities	\$2,904	\$2,904	\$2,904
94100 Ordinary Maintenance and Operations - Labor			
94200 Ordinary Maintenance and Operations - Materials and Other			
94300 Ordinary Maintenance and Operations Contracts	\$4,937	\$4,937	\$4,937
94500 Employee Benefit Contributions - Ordinary Maintenance			
94000 Total Maintenance	\$4,937	\$4,937	\$4,937
95100 Protective Services - Labor			
95200 Protective Services - Other Contract Costs			
95300 Protective Services - Other			
95500 Employee Benefit Contributions - Protective Services			
95000 Total Protective Services	\$0	\$0	\$0
96110 Property Insurance			
96120 Liability Insurance	\$1,098	\$1,098	\$1,098
96130 Workmen's Compensation	\$1,878	\$1,878	\$1,878
96140 All Other Insurance			
96100 Total Insurance Premiums	\$2,976	\$2,976	\$2,976
96200 Other General Expenses			
96210 Compensated Absences			
96300 Payments in Lieu of Taxes			
96400 Bad debt - Tenant Rents			
96500 Bad debt - Mortgages			

Housing Authority of the County of Fayette (IN073)

Connersville, IN

Entity Wide Revenue and Expense Summary

Submission Type: Audited/A-133

Fiscal Year End: 09/30/2010

		14,871 Housing Choice Vouchers	Subtotal	Total
96600	Bad debt - Other	\$11,060	\$11,060	\$11,060
96800	Severance Expense			
96000	Total Other General Expenses	\$11,060	\$11,060	\$11,060
96710	Interest of Mortgage (or Bonds) Payable			
96720	Interest on Notes Payable (Short and Long Term)			
96730	Amortization of Bond Issue Costs			
96700	Total Interest Expense and Amortization Cost	\$0	\$0	\$0
96900	Total Operating Expenses	\$174,726	\$174,726	\$174,726
97000	Excess of Operating Revenue over Operating Expenses	\$1,183,205	\$1,183,205	\$1,183,205
97100	Extraordinary Maintenance			
97200	Casualty Losses - Non-capitalized			
97300	Housing Assistance Payments	\$1,251,989	\$1,251,989	\$1,251,989
97350	HAP Portability-In			
97400	Depreciation Expense	\$2,140	\$2,140	\$2,140
97500	Fraud Losses			
97600	Capital Outlays - Governmental Funds			
97700	Debt Principal Payment - Governmental Funds			
97800	Dwelling Units Rent Expense			
90000	Total Expenses	\$1,428,855	\$1,428,855	\$1,428,855
10010	Operating Transfer In			
10020	Operating transfer Out			

Housing Authority of the County of Fayette (IN073)

Connersville, IN

Entity Wide Revenue and Expense Summary

Submission Type: Audited/A-133

Fiscal Year End: 09/30/2010

	14,871 Housing Choice Vouchers	Subtotal	Total
10030	Operating Transfers from/to Primary Government		
10040	Operating Transfers from/to Component Unit		
10050	Proceeds from Notes, Loans and Bonds		
10060	Proceeds from Property Sales		
10070	Extraordinary Items, Net Gain/Loss		
10080	Special Items (Net Gain/Loss)		
10091	Inter Project Excess Cash Transfer In		
10092	Inter Project Excess Cash Transfer Out		
10093	Transfers between Program and Project - In		
10094	Transfers between Project and Program - Out		
10100	Total Other financing Sources (Uses)	\$0	\$0
10000	Excess (Deficiency) of Total Revenue Over (Under) Total	-\$70,924	-\$70,924
11020	Required Annual Debt Principal Payments	\$0	\$0
11030	Beginning Equity	-\$273,746	-\$273,746
11040	Prior Period Adjustments, Equity Transfers and Correction of		
11050	Changes in Compensated Absence Balance		
11060	Changes in Contingent Liability Balance		
11070	Changes in Unrecognized Pension Transition Liability		
11080	Changes in Special Term/Severance Benefits Liability		
11090	Changes in Allowance for Doubtful Accounts - Dwelling Rents		
11100	Changes in Allowance for Doubtful Accounts - Other		
11170	Administrative Fee Equity	-\$362,882	-\$362,882
11180	Housing Assistance Payments Equity	\$18,212	\$18,212
11190	Unit Months Available	3521	3521

