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October 9, 2013

Board of Directors
Fulton County Housing Authority
824 Main Street, P.O. Box 594
Rochester, IN 46975

We have reviewed the audit report prepared by Pamela J. Simpson, Independent Public Accountant, for the period July 1, 2009 to June 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 Accountant's opinion, the financial statements included in the report present fairly the financial condition of the Fulton County Housing Authority, as of June 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 Accountant's report is filed with this letter in our office as a matter of public record.

STATE BOARD OF ACCOUNTS

**FULTON COUNTY HOUSING AUTHORITY
ROCHESTER, INDIANA**

**REPORT ON EXAMINATION OF
FINANCIAL STATEMENTS AND
SUPPLEMENTAL DATA**

TWELVE MONTHS ENDED JUNE 30, 2010

**FULTON COUNTY HOUSING AUTHORITY
ROCHESTER, INDIANA**

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**Unqualified Opinions on Basic Financial Statements Accompanied by
Required Supplementary Information and Supplementary
Information - State or Local Government Entity**

Independent Auditor's Report

Board of Commissioners
Fulton County Housing Authority
Rochester, Indiana

I have audited the accompanying financial statements of the Fulton County Housing Authority, as of and for the year ended June 30, 2010, as listed in the table of contents. These financial statements are the responsibility of the Fulton County Housing Authority's management. My responsibility is to express opinions on these financial statements based on my audit.

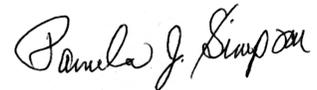
I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller of the United States. Those standards require that we plan and perform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

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the aggregate discretely presented component units and Fulton County Housing Authority, as of June 30, 2010, and the respective changes in financial position and cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated February 4, 2011 on my consideration of the Fulton County Housing Authority's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements with other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.

The Management's Discussion and Analysis on pages 3 through 10 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements of the Fulton County Housing Authority, taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and also not a required part of the basic financial statements of the Fulton County Housing Authority. The accompanying financial data schedule and other additional statements and schedules listed as supplemental data in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements of the Fulton County Housing Authority. The schedule of federal expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated in all materials respects in relation to the basic financial statements taken as a whole.



Certified Public Accountant

Decatur, Illinois
February 4, 2011

FULTON COUNTY HOUSING AUTHORITY, IN069
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
Year Ending June 30, 2010

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

This Management Discussion and Analysis will be presented at the beginning of the basic financial statements each year.

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

FINANCIAL HIGHLIGHTS

- The Authority participated in the construction of the 56-unit Arbor Woods Apartments tax-credit project. Project construction was completed in late 2006, and lease-up began in mid-July 2007. This one-time project has enhanced the quantity, quality, and affordability of local rental units. As of the fiscal year end June 30, 2010, the Authority subsidized 17 of the 56 units in this project.
- The Authority's net assets increased by \$28,885 (or 9.4%) during 2010. Net Assets were \$307,361 and \$336,246 for 2009 and 2010 respectively. This increase of 9.4% is attributable to a decrease in the number of assisted households due to being overleased in calendar year 2009; in addition HUD funding for 2010 increased dramatically, based on the previous year's overleasing and higher Housing Assistance Payments (HAP) expenses.
- The Authority's cash balance at June 30, 2010 was \$228,445 representing an increase of \$31,852 (or 16.2%) from June 30, 2009. This increase reflects decreased HAP spending and an increase in HUD funding received, while the cash balance had decreased in the prior year due to decreased HUD funding and increased HAP expenses.
- The Authority's total revenue increased by \$35,998 (or 5.1%) during 2010, and was \$706,644 and \$742,642 for 2009 and 2010 respectively. This is due to an increase in HUD funding.
- The total expenses of the Authority's programs decreased by \$52,124 (or 6.8%); this decrease is solely based on decreased HAP costs as lease up figures decreased. Total expenses were \$765,881 and \$713,757 for 2009 and 2010 respectively. Administrative expenses remained similar to last year's figures and only increased \$2,419 (or 2.5%) due to not processing new admissions to the assistance program. General expenses increased \$3,436 (or 146.3%). HAP expenses decreased \$53,081 (or 8.0%) due to overleasing, and Depreciation decreased \$60 (or 1.7%).
- The Authority had HUD PHA operating grants of \$731,122, unrestricted investment income of \$2,901, restricted interest income of \$2,088, other income of \$801, and fraud recovery income of \$5,730 for the year ended June 30, 2010.
- The assets of the Authority exceeded its liabilities at the close of the most recent fiscal year by \$336,246 (net assets). This represents an increase of \$28,885 from last year.

FULTON COUNTY HOUSING AUTHORITY, IN069
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
Year Ending June 30, 2010

USING THIS ANNUAL REPORT

The following is provided to outline the contents of the Authority's MD&A Report. This report precedes and is required supplementary information to the Authority's basic financial statements for the annual period ending June 30, 2010.

