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October 1, 2013

Board of Directors
Housing Authority of the City of Evansville
500 Court Street
Evansville, IN 47708

We have reviewed the audit report prepared by Katz, Sapper & Miller, LLP, Independent Public Accountants, for the period January 1, 2009 to December 31, 2009. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountants' opinion, the financial statements included in the report present fairly the financial condition of the Housing Authority of the City of Evansville, as of December 31, 2009 and the results of its operations for the period then ended, on the basis of accounting described in the report.

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

STATE BOARD OF ACCOUNTS

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

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT**

December 31, 2009

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

CONTENTS

	Page
Independent Auditors' Report	1-2
Management's Discussion and Analysis	3-7
FINANCIAL STATEMENTS	
Statement of Net Assets – Proprietary Fund	8
Statement of Revenue, Expenses and Changes in Net Assets – Proprietary Fund	9
Statement of Cash Flows – Proprietary Fund	10
Notes to Financial Statements	11-18
OTHER INFORMATION	
Independent Auditors' 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>	19-20
Schedule of Expenditures of Federal Awards	21-22
Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133	23-24
Schedule of Findings and Questioned Costs	25-32

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Independent Auditors' Report

Board of Commissioners
The Housing Authority of the City of
Evansville, Indiana

We have audited the accompanying statement of net assets – proprietary fund of The Housing Authority of the City of Evansville, Indiana (the “Authority”) as of December 31, 2009, and the related statements of revenue, expenses and changes in net assets - proprietary fund and cash flows - proprietary fund for the year then ended. 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. The financial statements of The Housing Authority of the City of Evansville, Indiana as of December 31, 2008, were audited by other auditors whose report dated September 9, 2009, expressed an unqualified opinion on those statements.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Housing Authority of the City of Evansville, Indiana as of December 31, 2009, and the changes in its net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2010, 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 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 our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the Authority taken as a whole. The accompanying schedule of expenditures of federal awards on pages 21-22 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Katz, Appaw & Miller, LLP

Indianapolis, Indiana
September 28, 2010

THE HOUSING AUTHORITY OF THE CITY OF EVANSVILLE, INDIANA

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of The Housing Authority of the City of Evansville, Indiana's ("the Authority") annual financial report presents management's discussion and analysis of the Authority's financial position, results of operations and cash flows during the fiscal years ended December 31, 2009 and 2008. This information is being presented to provide additional information regarding the activities of the Authority and to meet the disclosure requirements of Government Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. This analysis should be read in conjunction with the Independent Auditors' Report, financial statements and accompanying notes.

Introduction - The Housing Authority of the City of Evansville, Indiana

The Authority is a Public Housing Authority with a Board of Commissioners. The applicable jurisdictions appoint the Board of Commissioners. However, the Authority has complete legislative and administrative authority and it recruits and employs personnel. The Authority adopts a budget that is approved by the Board of Commissioners. Subsidies for operations are received primarily from HUD. The Authority has substantial legal Authority to control its affairs without local government approval; therefore, all operations of the Authority are a separate reporting entity as reflected in this report. The Authority has no other organizational units. The Authority is responsible for its debts and is entitled to surpluses. No separate agency receives a financial benefit nor imposes a financial burden on the Authority.

The Authority's financial statements include the operations of funds that the Authority has established to achieve its purposes. The financial transactions of the Authority are recorded in the funds that consist of a separate set of self-balancing accounts that comprise its assets, liabilities, net assets, revenues and expenses, as appropriate. The Authority is a self-supporting entity and follows enterprise fund reporting.

This discussion and analysis is designed to assist the reader in focusing on significant financial issues and activities and to identify any significant changes in net assets of the Authority. Readers are encouraged to consider the information presented in conjunction with the financial statements as a whole, which follow this section.

Financial Statements

The basic financial statements include three required statements, which provide different views of the Authority. They are the *Statement of Net Assets*, the *Statement of Revenues, Expenses and Changes in Net Assets* and the *Statement of Cash Flows*. These statements provide current and long-term information about the Authority and its activities.

The *Statement of Net Assets* includes all assets and liabilities, both financial and capital, and short-term and long-term, using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. Over time, changes in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

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 of its costs through externally funded programs, tenant rents and other revenue sources.

THE HOUSING AUTHORITY OF THE CITY OF EVANSVILLE, INDIANA

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

The primary purpose of the *Statement of Cash Flows* is to provide information about the Authority's cash receipts and cash payments during the accounting period. This statement reports cash transactions, including receipts, payments, and net changes resulting from operations, noncapital financing, capital financing, and investing activities.

The *Notes to Financial Statements* provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

Financial Highlights

- The Authority's net assets increased by approximately \$217 thousand during 2009 and \$289 thousand during 2008. The increase in net assets is primarily due to funds received through the Capital Fund Program.
- Operating revenues decreased by \$210 thousand during 2009 and were approximately \$15.3 million for 2009 and \$15.5 million for 2008.
- The total operating expenses for Authority programs increased by \$638 thousand during 2009. Total expenses were approximately \$16.2 million for 2009 and \$15.6 million for 2008.

The Authority has many programs that are consolidated into a single enterprise fund. The programs consist of the following:

Low Rent Public Housing Program

This program is operated under HUD's Annual Contribution Contract (ACC) and consists of the operations of the low-rent public housing properties totaling approximately 949 units. The purpose of this program is to provide decent and affordable housing to low-income families at reduced rents. The properties are owned, maintained, and managed by the Authority. Funding for the program is provided by federal annual contributions and operating subsidies and tenant rentals (determined as a percentage of family income, adjusted for family composition). The Public Housing Program also includes the Capital Fund Program, which is the primary funding source for physical and management improvements to the Authority's properties

Housing Choice Voucher Program

Under the Housing Choice Voucher Program, the Authority provides rental housing assistance subsidies in support of 1,906 housing units. The purpose of the program is to provide decent affordable housing to low-income families and elderly and handicapped persons wherein rental assistance is provided by HUD. The associated units are maintained and managed by private landlords.

