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June 2, 2014

Board of Directors  
Sullivan Housing Authority  
200 N. Court  
Sullivan, IN 47882

We have reviewed the audit report prepared by Pamela J. Simpson, CPA, Independent Public Accountant, for the period April 1, 2007 to March 31, 2008. 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 Sullivan Housing Authority, as of March 31, 2008 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

**SULLIVAN HOUSING AUTHORITY  
SULLIVAN, INDIANA**

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

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**TWELVE MONTHS ENDED MARCH 31, 2008**

**SULLIVAN HOUSING AUTHORITY  
SULLIVAN, INDIANA**

**TABLE OF CONTENTS**

Auditor's Report .....	1
Management's Discussion and Analysis .....	3
<b>FINANCIAL STATEMENTS</b>	
Statement of Net Assets as of March 31, 2008 .....	9
Statement of Revenue, Expenditures and Changes in Net Assets - Proprietary Funds Twelve Months Ended March 31, 2008 .....	10
Statement of Cash Flows - Twelve Months Ended March 31, 2008 .....	11
Notes to Financial Statements .....	13
<b>SUPPLEMENTAL DATA</b>	
Schedule of Federal Financial Awards .....	24
Individual Program Statements -	
Statement of Net Assets as of March 31, 2008 .....	25
Statement of Revenue and Expenditures - Twelve Months Ended March 31, 2008 .....	26
Statement of Changes in Net Assets - Twelve Months Ended March 31, 2008 .....	27
Statement of Cash Flows - Twelve Months Ended March 31, 2008 .....	28
Auditor's Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards .....	30
Auditor's Report on Compliance With Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance With OMB Circular A-133 .....	32
Status of Prior Audit Findings .....	34
Schedule of Findings and Questioned Costs - Summary .....	35
Current Findings, Recommendations and Replies .....	36
Schedule of Adjusting Journal Entries .....	37
Financial Data Schedule - REAC Electronic Submission .....	39

# PAMELA J. SIMPSON, C.P.A.

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## Independent Auditor's Report

Board of Directors  
Sullivan Housing Authority  
Sullivan, Indiana

I have audited the accompanying basic financial statements of Sullivan Housing Authority, as of and for the year ended March 31, 2008, as listed in the table of contents. These basic financial statements are the responsibility of the Authority's management. My responsibility is to express an opinion on these basic financial statements based on my audit.

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

In my opinion, the basic financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Sullivan Housing Authority, as of March 31, 2008 and the respective changes in financial position and cash flows for the year end 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 October 17, 2008, on my consideration of the Authority's internal control over financial reporting and my test of its compliance with certain provisions of laws, regulation, contracts and grants. The purpose of that report is to describe the scope of my testing, and not to provide an opinion on the internal control over financial reporting on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of my audit.

The management's discussion and analysis on pages 3 through 8 are not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, I did not audit the information and express no opinion on it.

My audit was performed for the purpose of forming an opinion on the financial statements of the Sullivan 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 is not a required part of the basic financial statements of the 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 Sullivan Housing Authority. Such information has 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.

Decatur, Illinois  
October 17, 2008

Certified Public Accountant

**SULLIVAN HOUSING AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
MARCH 31, 2008**

3

**Management's Discussion and Analysis**

As management of the Sullivan Housing Authority, we offer the readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the year ended March 31, 2008. We encourage readers to consider the information presented here in conjunction with the Authority's financial statements.

Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Executive Director, Sullivan Housing Authority, 200 North Court, Sullivan, Indiana, (812) 268-4600.

**Overview of the Financial Statements**

The financial statements included in this annual report are those of a special-purpose government engaged in a business-type activity. The following statements are included:

- Statement of Net Assets – reports the Authority's current financial resources (short term spendable resources) with capital assets and long-term debt obligations.
- Statement of Revenues, Expenses, and Changes in Net Assets reports the Authority's operating and non-operating revenues, by major source along with operating and non-operating expenses and capital contributions.
- Statement of Cash Flows – reports the Authority's cash flows from operating, investing, capital and non-capital activities.
- Comparison of budget vs. actual – reports the Authority's actual operating revenues and expenses versus the budgeted amounts.

**Future Events (New Business)**

There are no future events planned by the Authority during the fiscal year ending March 31, 2009 that will significantly affect the Authority's Net Assets either positively or negatively.

**SULLIVAN HOUSING AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
MARCH 31, 2008**

4

**Condensed Comparative Financial Statements**

*Analysis of Entity Wide Net Assets*

**Total Assets** for FYE 2008 was \$8,417,767 and at FYE 2007 the amount was \$8,582,737. This represents a net decrease of \$164,970 or 2%.

**Cash** increased by \$48,863 or 41%, while invested funds decreased by \$49,240 (based on accounting reclassifications).

**Other Current Assets** decreased by \$53,391. The increase was related to the reclassification of invested funds.

**Capital Assets** decreased by \$160,442. The change in Capital Assets will be presented in the section of this analysis entitled Analysis of Capital Assets.

**Current Liabilities** increased by \$5,883 or 5%, due to increase in PILOT payables and accrued compensated absences and wages.

The table below illustrates our analysis:

	<u>2008</u>	<u>2007</u>	<u>Variances</u>	<u>Percentage Change</u>
Cash	168,343	119,480	48,863	41%
Other Current Assets	536,884	590,275	(53,391)	-9%
Capital Assets	7,712,540	7,872,982	(160,442)	-2%
<b>Total Assets</b>	<b>8,417,767</b>	<b>8,582,737</b>	<b>(164,970)</b>	<b>-2%</b>
Current Liabilities	124,787	118,904	5,883	5%
Noncurrent Liabilities	0	0	0	0%
<b>Total Liabilities</b>	<b>124,787</b>	<b>118,904</b>	<b>5,883</b>	<b>5%</b>
Net Invested in Capital Assets	7,712,540	7,872,982	(160,442)	-2%
Restricted Net Assets	18,418	0	18,418	100%
Unrestricted Net Assets	562,022	590,581	(28,559)	-5%
<b>Total Net Assets</b>	<b>8,292,980</b>	<b>8,463,563</b>	<b>(170,583)</b>	<b>-2%</b>

**SULLIVAN HOUSING AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
MARCH 31, 2008**

*Analysis of Entity Wide Revenues*

The Authority administers the following programs and the revenues generated from these programs during Fiscal Year Ending March 31, 2008 were as follows:

<u>Program</u>	<u>Revenues Generated</u>
Low Income Public Housing	\$1,118,757
Section 8 Vouchers	\$180,606
Capital Fund/Comprehensive Grant Program	\$366,931

**Total Revenues** for Fiscal Year Ending March 31, 2008 were \$1,666,294 as compared to the total revenues for Fiscal Year Ending March 31, 2007 of \$1,467,998. Comparatively, Fiscal Year Ending 2008 revenues exceeded Fiscal Year Ending 2007 revenues by \$198,296.