- **Financial Statement Overview**
 - Authority-Wide Financial Statements
 - Financial Statements
 - The Authority's Programs

- **Authority-Wide Statements**
 - Table 1 – Statement of Net Assets and Statement Analysis
 - Table 2 – Statement of Revenues, Expenditures and Changes in Net Assets

- **Changes in Capital Assets**

- **Financial Contact**

FULTON COUNTY HOUSING AUTHORITY, IN069
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
Year Ending June 30, 2010

FINANCIAL STATEMENT OVERVIEW

AUTHORITY-WIDE FINANCIAL STATEMENTS

The Authority-Wide financial statements include a Statement of Net Assets, which is similar to a Balance Sheet. The Statement of Net Assets reports all financial and capital resources for the Authority. The statement is presented in the format where assets, minus liabilities, equal "Net Assets", formerly known as equity. Assets and liabilities are presented in order of liquidity, and are classified as "Current" (convertible into cash within one year), and "Noncurrent".

The focus of the Statement of Net Assets is designed to represent the net available liquid (noncapital) assets, net of liabilities, for the Authority.

The Authority-Wide financial statements also include a Statement of Revenues, Expenses and Changes in Net Assets (similar to an Income Statement). This Statement includes Operating Revenues, Operating Expenses, and Non-Operating Revenue and Expenses, such as grant revenue, investment income and interest expense.

The focus of the Statement of Revenues, Expenses and Changes in Net Assets is the "Change in Net Assets", which is similar to Net Income or Loss.

FINANCIAL STATEMENTS

The Authority consists of exclusively Enterprise Funds. Enterprise funds utilize the full accrual basis of accounting. The Enterprise method of accounting is similar to accounting utilized by private sector accounting.

THE AUTHORITY'S PROGRAMS

Housing Choice Voucher Program – Under the Housing Choice Voucher Program, the Authority administers contracts with independent landlords that own rental property. The Authority subsidizes the family's rent through a Housing Assistance Payment made to the landlord. The program is administered under an Annual Contributions Contract (ACC) with HUD. HUD provides Annual Contributions Funding to enable the Authority to structure assistance that mandates the participants' rent is 30% of household income.

HOME Investment Partnerships Program – The Housing Authority received HOME funds for a 56-unit tax credit apartment project 'Arbor Woods'.

FULTON COUNTY HOUSING AUTHORITY, IN069
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
Year Ending June 30, 2010

AUTHORITY-WIDE STATEMENTS

TABLE 1
Statement of Net Assets

	2010	2009	Net Change
Cash - Unrestricted	\$ 95,669	\$ 102,163	\$ (6,494)
Cash - Restricted	132,776	94,430	38,346
Accrued receivable - HUD	458	0	458
Accrued Interest Receivable	815	-	815
Prepaid Expenses	1,431	1,472	(41)
Current Assets	231,149	198,065	33,084
Office Equipment - net	6,884	10,349	(3,465)
Other noncurrent asset	100,001	100,026	(25)
Noncurrent Assets	106,885	110,375	(3,490)
TOTAL ASSETS	338,034	308,440	29,594
Vendor Payable	1,155	0	1,155
Accrued Salaries Payable	633	1,079	-446
Current Liabilities	1,788	1,079	709
Invested in capital assets	6,884	10,349	(3,465)
Restricted net assets	132,776	94,430	38,346
Unrestricted net assets	196,586	202,582	(5,996)
<u>Net Assets / Retained Earnings</u>	<u>\$ 336,246</u>	<u>\$ 307,361</u>	<u>\$ 28,885</u>

*Current assets increased by \$33,084, while current liabilities increased by \$709. The increase in cash balance is attributed to lower leasing levels compared to the previous year which therefore decreased Housing Assistance Payments to landlords, and increased calendar year 2010 HUD funding.

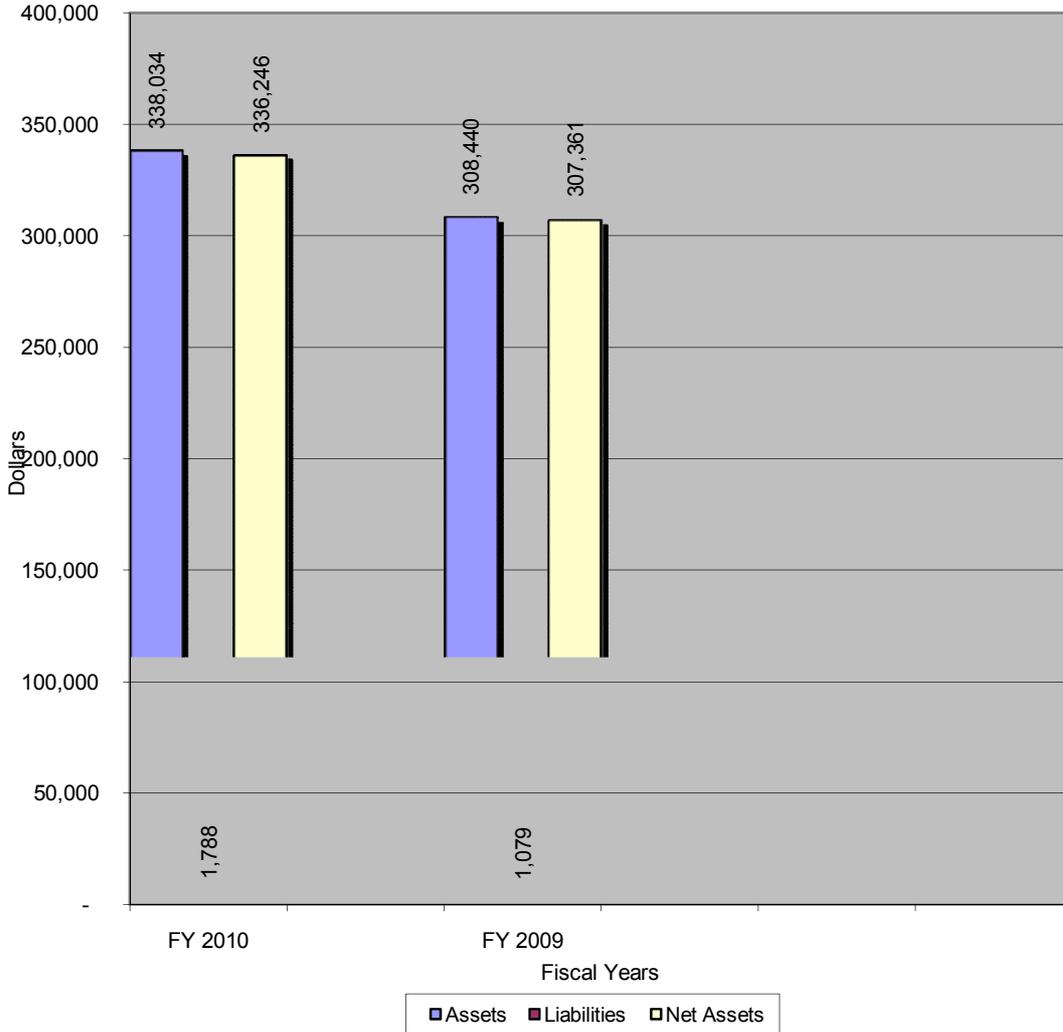
*Investments in Joint Ventures decreased by \$25 due to a net operating loss from the Arbor Woods Apartments tax credit project.