THE HOUSING AUTHORITY OF THE CITY OF EVANSVILLE, INDIANA
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Other Programs

In addition to the significant programs noted above, the Authority also maintains other programs. Currently, the Authority administers the following smaller programs:

- Business Activities
- HOME Buyers Program
- Youth Build Program
- Resident Opportunity and Supportive Services Program
- Disaster Housing Assistance

Net Assets

The following table is a condensed summary of net assets at December 31, 2009 and 2008:

	2009	2008
Assets		
Current assets	\$ 7,374,228	\$ 8,202,762
Noncurrent assets	<u>16,738,453</u>	<u>15,325,412</u>
Total assets	<u>\$24,112,681</u>	<u>\$23,528,174</u>
 Liabilities		
Current liabilities	\$ 1,573,131	\$ 1,106,673
Noncurrent liabilities	<u>104,897</u>	<u>203,760</u>
Total liabilities	<u>\$ 1,678,028</u>	<u>\$ 1,310,433</u>
 Net assets		
Invested in capital assets	\$15,634,601	\$15,307,094
Unrestricted	5,971,491	4,825,035
Restricted	<u>828,561</u>	<u>2,085,612</u>
Total net assets	<u>\$22,434,653</u>	<u>\$22,217,741</u>

Major Factors Affecting the Statement of Net Assets

For 2009, current assets decreased \$829 thousand. The decrease occurred primarily in investments, due to approximately \$1 million in investments being classified as noncurrent in the current year due to their related maturity dates. Current liabilities increased \$466 thousand in 2009 mainly due to housing assistance payment from HUD for January 2010 was received in December 2009. These payments were not remitted to landlords as of December 31, 2009.

THE HOUSING AUTHORITY OF THE CITY OF EVANSVILLE, INDIANA
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Revenue, Expenses and Changes in Net Assets

The following table is a condensed summary of revenue, expenses and changes in net assets for the years ended December 31, 2009 and 2008.

	2009	2008
Operating Revenue		
Tenant revenue	\$ 2,190,930	\$ 2,161,974
HUD grants	12,244,317	12,760,254
Other governmental grants	263,246	
Fraud recovery income	46,057	26,953
Other revenue	<u>530,412</u>	<u>535,782</u>
Total operating revenue	<u>15,274,962</u>	<u>15,484,963</u>
Operating Expenses		
Administration	2,994,704	2,788,518
Tenant services	58,169	103,062
Utilities	940,856	996,057
Ordinary maintenance and operations	2,182,148	2,057,833
Insurance	192,176	159,332
Other general expenses	192,798	174,875
Housing assistance payments	8,390,719	8,053,834
Depreciation	<u>1,271,298</u>	<u>1,250,899</u>
Total operating expenses	<u>16,222,868</u>	<u>15,584,410</u>
Operating loss	(947,906)	(99,447)
Nonoperating revenue	<u>1,164,818</u>	<u>388,803</u>
Change in net assets	<u>\$ 216,912</u>	<u>\$ 289,356</u>

Major Factors Affecting the Statement of Revenue, Expenses and Changes in Net Assets

During 2009, the Authority's operating loss was \$948 thousand, which included \$1.3 million in non-cash depreciation expense. Nonoperating revenue, which increased by \$776 thousand consisted primarily of capital subsidies received from HUD which are used for construction of capital assets and operations.

During 2008, the Authority's operating loss was \$100 thousand, which included \$1.3 million in non-cash depreciation expense. Nonoperating revenue, which decreased by \$1.7 million consisted primarily of capital subsidies received from HUD which are used for construction of capital assets and operations.

THE HOUSING AUTHORITY OF THE CITY OF EVANSVILLE, INDIANA
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Capital Assets

As of December 31, 2009 and 2008, the Authority had \$15.6 million and \$15.3 million, respectively, invested in a variety of capital assets as reflected in the following table:

	2009	2008
Land	\$ 1,372,716	\$ 1,335,642
Buildings	39,865,482	38,566,942
Furniture, equipment and machinery	2,067,440	1,974,429
Construction in progress	175,191	65,333
Accumulated depreciation	<u>(27,846,228)</u>	<u>(26,635,252)</u>
Net capital assets	<u>\$ 15,634,601</u>	<u>\$ 15,307,094</u>

In 2009, the Authority made capital expenditures of \$1.6 million while recognizing depreciation expense of \$1.3 million.

In 2008, the Authority made capital expenditures of \$1.9 million while recognizing depreciation expense of \$1.3 million.

Debt Administration

At the end of the current fiscal year, the Authority had no outstanding debt compared to \$83,062 at December 31, 2008. The debt was the result of securing funds for normal course of business and was repaid in the current year.

Requests of Information

This financial report is designed to provide a general overview of the Authority's finances and resources. Questions concerning any of this information should be addressed to The Housing Authority of the City of Evansville, Indiana, 500 Court Street, Evansville, Indiana, 47708.

THE HOUSING AUTHORITY OF THE CITY OF EVANSVILLE, INDIANA

**STATEMENT OF NET ASSETS-PROPRIETARY FUND
December 31, 2009**

ASSETS

CURRENT ASSETS

Cash and equivalents	\$ 3,153,547
Cash-tenant security deposits	111,538
Cash-tenant escrow accounts	78,637
Certificates of deposit	3,506,177
Accounts receivable-HUD	424,935
Accounts receivable-other government	72,270
Accounts receivable-tenants, net	9,891
Accrued interest receivable	11,880
Notes and mortgages receivable-current portion	5,353
Total Current Assets	<u>7,374,228</u>

CAPITAL ASSETS

Land	1,372,716
Buildings and improvements	39,865,482
Furniture, equipment and machinery-dwellings	746,907
Furniture, equipment and machinery-administrative	1,320,533
Construction in progress	175,191
	<u>43,480,829</u>
Less: Accumulated depreciation	<u>(27,846,228)</u>
Total Capital Assets	<u>15,634,601</u>

OTHER ASSETS

Notes and mortgages receivable, net of current portion	14,605
Certificates of deposit	<u>1,089,247</u>

TOTAL ASSETS

\$24,112,681

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	\$ 284,880
Accounts payable-HAP	755,138
Accounts payable-PILOT	99,697
Tenant security deposits	111,538
Deferred revenue	6,752
Accrued compensated absences	150,742
Accrued wages and payroll taxes	38,575
Accrued expenses	33,323
Other current liabilities	92,486
Total Current Liabilities	<u>1,573,131</u>

NONCURRENT LIABILITIES

Other liabilities	<u>104,897</u>
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Total Liabilities

1,678,028

NET ASSETS

Invested in capital assets	15,634,601
Unrestricted net assets	5,971,491
Restricted net assets	828,561
Total Net Assets	<u>22,434,653</u>

TOTAL LIABILITIES AND NET ASSETS

\$24,112,681

See accompanying notes.

