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May 15, 2009

Board of Commissioners
New Castle Housing Authority
274 S. 14th St.
New Castle, IN 47362

We have reviewed the audit report prepared by Sailor, Khan & Co., LLC, Independent Public Accountants, for the period July 1, 2006 to June 30, 2007. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountants' opinion, the financial statements included in the report present fairly the financial condition of the New Castle Housing Authority, as of June 30, 2007, and the results of its operations for the period then ended, on the basis of accounting described in the report.

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

We call your attention to the finding in the report. Pages 46 and 47 contain one current audit finding.

STATE BOARD OF ACCOUNTS

NEW CASTLE HOUSING AUTHORITY
NEW CASTLE, INDIANA
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007
AND
REPORTS ON COMPLIANCE AND
ON INTERNAL CONTROL

NEW CASTLE HOUSING AUTHORITY
New Castle, Indiana

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JUNE 30, 2007

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Khan & Co. LLC**INDEPENDENT AUDITOR'S REPORT**

Board of Commissioners
New Castle Housing Authority
New Castle, Indiana

We have audited the accompanying basic financial statements of the New Castle Housing Authority, Indiana, (Authority) as of and for the year ended June 30, 2007, as listed in the table of contents. These basic financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.


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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the New Castle Housing Authority, Indiana, as of June 30, 2007, and the changes in its financial position and its 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*, we have also issued our report dated October 11, 2007, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages ii to v is not a required part of the basic financial statements but is supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

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


Sailor, Khan & Co. LLC
October 11, 2007

New Castle Housing Authority

**Management's Discussion and Analysis (MD&A)
June 30, 2007
(Unaudited)**

The management of the New Castle Housing Authority (PHA) offers this narrative overview and analysis of its audited financial statements for fiscal year ended June 30, 2007. The goal is for the reader to better understand the Authority's financial activities and its overall financial position and to show whether current year revenues covered current year expenses and the extent to which the Authority has invested its capital assets. We encourage readers to consider the information presented here in conjunction with the Authority's financial statements.

FINANCIAL HIGHLIGHTS:

- The assets of the PHA exceed its liabilities as of June 30, 2007 by \$4,285,095 (Net Assets).
- The PHA's investment in Capital Assets, net of related debt as of June 30, 2007 was \$4,010,131.
- The PHA's total revenue and contributions for the fiscal year end June 30, 2007 was \$2,194,492.
- The PHA's total expenses for the fiscal year end June 30, 2007 was \$2,236,516. Therefore, the PHA's expenses exceeds its revenues and contributions by \$42,024.

OVERVIEW OF THE FINANCIAL STATEMENTS:

The following financial statements are included in this report:

- *Statement of Net Assets* -reports the Authority current financial resources: its cash and other current assets, its current and non-current liabilities and comparing those two elements, the resulting net assets of the PHA. A comparison between this year and the preceding year is also provided.
- *Statement of Revenue and Expenses and Change in Net Assets* -reports the PHA's various revenue and expenses and provides a comparison between this year and the preceding year.

ANALYSIS OF FINANCIAL STATEMENTS:

**STATEMENTS OF NET ASSETS
JUNE 30**

	<u>2007</u>	<u>2006</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Current and other assets	\$ 418,975	\$ 441,226	\$ (22,251)	-5.0%
Capital assets	4,174,495	4,229,207	(54,712)	-1.3%
Total Assets	<u>4,593,470</u>	<u>4,670,433</u>	<u>(76,963)</u>	-1.6%
Current liabilities	149,735	155,737	(6,002)	-3.9%
Noncurrent liabilities	158,640	169,257	(10,617)	-6.3%
Total Liabilities	<u>308,375</u>	<u>324,994</u>	<u>(16,619)</u>	-5.1%
Net Assets				
Invested in capital assets, net of related debt	4,010,131	4,053,315	(43,184)	-1.1%
Unrestricted	274,964	292,124	(17,160)	-5.9%
Total Net Assets	<u>\$ 4,285,095</u>	<u>\$ 4,345,439</u>	<u>\$ (60,344)</u>	-1.4%

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

ANALYSIS OF FINANCIAL STATEMENTS (CONTINUED):

Net assets may serve, over time, as a useful indicator of a government's financial position. As stated in the table on the following page, assets exceeded liabilities by \$4,285,095 at the close of the year ended June 30, 2007 down from \$4,345,439 in 2006. The decrease in net assets of \$60,344 was due to the change in net assets for the year.