*Office equipment decreased by \$3,465 due to depreciation.

*Restricted net assets increased by \$38,346 due to lower spending for Housing Assistance Payments due to an overleasing situation; HUD funding increased based on last year's HAP expenses.

FULTON COUNTY HOUSING AUTHORITY, IN069
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
Year Ending June 30, 2010

Section 8 Housing Choice Voucher Program
Changes in Net Assets FY 2009 - FY 2010



FULTON COUNTY HOUSING AUTHORITY, IN069
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
Year Ending June 30, 2010

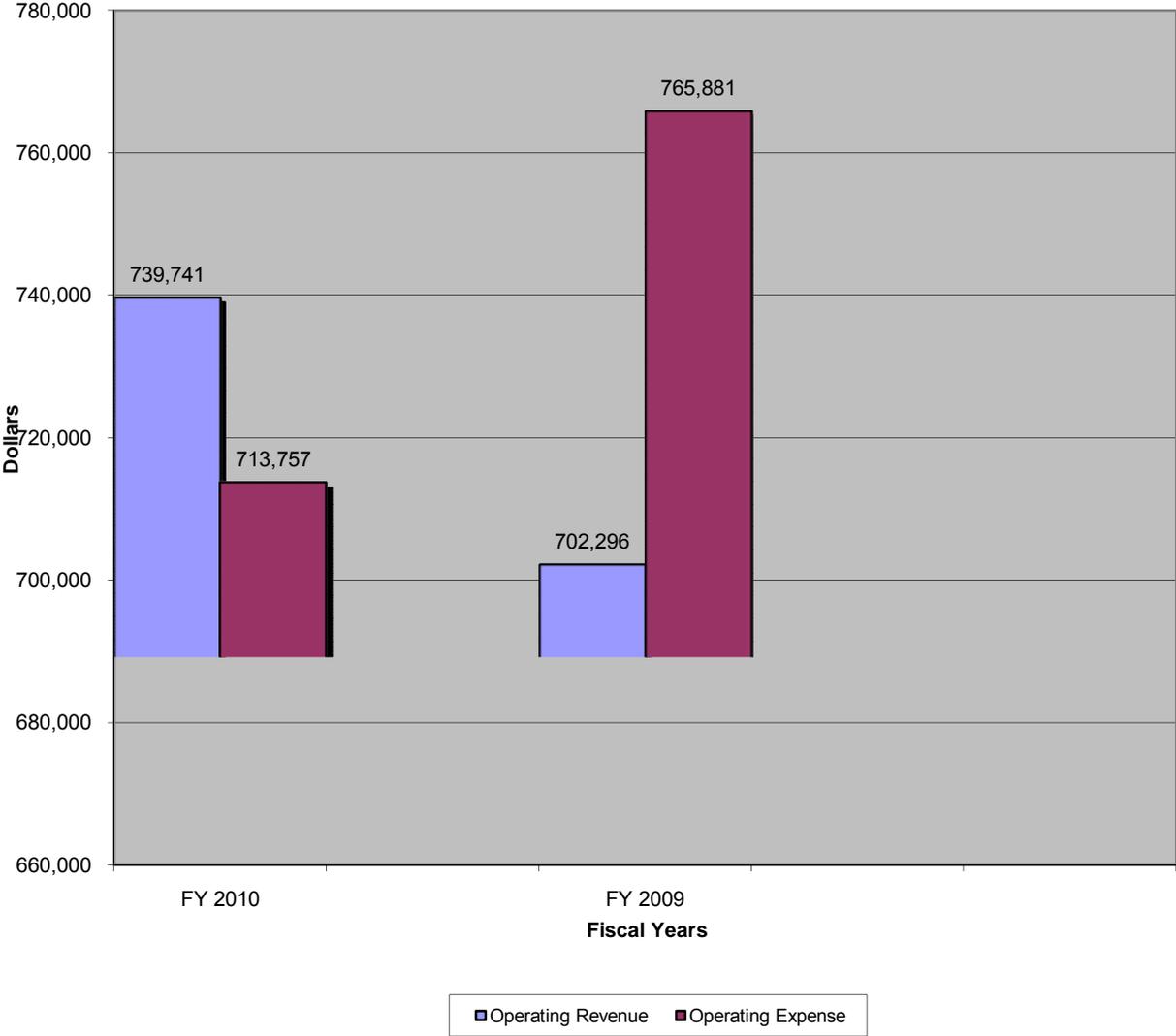
TABLE 2
Statement of Revenues, Expenses & Changes in Net Assets