THE HOUSING AUTHORITY OF THE CITY OF EVANSVILLE, INDIANA

**STATEMENT OF REVENUE, EXPENSES AND CHANGES IN
NET ASSETS-PROPRIETARY FUND**

Year Ended December 31, 2009

OPERATING REVENUE

Tenant revenue	\$ 2,190,930
HUD PHA operating grants	12,244,317
Other government grants	263,246
Fraud recovery income	46,057
Other revenue	<u>530,412</u>
Total Operating Revenue	<u>15,274,962</u>

OPERATING EXPENSES

Administration	2,994,704
Tenant services	58,169
Utilities	940,856
Ordinary maintenance and operations	2,182,148
Insurance	192,176
Other general expenses	192,798
Housing assistance payments	8,390,719
Depreciation	<u>1,271,298</u>
Total Operating Expenses	<u>16,222,868</u>

Operating Loss (947,906)

NONOPERATING REVENUE

Capital fund grant	949,031
Interest revenue	<u>215,787</u>
Total Nonoperating Revenue	<u>1,164,818</u>

INCREASE IN NET ASSETS

216,912

NET ASSETS

Beginning of Year	<u>22,217,741</u>
End of Year	<u>\$ 22,434,653</u>

See accompanying notes.

THE HOUSING AUTHORITY OF THE CITY OF EVANSVILLE, INDIANA

**STATEMENT OF CASH FLOWS-PROPRIETARY FUND
Year Ended December 31, 2009**

OPERATING ACTIVITIES

Cash received from dwelling rent	\$ 2,186,399
Cash received from HUD grants	12,195,157
Cash received from other sources	768,546
Cash payments for operating expenses	<u>(14,483,498)</u>
Net Cash Provided by Operating Activities	<u>666,604</u>

NONCAPITAL ACTIVITIES

Resident security deposits received	<u>7,305</u>
Net Cash Provided by Noncapital Activities	<u>7,305</u>

CAPITAL AND RELATED FINANCING ACTIVITIES

Purchases of capital assets	(1,598,805)
Capital grants received	949,031
Principal payments on debt	<u>(83,062)</u>
Net Cash Used by Capital Financing Activities	<u>(732,836)</u>

INVESTING ACTIVITIES

Redemption of certificates of deposit	94,895
Interest received	220,563
Reduction of tenants' escrow accounts	<u>294,924</u>
Net Cash Provided by Investing Activities	<u>610,382</u>

INCREASE IN CASH AND EQUIVALENTS

551,455

CASH AND EQUIVALENTS

Beginning of Year	<u>2,602,092</u>
End of Year	<u>\$ 3,153,547</u>

Reconciliation of operating loss to net cash provided by operating activities:

Operating loss	\$ (947,906)
Amortization of notes receivable	4,814
Depreciation expense	1,271,298
(Increase) decrease in current assets:	
Accounts receivable-tenants	(4,531)
Accounts receivable-HUD	(46,427)
Accounts receivable-other government	(72,270)
Prepaid expenses and other assets	18,649
Increase (decrease) in current liabilities:	
Accounts payable	(153,826)
Accounts payable-HUD	725,978
Deferred revenue	(3,108)
Other current liabilities	<u>(126,067)</u>

Net Cash Provided by Operating Activities \$ 666,604

See accompanying notes.

THE HOUSING AUTHORITY OF THE CITY OF EVANSVILLE, INDIANA

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Nature of Operations: The Authority, a governmental entity, is organized under the laws of the State of Indiana (“State”) for the purpose of engaging in the development and administration of low-rent housing programs. The Authority owns and operates 949 public housing units and administers 1,906 Section 8 units under an Annual Contributions Contract (ACC) in Evansville, Indiana.

Reporting Entity: The Authority is a public housing authority with a Board of Commissioners. The applicable jurisdictions appoint the Board of Commissioners. However, the Authority has complete legislative and administrative authority to control its affairs without requiring approval of the City government, and it recruits and employs its personnel staff. The Authority adopts a budget that is approved by the Board of Commissioners. Subsidies for operations are received primarily from HUD. The Authority has substantial legal authority to control its affairs without local government approval; therefore, all operations of the Authority are a separate reporting entity as reflected in this report. The Authority has no other organizational units. The Authority is responsible for its debts and is entitled to surpluses. No separate agency receives a financial benefit nor imposes a financial burden on the Authority. The Authority is a separate reporting entity and not a component unit of any other local governmental unit.

The Authority’s activities include the following programs:

Low Rent Public Housing Program – This program is operated under HUD’s ACC and consists of the operations of the low-rent public housing properties totaling approximately 949 units. The purpose of this program is to provide decent and affordable housing to low-income families at reduced rents. The properties are owned, maintained, and managed by the Authority. Funding for the program is provided by federal annual contributions and operating subsidies and tenant rentals (determined as a percentage of family income, adjusted for family composition). The Public Housing Program also includes the Capital Fund Program, which is the primary funding source for physical and management improvements to the Authority’s properties

Housing Choice Voucher Program – Under the Housing Choice Voucher Program, the Authority provides rental housing assistance subsidies in support of 1,906 housing units. The purpose of the program is to provide decent affordable housing to low-income families and elderly and handicapped persons wherein rental assistance is provided by HUD. The associated units are maintained and managed by private landlords.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Other Programs: In addition to the significant programs noted above, the Authority also maintains other programs. Currently, the Authority administers the following smaller programs:

- Business Activities
- HOME Buyers Program
- Youth Build Program
- Resident Opportunity and Supportive Services Program
- Disaster Housing Assistance

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

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation: The Authority's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recognized when earned and expenses are recognized when incurred, regardless of the timing of related cash flows.