**Total Tenant Revenue** increased by \$36,056 or 7% due to increases in tenants calculated rent.

**HUD Operating Grants** increased by \$79,111 or 12% due to increased subsidy received in the public housing program.

**HUD Capital Grants** increased by \$96,357 or 47% due to the increase in ongoing capital projects.

**Investment Income** decreased by \$3,203 or 12% due to a decrease in funds invested and interest rates.

**Other Revenue** decreased by \$10,417 or 30% due largely to revenues earned from utility reimbursement from corporate tenants, maintenance and damages charged reimbursed by tenants.

	<u>2008</u>	<u>2007</u>	<u>Variance</u>	<u>Percentage Change</u>
Total Tenant Revenue	591,993	555,937	36,056	7%
HUD Operating Grants	724,539	645,428	79,111	12%
HUD Capital Grants	301,243	204,886	96,357	47%
Investment Income	23,362	26,565	(3,203)	-12%
Other Revenue	24,765	35,182	(10,417)	-30%
Restricted Investment Income	392	0	392	100%
<b>Total Revenue</b>	<b><u>1,666,294</u></b>	<b><u>1,467,998</u></b>	<b><u>198,296</u></b>	<b><u>14%</u></b>

**SULLIVAN HOUSING AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
MARCH 31, 2008**

*Analysis of Entity Wide Expenditures*

**Total Expenditures** for Fiscal Year Ending March 31, 2008 were \$1,837,147 as compared to \$1,744,044 of total expenditures for Fiscal Year Ending March 31, 2007. Comparatively, Fiscal Year Ending 2008 expenditures exceeded Fiscal Year Ending 2007 expenditures by \$93,103. Changes by major expense category will be presented below.

**Administrative** expenditures increased by \$26,451 or 8%. The increase was due to increases in salaries, health insurance and related benefits.

**Tenant Services** expenditures increased by \$2,492 or 31%, due to an increase in services.

**Utilities** increased by \$10,861 or 5%. The increase was due to normal increases in costs and usage.

**Maintenance** expenditures increased by \$38,239 or 10% due to general increases in all categories.

**General Expenses** decreased by \$9,887 or 8% due to decreases in insurance costs.

**Extraordinary Maintenance** increased by \$40,352 due to more unexpected maintenance required in the current year.

**Housing Assistance Payments** increased by \$7,443 or 5% due to an increase in the number of vouchers issued during the year and amount of assistance.

The table below illustrates our analysis:

	<u>2008</u>	<u>2007</u>	<u>Variance</u>	<u>Percentage Change</u>
Administrative	348,915	322,464	26,451	8%
Tenant Services	10,549	8,057	2,492	31%
Utilities	227,015	216,154	10,861	5%
Maintenance	430,467	392,228	38,239	10%
General Expense	118,906	128,793	(9,887)	-8%
Extraordinary Maintenance	52,568	12,216	40,352	330%
Casualty Losses	0	12,366	(12,366)	-100%
Housing Assistance Payments	145,999	138,556	7,443	5%
Depreciation Expense	502,728	513,210	(10,482)	-2%
<b>Total Expenses</b>	<u><u>1,837,147</u></u>	<u><u>1,744,044</u></u>	<u><u>93,103</u></u>	<u><u>5%</u></u>

**SULLIVAN HOUSING AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
MARCH 31, 2008**

7

**Budgetary Analysis**

The Authority adopts a consolidated annual operating budget for all programs. The budget for Low Income Public Housing is adopted on the basis of accounting prescribed by the Housing and Urban Development, which differs in some respects from generally accepted accounting principles. Program budgets for the Section 8 Programs are approved by the U.S. Department of Housing and Urban Development.

The Authority prepares a budget for each fiscal year of Capital Fund Grant Program that is approved. The Authority is permitted four years to expend these funds. Income is only recognized as funds are expended.

***Housing Authority Budgetary Highlights***

**Results of Operations – Public Housing**

Management prepared a budget that anticipated residual receipts of \$76,545. Actual results of operations reflected residual receipts of \$64,781 before depreciation expense.

**Tenant Rental Revenues** was over budget by \$61,804 or 11%.

**HUD Operating Grants** were under budget by \$81,874 or 15%.

**Other Income** was over budget by \$27,521 or 124%.

**Administrative Expenses** were under budget by \$1,883 or 1%.

**Utilities** were over budget by \$10,564 or 5%.

**SULLIVAN HOUSING AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
MARCH 31, 2008**

**Analysis of Capital Asset Activity and Related Financing**

**Buildings** decreased by \$6,566 due to a reclassification of improvements.

**Furniture, Equipment & Machinery – Dwelling** decreased by a net amount \$200.

**Furniture, Equipment & Machinery – Administrative** increased by a net amount \$27,809 or 6%.

**Accumulated Depreciation** increased by \$502,729 or 6%. This is the amount of current year depreciation expense.

	2008	2007	Net Change	Percentage Change
Land	131,925	131,925	0	0%
Buildings	14,612,813	14,619,379	-6,566	0%
Furniture, Equipment, & Machinery - Dwelling	245,742	245,942	-200	0%
Furniture, Equipment, & Machinery - Administrative	534,498	506,689	27,809	6%
Leasehold Improvements	269,051	249,050	20,001	8%
Construction in Process	318,979	17,736	301,243	1699%
<b>Total Fixed Assets</b>	<b>16,113,008</b>	<b>15,770,721</b>	<b>342,287</b>	<b>2%</b>
Accumulated Depreciation	8,400,468	7,897,739	502,729	6%
<b>Net Fixed Assets</b>	<b>7,712,540</b>	<b>7,872,982</b>	<b>-160,442</b>	<b>-2%</b>

Most increases were related to the expenditure of capital funds in the current year.

**Outstanding Debt**

The Housing Authority did not borrow any funds in the current year and had no outstanding debt in March 31, 2007 or March 31, 2008.