	2010	2009	Net Change
<i>OPERATING REVENUES</i>			
Government operating grants	\$ 731,122	\$ 695,251	\$ 35,871
Interest Income - HUD funds	2,088	1,308	780
Other Income	801	289	512
Fraud Recovery	5,730	5,448	282
Total operating revenues	739,741	702,296	37,445
<i>OPERATING EXPENSES</i>			
Administrative	91,872	94,291	(2,419)
General	5,784	2,348	3,436
Housing assistance payments	612,636	665,717	(53,081)
Depreciation	3,465	3,525	(60)
Total operating expenses	713,757	765,881	(52,124)
Operating income (loss)	25,984	(63,585)	89,569
<i>NONOPERATING REVENUES (EXPENSES)</i>			
Interest and investment revenue	2,901	4,348	(1,447)
Total nonoperating revenue (expenses)	2,901	4,348	(1,447)
Change in net assets	28,885	(59,237)	88,122
Total net assets - beginning	307,361	366,598	(59,237)
Total net assets - ending	\$ 336,246	\$ 307,361	\$ 28,885

Operating revenues increased due to an increase in HUD funding compared to last year. Administrative and General expenses for the HCV program were similar to last year's figures. HAP expenses decreased by \$53,081 due to decreased lease-up (overleased for the calendar year 2009, until December 2009).

FULTON COUNTY HOUSING AUTHORITY, IN069
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
Year Ending June 30, 2010

Section 8 Housing Choice Voucher Program
Changes in Revenue and Expenses FY 2009 - FY 2010



FULTON COUNTY HOUSING AUTHORITY, IN069
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
Year Ending June 30, 2010

CHANGES IN CAPITAL ASSETS

7.1.09 Beginning Balance Capital Assets, net	\$ 10,349
Plus: New equipment purchases in current year	0
Less: Current period depreciation	<u>(3,465)</u>
6.30.10 Ending Balance Capital Assets, net	<u>\$ 6,884</u>

FINANCIAL CONTACT

Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Authority's Executive Director:

Fulton County Housing Authority
 PO Box 564 / 824 Main Street
 Rochester, IN 46975
 574.223.2733

**FULTON COUNTY HOUSING AUTHORITY
ROCHESTER, INDIANA**

**STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
AS OF JUNE 30, 2010**

<u>ASSETS</u>	Proprietary Funds	Component Unit
CURRENT ASSETS		
Cash	\$ 81,359	\$ 14,310
Accounts receivable (interfund eliminated)	458	0
Accrued interest receivable	815	0
Deferred charges	<u>1,431</u>	<u>0</u>
Total Current Assets	<u>\$ 84,063</u>	<u>\$ 14,310</u>
RESTRICTED ASSETS		
Cash	<u>\$ 132,776</u>	<u>\$ 0</u>
Total Restricted Assets	<u>\$ 132,776</u>	<u>\$ 0</u>
CAPITAL ASSETS		
Land, buildings and equipment	\$ 20,052	\$ 0
Less: Accumulated depreciation	<u>-13,168</u>	<u>0</u>
Total Capital Assets	<u>\$ 6,884</u>	<u>\$ 0</u>
Invested in Joint Venture	<u>\$ 0</u>	<u>\$ 100,001</u>
Total Assets	<u>\$ 223,723</u>	<u>\$ 114,311</u>
 <u>LIABILITIES</u>		
CURRENT LIABILITIES		
Accounts payable (interfund eliminated)	\$ 1,155	\$ 0
Accrued liabilities	<u>633</u>	<u>0</u>
Total Current Liabilities	<u>\$ 1,788</u>	<u>\$ 0</u>
 <u>NET ASSETS</u>		
Invested in capital assets	\$ 6,884	\$ 0
Restricted	132,776	0
Unrestricted	<u>82,275</u>	<u>114,311</u>
Total Net Assets	<u>\$ 221,935</u>	<u>\$ 114,311</u>

The notes to financial statements are an integral part of this statement.