Housing Authority of the County of Fayette (IN073)
 Connersville, IN

Entity Wide Revenue and Expense Summary

Submission Type: Audited/A-133

Fiscal Year End: 09/30/2010

		14,871 Housing Choice Vouchers	Subtotal	Total
11210	Number of Unit Months Leased	3520	3520	3520
11270	Excess Cash			
11610	Land Purchases			
11620	Building Purchases			
11630	Furniture & Equipment - Dwelling Purchases			
11640	Furniture & Equipment - Administrative Purchases			
11650	Leasehold Improvements Purchases			
11660	Infrastructure Purchases			
13510	GFFP Debt Service Payments			
13901	Replacement Housing Factor Funds			

SECTION III
REPORTS ON COMPLIANCE
AND
ON INTERNAL CONTROL

**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
Fayette County Housing Authority
Connersville, Indiana

We have audited the financial statements of the Fayette County Housing Authority, Indiana, (Authority) as of and for the year ended September 30, 2010, and have issued our report thereon dated May 19, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing 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 Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the 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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented, or detected and corrected on a timely basis.

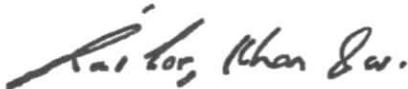
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting. These deficiencies are listed starting on page 7. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs. These deficiencies are listed starting on page 7.

The Authority's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Authority's response and, accordingly, we express no opinion on it.

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



Sailor, Khan & Co. LLC
May 19, 2011

**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 Commissioners
Fayette County Housing Authority
Connersville, Indiana

Compliance

We have audited the Fayette County Housing Authority, Indiana, (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 each of the Authority's major federal programs for the year ended September 30, 2010. 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 Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Authority's compliance with those requirements.

In our opinion, the Authority complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2010. However, the results of our auditing procedures disclosed one instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs starting on page 14.

Internal Control Over Compliance

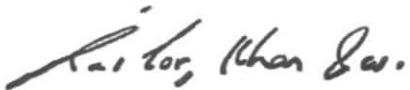
Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal program. In planning and performing our audit, we considered the Authority's internal control over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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses as defined above. However, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency as described in the accompanying schedule of findings and questioned costs starting on page 14. *A significant deficiency in internal control over compliance* is a deficiency, or combination of control 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.

The Authority's written response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Authority's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of the Fayette County Housing Authority, Indiana's management, and federal awarding and agencies and is not intended to be and should not be used by anyone other than these specified parties.



Sailor, Khan & Co. LLC
May 19, 2011

FAYETTE COUNTY HOUSING AUTHORITY

Connersville, Indiana

SIGNIFICANT DEFICIENCIES COMMUNICATED IN PRIOR YEARS

September 30, 2010

The prior audit report for the year ended September 30, 2009 contained a total of nine significant deficiencies:

Financial Statement Findings

1. **Finding:** Excess Deficit
Status: Not implemented - see current finding #1
2. **Finding:** Closing Entries
Status: Not implemented - see current finding #2
3. **Finding:** Accounts Receivable - Other
Status: Not implemented - see current finding #3
4. **Finding:** Internal Control Procedures
Status: Partially implemented - see current finding #4
5. **Finding:** Financial Statements
Status: Not implemented - see current finding #7
6. **Finding:** Bank Reconciliation
Status: Implemented
7. **Finding:** Depreciation Schedule Detail and Capitalization Policy
Status: Implemented

Federal Awards Findings

8. **Finding:** Excess Deficit
Status: Not implemented - see current finding #8
9. **Finding:** Financial Data Submission
Status: Implemented

FAYETTE COUNTY HOUSING AUTHORITY

Connersville, Indiana

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

September 30, 2010

SECTION I - SUMMARY OF AUDITOR RESULTS

Financial Statement:

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
▶ Material weakness(es) identified?	No
▶ Significant deficiency (ies) identified that are not considered to be material weaknesses?	Yes
Noncompliance material to financial statements noted?	No
Is a "going concern" explanatory paragraph included in audit report?	Yes

Federal Awards:

Internal control over major programs:	
▶ Material weakness(es) identified?	No
▶ Significant deficiency (ies) identified that are not considered to be material weaknesses?	Yes
Type of auditor's report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) on Circular A-133?	Yes
Identification of major programs:	

CFDA	
Number(s)	Name of Federal Program
14-871	Section 8 Housing Choice Vouchers
Dollar threshold used to distinguish between type A and type B programs:	\$300,000
Auditee qualified as low-risk auditee?	No

FAYETTE COUNTY HOUSING AUTHORITY

Connersville, Indiana

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

September 30, 2010

SECTION II - FINANCIAL STATEMENT FINDINGS

The current audit report for the year ended September 30, 2010 disclosed the following Financial Statement audit findings:

1. Excess Deficit

Criteria:

We noted that a large deficit in net assets continues to exist from prior years.