**SULLIVAN HOUSING AUTHORITY  
SULLIVAN, INDIANA**

**STATEMENT OF NET ASSETS - PROPRIETARY FUNDS  
AS OF MARCH 31, 2008**

**ASSETS**

**CURRENT ASSETS**

Cash	\$ 149,925
Accounts receivable (interfund eliminated)	5,474
Accrued interest receivable	4,612
Investments	484,000
Inventory	686
Deferred charges	<u>42,112</u>
 Total Current Assets	 <u>\$ 686,809</u>

**RESTRICTED ASSETS**

Cash	<u>\$ 18,418</u>
 Total Restricted Assets	 <u>\$ 18,418</u>

**CAPITAL ASSETS**

Land, buildings and equipment	\$ 16,113,008
Less: Accumulated depreciation	<u>-8,400,468</u>
 Net Capital Assets	 <u>\$ 7,712,540</u>

 Total Assets	 <u>\$ 8,417,767</u>
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**LIABILITIES**

**CURRENT LIABILITIES**

Accounts payable (interfund eliminated)	\$ 23,120
Accrued liabilities	72,079
Deferred revenues	<u>29,588</u>
 Total Current Liabilities	 <u>\$ 124,787</u>

**NET ASSETS**

Invested in capital assets	\$ 7,712,540
Restricted	18,418
Unrestricted	<u>562,022</u>
 Total Net Assets	 <u>\$ 8,292,980</u>

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

**SULLIVAN HOUSING AUTHORITY  
SULLIVAN, INDIANA**

**STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN NET ASSETS -  
PROPRIETARY FUNDS  
TWELVE MONTHS ENDED MARCH 31, 2008**

Operating Income

Tenant rental revenue	\$ 591,993
Total Rental Income	\$ 591,993
HUD grants - operating	724,539
Other revenue	<u>24,765</u>
Total Operating Income	<u>\$ 1,341,297</u>

Operating Expenses

Administration	\$ 348,915
Tenant services	10,549
Utilities	227,015
Ordinary maintenance and operation	430,467
General expense	118,906
Extraordinary maintenance	52,568
Housing assistance payments	145,999
Depreciation	<u>502,728</u>
Total Operating Expenses	<u>\$ 1,837,147</u>
Net Operating Income (Loss)	\$ -495,820

Nonoperating Income (Expense)

Interest income	23,754
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Capital Contributions

Capital funds grant	<u>301,243</u>
Changes in net assets	\$ -170,853
Net assets, beginning of year	<u>8,463,833</u>
Net assets, end of year	<u><u>\$ 8,292,980</u></u>

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

**SULLIVAN HOUSING AUTHORITY  
SULLIVAN, INDIANA**

**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS  
TWELVE MONTHS ENDED MARCH 31, 2008**

Operating Activities

Operating grants	\$ 727,349
Tenant revenue	590,256
Other revenue	24,765
Housing assistance payments	-145,999
Payments to employees	-378,986
Payments to suppliers and contractors	<u>-796,163</u>

Net Cash Provided (Used) by Operating Activities	\$ <u>21,222</u>
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Investing Activities

Investments (purchased) redeemed	\$ 49,240
Interest income	<u>19,444</u>

Net Cash Provided (Used) by Investing Activities	\$ <u>68,684</u>
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Capital and Related Financing Activities

HUD grants - capital	\$ 301,243
(Additions) deletions to fixed assets	<u>-342,286</u>

Net Cash Provided (Used) by Capital and Related Financing Activities	\$ <u>-41,043</u>
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Net Change in Cash	\$ 48,863
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Cash Balance at March 31, 2007	<u>119,480</u>
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Cash Balance at March 31, 2008	<u><u>\$ 168,343</u></u>
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**SULLIVAN HOUSING AUTHORITY  
SULLIVAN, INDIANA**

**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS  
TWELVE MONTHS ENDED MARCH 31, 2008**

Reconciliation of Operating Income (Loss) to Net Cash  
Provided (Used) by Operating Activities

Net operating income (loss)	\$ -495,850
Adjustment to Reconcile Operating Income (Loss) to Net Cash Flows from Operating Activities:	
Depreciation	502,728
(Increase) decrease in accounts receivable	2,454
(Increase) decrease in deferred charges	6,350
(Increase) decrease in inventory	-343
Increase (decrease) in accounts payable	-116
Increase (decrease) in accrued liabilities	11,841
Increase (decrease) in deferred revenues	<u>-5,842</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 21,222</u>

**SULLIVAN HOUSING AUTHORITY  
SULLIVAN, INDIANA**

**NOTES TO FINANCIAL STATEMENTS  
TWELVE MONTHS ENDED MARCH 31, 2008**

Note 1 - Summary of Significant Accounting Policies

(a) Organization -

The Sullivan Housing Authority was established by the City of Sullivan 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 City of Sullivan and concluded that the City does not maintain an oversight responsibility for the Authority's operations. An independent Board of Commissioners, appointed by the City, is responsible for the activities of the Authority. The Authority recruits and employs its executive staff and has substantial legal authority to control its affairs without requiring approval of the City government. Debt incurred by the Authority is not an obligation of the City; the City does not review or approve the Authority's budget, is not entitled to any surplus funds generated by the Authority's operations and is not responsible for any deficits incurred by the Authority. 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 Sullivan Housing Authority is a separate reporting entity. All funds and programs of the Housing Authority are included in these statements. The Housing Authority has no component units.

(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. pronouncements, in which case, GASB prevails.

**SULLIVAN HOUSING AUTHORITY  
SULLIVAN, INDIANA**

**NOTES TO FINANCIAL STATEMENTS  
TWELVE MONTHS ENDED MARCH 31, 2008  
(CONTINUED)**

Note 1 - Summary of Significant Accounting Policies

(c) Financial Statement Presentation

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:

- \* Low Rent Public Housing
- \* Section 8 Choice Vouchers
- \* Capital Fund Program

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 Housing Authority considers all highly liquid investments to be cash equivalents. The term "highly liquid" refers to investments with a maturity of 1 month or less when purchased to be cash equivalents.

(f) Accounts Receivable -

The tenants accounts receivable discloses the gross amount due from the tenants at March 31, 2008, and does not take into consideration prepaid amounts. The Housing Authority provides for an allowance for doubtful accounts, based on the estimated collections of current accounts receivables. The Housing Authority periodically writes off uncollectible accounts receivable to the allowance account based on a review of the current status of existing receivables and the determination that the receivable will not be collected.

**SULLIVAN HOUSING AUTHORITY  
SULLIVAN, INDIANA**

**NOTES TO FINANCIAL STATEMENTS  
TWELVE MONTHS ENDED MARCH 31, 2008  
(CONTINUED)**

Note 1 - Summary of Significant Accounting Policies

(g) Investments -

Investments are stated at cost which approximates market.

(h) 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:

If the initial cost of a piece of equipment and/or other personal property is five hundred dollars (\$500) or more and 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.

Land, buildings and equipment contains the following:

- 1) The total development construction costs incurred for each project at the end of the initial operating period,
- 2) nonexpendable equipment, and
- 3) property betterments and additions
- 4) land acquisitions.

These are 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:

Buildings	20 - 40	years
Equipment	3 - 10	years

**SULLIVAN HOUSING AUTHORITY  
SULLIVAN, INDIANA**

**NOTES TO FINANCIAL STATEMENTS  
TWELVE MONTHS ENDED MARCH 31, 2008  
(CONTINUED)**

Note 1 - Summary of Significant Accounting Policies

(i) Income Tax -

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

(j) Annual Contributions/Subsidies and Other Grants

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

Other grants (such as CFP 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.

(k) The Housing Authority adopts a budget annually. The budget is presented to the Board of Commissioners for approval annually.

(l) 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 \$100,000 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.