**FULTON COUNTY HOUSING AUTHORITY
ROCHESTER, INDIANA**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS -
PROPRIETARY FUNDS
TWELVE MONTHS ENDED JUNE 30, 2010**

<u>Operating Income</u>	Proprietary Funds	Component Unit
HUD grants - operating	\$ 731,122	\$ 0
Fraud recovery	5,730	0
Other revenue	<u>801</u>	<u>0</u>
Total Operating Income	<u>\$ 737,653</u>	<u>\$ 0</u>
 <u>Operating Expenses</u>		
Administration	\$ 91,847	\$ 25
General expense	5,784	0
Housing assistance payments	612,636	0
Depreciation	<u>3,465</u>	<u>0</u>
Total Operating Expenses	<u>\$ 713,732</u>	<u>\$ 25</u>
Net Operating Income (Loss)	\$ 23,921	\$ -25
 <u>Nonoperating Income (Expense)</u>		
Interest income	<u>4,928</u>	<u>61</u>
Changes in net assets	\$ 28,849	\$ 36
Net assets, beginning of year	<u>193,086</u>	<u>114,275</u>
Net assets, end of year	<u>\$ 221,935</u>	<u>\$ 114,311</u>

The notes to financial statements are an integral part of this statement.

**FULTON COUNTY HOUSING AUTHORITY
ROCHESTER, INDIANA**

**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
TWELVE MONTHS ENDED JUNE 30, 2010**

<u>Operating Activities</u>	Proprietary Funds	Component Unit
Operating grants	\$ 730,664	\$ 0
Other revenue	6,531	0
Housing assistance payments	-612,636	0
Payments to employees	-54,281	0
Payments to suppliers and contractors	<u>-42,600</u>	<u>-25</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 27,678</u>	<u>\$ -25</u>
 <u>Investing Activities</u>		
Investments (purchased) redeemed	\$ 0	\$ 25
Interest income	<u>4,113</u>	<u>61</u>
Net Cash Provided (Used) by Investing Activities	<u>\$ 4,113</u>	<u>\$ 86</u>
Net Change in Cash	\$ 31,791	\$ 61
Cash Balance at June 30, 2009	<u>182,344</u>	<u>14,249</u>
Cash Balance at June 30, 2010	<u>\$ 214,135</u>	<u>\$ 14,310</u>

**FULTON COUNTY HOUSING AUTHORITY
ROCHESTER, INDIANA**

**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
TWELVE MONTHS ENDED JUNE 30, 2010**

<u>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities</u>	<u>Proprietary Funds</u>	<u>Component Unit</u>
Net operating income (loss)	\$ 23,921	\$ -25
Adjustment to Reconcile Operating Income (Loss) to Net Cash Flows from Operating Activities:		
Depreciation	3,465	0
(Increase) decrease in accounts receivable	-458	0
(Increase) decrease in deferred charges	41	0
Increase (decrease) in accounts payable	1,155	0
Increase (decrease) in accrued liabilities	<u>-446</u>	<u>0</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 27,678</u>	<u>\$ -25</u>

The notes to financial statements are an integral part of this statement.

**FULTON COUNTY HOUSING AUTHORITY
ROCHESTER, INDIANA**

**NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED JUNE 30, 2010**

Note 1 - Summary of Significant Accounting Policies

(a) Organization and Reporting Entity -

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

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

In evaluating the Authority as a reporting entity, management has addressed its relationship with the County of Fulton and concluded that the County does not maintain an oversight responsibility for the Authority's operations. An independent Board of Commissioners, appointed by the County, is responsible for the activities of the Authority. The Authority recruits and employs its executive staff and has substantial legal authority to control its affairs without requiring approval of the County government. Debt incurred by the Authority is not an obligation of the County; the County does not review or approve the Authority's budget, is not entitled to any surplus funds generated by the Authority's operations and is not responsible for any deficits incurred by the Authority.

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

Consequently, in accordance with evaluating the criteria set forth in Section 2100 and 2600 of the Governmental Accounting Standards Board Codification, management has concluded that the Fulton County Housing Authority is a separate reporting entity. All funds and programs of the Housing Authority are included in these statements. The Housing Authority has one component unit.

The Housing Authority established Rochester Affordable Housing Inc., a non-profit corporation to assist with providing housing for low and moderate income individuals and families. The non-profit entity is a partner in the Arbor Woods Apartments, L.P., a tax credit partnership. The investment in the partnership is to provide additional Section 8 housing.

**FULTON COUNTY HOUSING AUTHORITY
ROCHESTER, INDIANA**

**NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED JUNE 30, 2010
(CONTINUED)**

Note 1 - Summary of Significant Accounting Policies

(b) Method of Accounting -

The financial statements of the Housing Authority have been prepared on the accrual basis of accounting and accordingly, reflect all significant receivables, payables and other liabilities.

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

(c) Financial Statement Presentation

Although a formal policy has not been adopted, in financial statement preparation 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.

(d) Funds -

Each of the programs of the Housing Authority are organized on a basis of fund accounting, using a separate set of self balancing accounts as prescribed by HUD. The programs of the Housing Authority are:

- * Housing Choice Vouchers
- * Component Unit (Rochester Affordable Housing, Inc.)

These programs are all accounted for within the 'Proprietary' (enterprise) fund as described below:

Proprietary Fund Types:

Proprietary funds use the economic resources measurement focus and utilize the accrual basis of accounting. All assets and liabilities associated with a proprietary fund's activities are included on the fund statement. Proprietary fund equity is segregated into Invested in Capital Assets Net of Related Debt, Restricted Net Assets and Unrestricted Net Assets.