Condition:

Under the terms of the annual contributions contract, each project shall be developed and administered to promote efficiency, economy, and stability.

Questioned Costs:

None.

Effect:

The PHA has accumulated a large deficit in its net assets.

Cause:

The PHA over-requisitioned funds annually in an effort to cover prior year deficits in the years prior to fiscal year ended 2002.

Recommendation:

We recommend the current administration monitor its expenses carefully. Reduction in excess deficit reserve largely depends upon PHA's efforts to increase its units leased to the maximum, thus increasing its income and ensuring that expenses are incurred to the extent of routine PHA operations. In addition, any amounts recovered from the former employee or the related corporation should be used towards the repayment of amount owed to HUD.

Management's Response/Action Plan:

The Authority, is in the process of increasing lease numbers to use the remaining Reserved Net Assets.
Person Responsible - Amanda Caldwell, Executive Director and Fayette County Housing Authority Board
Date of Completion - ongoing

FAYETTE COUNTY HOUSING AUTHORITY

Connersville, Indiana

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

September 30, 2010

SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)

2. Closing Entries

Criteria:

Unspent housing assistance funds must be reported as restricted cash and restricted equity on the Housing Authority's financials.

Condition:

The Housing Authority has designated an account for unspent housing assistance, but there was not a restricted cash and restricted equity account reflected on their general ledger. In addition the unspent housing assistance was closed to the unrestricted equity account instead of restricted equity.

Questioned Costs:

None.

Effect:

General ledger accounts are not being stated properly after closing.

Cause:

There is an inadequate understanding of current HUD account procedures and Financial Data Submission (FDS) standards.

Recommendation:

We recommend the Housing Authority take steps to correctly report restricted cash per HUD requirements.

Management's Response/Action Plan:

Currently Fayette County Housing Authority Board is using Quick Books software which is not closing the books out correctly. HAPPY software has a connector that will be researched to see if this could be a fix to the issue

Person Responsible - Amanda Caldwell, Executive Director and Sheryl Myers, fee accountant

Date of Completion - July 31, 2011

FAYETTE COUNTY HOUSING AUTHORITY

Connersville, Indiana

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

September 30, 2010

SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)

3. Accounts Receivable - Other

Criteria:

Amounts recorded as receivable must be examined periodically to determine the amount to be considered doubtful.

Condition:

A large amount has been recorded as a receivable on the Housing Authority's financials from a not-for-profit and a former employee in the amount of \$34,816.88 and \$49,348.00 respectively. This amount has not changed in several years, and an allowance for doubtful accounts has not been created for the amount that is considered to be doubtful in its ability to be collected.

Questioned Costs:

None.

Effect:

The Housing Authority's assets appear to be overstated.

Cause:

The doubtful portion of this accounts receivable has not been assessed by management.

Recommendation:

We recommend the Housing Authority review all accounts receivables and determine what portion is considered doubtful in its ability to be collected and make appropriate journal entries to account for the allowance.

Management's Response/Action Plan:

The Authority will pass a resolution during the next board meeting to resolve this issue.

Person Responsible - Amanda Caldwell, Executive Director and Fayette County Housing Authority Board

Date of Completion - June 14, 2011.

FAYETTE COUNTY HOUSING AUTHORITY

Connersville, Indiana

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

September 30, 2010

SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)

4. Written Acknowledgment and Internal Control Procedures

Criteria:

To ensure effectiveness of Internal Control, there needs to be an adequate division of duties among those who perform accounting procedures or control activities and those who handle assets. If segregation of duties is not feasible due to the limited staffing then compensating controls must be designed, employed and acknowledged in writing. Although it is a basic key internal control and one of the most difficult to achieve, it must be considered and addressed in an effective manner to strengthen the control environment.

Condition:

The Authority does not have a written comprehensive internal control policy. Also the Housing Authority did not acknowledge in writing the performance of internal control procedures in the following:

- ▶ Invoices did not have adequate sign-off for the entire fiscal year, but was instituted nearer to the fiscal year end.
- ▶ Bank reconciliations did not have adequate sign-off. Also the reconciliation was showing outstanding checks that were written off in the general ledger causing a difference between the two.
- ▶ Bank deposits did not have adequate sign-off.

Questioned Costs:

None.

Effect:

With lack of written acknowledgment it is not apparent that internal control functions are being performed.

Cause:

The management did not adequately document the performance of internal control procedures.