**SULLIVAN, INDIANA**

**NOTES TO FINANCIAL STATEMENTS  
TWELVE MONTHS ENDED MARCH 31, 2008  
(CONTINUED)**

Note 2 - Cash and Investments (Continued)

*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.

*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>
Low Rent	\$ 148,967	\$ 217,567
Voucher	<u>19,376</u>	<u>19,806</u>
Total	<u>\$ 168,343</u>	<u>\$ 237,373</u>

Similar to cash deposits, investments held at financial institutions can be categorized according to three levels of risk. These three levels of risk are:

Category 1 - Investments that are insured, registered or collateralized with securities held by the Housing Authority or by its agent in the Housing Authority's name.

Category 2 - Investments which are uninsured and unregistered held by the counter-party's trust department or agent in the Housing Authority's name.

Category 3 - Uninsured or unregistered investments held by the counter-party, its trust or its agent, but not in the Housing Authority's name.

**NOTES TO FINANCIAL STATEMENTS  
TWELVE MONTHS ENDED MARCH 31, 2008  
(CONTINUED)**

Note 2 - Cash and Investments (Continued)

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

<u>Program</u>	<u>Book Balance</u>	<u>Market Value</u>
Low Rent	<u>\$ 484,000</u>	<u>\$ 484,000</u>

Note 3 - Compensated Absences

Personal Leave

Permanent full-time employees will be granted two personnel leave days per fiscal year.

Personal leave days shall be taken in the fiscal year earned (April 1 through March 31) or they are lost. Personal leave days are not accumulated from year to year, therefore no liability has been recorded.

Sick Leave

Permanent full-time employees will be granted twelve sick days per fiscal year.

Sick days may accumulate to sixty days. Employees shall not receive compensation for unused sick leave on termination of employment with the Sullivan Housing Authority, therefore no liability is recorded.

Vacation Days

Permanent full-time employee is entitled to 80 hours (10 work days) vacation after (12) continuous calendar months of work. (1st to 5th year of continuous service: 40 hour employees). After 5 years of continuous service a permanent full-time employee is eligible for 120 hours (15 work days) vacation per year. The beginning date for calculating each year's authorized vacation is the employee's anniversary date. No permanent full-time employee shall be eligible for vacation until after six (6) months of continuous employment.

Vacation must be taken the year following the year it is accrued. Upon termination of employment an employee shall be compensated for the unused portion of the earned vacation which the employee is eligible to use and earned vacation in the year of termination which has not been used.

Note 4 - Defined Contribution Plan

The PHA participates in a defined contribution plan. The Housing Authority and the participants are required to contribute 7.5% and 5.5% of annual covered payroll, respectively. For the fiscal year ended March 31, 2008, the Housing Authority contributed \$37,943.

**SULLIVAN HOUSING AUTHORITY  
SULLIVAN, INDIANA**

**NOTES TO FINANCIAL STATEMENTS  
TWELVE MONTHS ENDED MARCH 31, 2008  
(CONTINUED)**

Note 5 - Accounts Receivable

Accounts receivable consists of the following accounts:

Tenant accounts receivable (net)	\$ 499
Accounts receivable - HUD	<u>4,975</u>
Subtotal	\$ 5,474
Interfund	<u>10,939</u>
Total	<u>\$ 16,413</u>

Note 6 - Investments

At March 31, 2008 investments consist of the following:

	<u>Rate</u>	<u>Cost</u>	<u>Fair Value</u>
Certificates of deposit	3.00-5.16%	<u>\$ 484,000</u>	<u>\$ 484,000</u>

Note 7 - Deferred Charges

This classification includes the following accounts:

Prepaid insurance	\$ 31,755
Other	<u>10,357</u>
Total	<u>\$ 42,112</u>

Note 8 - Fixed Assets

Balance as of March 31, 2008	\$ 7,712,540
Balance as of March 31, 2007	<u>7,872,982</u>
Net Increase (Decrease)	<u>\$ -160,442</u>

**SULLIVAN HOUSING AUTHORITY  
SULLIVAN, INDIANA**

**NOTES TO FINANCIAL STATEMENTS  
TWELVE MONTHS ENDED MARCH 31, 2008  
(CONTINUED)**

Note 8 - Fixed Assets (Continued)

Reconciliation

Additions	\$ 342,287
Current year depreciation expense	<u>-502,729</u> *
Net Increase (Decrease)	<u>\$ -160,442</u>

<u>Analysis</u>	04/01/2007 <u>Balance</u>	Additions/ <u>Transfers</u>	Deletions/ <u>Transfers</u>	03/31/2008 <u>Balance</u>
Land	\$ 131,925	\$ 0	\$ 0	\$ 131,925
Buildings	14,619,379	0	6,566	14,612,813
Equipment and furniture	752,631	27,609	0	780,240
Leasehold improvements	249,050	20,001	0	269,051
Construction in progress	<u>17,736</u>	<u>301,243</u>	<u>0</u>	<u>318,979</u>
Subtotal	\$ 15,770,721	\$ 348,853	\$ 6,566	\$ 16,113,008
Accumulated depreciation	<u>-7,897,739</u>	<u>-502,729*</u>	<u>0</u>	<u>-8,400,468</u>
Total	<u>\$ 7,872,982</u>	<u>\$ -153,876</u>	<u>\$ 6,566</u>	<u>\$ 7,712,540</u>

\*Depreciation expense recognized in the current year.

Note 9 - Accounts Payable

This classification includes the following accounts:

Vendors and contractors	\$ 195
Tenants security deposits	<u>22,925</u>
Subtotal	\$ 23,120
Interfund	<u>10,939</u>
Total	<u>\$ 34,059</u>

**SULLIVAN HOUSING AUTHORITY  
SULLIVAN, INDIANA**

**NOTES TO FINANCIAL STATEMENTS  
TWELVE MONTHS ENDED MARCH 31, 2008  
(CONTINUED)**

Note 10 - Notes Payable

On August 4, 1987, the U.S. Department of Housing and Urban Development (HUD) issued notice PIH 87-212 to implement the provisions of the Housing and Community Development Reconciliation Amendments of 1985 (PL 99-272, enacted April 7, 1986). This notice states, in part, the following:

Project debt to HUD (HUD-held notes) will be forgiven after a debt forgiveness amendment to the consolidated Annual Contributions Contract has been executed by HUD and the Public Housing Authority and after the Actual Development Cost Certificate has been included in an audit and approved.

As a part of the HUD mandated GAAP conversion and the above referenced notice, all HUD-held notes were recorded as debt forgiveness during a prior fiscal year.

Note 11 - Accrued Liabilities

Accrued liabilities at March 31, 2008 consists of the following:

Current Portion:

Accrued compensated absences	\$ 24,372
Accrued payroll/payroll taxes	11,209
Payment in lieu of taxes	<u>36,498</u>
Total	<u>\$ 72,079</u>

Note 12 - Deferred Revenues

This classification consists of the following accounts:

Tenants prepaid rent	\$ 1,741
Other	<u>27,847</u>
Total	<u>\$ 29,588</u>

Note 13 - Allocation of Costs

The PHA allocated expenses not attributable to a specific program to all programs under management. The basis for this allocation was the number of units in each program. Management considers this to be an equitable method of allocation.