(e) Cash and Cash Equivalents -

For purposes of the statement of cash flows, the practice of the Housing Authority is to consider all highly liquid investments to be cash equivalents. The term "highly liquid" refers to investments with a maturity of one (1) month or less when purchased to be cash equivalents.

**FULTON COUNTY HOUSING AUTHORITY
ROCHESTER, INDIANA**

**NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED JUNE 30, 2010
(CONTINUED)**

Note 1 - Summary of Significant Accounting Policies

(f) Fixed Assets -

For the purpose of determining, distinguishing and recording materials and non-expendable equipment and personal property purchased or acquired in connection with development, management, and maintenance of public housing developments owned or operated, the Housing Authority follows the following capitalization policy:

The anticipated life or useful life of said equipment or property is more than one (1) year, the same shall be capitalized and recorded as non-expendable equipment and charged as a capital expenditure.

Equipment is recorded at cost. Depreciation of property and equipment is provided using the straight line method for financial reporting purposes at rates based on the following estimates:

Equipment	5-7	years
Furniture and fixtures	7	years

(g) Net Assets -

GASB Statement 34 requires the classification of net assets into three components as defined below:

- 1) 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 outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.
- 2) Restricted - this component of net assets consist of constraints placed on net assets use through external constraints imposed by creditors, contributors or laws and regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- 3) Unrestricted - 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."

(h) Income Tax -

The Authority, organized as a non-profit corporation subsidized by the Federal government, is exempt from Federal and State income taxes.

**FULTON COUNTY HOUSING AUTHORITY
ROCHESTER, INDIANA**

**NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED JUNE 30, 2010
(CONTINUED)**

Note 1 - Summary of Significant Accounting Policies

(i) Annual Contributions/Subsidies and Other Grants

Annual contributions and subsidies received from the Department of HUD are recorded as grant revenues.

Other grants are recognized when program expenditures are incurred. Such revenue is subject to review by the Department of Housing and Urban Development and may result in disallowance in subsequent periods.

(j) The Housing Authority adopts a budget annually. The budget is submitted to the Board of Commissioners for approval. Subsequent budget revisions may also be required to be submitted for approval.

(k) The preparation of financial statements in conformity with generally accepted accounting principles require the Housing Authority to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Note 2 - Cash and Investments

Statutes authorize the Housing Authority to invest in certificates of deposit, money market funds, United States government securities and repurchase agreements fully collateralized by United States government securities.

All cash and investments are insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC) or other equivalent insurance company of the depository financial institutions. The deposits exceeding the insured or registered limits are public funds covered by the State of Indiana Public Deposit Fund.

Custodial Credit Risk

- a. Deposits - Custodial credit risk is the risk that in the event of a financial institution failure, the Authority's deposits may not be returned to or that the Authority will not be able to recover collateral securities in the possession of an outside party.
- b. Investments - Custodial credit risk is the risk that in the event of the failure of the depository, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of the outside party.

Credit Risk Investments, Concentration of Credit Risk and Interest Rate Risks - Investments

Credit Risk is the risk that an issuer or other counter party to an investment will not fulfill its obligations. The Housing Authority has no investment policy that limits its investment choices other than the limitation of state law and/or the Department of Urban Development regulations.

Concentrations of Credit Risk is the risk of loss attributed to the amount of the investment in a single issuer. The Authority does not have a formal investment policy covering the concentration of credit risk.

**FULTON COUNTY HOUSING AUTHORITY
ROCHESTER, INDIANA**

**NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED JUNE 30, 2010
(CONTINUED)**

Note 2 - Cash and Investments (Continued)

Investment Rate Risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Housing Authority has no formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

The cash deposits held at financial institutions can be categorized according to three levels of risk. These three levels of risk are as follows:

Category 1 - Deposits which are insured or collateralized with securities held by the Housing Authority or by its agent in the Housing Authority's name.

Category 2 - Deposits which are collateralized with securities held by the pledging financial institution's trust department or agent in the Housing Authority's name.

Category 3 - Deposits which are not collateralized or insured.

Based on the three levels of risk, all of the Housing Authority's funds are classified as Category 1.

<u>Program</u>	<u>Book Balance</u>	<u>Bank Balance</u>
Voucher	\$ 214,135	\$ 215,769
Component Unit	<u>14,310</u>	<u>14,310</u>
Total	<u>\$ 228,445</u>	<u>\$ 230,079</u>

Note 3 - Compensated Absences

Sick Days

Employees are eligible to earn 1 sick day after each month of employment following the first year of employment; these days may be carried over each year, with a maximum of 30 days total. Employees are to use all vacation time by year end or lose it.

Vacation Days

Employees are eligible for paid vacations according to the following schedule:

After one year employment	10 days
After ten year employment	15 days
Each year thereafter	1 additional day
Maximum paid vacation time is 25 days	

Unused vacation days are lost if not used by the end of the fiscal year (June 30th).

**FULTON COUNTY HOUSING AUTHORITY
ROCHESTER, INDIANA**

**NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED JUNE 30, 2010
(CONTINUED)**

Note 4 - Post-Employment Benefits

The Housing Authority does not provide post employment retirement benefits. As a result there are no disclosures included in these statements as required by GASB 45.