The unrestricted net assets were \$274,964 as of June 30, 2007. This amount may be used to meet the Authority's ongoing obligations. The Authority had no net assets classified as restricted that are subject to external restrictions on how they may be used. At the end of the current fiscal year, the Authority is able to report positive balances in all categories of net assets. The same situation held true for the prior fiscal year.

**STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS
JUNE 30,**

	<u>2007</u>	<u>2006</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Revenues and Contributions				
Operating - non-operating -capital contributions:				
Rental revenue	\$ 293,484	\$ 283,084	\$ 10,400	3.7%
HUD operating grants	1,705,012	1,654,484	50,528	3.1%
Interest income	8,739	9,018	(279)	-3.1%
Capital Contributions	166,371	176,502	(10,131)	-5.7%
Other income	<u>20,886</u>	<u>23,679</u>	<u>(2,793)</u>	-11.8%
Total Revenues and Contributions	<u>2,194,492</u>	<u>2,146,767</u>	<u>47,725</u>	2.2%
Expenses				
Personal services	404,047	398,156	5,891	1.5%
Utilities	111,777	104,480	7,297	7.0%
Operations and maintenance	70,009	75,866	(5,857)	-7.7%
Non routine maintenance	16,356	23,447	(7,091)	-30.2%
Insurance	39,678	38,582	1,096	2.8%
Payment in lieu of taxes	1,787	2,480	(693)	-27.9%
Other supplies and expenses	70,285	58,462	11,823	20.2%
Housing assistance payments	1,271,049	1,241,065	29,984	2.4%
Interest expense	8,546	4,305	4,241	98.5%
Depreciation	<u>242,982</u>	<u>229,753</u>	<u>13,229</u>	5.8%
Total Expenses	<u>2,236,516</u>	<u>2,176,596</u>	<u>59,920</u>	2.8%
Change in net assets	(42,024)	(29,829)	(12,195)	
Beginning net assets	4,345,439	4,375,268	(29,829)	
Prior period adjustments	<u>(18,320)</u>	----	<u>(18,320)</u>	
Beginning net assets, adjusted	<u>4,327,119</u>	<u>4,375,268</u>	<u>(48,149)</u>	
Ending net assets	<u>\$ 4,285,095</u>	<u>\$ 4,345,439</u>	<u>\$ (60,344)</u>	

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

ANALYSIS OF FINANCIAL STATEMENTS (CONTINUED):

Total revenues and contributions increased by \$47,725 due to increases in rental revenue and HUD operating grants, which were partially offset by decreases in capital contributions, interest income and other income. The increase in Housing and Urban Development (HUD) Operating & Capital Grants is primarily due the increase in operating subsidy for the Low Rent Program due to the add-on subsidy to repay the Energy Conservation Measures Grant.

Total expenses increased by \$59,920 due to increases in personal services, utilities, other supplies and expenses, housing assistance payments, interest expenses and depreciation, which were partially offset by decreases in operations and maintenance, non routine maintenance and payment in lieu of taxes. The increase in utility expenses is due to the increase in gas rates and electricity used. The decrease in non routine maintenance is due to fewer unexpected maintenance issues during the year. The increase in housing assistance payments is due to more payments passed through to landlords for rent.

BUDGETARY HIGHLIGHTS:

Low-Rent Public Housing (Operations Only)

The Board-approved budget anticipated an operating income of \$27,542. Actual result of operation was an operation income before depreciation of \$49,615, for a variance of \$22,073.

The variance is due to the following primary factors: (1) decrease in extraordinary maintenance budgeted for and (2) decrease maintenance materials and insurance expense.

CAPITAL ASSETS & LONG-TERM DEBT ACTIVITY DURING THE YEAR:

Capital Assets - The New Castle Housing Authority's capital assets, as of June 30, 2006 amounts to \$4,174,495 (net of accumulated depreciation). The capital assets includes land, buildings, improvements, equipment and construction in progress.