**SULLIVAN HOUSING AUTHORITY  
SULLIVAN, INDIANA**

**NOTES TO FINANCIAL STATEMENTS  
TWELVE MONTHS ENDED MARCH 31, 2008  
(CONTINUED)**

Note 14 - 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.

Note 15 - 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.

The Housing Authority also participates in a public entity risk pool (Housing Authority Risk Retention Group) for general liability coverage. For insured programs there has been no significant reduction in insurance coverages or the risk pool coverage in the current or past three years.

Note 16 - Economic Dependency

The Housing Authority received most of its revenue (62%) from the United States Department of Housing and Urban Development. This funding is subject to federal government appropriations and potential funding reductions.

**SUPPLEMENTAL DATA**

## SULLIVAN, INDIANA

**SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE  
FOR THE TWELVE MONTHS ENDED MARCH 31, 2008**

<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:						
Public and Indian Housing*	14.850a	C-940	FYE 03/31/08	\$ 479,001	\$ 479,001	\$ 479,001
Public Housing - Capital Fund*	14.872	C-940	FYE 03/31/08	\$ 683,440	\$ 366,931	\$ 366,931
Housing Choice Vouchers	14.871	C-940V	FYE 03/31/08	\$ 179,850	\$ 179,850	\$ 179,850
Total Housing Assistance				\$ 1,342,291	\$ 1,025,782	\$ 1,025,782

\*Denotes major program.

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS (SEFA)  
TWELVE MONTHS ENDED MARCH 31, 2008**

Note 1: Expenditures to the Housing Choice Voucher Program are reported equal to revenues recognized. This method of expenditure recognition does not reconcile to the Housing Authority's financial statements, but is required by HUD.

**SULLIVAN, INDIANA**  
**STATEMENT OF NET ASSETS**  
**AS OF MARCH 31, 2008**

<u><b>ASSETS</b></u>	<u>Low Rent</u>	<u>Capital Funds</u>	<u>Voucher</u>
<b>CURRENT ASSETS</b>			
Cash	\$ 148,967	\$ 0	\$ 958
Accounts receivable	5,384	4,885	6,144
Accrued interest receivable	4,612	0	0
Investments	484,000	0	0
Inventory	686	0	0
Deferred charges	<u>42,112</u>	<u>0</u>	<u>0</u>
Total Current Assets	<u>\$ 685,761</u>	<u>\$ 4,885</u>	<u>\$ 7,102</u>
<b>RESTRICTED ASSETS</b>			
Cash	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 18,418</u>
Total Restricted Assets	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 18,418</u>
<b>CAPITAL ASSETS</b>			
Land, buildings and equipment	\$ 15,794,029	\$ 318,979	\$ 0
Less: Accumulated depreciation	<u>-8,388,175</u>	<u>-12,293</u>	<u>0</u>
Total Capital Assets	<u>\$ 7,405,854</u>	<u>\$ 306,686</u>	<u>\$ 0</u>
Total Assets	<u>\$ 8,091,615</u>	<u>\$ 311,571</u>	<u>\$ 25,520</u>
 <u><b>LIABILITIES</b></u>			
<b>CURRENT LIABILITIES</b>			
Accounts payable	\$ 22,381	\$ 4,885	\$ 0
Accrued liabilities	75,475	0	3,397
Deferred revenues	<u>29,588</u>	<u>0</u>	<u>0</u>
Total Current Liabilities	<u>\$ 127,444</u>	<u>\$ 4,885</u>	<u>\$ 3,397</u>
 <u><b>NET ASSETS</b></u>			
Invested in capital assets	\$ 7,405,854	\$ 306,686	\$ 0
Restricted	0	0	18,418
Unrestricted	<u>558,317</u>	<u>0</u>	<u>3,705</u>
Total Net Assets	<u>\$ 7,964,171</u>	<u>\$ 306,686</u>	<u>\$ 22,123</u>

## SULLIVAN, INDIANA

STATEMENT OF REVENUE AND EXPENDITURES  
TWELVE MONTHS ENDED MARCH 31, 2008

<u>Operating Income</u>	<u>Low Rent</u>	<u>Capital Funds</u>	<u>Voucher</u>
Tenant rental revenue	\$ 591,993	\$ 0	\$ 0
Total Rental Income	\$ 591,993	0	\$ 0
HUD grants - operating	479,001	65,688	179,850
Other revenue	<u>24,765</u>	<u>0</u>	<u>0</u>
Total Operating Income	<u>\$ 1,095,759</u>	<u>\$ 65,688</u>	<u>\$ 179,850</u>
<u>Operating Expenses</u>			
Administration	\$ 264,737	\$ 40,688	\$ 43,490
Tenant services	10,549	0	0
Utilities	227,015	0	0
Ordinary maintenance and operation	430,467	0	0
General expense	118,906	0	0
Extraordinary maintenance	52,568	0	0
Housing assistance payments	0	0	145,999
Depreciation	<u>496,582</u>	<u>6,146</u>	<u>0</u>
Total Operating Expenses	<u>\$ 1,600,824</u>	<u>\$ 46,834</u>	<u>\$ 189,489</u>
Net Operating Income (Loss)	<u>\$ -505,065</u>	<u>\$ 18,854</u>	<u>\$ -9,639</u>
<u>Nonoperating Income (Expense)</u>			
Interest income	\$ 22,998	\$ 0	\$ 756
Total Nonoperating Income (Expenses)	<u>\$ 22,988</u>	<u>\$ 0</u>	<u>\$ 756</u>
<u>Capital Contributions</u>			
Capital funds grant	\$ 0	\$ 301,243	\$ 0
Transfers	<u>25,000</u>	<u>-25,000</u>	<u>0</u>
Total Capital Contributions	<u>\$ 25,000</u>	<u>\$ 276,243</u>	<u>\$ 0</u>
Changes in Net Assets	<u><u>\$ -457,067</u></u>	<u><u>\$ 295,097</u></u>	<u><u>\$ -8,883</u></u>