Note 5 - Accounts Receivable

Accounts receivable consists of the following accounts:

Accounts receivable - HUD	\$ <u>458</u>
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Note 6 - Deferred Charges

This classification includes the following:

Prepaid insurance	\$ <u>1,431</u>
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Note 7 - Fixed Assets

Balance as of June 30, 2010	\$ 6,884
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Balance as of June 30, 2009	<u>10,349</u>
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Net Increase (Decrease)	\$ <u>-3,465</u>
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Current year depreciation expense	\$ <u>-3,465</u>
-----------------------------------	------------------

Net Increase (Decrease)	\$ <u>-3,465</u>
-------------------------	------------------

<u>Analysis</u>	<u>07/01/2009 Balance</u>	<u>Additions/ Transfers</u>	<u>Deletions/ Transfers</u>	<u>06/30/2010 Balance</u>
Equipment and furniture	\$ 23,183	\$ 0	\$ 3,131	\$ 20,052
Accumulated depreciation	<u>-12,834</u>	<u>-3,465</u> *	<u>-3,131</u>	<u>13,168</u>
Net Assets	<u>\$ 10,349</u>	<u>\$ -3,465</u>	<u>\$ 0</u>	<u>\$ 6,884</u>

* Current year depreciation expense.

**FULTON COUNTY HOUSING AUTHORITY
ROCHESTER, INDIANA**

**NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED JUNE 30, 2010
(CONTINUED)**

Note - 8 Invested in Joint Venture

The Housing Authority's component unit, Rochester Affordable Housing, Inc. entered into a limited partnership agreement for purpose of constructing and managing a 56 unit complex of 1, 2 and 3 bedroom apartments. The partnership has received tax credits from the State of Indiana. The Rochester Affordable Housing, Inc. holds a 1% general partnership interest, the remaining 99% is held by limited partners interests.

Partnership - Arbor Wood Apartments L.P.	<u>\$ 100,001</u>
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Note 9 - Accounts Payable

This classification includes the following accounts:

Vendors and contractors	<u>\$ 1,155</u>
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Note 10 - Accrued Liabilities

Accrued liabilities consists of the following:

<u>Current Portion:</u>	
Accrued wages	<u>\$ 633</u>

Note 11 - Administrative Fee

The PHA receives an "Administrative Fee" as part of the annual contribution from HUD to cover the costs (including overhead) of administering the HAP Program. The fee is calculated by HUD on an periodic basis.

Note 12 - Contingencies

Federal Grants

In the normal course of operations, the Housing Authority receives grant funds from the Department of Housing and Urban Development. The programs are subject to audit by agents of HUD, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as a result of these audits is not believed to be material.

**FULTON COUNTY HOUSING AUTHORITY
ROCHESTER, INDIANA**

**NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED JUNE 30, 2010
(CONTINUED)**

Note 13 - Risk Management

The Housing Authority carries commercial insurance coverage to cover exposure and the risk of losses related to torts, thefts, damages, destruction of assets, errors and omissions, injuries, natural disasters and defalcation.

For insured programs there has been no significant reduction in insurance coverage. Settled claims have not exceeded insurance coverage or the risk pool coverage in the current or past three years.

Note 14 - Economic Dependency

The Housing Authority received most of its revenue (98 %) from the United States Department of Housing and Urban Development. This funding is subject to federal government appropriations and potential funding reductions.

SUPPLEMENTAL DATA

**FULTON COUNTY HOUSING AUTHORITY
ROCHESTER, INDIANA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE TWELVE MONTHS ENDED JUNE 30, 2010**

<u>Federal Grantor/Program</u>	<u>Federal CFDA Number</u>	<u>Contract Number</u>	<u>Grant Period</u>	<u>Program Amount</u>	<u>Receipts or Revenue Recognized</u>	<u>Disbursements/ Expenditures</u>
<u>U.S. Department of HUD</u>						
Direct Programs:						
Housing Choice Voucher Program*	14.871	C-2014	FYE 06/30/10	\$ 731,122	\$ 731,122	\$ 713,732
Total Housing Assistance				<u>\$ 731,122</u>	<u>\$ 731,122</u>	<u>\$ 713,732</u>

*Denotes major program



**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
Fulton County Housing Authority
Rochester, Indiana

I have audited the financial statements of Fulton County Housing Authority as of and for the year ended June 30, 2010, and have issued my report thereon dated February 4, 2011. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

I noted certain matters that I reported to management of Fulton County Housing Authority in a separate letter dated February 4, 2011.

This report is intended solely for the information and use of management, Board of Commissioners, others within the entity, and Housing and Urban Development and is not intended to be and should not be used by anyone other than these specified parties.



Certified Public Accountant

Decatur, Illinois
February 4, 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
Fulton County Housing Authority
Rochester, Indiana

Compliance

I have audited Fulton County Housing Authority's 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 Fulton County Housing Authority's major federal programs for the year ended June 30, 2010. Fulton County Housing 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 Fulton County Housing Authority's management. My responsibility is to express an opinion on Fulton County Housing Authority's compliance based on my audit.

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

In my opinion, Fulton County Housing 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 June 30, 2010. The results of my auditing procedures disclosed no instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133.

Internal Control Over Compliance

Management of Fulton County Housing Authority is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing my audit, I considered Fulton County Housing 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 my opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of Fulton County Housing 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.