The Authority distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with the Authority's principal ongoing operations. Principal operating revenues are tenant rents and HUD grants. Operating expenses include administration, maintenance, insurance, depreciation, utilities, housing assistance payments and other general expenses. All revenues and expenses not meeting these definitions are reported as non-operating revenues and expenses. This includes capital subsidy for the capital fund program.

Revenue Recognition: Tenant rent revenue is recorded as rentals become due. Rental payments received in advance, if any, are deferred until earned.

The Authority has entered into ACCs with HUD to develop, manage and own public housing projects and to administer the federal Section 8 programs whereby the Authority pays the owner a portion of the rent, a housing assistance payment (HAP), on behalf of the family. Such contributions are reflected as HUD grants in the accompanying financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Estimates: The preparation of financial statements, in conformity with accounting principles generally accepted in the United States, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities (and disclosure of contingent assets and liabilities, if any) at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Equivalents: For purposes of reporting cash flows, cash and equivalents include cash on hand and on deposit and investments with a maturity of three months or less.

Accounts Receivable: Receivables consist of amounts invoiced to tenants for rents. The Authority provides an allowance for doubtful accounts, which is based upon a review of outstanding receivables, historical collection information and economic conditions. Delinquent accounts are written off based on management's review of the specific circumstances of each tenant. The balance of the allowance for doubtful accounts is \$17,192 at December 31, 2009. In addition, other receivables consist of amounts due from HUD under reimbursements due under grants.

Investments: All investments are reflected at fair value. Investments are restricted by the provisions of the HUD regulations. Investments consist primarily of bank certificates of deposits with original maturities greater than three months.

Notes and Mortgages Receivable: Notes and mortgages receivable are carried at the principal amount outstanding net of an allowance for doubtful accounts.

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

Capital assets are depreciated using the straight-line method over the estimated useful lives as follows:

Building and improvements	10-39 years
Furniture, equipment and machinery	5-7 years

Net Assets: The Authority classifies net assets for accounting and financial reporting purposes in the following net asset categories:

- Invested in capital assets, net of related debt – This component of net assets consists of capital assets, net of accumulated depreciation, costs to be recovered from future revenues, and unamortized debt expense reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- Restricted - This component of net assets consists of constraints placed on net assets use through external constraints imposed by creditors (such as through debt covenants), contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- Unrestricted net assets – This component of net assets consists of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt”.

Payments in Lieu of Taxes: Pursuant to an agreement with the County, the Authority may make payments in lieu of taxes (PILOT). During 2009, the Authority made \$99,694 payments in lieu of taxes to the office of Vanderburgh County Treasurer.

NOTE 2 – CASH DEPOSITS AND INVESTMENTS

It is the policy of the Authority to invest its funds in a manner, which will provide the highest investment return with maximum security while meeting the daily cash flow needs of the Authority, and comply with all federal, state and local statutes or ordinances governing the investment of public funds. The Authority’s investment policy requires investment in instruments authorized by HUD Notice PIH 96-33.

During the year ended December 31, 2009, the Authority held cash deposits and investments with several financial institutions. Investments are primarily certificates of deposit.

Custodial Credit Risk: Custodial credit risk for cash deposits and investments is the risk that, in the event of failure by a financial institution, the Authority may not be able to recover the value of its cash deposits and investments or collateral securities that are in the possession of the financial institution. Statutes authorize the Authority to invest in certificates of deposit, money market funds, United States government securities and repurchase agreements fully collateralized by United States government securities. All cash and equivalents and certificates of deposit are insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC) or other equivalent insurance company or depository financial institutions. With respect to its cash operating and Housing Choice Voucher accounts, funds are collateralized with U.S. government securities.

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

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

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

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

Foreign Currency Risk: Foreign currency risk is the risk that changes in exchange rates will adversely affect fair value of an investment or a deposit. All of the Authority’s cash deposits and investments are denominated in United States currency.

At December 31, 2009, the cash deposits and investments of the Authority with financial institutions were insured as follows:

	Balance per Statement of Net Assets	Bank Balance
Cash and equivalents insured by FDIC (up to \$250,000 per bank)	\$ 766,738	\$ 766,881
Certificates of deposit insured by FDIC (up to \$250,000 per bank)	<u>4,529,650</u>	<u>4,537,889</u>
Total Insured	5,296,388	5,304,770
Uninsured and uncollateralized (including petty cash)	<u>2,642,758</u>	<u>2,731,117</u>
Total cash and equivalents and certificates of deposit	<u>\$7,939,146</u>	<u>\$8,035,887</u>

As of December 31, 2009, the Authority had the following investments and maturities:

	<u>Investment Maturities (in years)</u>		
	Fair Value	<1	1 - <5
Money market funds	\$ 424,427	\$ 424,427	
Certificates of deposit	<u>4,595,424</u>	<u>3,506,177</u>	<u>\$1,089,247</u>
	<u>\$5,019,851</u>	<u>\$3,930,604</u>	<u>\$1,089,247</u>

NOTE 3 – NOTES AND MORTGAGES RECEIVABLE

In June 1999, the Authority loaned \$85,000, from the Housing Choice Voucher program, to a nonprofit organization to allow the organization to purchase a shopping center across the street from one of the Authority’s projects, the Authority’s goal was to have a retail center developed, providing housing residents with a nearby place to shop.

The nonprofit organization subsequently went bankrupt; however, the former treasurer of that organization periodically makes payments which are being recorded as interest income. The outstanding balance on the note was \$80,000 as of December 31, 2009. Management has provided an allowance of \$80,000 at December 31, 2009. However, the note has not been written off because it is secured by the shopping center.

NOTE 3 – NOTES AND MORTGAGES RECEIVABLE (CONTINUED)

To aid low income families in purchasing homes through the Homebuyers Program, the Authority loans the buyer a down payment on the mortgage and takes a promissory note secured by a subordinated deed of trust upon the real estate. Providing the borrower does not refinance, sell, or transfer the property and is not in default of any other deed of trust on the property, no payments are required and, in fact, the Authority is forgiving a portion of the loan over a period of time. The balance of the mortgage receivable as of December 31, 2009 was \$19,958.