## SULLIVAN, INDIANA

STATEMENT OF CHANGES IN NET ASSETS  
TWELVE MONTHS ENDED MARCH 31, 2008

<u>Invested in Capital Assets</u>	<u>Low Rent</u>	<u>Capital Funds</u>	<u>Voucher</u>
Balance at March 31, 2007	\$ 7,605,610	\$ 267,372	\$ 0
Current year net income (loss)	-455,539	295,097	0
Transfer	<u>255,783</u>	<u>-255,783</u>	<u>0</u>
Balance at March 31, 2008	<u>\$ 7,405,854</u>	<u>\$ 306,686</u>	<u>\$ 0</u>
<u>Restricted Net Assets</u>			
Balance at March 31, 2007	\$ 0	\$ 0	\$ 7,958
Current year net income (loss)	<u>0</u>	<u>0</u>	<u>10,460</u>
Balance at March 31, 2008	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 18,418</u>
<u>Unrestricted Net Assets</u>			
Balance at March 31, 2007	\$ 559,845	\$ 0	\$ 23,047
Current year net income (loss)	<u>-1,528</u>	<u>0</u>	<u>-19,342</u>
Balance at March 31, 2008	<u>\$ 558,317</u>	<u>\$ 0</u>	<u>\$ 3,705</u>
Total Net Assets	<u>\$ 7,964,171</u>	<u>\$ 306,686</u>	<u>\$ 22,123</u>

## SULLIVAN, INDIANA

**STATEMENT OF CASH FLOWS**  
**TWELVE MONTHS ENDED MARCH 31, 2008**

<u>Operating Activities</u>	<u>Low Rent</u>	<u>Capital Funds</u>	<u>Voucher</u>
Operating grants	\$ 479,001	\$ 68,588	\$ 179,760
Tenant revenue	591,637	0	0
Other revenue	24,765	0	0
Housing assistance payments	0	0	-145,999
Payments to employees	-309,363	-40,688	-28,935
Payments to suppliers and contractors	<u>-746,596</u>	<u>-2,900</u>	<u>-48,048</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 39,444</u>	<u>\$ 25,000</u>	<u>\$ -43,222</u>
 <u>Investing Activities</u>			
Investments (purchased) redeemed	\$ -3,153	\$ 0	\$ 52,393
Interest income	<u>18,386</u>	<u>0</u>	<u>1,058</u>
Net Cash Provided (Used) by Investing Activities	<u>\$ 15,233</u>	<u>\$ 0</u>	<u>\$ 53,451</u>
 <u>Capital and Related Financing Activities</u>			
HUD grants - capital	\$ 0	\$ 301,243	\$ 0
Transfers	25,000	-25,000	0
(Additions) deletions to fixed assets	<u>-41,043</u>	<u>-301,243</u>	<u>0</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>\$ -16,043</u>	<u>\$ -25,000</u>	<u>\$ 0</u>
Net Change in Cash	\$ 38,634	\$ 0	\$ 10,229
Cash Balance at March 31, 2007	<u>110,333</u>	<u>0</u>	<u>9,147</u>
Cash Balance at March 31, 2008	<u>\$ 148,967</u>	<u>\$ 0</u>	<u>\$ 19,376</u>

## SULLIVAN, INDIANA

**STATEMENT OF CASH FLOWS**  
**TWELVE MONTHS ENDED MARCH 31, 2008**

<u>Reconciliation of Operating Income (Loss) to Net Cash</u> <u>Provided (Used) by Operating Activities</u>	<u>Low Rent</u>	<u>Capital Funds</u>	<u>Voucher</u>
Net operating income (loss)	\$ -505,065	\$ 18,854	\$ -9,639
Adjustment to Reconcile Operating Income (Loss) to Net Cash Flows from Operating Activities:			
Depreciation	496,582	6,146	0
(Increase) decrease in accounts receivable	30,693	2,900	-6,144
(Increase) decrease in deferred charges	6,350	0	0
(Increase) decrease in inventory	-343	0	0
Increase (decrease) in accounts payable	5,938	-2,900	-28,149
Increase (decrease) in accrued liabilities	11,131	0	710
Increase (decrease) in deferred revenues	<u>-5,842</u>	<u>0</u>	<u>0</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 39,444</u>	<u>\$ 25,000</u>	<u>\$ -43,222</u>

**PAMELA J. SIMPSON, C.P.A.**

**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  
Sullivan Housing Authority  
Sullivan, Indiana

I have audited the financial statements of the governmental activities of Sullivan Housing Authority as of and for the year ended March 31, 2008, which collectively comprise the Sullivan Housing Authority's basic financial statements and have issued my report thereon dated October 17, 2008. 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 Sullivan Housing Authority's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Sullivan Housing Authority's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Sullivan Housing Authority's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employee, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Sullivan Housing Authority's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Sullivan Housing Authority's financial statements that is more than inconsequential will not be prevented or detected by the Sullivan Housing Authority's internal control.

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

My consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above. This report is intended solely for the information of management, the Board of Commissioners and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Sullivan Housing Authority's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulation, 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 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 we reported to management of Sullivan Housing Authority, in a separate letter dated October 17, 2008.

This reported in intended solely for the information of management, the Board of Commissioners, and 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.

Decatur, Illinois  
October 17, 2008

Certified Public Accountant

**PAMELA J. SIMPSON, C.P.A.**

**Report on Compliance With Requirements Applicable to Each Major Program and on  
Internal Control Over Compliance in Accordance With OMB Circular A-133**

Board of Commissioners  
Sullivan Housing Authority  
Sullivan, Indiana

**Compliance**

I have audited the compliance of Sullivan Housing 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 March 31, 2008. Sullivan 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 Sullivan Housing Authority's management. My responsibility is to express an opinion on Sullivan Housing Authority's compliance based on my audit.

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

In my opinion, Sullivan Housing 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 March 31, 2008. However, 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**

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

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

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

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

In addition, I noticed other matters involving the internal control and its operation that I have reported to management of Sullivan Housing Authority in a separate letter dated October 17, 2008.

This report is intended solely for the information and use of management, the Board of Commissioners, others within the entity, and 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.

Decatur, Illinois  
October 17, 2008

Certified Public Accountant

**SULLIVAN HOUSING AUTHORITY  
SULLIVAN, INDIANA**

**STATUS OF PRIOR AUDIT FINDINGS**

The prior audit report for the period ended March 31, 2007 contained no findings.

**SULLIVAN HOUSING AUTHORITY  
SULLIVAN, INDIANA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - SUMMARY  
FOR THE YEAR ENDED MARCH 31, 2008**

**Section I - Summary of Auditor's Results**

Low Risk Auditee   X   yes        no

*Financial Statements*

Type of auditor's report: Unqualified

- \* Material weakness(es) identified?        yes   X   no
- \* Significant deficiency (ies) identified that are not considered to be material weaknesses?        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
- \* Reportable condition(s) identified that are not considered to be material weaknesses?        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 Circular A-133?        yes   X   no

**Major Programs: (Threshold \$300,000)** **CFDA Number(s)**

Public and Indian Housing 14.850a  
Capital Funds Program 14.872

**SULLIVAN HOUSING AUTHORITY  
SULLIVAN, INDIANA**

**FINDINGS, RECOMMENDATIONS AND REPLIES**

**Section II - Financial Statement Findings**

There were no audit findings discussed with Mr. Donald Hunt, Executive Director or Carol Rhoades, during the course of the audit or at an exit conference held October 17, 2008.