My 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. I did not identify any deficiencies in internal control over compliance that I consider to be *material weaknesses*, as defined above.

This report is intended solely for the information and use of management, Board of Commissioners, others within the entity, Housing and Urban Development, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Certified Public Accountant

Decatur, Illinois
February 4, 2011

**FULTON COUNTY HOUSING AUTHORITY
ROCHESTER, INDIANA**

STATUS OF PRIOR AUDIT FINDINGS

The prior audit report for the period ended June 30, 2009 contained no findings.

**FULTON COUNTY HOUSING AUTHORITY
ROCHESTER, INDIANA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010**

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report: Unqualified

* Material weakness(es) identified? _____ yes X_____ no

* Significant deficiency (ies) identified? _____ yes X_____ none reported

Noncompliance material to financial statements noted? _____ yes X_____ no

Federal Awards

Internal control over major programs:

* Material weakness(es) identified? _____ yes X_____ no

* Significant deficiency (ies) identified? _____ yes X_____ none reported

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) of OMB Circular A-133? _____ yes X_____ no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.871	Housing Choice Voucher Program

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

Auditee qualified as low-risk auditee? X_____ yes _____ no

**FULTON COUNTY HOUSING AUTHORITY
ROCHESTER, INDIANA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
CURRENT FINDINGS AND RECOMMENDATIONS**

Section II - Financial Statement Findings

There were no financial statement audit findings discussed with Kim Benzing, Executive Director, during the course of the audit or at an exit conference held February 4, 2011.

Section III - Federal Award Findings and Questioned Costs

There were no federal award audit findings or questioned costs discussed with Kim Benzing, Executive Director, during the course of the audit or at an exit conference held February 4, 2011.

**FULTON COUNTY HOUSING AUTHORITY
ROCHESTER, INDIANA**

**SCHEDULE OF ADJUSTING JOURNAL ENTRIES
JUNE 30, 2010**

<u>Voucher</u>	<u>Audit Account Number</u>	<u>Debit</u>	<u>Credit</u>	<u>Posting Account Number</u>
(1)				
Accounts receivable - HUD	1125	\$ 458.00		1125
Prepaid ACC - admin fees	2210		\$ 458.00	2841.2
(To record receivables effective for FY 2010 admin fees)				
(2)				
Postage/PO Box fee	4190.50	\$ 676.60		2841.2
Criminal history fee	4190.81	52.20		2841.2
Office supplies	4190.30	426.11		2841.2
Vendor payable	2111		\$ 1,154.91	2111
(To set up vendor payable per search)				
(3)				
Accrued salaries payable	2120	\$ 539.43		2120
Compensated absence expense	----	3,452.66		2841.2
Admin salary expense	4110		\$ 3,992.09	2841.2
(To set up compensated absence expense and adjust accrued salaries to 30% of 7/9/10 pay period)				



Board of Commissioners
Fulton County Housing Authority
Rochester, Indiana

In planning and performing my audit of the financial statements of Fulton County Housing Authority as of and for the year ended June 30, 2010, in accordance with auditing standards generally accepted in the United State of America, I considered the Housing Authorities internal control over financial reporting (internal control) as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Fulton County Housing Authority's internal control. Accordingly, I do not express an opinion on the effectiveness of Fulton County Housing Authority's internal control.

The administration of the Housing Authority is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgements by the administration are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use of disposition and that transactions are executed in accordance with authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may nevertheless occur and not be detected. Also, projection of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

My study and evaluation made for the limited purpose described in the first paragraph would not necessarily disclose all material weaknesses in the system. However, my study and evaluation disclosed certain conditions in the following areas of which you should be aware in order to improve operating efficiencies and strengthen internal controls:

1. During my review of insurance coverage, I noted that the Housing Authority insurance coverage does not include a surety bond or employee dishonesty coverage. The HUD insurance handbook has a calculation (form HUD 5462) for amount of coverage. Based on the calculation using this form I suggest a minimum of \$25,000. A blanket bond is most comprehensive, but a position bond may be most economical.
2. While reviewing the Housing Authority's system of internal controls, it came to my attention that not all internal control procedures being followed have been included in the written policy/procedural manual.

I suggest that the written manual be expanded to include: (a) who is responsible for approving or making purchases (b) when or if more than one price quote must be obtained (c) when or if sealed bids are required.

3. During my examination of Housing Choice Voucher participant files, one instance was noted where the file noted landlord request for increase without providing written justification for the increase. Per HUD regulations those requests must be documented.
4. When reviewing the unaudited financial submission to REAC, I noted where the classification of assets were not in line with the HUD "Cross Walk". Specifically, in the future the Security Deposit loans should be separated from the Fraud Recovery Receivables. Those reclassifications have been reflected in the audited submission of the financial data.
5. HUD regulations require the Housing Authority to obtain a fully executed form HUD 51999. During my review of current depositories, I noted that the housing authority did not have a current executed form from at least one financial institution holding agency funds. I recommend that the Authority execute new depository agreements with all new financial institutions and for any that have undergone ownership or name changes.

This communication is intended solely for the information and used of management, the Board of Commissioners, and others within the housing authority, and is not intended to be and should not be used by anyone other than these specified parties. Please feel free to contact me if you have any questions.



Certified Public Accountant

Decatur, Illinois
February 4, 2011