NOTE 4 – CAPITAL ASSETS

The following is a summary of changes in the capital assets of the Authority for the year ended December 31, 2009:

	Balance at January 1, 2009	Additions	Disposals	Transfers	Balance at December 31, 2009
Non-depreciable capital assets:					
Land	\$ 1,335,642	\$ 37,074			\$1,372,716
Construction in progress	<u>65,333</u>	<u>1,091,110</u>		<u>\$(981,252)</u>	<u>175,191</u>
Total Non-Depreciable Capital Assets	<u>1,400,975</u>	<u>1,128,184</u>		<u>(981,252)</u>	<u>1,547,907</u>
Depreciable capital assets:					
Buildings and improvements	38,566,942	248,277	\$31,036	1,081,299	39,865,482
Furniture, equipment and machinery	<u>1,974,429</u>	<u>222,344</u>	<u>29,286</u>	<u>(100,047)</u>	<u>2,067,440</u>
Total Depreciable Capital Assets	<u>40,541,371</u>	<u>470,621</u>	<u>60,322</u>	<u>981,252</u>	<u>41,932,922</u>
Total Accumulated Depreciation	<u>26,635,252</u>	<u>1,271,298</u>	<u>60,322</u>		<u>27,846,228</u>
Total Depreciable Capital Assets, Net	<u>13,906,119</u>	<u>(800,677)</u>			<u>14,086,698</u>
Total Capital Assets, Net	<u>\$15,307,094</u>	<u>\$ 327,507</u>	<u>\$</u>	<u>\$</u>	<u>\$15,634,601</u>

NOTE 5 – RETIREMENT PLAN

The Authority contributes to the Indiana Public Employees' Retirement Fund (PERF), an agent multiple-employer retirement system that acts as a common investment and administrative agent for units of state and local government in Indiana. PERF was created and is governed by State statutes I.C.S.5-10.2 and 5-10.3. As such, it is PERF's responsibility to administer the law in accordance with the expressed intent of the Indiana General Assembly. The Plan is qualified under the Internal Revenue Code Section 401(a) and is tax exempt.

NOTE 5 – RETIREMENT PLAN (CONTINUED)

PERF is a contributory defined benefit plan which covers substantially all full-time Authority employees. PERF retirement benefits vest after 10 years of service. Effective July 1, 1995, Senate Bill 74 enabled PERF participants to be eligible for early retirement with 100% of the defined benefit pension if certain conditions are met. A participant may retire with full benefits at age 60 with 15 or more years of service, or at age 55 if the participant's age plus years of service equals 85 or more (Rule of 85). If neither of the above conditions are met, a participant may retire with 100% of the defined benefit pension at age 65 with 10 or more years of service. This annual pension benefit is equal to 1.1% times the average annual salary times the number of years and months of PERF-covered employment. The average annual salary used for calculating the pension benefit is an average of the participant's highest five years of employment earnings within the 10 years preceding retirement. Participants who retire between the ages of 50 and 65 with 15 or more years of service receive a pension benefit that is reduced by various percentages according to the participant's age.

PERF participants have two choices regarding their annuity savings account. They may elect to receive the contributions and accumulated earnings in a lump sum at retirement, or they may choose to receive the annuity amount as a monthly supplement to their employer-provided pension described in the paragraph above.

PERF issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Public Employees' Retirement Fund, Harrison Building, Suite 800, 143 West Market Street, Indianapolis, Indiana 46204.

Participants are required to contribute 3% of their annual salaries to an annuity savings account that may be withdrawn at any time with interest should a participant terminate employment. The Authority is required by State Statute to contribute at an actuarially determined rate. The current rate is 4.25% of annual covered payroll. The contribution requirements of PERF participants are determined by State statute. During 2009, the Authority made a contribution of \$89,663.

The PERF funding policy provides for actuarially determined periodic contributions at rates that, for individual participants, increase gradually over time so that sufficient assets will be available to pay benefits when due. The rate for the Authority's PERF participant group as a whole has tended to remain level as a percentage of annual covered payroll. The required contributions were determined as part of the July 1, 2005 actuarial valuation using the entry age normal cost method. The asset valuation method is 75% of expected actuarial value plus 25% of market value. The actuarial assumptions included (a) a rate of return on investment of present and future assets of 7.25% per year, compounded annually; (b) projected salary increases based on PERF experience from 1995 to 2000; and (c) assumed annual post retirement benefit increases of 1.00%. PERF uses the level percentage of payroll method to amortize the unfunded liability over a closed 30-year period.

NOTE 6 – COMPENSATED ABSENCES

Authority employees are granted vacation and sick leave in varying amounts. In the event of termination, an employee is reimbursed for accumulated vacation. Sick leave is not vested and is not paid to an employee upon separation. Vested or accumulated vacation is recorded as an expense and liability as the benefits accrue to employees. Sick leave is recorded as an expense as the employee utilizes it. A liability has been recorded for compensated absences of \$150,742 as of December 31, 2009.

NOTE 7 – RISK MANAGEMENT

The Authority is exposed to various risks of loss from torts, theft of, damages to, or destruction of assets, business interruption, errors or omissions, job related illnesses or injuries to employees, and natural disasters. The Authority has purchased commercial insurance to mitigate its exposure to such losses. The various insurance policies are subject to deductible amounts and maximum coverages. If the deductible and maximums are exceeded, this could cause the Authority to suffer losses if a loss is incurred from any such incidents. The ultimate outcome of such uninsured losses cannot presently be determined, and no provision for any liability that may result, if any, has been made in the financial statements. Settled claims to date have not exceeded coverage levels, and insurance coverage levels, and insurance coverage, by major categories of risk, is consistent with coverage in the prior year.

NOTE 8 – CONCENTRATIONS

The Authority is substantially funded by federal awards. The Authority received 94% of its total revenue from a single Federal Agency during the year ended December 31, 2009. Management does not anticipate any material change in funding.

A portion of the labor costs of the Authority are attributable to employees under a collective bargaining agreement. Consequently, the Authority is subject to this agreement with respect to wages and other labor-related matters.