**Section II - Federal Award Findings**

There were no audit findings discussed with Mr. Donald Hunt, Executive Director or Carol Rhoades, during the course of the audit or at an exit conference held October 17, 2008.

**SULLIVAN HOUSING AUTHORITY  
SULLIVAN, INDIANA**

**SCHEDULE OF ADJUSTING JOURNAL ENTRIES  
MARCH 31, 2008**

<u>Low Rent</u>	<u>Audit Account Number</u>	<u>Debit</u>	<u>Credit</u>	<u>Posting Account Number</u>
(1)				
Other sundry	4190	\$ 360.00		2810.512
General fund	1111.01		\$ 360.00	1111.01
(To correct posting of prior year audit adjustment #1)				
(2)				
Accrued interest receivable	1145	\$ 4,612.55		1145
Interest income	3610	11,678.35		2810.512
General fund investments	1162		\$ 16,290.90	1162
(To adjust investments to actual per bank confirmed balances)				
(3)				
Employee benefits	4182	\$ 3,941.93		2810.512
Health insurance withholding	2117.050		\$ 4,931.65	2117.050
State withholding	2117.030	989.72		2117.030
(To correct withholding accounts per analysis of current and subsequent payments)				
(4)				
PILOT expense	4520	\$ 169.09		2810.512
PILOT	2137		\$ 169.09	2137
(To adjust PILOT to actual per year end calculation)				
(5)				
Insurance expense	4510	\$ 9,114.81		2810.512
Prepaid insurance	1211		\$ 9,114.81	1211
(To adjust accounts to actual per analysis of premiums paid)				
(6)				
Site improvements	1450	\$ 20,000.00		1450
Non expend dwelling equipment	1465.01	14,538.58		1465.01
Dwelling structures	1460	221,244.64		1460
Invested in capital assets	2802.508		\$ 255,783.22	2802.508
(To transfer completed CFP 501-05; cost certified in FY 2007)				
(7)				
Depreciation expense	4800	\$ 11,715.47		2810.508
Accumulated depreciation	1400.5		\$ 11,715.47	1400.5
(To adjust per depreciation schedule provided by Housing Authority)				

**SULLIVAN HOUSING AUTHORITY  
SULLIVAN, INDIANA**

**SCHEDULE OF ADJUSTING JOURNAL ENTRIES  
MARCH 31, 2008  
(CONTINUED)**

<u>Voucher</u>	<u>Audit Account Number</u>	<u>Debit</u>	<u>Credit</u>	<u>Posting Account Number</u>
(1)				
HUD revenue administrative	1125.010	\$ 597.00		1125.010
Accounts receivable - HUD	3410.010		\$ 597.00	3410.010
(To correct JV made by fee accountant to set up accounts receivable - HUD, notice sent 8/7/08 verifying actual receivable)				
(2)				
Restricted	2810.001	\$ 54.00		2810.001
Unrestricted	2810.010		\$ 54.00	2810.010
(To correct to beginning balance)				
<u>Capital Funds</u>				
(1)				
Invested in capital assets	08-000-2802	\$ 255,783.22		
Land improvement	08-000-1400.06		\$ 20,000.00	
Building improvement	08-000-1400.075		221,244.64	
Furniture, equipment, dwell	08-000-1400.08		14,538.58	
(To transfer completed CFP 501-05; cost certified in FY 2007)				

PHA: IN034 FYED: 03/31/2008

Line Item No	Account Description	Low Rent Public Housing	Housing Choice Vouchers	Public Housing Capital Fund Program	Total
111	Cash - Unrestricted	\$126,042	\$958	\$0	\$127,000
113	Cash - Other Restricted	\$0	\$18,418	\$0	\$18,418
114	Cash - Tenant Security Deposits	\$22,925	\$0	\$0	\$22,925
100	Total Cash	\$148,967	\$19,376	\$0	\$168,343
122	Accounts Receivable - HUD Other Projects	\$0	\$90	\$4,885	\$4,975
126	Accounts Receivable - Tenants - Dwelling Rents	\$499	\$0	\$0	\$499
126.1	Allowance for Doubtful Accounts - Dwelling Rents	\$0	\$0	\$0	\$0
126.2	Allowance for Doubtful Accounts - Other	\$0	\$0	\$0	\$0
129	Accrued Interest Receivable	\$4,612	\$0	\$0	\$4,612
120	Total Receivables, net of allowances for doubtful accounts	\$5,111	\$90	\$4,885	\$10,086
131	Investments - Unrestricted	\$484,000	\$0	\$0	\$484,000
142	Prepaid Expenses and Other Assets	\$42,112	\$0	\$0	\$42,112
143	Inventories	\$686	\$0	\$0	\$686
143.1	Allowance for Obsolete Inventories	\$0	\$0	\$0	\$0
144	Interprogram Due From	\$4,885	\$6,054	\$0	\$10,939
150	Total Current Assets	\$685,761	\$25,520	\$4,885	\$716,166
161	Land	\$131,925	\$0	\$0	\$131,925
162	Buildings	\$14,612,813	\$0	\$0	\$14,612,813
163	Furniture, Equipment & Machinery - Dwellings	\$245,742	\$0	\$0	\$245,742
164	Furniture, Equipment & Machinery - Administration	\$534,498	\$0	\$0	\$534,498
165	Leasehold Improvements	\$269,051	\$0	\$0	\$269,051
166	Accumulated Depreciation	\$-8,388,175	\$0	\$-12,293	\$-8,400,468
167	Construction In Progress	\$0	\$0	\$318,979	\$318,979
180	Total Fixed Assets: Net of Accumulated Depreciation	\$7,405,854	\$0	\$306,686	\$7,712,540
180	Total Non-Current Assets	\$7,405,854	\$0	\$306,686	\$7,712,540
190	Total Assets	\$8,091,615	\$25,520	\$311,571	\$8,428,706

PHA: IN034 FYED: 03/31/2008

Line Item No	Account Description	Low Rent Public Housing	Housing Choice Vouchers	Public Housing Capital Fund Program	Total
312	Accounts Payable <= 90 Days	\$195	\$0	\$0	\$195
321	Accrued Wage/Payroll Taxes Payable	\$9,593	\$1,816	\$0	\$11,209
322	Accrued Compensated Absences - Current Portion	\$22,591	\$1,781	\$0	\$24,372
333	Accounts Payable - Other Government	\$36,498	\$0	\$0	\$36,498
341	Tenant Security Deposits	\$22,925	\$0	\$0	\$22,925
342	Deferred Revenues	\$29,588	\$0	\$0	\$29,588
347	Interprogram Due To	\$6,054	\$0	\$4,885	\$10,939
310	Total Current Liabilities	\$127,444	\$3,397	\$4,885	\$135,726
350	Total Noncurrent Liabilities	\$0	\$0	\$0	\$0
300	Total Liabilities	\$127,444	\$3,397	\$4,885	\$135,726
508	Total Contributed Capital	\$0	\$0	\$0	\$0
508.1	Invested in Capital Assets, Net of Related Debt	\$7,405,654	\$0	\$306,686	\$7,712,340
511	Total Reserved Fund Balance	\$0	\$0	\$0	\$0
511.1	Restricted Net Assets	\$0	\$18,418	\$0	\$18,418
512.1	Unrestricted Net Assets	\$558,317	\$3,705	\$0	\$562,022
513	Total Equity/Net Assets	\$7,964,171	\$22,123	\$306,686	\$8,292,980
800	Total Liabilities and Equity/Net Assets	\$8,091,615	\$25,520	\$311,571	\$8,428,706