Recommendation:

We recommend the Authority amend their internal control procedures to include adequate written acknowledgment.

Management's Response/Action Plan:

This issue has been resolved pertaining to the invoice sign-off, bank reconciliation, and bank deposit sign-offs. Person Responsible - Amanda Caldwell, Executive Director and Fayette County Housing Authority Board Date of Completion - current.

FAYETTE COUNTY HOUSING AUTHORITY

Connersville, Indiana

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

September 30, 2010

SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)

5. Accounts Receivable Write-Offs

Criteria:

The Housing Authority's management is responsible for obtaining the board of commissioners approval for write-offs.

Condition:

We noted that the Housing Authority did not receive a board approved resolution to write-off the fraud account receivable that was not being paid to the Authority.

Questioned Costs:

None.

Effect:

Accounts receivable were written off without proper approval from the board.

Cause:

The Authority's management was unaware board approval was required.

Recommendation:

We recommend the Authority seek board approval for all write-offs.

Management's Response/Action Plan:

The Authority will pass a resolution during the next board meeting to resolve this issue.

Person Responsible - Amanda Caldwell, Executive Director and Fayette County Housing Authority Board

Date of Completion - June 14, 2011

FAYETTE COUNTY HOUSING AUTHORITY

Connersville, Indiana

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

September 30, 2010

SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)

6. Payroll accruals

Criteria:

The Housing Authority is responsible for accurately recording any accrued expenses for payroll in the period occurred.

Condition:

We noted the Housing Authority failed to properly record accrued payroll for fiscal year ending September 30, 2010, and the Authority did not properly reverse the amount recorded for fiscal year ending September 30, 2009 accrued payroll in the fiscal year ending September 30, 2010.

Questioned Costs:

None.

Effect:

Payroll liabilities and Payroll expense are misstated causing adjusting entries to be necessary.

Cause:

The Authority did not perform an accrued payroll calculation and therefore did not record any accrued expense for payroll.

Recommendation:

We recommend the Authority perform an accrued payroll calculation at fiscal year end and record that liability on the trial balance in the period occurred.

Management's Response/Action Plan:

This issue will be resolved at fiscal year end 2011.
Person Responsible - Sheryl Myers, fee accountant
Date of Completion - September 30, 2011

FAYETTE COUNTY HOUSING AUTHORITY

Connersville, Indiana

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

September 30, 2010

SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)

7. Financial Statements

Criteria:

The Authority is responsible for establishing and maintaining controls over the preparation of the financial statements.

Condition:

We believe the Authority did not have controls over the preparation of the financial statements, including footnote disclosures, to prevent or detect a misstatement in the financial statements.

Questioned Costs:

None.

Effect:

As a result, potential misstatements in the financial statements may go undetected.

Cause:

The size of the organization was primarily the reason for the lack of systematic controls over the preparation of the financial statements.

Recommendation:

We recommend that the Authority take steps to establish a system of controls over financial reporting to prevent or detect misstatements in the financial statements.

Management's Response/Action Plan:

This issue will be addressed and corrected by fiscal year end.

Person Responsible - Amanda Caldwell, Executive Director and Sheryl Myers, fee accountant

Date of Completion - September 30, 2011

FAYETTE COUNTY HOUSING AUTHORITY

Connersville, Indiana

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

September 30, 2010

SECTION III - FEDERAL AWARD FINDINGS

The current audit report for the year ended September 30, 2010 disclosed the following Federal Awards audit finding:

8. Excess Deficit (same as financial statement finding #1)

Federal Award Finding

14.871 Housing Choice Vouchers

Criteria:

We noted that a large deficit in net assets continues to exist from prior years.

Condition:

Under the terms of the annual contributions contract, each project shall be developed and administered to promote efficiency, economy, and stability.

Questioned Costs:

None.

Effect:

The PHA has accumulated a large deficit in its net assets.

Cause:

The PHA over-requisitioned funds annually in an effort to cover prior year deficits in the years prior to fiscal year ended 2002.

Recommendation:

We recommend the current administration monitor its expenses carefully. Reduction in excess deficit reserve largely depends upon PHA's efforts to increase its units leased to the maximum, thus increasing its income and ensuring that expenses are incurred to the extent of routine PHA operations. In addition, any amounts recovered from the former employee or the related corporation should be used towards the repayment of amount owed to HUD.

Management's Response/Action Plan:

The Authority, is in the process of increasing lease numbers to use the remaining Reserved Net Assets.
Person Responsible - Amanda Caldwell, Executive Director and Fayette County Housing Authority Board
Date of Completion - ongoing