NOTE 9 – CONTINGENCIES

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

The Authority has received several federal grants for specific purposes which are subject to review and audit by the grantor agencies. Such audits could lead to requests for reimbursements to grantor agencies for expenditures disallowed under the terms of the grant. Based upon prior experience, management believes such disallowances, if any, will be immaterial.

NOTE 10 – COMMITMENTS

Pursuant to HUD Office of Inspector General audits conducted in 2002 and 2004 the Authority had an initial commitment of \$1,518,517 to HUD. The Authority has implemented a HUD approved plan to reimburse HUD through a non-federal program that promotes resident homeownership. As of December 31, 2009, the Authority has a commitment of \$1,145,882. This commitment is not recorded as a liability on the statement of net assets.

NOTE 11 – RELATED PARTY INFORMATION

The Authority has transacted certain activity with various entities that are managed by a member of the Board of Commissioners. The Board member does not have any ownership in these entities. The Board member's management company receives a management fee for managing the operations of these entities. These entities (not the Board member) received housing assistance payments of approximately \$477,824 during 2009 through the Authority's Housing Choice Voucher Program. The HUD Indianapolis office has provided the Authority a waiver allowing the Board member to serve in the capacity as a commissioner and continue his role in managing these entities.

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*Independent Auditors' 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
Year Ended December 31, 2009*

Board of Commissioners
The Housing Authority of the City of Evansville, Indiana

We have audited the financial statements of the The Housing Authority of the City of Evansville, Indiana (the "Authority") as of and for the year ended December 31, 2009, and have issued our report thereon dated September 28, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting 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, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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 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 probability that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses in internal control over financial reporting (Findings 09-01 and 09-02).

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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Authority's response to the findings identified in our audit is 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 it.

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

Katz, Sappow & Miller, LLP

Indianapolis, Indiana
September 28, 2010

THE HOUSING AUTHORITY OF THE CITY OF EVANSVILLE, INDIANA

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended December 31, 2009**

Federal Grantor	Federal CFDA Number	Total Federal Expenditures
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:		
Low Rent Public Housing	14.850a	\$ 2,645,499
Housing Choice Vouchers (a)	14.871	9,411,243
Public Housing Capital Fund Program (b)	14.872	1,741,513
Public Housing Capital Fund Program* (b)	14.885	84,991
Resident Opportunity and Supportive Services	14.870	44,331
Opportunities for Youth Build Program	14.243	232,823
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT & FEDERAL EMERGENCY MANAGEMENT AGENCY		
Disaster Housing Assistance Program	97.109	1,004
U.S. DEPARTMENT OF LABOR		
Opportunities for Youth Build Program*	17.274	<u>270,864</u>
Total Expenditures of Federal Awards		<u><u>\$ 14,432,268</u></u>

* *Grant relates to the American Recovery and Reinvestment Act of 2009*

(a) The Authority's expenditures include \$8,390,719 of Housing Assistance Payments.

(b) These funds are part of the Public Housing Capital Fund Program Cluster of Programs.

See accompanying note to schedule of expenditures of federal awards.

THE HOUSING AUTHORITY OF THE CITY OF EVANSVILLE, INDIANA

NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of The Housing Authority of the City of Evansville, Indiana (the Authority), a governmental entity. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

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Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133 Year Ended December 31, 2009

Board of Commissioners
The Housing Authority of the City of Evansville, Indiana

Compliance

We have audited the compliance of the The Housing Authority of the City of Evansville, Indiana (the "Authority") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2009. The Authority's major federal programs are identified in the summary of auditors' 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; 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 requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2009. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133, and which are described in the accompanying schedule of findings and questioned costs as Items 09-03, 09-05, 09-07 and 09-09.

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 programs. 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 in order to determine our 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 certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as Items 09-04, 09-06, 09-08 and 09-10. *A significant deficiency in internal control over compliance* is a deficiency, or 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.

The Authority's responses 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 them.

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

Katz, Sapper & Miller, LLP

Indianapolis, Indiana
September 28, 2010

THE HOUSING AUTHORITY OF THE CITY OF EVANSVILLE, INDIANA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2009

SECTION I – Summary of Auditors’ Results

Financial Statements

Type of auditor’s report issued [*unqualified, qualified, adverse, or disclaimer*]: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified that are not considered to be material weaknesses? yes none reported
- Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified that are not considered to be material weaknesses? yes none reported

Type of auditor’s report issued on compliance for major programs [*unqualified, qualified, adverse, or disclaimer*]: Unqualified

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

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program</u>
14.885	Public Housing Capital Fund Program
14.871	Housing Choice Vouchers
17.274	Opportunities for Youth Build Program
14.872	Public Housing Capital Fund Program

Dollar threshold used to distinguish between type A and type B programs: \$432,968

Auditee qualified as low-risk auditee? yes no

THE HOUSING AUTHORITY OF THE CITY OF EVANSVILLE, INDIANA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended December 31, 2009

SECTION II – Financial Statement Findings

Findings related to the financial statements that are required to be reported in accordance with GAGAS:

Finding 09-01: Material Adjusting Journal Entries were Recorded During the Year End Audit

Criteria: Misstatement of the Authority's financial statements and schedule of expenditures of federal awards (SEFA) should be detected and prevented by the Authority's internal control over financial reporting.

Statement of Condition: During the course of our audit, we proposed audit journal entries to correct previously undetected material misstatements in the Authority's financial statements and SEFA.

Cause and Effect: Turnover in the Authority's accounting personnel and lack of adequate review procedures resulted in year end audit adjustments to correct material misstatements. The audit adjustments indicate a material weakness in the internal controls over financial reporting of the Authority.

Recommendations: Management should designate personnel with a high degree of accounting knowledge to perform accounting functions. In addition, a supervisor should review the accounting work and financial information on a monthly basis.

Management Responses: Management agrees with this finding. Due to employee turn-over within the accounting department certain items were not properly recorded during 2009. As a result, certain audit adjustments were recorded during the course of the audit. The Authority has hired a new Finance Director who possesses a high degree of accounting knowledge. The new Finance Director now closely reviews all accounting work on a monthly basis.