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

	<u>2007</u>	<u>2006</u>	<u>Dollar Change</u>
Land	\$ 917,432	\$ 917,432	\$ ----
Building	4,138,362	4,138,362	----
Furniture, equipment and machinery- dwelling	112,655	108,058	4,597
Furniture, equipment and machinery- administration	372,174	352,015	20,159
Leasehold improvements	1,929,771	1,925,551	4,220
Construction in progress	<u>156,557</u>	<u>33,528</u>	<u>123,029</u>
	7,626,951	7,474,946	152,005
Accumulated depreciation	<u>3,452,456</u>	<u>3,245,739</u>	<u>206,717</u>
Total	<u>\$ 4,174,495</u>	<u>\$ 4,229,207</u>	<u>\$ (54,712)</u>

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

CAPITAL ASSETS & LONG-TERM DEBT ACTIVITY DURING THE YEAR (CONTINUED):

The total decrease in the Authority's capital assets for the current fiscal year was \$54,712 or 1.3% in terms of net book value. Actual expenditures to purchase equipment and construct capital assets were \$188,422 for the year. The Authority has \$143,032 available in Capital Funds to draw down and spend in the future.

Debt Administration - The New Castle Housing Authority has a long-term debt in the amount of \$164,364.00 as of June 30, 2007. Additional information regarding the Housing Authority's long term debt can be found in note 3g of the notes to financial statements.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

The financial report is designed to provide a general overview of the PHA's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Executive Director-Jerry Cash, 274 South 14th Street, New Castle, Indiana 47362.

NEW CASTLE HOUSING AUTHORITY

New Castle, Indiana

STATEMENT OF NET ASSETS

June 30, 2007

ASSETS

Current Assets:

Cash and cash equivalents	\$ 180,114.65
Investments	191,989.96
Receivable - net of allowances:	
Accounts	19,986.32
Inventory - net of allowances	10,645.56
Prepaid expenses	<u>16,238.15</u>
 Total Current Assets	 <u>418,974.64</u>

Noncurrent Assets:

Capital assets:

Land, improvements, and construction in progress	1,073,989.20
Other capital assets, net of depreciation	<u>3,100,506.34</u>
 Total capital assets- net	 <u>4,174,495.54</u>
 Total Noncurrent Assets	 <u>4,212,704.64</u>
 Total Assets	 <u>\$ 4,593,470.18</u>

See notes to financial statements

NEW CASTLE HOUSING AUTHORITY

New Castle, Indiana

STATEMENT OF NET ASSETS (CONTINUED)

June 30, 2007

LIABILITIES

Current Liabilities:

Accounts Payable	\$ 70,294.61
Accrued salaries, wages and benefits	3,881.66
Accrued compensated absences	21,882.30
Tenant security deposit liability	38,209.10
Interest payable	113.50
Current portion of long term debt	12,357.00
Deferred revenues	<u>2,997.20</u>

Total Current Liabilities 149,735.37

Noncurrent Liabilities:

Long term debt	152,007.60
Accrued compensated absences	<u>6,632.57</u>

Total Noncurrent Liabilities 158,640.17

Total Liabilities 308,375.54

NET ASSETS

Invested in capital assets, net of related debt	4,010,130.94
Unrestricted	<u>274,963.70</u>

Total Net Assets 4,285,094.64

Total Liabilities and Net Assets \$ 4,593,470.18

See notes to financial statements

NEW CASTLE HOUSING AUTHORITY

New Castle, Indiana

STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS

For Year Ended June 30, 2007

Operating Revenues:

Rental revenue	\$ 293,483.78
Operating subsidies- HUD grants	1,705,012.50
Other revenues	<u>20,885.68</u>
Total operating revenues	<u>2,019,381.96</u>

Operating Expenses:

Personal services	404,047.32
Utilities	111,777.21
Operations and maintenance	70,009.30
Non routine maintenance	16,356.08
Insurance	39,677.77
Payment in lieu of taxes	1,787.49
Other supplies and expenses	70,284.64
Housing assistance payments	1,271,049.27
Depreciation	<u>242,981.56</u>
Total operating expenses	<u>2,227,970.64</u>

Operating income (loss) (208,588.68)

Non-operating revenues (expenses):

Interest and investment earnings	8,738.59
Interest expense	<u>(8,545.99)</u>

Net non-operating revenues (expenses) 192.60

Income (loss) before other revenues, expenses, gains, losses and transfers (208,396.08)