PHA: IN034 FYED: 03/31/2008

Line Item No	Account Description	Low Rent Public Housing	Housing Choice Vouchers	Public Housing Capital Fund Program	Total
703	Net Tenant Rental Revenue	\$591,993	\$0	\$0	\$591,993
705	Total Tenant Revenue	\$591,993	\$0	\$0	\$591,993
706	HUD PHA Operating Grants	\$479,001	\$179,850	\$65,658	\$724,509
706.1	Capital Grants	\$0	\$0	\$301,243	\$301,243
711	Investment Income - Unrestricted	\$22,998	\$384	\$0	\$23,382
715	Other Revenue	\$24,765	\$0	\$0	\$24,765
720	Investment Income - Restricted	\$0	\$392	\$0	\$392
700	Total Revenue	\$1,118,757	\$180,606	\$366,931	\$1,666,294

PHA: IN034 FYED: 03/31/2008

Line Item No.	Account Description	Low Rent Public Housing	Housing Choice Vouchers	Public Housing Capital Fund Program	Total
911	Administrative Salaries	\$138,393	\$28,935	\$40,688	\$208,016
912	Auditing Fees	\$3,300	\$0	\$0	\$3,300
914	Compensated Absences	\$3,051	\$142	\$0	\$3,193
915	Employee Benefit Contributions - Administrative	\$63,949	\$14,413	\$0	\$78,362
916	Other Operating - Administrative	\$56,044	\$0	\$0	\$56,044
924	Tenant Services - Other	\$10,549	\$0	\$0	\$10,549
931	Water	\$77,232	\$0	\$0	\$77,232
932	Electricity	\$117,915	\$0	\$0	\$117,915
933	Gas	\$14,605	\$0	\$0	\$14,605
938	Other Utilities Expense	\$17,263	\$0	\$0	\$17,263
941	Ordinary Maintenance and Operations - Labor	\$170,970	\$0	\$0	\$170,970
942	Ordinary Maintenance and Operations - Materials and Other	\$53,332	\$0	\$0	\$53,332
943	Ordinary Maintenance and Operations - Contract Costs	\$124,206	\$0	\$0	\$124,206
945	Employee Benefit Contributions - Ordinary Maintenance	\$81,959	\$0	\$0	\$81,959
961	Insurance Premiums	\$81,979	\$0	\$0	\$81,979
963	Payments in Lieu of Taxes	\$36,503	\$0	\$0	\$36,503
964	Bad Debt - Tenant Rents	\$424	\$0	\$0	\$424
969	Total Operating Expenses	\$1,051,674	\$43,490	\$40,688	\$1,135,852
970	Excess Operating Revenue over Operating Expenses	\$67,083	\$137,116	\$326,243	\$530,442
971	Extraordinary Maintenance	\$52,568	\$0	\$0	\$52,568
973	Housing Assistance Payments	\$0	\$145,999	\$0	\$145,999
974	Depreciation Expense	\$496,582	\$0	\$6,146	\$502,728
906	Total Expenses	\$1,600,824	\$189,469	\$46,834	\$1,837,147
1001	Operating Transfers In	\$25,000	\$0	\$0	\$25,000
1002	Operating Transfers Out	\$0	\$0	\$-25,000	\$-25,000
1010	Total Other Financing Sources (Uses)	\$25,000	\$0	\$-25,000	\$0
1000	Excess (Deficiency) of Total Revenue Over (Under) Total Expenses	\$-457,067	\$-8,883	\$295,097	\$-170,853

PHA: IN034 FYED: 03/31/2008

Line Item No.	Account Description	Low Rent Public Housing	Housing Choice Vouchers	Public Housing Capital Fund Program	Total
1102	Debt Principal Payments - Enterprise Funds	\$0	\$0	\$0	\$0
1103	Beginning Equity	\$8,165,455	\$31,006	\$287,372	\$8,483,833
1104	Prior Period Adjustments, Equity Transfers and Correction of Errors	\$255,783	\$0	\$-255,783	\$0
1120	Unit Months Available	3,060	600	0	3,660
1121	Number of Unit Months Leased	2,867	559	0	3,426
1117	Administrative Fee Equity	\$0	\$3,705	\$0	\$3,705
1118	Housing Assistance Payments Equity	\$0	\$18,418	\$0	\$18,418

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Date Submission Created: 10/03/2008

| Top of Page |

# **PAMELA J. SIMPSON, C.P.A.**

**433 WEST PERSHING ROAD**

**DECATUR, ILLINOIS 62526**

**(217) 872-1908**

Board of Commissioners  
Sullivan Housing Authority  
Sullivan, Indiana

In planning and performing my audit of the financial statements of Sullivan Housing Authority as of and for the year ended March 31, 2008, 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 Sullivan Housing Authority 's internal control. Accordingly, I do not express an opinion on the effectiveness of Sullivan 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. 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.

In addition to the current policies/procedures, I suggest that the written manual be expanded to include: (a) approval of journal entries (hard copies initialed or signed) (b) documentation of approval of payroll (payroll registers should be initialed or signed) (c) credit card use (full explanation of the purpose of travel, meals and meetings attached to supporting invoices) (d) personal use of agency assets (such as automobile, cell phone, etc) and (e) reconciliation of rent rolls and HAP registers with written documentation of approval. The written policies should also cover the extent that outside consultants are used to provide internal controls.

The written policies should also cover the extent that outside consultants are used to enhance internal controls. The policies should include the detail of level of responsibility the fee accountant is assuming in the preparation and review of the year end financial statements as compared to the level responsibility the housing is authority is maintaining. The written procedures should indicate who will prepare and maintain copies of year end schedules, journal entries and reconciliations. However the Housing Authority management should keep in mind that you have the ultimate responsibility for preparation of accurate and complete financial statements.

A more detailed written manual will aid in the training of new staff, assure management of consistency in policy application as well as accurate financial reporting.

2. The Housing Authority has developed new depreciation schedule that contains more relevant detail of the assets that are owned. At year end (or at the date of the reconciliation of physical counts of assets vs. the detailed schedule, the Housing Authority should investigate differences between the detail and the physical counts. The detailed schedule should also readily identify assets owned by each program (public housing voucher and capital funds).

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.

Decatur, Illinois  
October 17, 2008

Certified Public Accountant