Finding 09-02: Timeliness of Monthly Financial Reporting

Criteria: All subsidiary ledger accounts should be reconciled to the general ledger on a monthly basis, cash accounts should be reconciled to the bank statement and all other bookkeeping duties should be performed in a timely manner.

Statement of Condition: During the course of our audit, we noted that many of the Authority's general ledger accounts had not been reconciled on a timely basis during the year.

Cause and Effect: Turnover in the Authority's accounting personnel and lack of adequate review procedures resulted in delays in accounting functions being performed. Consequently, several year end audit adjustments were recorded to correct material misstatements. The audit adjustments indicate a material weakness in the internal controls over financial reporting of the Authority.

Recommendations: We recommend that all accounts be properly reconciled on a monthly basis and all accounting adjustments identified through such reconciliations be made prior to the close of each month's accounting activity.

THE HOUSING AUTHORITY OF THE CITY OF EVANSVILLE, INDIANA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended December 31, 2009

Finding 09-02: Timeliness of Monthly Financial Reporting (Continued)

Management Responses: Management agrees with this finding. Due to employee turn-over within the accounting department general ledger accounts were not properly reconciled during the year and bookkeeping function was not performed timely. The Authority has hired a new Finance Director who possesses a high degree of accounting knowledge. The new Finance Director now closely reviews all accounting work on a monthly basis. The Authority has installed a new accounting system which will enhance the ability to perform these functions.

SECTION III – Federal Award Findings and Questioned Costs

Findings and questioned costs for federal awards including audit findings as defined in OMB Circular A-133 Section 510(a):

09-03 (Section 8 - Housing Choice Voucher Program – CFDA #14.871)

General Depository Agreement Not Obtained

Criteria: The Authority must obtain a general depository agreement (HUD Form 51999) from each banking institution in which Housing Choice Voucher Funds are deposited.

Statement of Condition: During the course of our audit, we noted that HUD Form 51999 had been obtained from only one of the two banks used to deposit Housing Choice Voucher funds.

Cause and Effect: The Authority could not provide documentation to substantiate that such an agreement had been obtained. As a result, the Authority did not comply with HUD regulations.

Recommendations: We recommend that general depository agreements be obtained from all banks in which the Authority's funds are deposited.

Management Responses: Management agrees with this finding. The Authority has now obtained HUD Form 51999 from all banking institutions where deposits are maintained.

THE HOUSING AUTHORITY OF THE CITY OF EVANSVILLE, INDIANA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended December 31, 2009

09-04 (Section 8 - Housing Choice Voucher Program – CFDA #14.871)

General Depository Agreement Not Obtained – Internal Control

Criteria: The Authority should maintain adequate internal controls to ensure that general depository agreements (HUD Form 51999) are properly executed and maintained on file.

Statement of Condition: During the course of our audit, we noted that HUD Form 51999 had been obtained from only one of the two banks used to deposit Housing Choice Voucher funds. This indicates a weakness in internal control.

Cause and Effect: The Authority could not provide documentation to substantiate that such an agreement had been obtained. This indicates a weakness in internal controls at the Authority.

Recommendations: We recommend that the Authority implement adequate internal controls to ensure that general depository agreements are obtained from all banks in which the Authority's funds are deposited.

Management Responses: Management agrees with this finding. The Authority has now obtained HUD Form 51999 from all banking institutions where deposits are maintained.

09-05 (Section 8 - Housing Choice Voucher Program – CFDA #14.871)

Incomplete Tenant Files

Criteria: Tenant files must include a signed original application, a tenant based assistance rental voucher, a lease agreement and Housing Assistance Payment (HAP) contract. Other documents used to determine eligibility such as copies of birth certificates and social security cards should be retained in tenant files.

Statement of Condition: During the course of our testing of tenant eligibility, 3 out of 40 tenant files examined did not contain the original tenant application form. We noted that 10 out of the 40 tenant files did not have a signed lease agreement and 7 instances where there were no signed HAP agreements.

Cause and Effect: This documentation is critical to maintain as it provides the support required to substantiate eligibility determination and be in compliance with federal regulations.

Recommendations: We recommend that the Authority implement procedures to ensure that all required documentation is maintained in the files and that controls are in place to ensure compliance with federal regulations.

Management Responses: Management agrees with this finding. The Authority will implement internal review procedures for the Housing Choice Voucher Program. The Program Director will periodically review tenant files to ensure all required documents are maintained within the file.

THE HOUSING AUTHORITY OF THE CITY OF EVANSVILLE, INDIANA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended December 31, 2009

09-06 (Section 8 - Housing Choice Voucher Program – CFDA #14.871)

Incomplete Tenant Files – Internal Control

Criteria: The Authority should maintain adequate internal control procedures to ensure tenant files contain all required documentation as prescribed under HUD guidelines.

Statement of Condition: During the course of our testing of tenant eligibility, 3 out of 40 tenant files examined did not contain the original tenant application form. We noted that 10 out of the 40 tenant files did not have a signed lease agreement and 7 instances where there were no signed HAP agreements. This indicates a weakness in internal control over program compliance.

Cause and Effect: This documentation is critical to maintain as it provides the support required to substantiate eligibility determination and be in compliance with federal regulations. Incomplete documentation within the tenant files indicates a weakness in internal control at the Authority

Recommendations: We recommend that the Authority implement adequate internal control procedures to ensure that all required documentation is maintained in the tenant files. Files should be reviewed periodically by a supervisor to ensure compliance with federal regulations.

Management Responses: Management agrees with this finding. The Authority will implement internal review procedures for the Housing Choice Voucher Program. The Program Director will periodically review tenant files to ensure all required documents are maintained within the file.

09-07 (Section 8 - Housing Choice Voucher Program – CFDA #14.871)

Incomplete Documentation of Housing Quality Standards (HQS) Inspections

Criteria: HUD regulations require that inspections of properties be conducted by the Authority at least annually and various documentation requirements for such inspections be maintained in each tenant file.

Statement of Condition: During our testing of HQS inspections, we noted 1 instance where the HQS inspection was not completed within one year. Out of the 40 tenant files examined we noted 1 file where the inspection form was not included in the file.