Capital contributions 166,371.29

Change in net assets (42,024.79)

Net assets at beginning of year 4,345,439.00

Prior period error corrections (18,319.57)

Net assets adjusted at beginning of year 4,327,119.43

Net assets at end of year \$ 4,285,094.64

See notes to financial statements

NEW CASTLE HOUSING AUTHORITY

New Castle, Indiana

STATEMENT OF CASH FLOWS

For Year Ended June 30, 2007

Cash flows from operating activities:

Cash received from tenants	\$ 294,714.26
Cash received from HUD grants- operating	1,672,675.95
Cash received from other operating activities	22,589.14
Cash payments for goods and services	(1,589,363.94)
Cash payments to employees-salaries	(297,537.14)
Cash payments to employees-compensated absences	(6,970.96)
Cash payments for employee benefit contributions	(103,412.68)
Cash payments for in lieu of property taxes	<u>(2,479.97)</u>

Net cash provided (used) by operating activities (9,785.34)

Cash flows from capital and related financing activities:

Proceeds from capital debt	180,534.00
Capital contributions	157,157.01
Proceeds from sale of assets	151.76
Payments for capital assets	(188,421.95)
Principal paid on capital debt	(192,060.86)
Interest paid on capital debt	<u>(8,553.94)</u>

Net cash (used) for capital and related financing activities (51,193.98)

Cash flows from investing activities:

Proceeds from sale of (payments) for investments	(6,889.00)
Interest and dividends	8,738.59
Receipts (payments) from tenant security deposits	<u>2,461.66</u>

Net cash provided (used) from investing activities 4,311.25

Net increase (decrease) in cash and cash equivalents (56,668.07)

Cash and cash equivalents at beginning of year 236,782.72

Cash and cash equivalents at end of year \$ 180,114.65

Cash and cash equivalents \$ 141,905.55

Restricted cash and cash equivalents 38,209.10

Total cash and cash equivalents at end of year \$ 180,114.65

See notes to financial statements

NEW CASTLE HOUSING AUTHORITY

New Castle, Indiana

STATEMENT OF CASH FLOWS (CONTINUED)

For Year Ended June 30, 2007

**Reconciliation of operating income (loss) to net cash
provided (used) by operating activities:**

Operating income (loss)	\$ (208,588.68)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation expense	242,981.56
Allowance for doubtful accounts	7,846.33
Changes in assets and liabilities:	
Receivables	(13,027.09)
Inventory	(4,192.27)
Prepaid expenses	(6,571.69)
Accounts and other payables	(23,638.24)
Deferred revenues	(721.80)
Compensated absences	(2,134.01)
Accrued expenses	<u>(1,739.45)</u>
Net cash provided (used) by operating activities	<u>\$ (9,785.34)</u>

See notes to financial statements

NEW CASTLE HOUSING AUTHORITY

New Castle, Indiana

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2007

NOTE 1 - Summary of Significant Accounting Policies (Continued)

1b. Basis of Presentation (Continued)

Following is a description of the Authority's programs:

Program	Brief Description
Low Rent	Accounts for activities of the Public and Indian Housing program which HUD provides an annual subsidy to help public housing agencies (PHAs) pay some of the cost of operating and maintaining public housing units.
Housing Choice Vouchers	Accounts for activities of the Voucher program which assists very low-income families, the elderly, and the disabled to afford decent, safe and sanitary housing in the private market.
Capital Fund Program	Accounts for activities of the Capital Fund which provides funds to housing authorities to modernize public housing developments.
New Construction	Accounts for activities of the New Construction program which assists very low-income families, the elderly, and the disabled to have decent, safe and sanitary housing through the housing assistance payments received by the housing authority.

1c. Measurement Focus and Basis of Accounting

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

Measurement Focus

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

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

Basis of Accounting

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

NEW CASTLE HOUSING AUTHORITY

New Castle, Indiana

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2007

NOTE 1 - Summary of Significant Accounting Policies (Continued)

1d. Assets, Liabilities, and Equity

Cash and Investments

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

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

Interprogram Receivables and Payables

During the course of operations, numerous transactions occur within individual programs that may result in amounts owed between these programs. Offsetting interprograms are eliminated for financial statement presentation.