Cause and Effect: Timely HQS inspections are essential to ensure that all units meet the minimum criteria necessary for health and safety of program participants. HQS inspections ensure that Housing Assistance Payments (HAP) are provided only for those units that meet HUD's quality standards. Incomplete inspection documentation results in the Authority being out of compliance with HUD regulations.

Recommendations: We recommend that the Authority implement procedures to ensure that all required documentation is maintained in the files. HQS inspection information should be reviewed by a program supervisor to ensure compliance with all federal regulations.

Management Responses: Management agrees with this finding. The Authority will implement internal review procedures for the Housing Choice Voucher Program. The Program Director will periodically review tenant files to ensure all required documents are maintained within the file.

THE HOUSING AUTHORITY OF THE CITY OF EVANSVILLE, INDIANA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

Year Ended December 31, 2009

09-08 (Section 8 - Housing Choice Voucher Program – CFDA #14.871)

Incomplete Documentation of Housing Quality Standards (HQS) Inspections – Internal Control

Criteria: The Authority should maintain adequate internal control procedures to ensure that HQS inspections of properties are conducted at least annually and that various documentation requirements for such inspections should be maintained in each tenant file.

Statement of Condition: During our testing of HQS inspections, we noted 1 instance where the HQS inspection was not completed within one year. Out of the 40 tenant files examined we noted 1 file where the inspection form was not included in the file. These items indicate weaknesses in internal control.

Cause and Effect: Timely HQS inspections are essential to ensure that all units meet the minimum criteria necessary for health and safety of program participants. HQS inspections ensure that Housing Assistance Payments (HAP) are provided only for those units that meet HUD's quality standards. Incomplete inspection documentation indicates a weakness in internal control over program compliance under Authority.

Recommendations: We recommend that the Authority implement internal control procedures to ensure that all required documentation is maintained in the files. HQS inspection information should be reviewed by a program supervisor to ensure compliance with all federal regulations.

Management Responses: Management agrees with this finding. The Authority will implement internal review procedures for the Housing Choice Voucher Program. The Program Director will periodically review tenant files to ensure all required documents are maintained within the file.

09-09 (Section 8 - Housing Choice Voucher Program - CFDA # 14.871)

Inadequate Reasonable Rent Documentation and Incomplete Tenant Files

Criteria: The Authority is required to document the determination that the rent to property owners is reasonable in accordance with Authority's administrative plan at initial leasing and during the term of the contract.

Statement of Condition: During our testing of rent reasonableness, we noted 2 instances where rent reasonableness documentation was not maintained in the tenant files.

Cause and Effect: This documentation is critical to maintain as it provides the support required to substantiate reasonable rent determination and for compliance with federal regulations.

Recommendations: We recommend that the Authority implement internal control procedures to ensure that all required documentation is maintained in the files.

Management Responses: Management agrees with this finding. The Authority will implement internal review procedures for the Housing Choice Voucher Program. The Program Director will periodically review tenant files to ensure all required documents are maintained within the file.

THE HOUSING AUTHORITY OF THE CITY OF EVANSVILLE, INDIANA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended December 31, 2009

09-10 (Section 8 - Housing Choice Voucher Program - CFDA # 14.871)

Inadequate Reasonable Rent Documentation and Incomplete Tenant Files – Internal Control

Criteria: The Authority should maintain adequate internal control procedures to ensure that documentation related to the determination that the rent to property owners is reasonable is maintained in the tenant files.

Statement of Condition: During our testing of rent reasonableness, we noted 2 instances where rent reasonableness documentation was not maintained in the tenant files. This indicates a weakness in internal control over program compliance.

Cause and Effect: This documentation is critical to maintain as it provides the support required to substantiate reasonable rent determination and for compliance with federal regulations. The lack of rent reasonableness documentation indicates a weakness in internal control at the Authority.

Recommendations: We recommend that internal control procedures should be implemented to ensure that rent reasonableness documentation is maintained in the tenant files. Tenant files should be reviewed by a program supervisor to ensure compliance with all federal regulations.

Management Responses: Management agrees with this finding. The Authority will implement internal review procedures for the Housing Choice Voucher Program. The Program Director will periodically review tenant files to ensure all required documents are maintained within the file.

THE HOUSING AUTHORITY OF THE CITY OF EVANSVILLE, INDIANA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended December 31, 2009

SECTION IV – Summary Schedule of Prior Audit Findings

Finding 08-01: Financial Management Deficiencies

Condition and Cause: Although improvement was noted during 2008, we continued to identify control weaknesses within the accounting and financial reporting process. We believe these weaknesses continue to limit the effectiveness of the Authority's ability to record and report accurate and timely financial information. We believe and management agrees that a significant hindrance to the accounting control process is the current accounting software which the Authority uses (the Authority will be changing its financial reporting software in late 2009). Some of the deficiencies and conditions noted include, but are not limited, to the following:

- Individual general ledger balances by project were out of balance. The general ledger in total was in balance.
- Net asset balances at the beginning of the year did not agree to prior year ending balances. This was primarily within the low-income housing projects.
- Although improvement was noted in the preparation of monthly bank reconciliations, we still noted several other account balances which were not being reconciled to the general ledger on a timely basis.
- Significant adjustments were required to be posted to the general ledger to correct various entry postings and account balances.

Status: This continues to be a finding in the current year and has been reported as Items 09-01 and 09-02.

Finding 08-02: Family Self Sufficiency Escrow Funds

Condition and Cause: The Authority administers a Family Self Sufficiency program for eligible families receiving assistance under the Housing Choice Voucher program. During the audit, we selected and tested a sample of participant files for the calculation of the amount to be credited and transferred to a participating family's FSS escrow account. During our testing, we noted an internally prepared letter dated April 30, 2009, which was found in a participant's file. This letter stated that based upon an internal audit by the Authority, the participant's escrow balance should be zero. The balance in the account prior to this internal audit was approximately \$16,000. Based upon our review and testing of other files, it appeared that other escrow account balances may have also been calculated incorrectly.

Status: FSS Escrow funds were properly calculated and recorded in the current year.