Receivables

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

Inventories

Inventories are valued at average cost, and consist of expendable supplies held for consumption. The cost of inventories are recorded as expenditures when consumed, rather than when purchased.

Budgets and Budgetary Accounting

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

Estimates and Assumptions

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

NEW CASTLE HOUSING AUTHORITY

New Castle, Indiana

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2007

NOTE 1 - Summary of Significant Accounting Policies (Continued)

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

Capital Assets

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

In the financial statements, capital assets purchased or acquired with an original cost of \$100 or more are accounted for as capital assets. All capital assets are valued at historical cost, or estimated historical cost if actual is unavailable, except for donated capital assets which are recorded at their estimated fair value at the date of donation.

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

Buildings	40	years
Furniture, equipment and machinery - dwelling	10	years
Furniture, equipment and machinery - administration	3 - 10	years
Leasehold improvements	10 - 15	years

Compensated Absences

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

Equity Classifications

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

- a. Invested in capital assets, net of related debt—Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowing that are attributable to the acquisition, construction, or improvement of those assets.
- b. Unrestricted net assets—All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

NEW CASTLE HOUSING AUTHORITY

New Castle, Indiana

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2007

NOTE 1 - Summary of Significant Accounting Policies (Continued)

1e. Revenues, Expenditures, and Expenses

Operating Revenues and Expenses

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

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

Interfund Transfers

For the purposes of the Statement of Revenues, Expenses and Change in Net Assets, all interfund transfers between individual programs, if any, have been eliminated.

NOTE 2 - Stewardship, Compliance, and Accountability

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

2a. Program Accounting Requirements

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

Program	Required By
Public and Indian Housing	U.S. Department of Housing and Urban Development
Housing Choice Vouchers	U.S. Department of Housing and Urban Development
Capital Fund Program	U.S. Department of Housing and Urban Development
New Constructiton	U.S. Department of Housing and Urban Development

NEW CASTLE HOUSING AUTHORITY

New Castle, Indiana

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2007

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

2b. Deposits and Investments Laws and Regulations

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

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

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

2c. Revenue Restrictions

The Authority has various restrictions placed over certain revenue sources. The primary restricted revenue sources include:

<i>Revenue Source</i>	<i>Legal Restrictions of Use</i>
Capital Fund Program	Modernization

For the year ended June 30, 2007, the Authority complied, in all material respects, with these revenue restrictions.

NOTE 3 - Detail Notes on Transaction Classes/Accounts

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

3a. Cash and Investments

Deposits

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it or the Authority will not be able to recover collateral securities in the possession of an outside party. As of June 30, 2007, the Authority's bank balances of \$222,437.95, were insured by federal depository insurance or collateralized with securities held by the pledging financial institutions in the Authority's name.

NEW CASTLE HOUSING AUTHORITY

New Castle, Indiana

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2007

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

3a. Cash and Investments (Continued)

Investments

Custodial Credit Risk - Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As of June 30, 2007, the Authority's investments were \$191,989.96. These investments were insured by federal depository insurance or registered, or securities held by the Authority or its agent in the Authority's name.

Credit Risk Investments, Concentrations of Credit Risk and Interest Rate Risk - Investments:

Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Authority will minimize credit risk by reviewing the financial institutions with which the Authority will do business so that potential losses on individual securities will be minimized.

Interest Rate Risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Authority has chosen longer term investments due to current favorable rates. Longer terms will minimize the adverse effect of possible future declining rates.

Concentration of Credit Risk is the risk of loss attributed to the magnitude of the Authority's investment in a single issuer. The Authority does not have a written investment policy covering concentration of credit risk.

3b. Accounts Receivable

Receivables detail at June 30, 2007, is as follows:

Tenant accounts receivable	\$ 5,600.78	
Allowance for doubtful accounts	<u>(4,329.91)</u>	
Tenants accounts receivable - net		\$ 1,270.87
Fraud recovery	6,614.53	
Allowance for doubtful accounts	<u>(6,614.53)</u>	
Fraud recovery - net		----
Accounts receivable - HUD		15,549.45
Accounts receivable - other		<u>3,166.00</u>
		<u>\$ 19,986.32</u>

NEW CASTLE HOUSING AUTHORITY

New Castle, Indiana

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2007

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

3c. Capital Assets

Capital asset activity for the year ended June 30, 2007, was as follows:

	<u>Balance July 1, 2006</u>	<u>Additions</u>	<u>(Retirements)</u>	<u>Balance June 30, 2007</u>
Land	\$ 917,432.10	\$ ----	\$ ----	\$ 917,432.10
Building	4,138,362.15	----	----	4,138,362.15
Furniture, equipment and machinery- dwelling	108,057.65	5,816.00	(1,219.00)	112,654.65
Furniture, equipment and machinery- administration	352,014.86	55,357.05	(35,198.27)	372,173.64
Leasehold improvements	1,925,551.34	4,220.00	----	1,929,771.34
Construction in progress	<u>33,528.20</u>	<u>123,028.90</u>	<u>----</u>	<u>156,557.10</u>
	7,474,946.30	<u>\$ 188,421.95</u>	<u>\$ (36,417.27)</u>	7,626,950.98
Accumulated depreciation	<u>3,245,739.39</u>	<u>\$ 242,981.56</u>	<u>\$ (36,265.51)</u>	<u>3,452,455.44</u>
Total	<u>\$ 4,229,206.91</u>			<u>\$ 4,174,495.54</u>

3d. Accounts Payable

Payable detail at June 30, 2007, is as follows:

Accounts payable - vendors	\$ 16,701.12
Accounts payable - HUD	51,806.00
Accounts payable - other government - PILOT	<u>1,787.49</u>
	<u>\$ 70,294.61</u>

3e. Compensated Absences

Accumulated unpaid compensated absences are accrued. The liability for compensated absences at June 30, 2007 is \$28,514.87.

NEW CASTLE HOUSING AUTHORITY

New Castle, Indiana

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2007

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

3f. Non-current Liabilities

As of June 30, 2007, the non-current liabilities are comprised of the following:

Accrued compensated absences - non current portion	\$ <u>6,632.57</u>
Total	\$ <u><u>6,632.57</u></u>

The following is a summary of changes in non-current liabilities for the year ended June 30, 2007:

	<u>Balance June 30, 2006</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2007</u>	<u>Amounts Due within One Year</u>
Accrued compensated absences	\$ 5,138.85	\$ 1,493.72	\$ ----	\$ 6,632.57	\$ 21,882.30
Total	\$ <u><u>5,138.85</u></u>	\$ <u><u>1,493.72</u></u>	\$ <u><u>----</u></u>	\$ <u><u>6,632.57</u></u>	\$ <u><u>21,882.30</u></u>

3g. Long-term Debt

Changes in Long-term Debt

The following is a summary of changes in long-term debt for the year ended June 30, 2007:

Type of Debt	<u>Balance June 30, 2006</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2007</u>	<u>Amounts Due within One Year</u>
Notes Payable	\$ 175,891.46	\$ ----	\$ 11,526.86	\$ 164,364.60	\$ 12,357.00
Total	\$ <u><u>175,891.46</u></u>	\$ <u><u>----</u></u>	\$ <u><u>11,526.86</u></u>	\$ <u><u>164,364.60</u></u>	\$ <u><u>12,357.00</u></u>

Annual Debt Service Requirements

The annual debt service requirements to maturity for long-term debt as of June 30, 2007, are as follows:

<u>Project/Loan #</u>	<u>Date of Note</u>	<u>Term of Note</u>	<u>Original Amount</u>	<u>Interest Rate</u>	<u>Current Balance</u>
Low Rent #0009542751	1-24-06	12 years	\$ 180,534.00	4.970%	\$ <u><u>164,364.60</u></u>

NEW CASTLE HOUSING AUTHORITY

New Castle, Indiana

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2007

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

3g. Long-term Debt (Continued)

Annual Debt Service Requirements (Continued)

Year Ending June 30	<u>Note Payable</u>
2008	\$ 12,357.00
2009	12,692.91
2010	13,347.49
2011	14,035.82
2012	17,745.33
until maturity	<u>94,186.05</u>
Total	<u>\$ 164,364.60</u>

3h. Interprogram Transactions and Balances

Operating Transfers

	<u>Transfers in</u>	<u>Transfers out</u>
Public and Indian Housing - Low Rent Capital Fund Program	\$ 35,000.00 <u>----</u>	\$ ---- <u>35,000.00</u>
Total	<u>\$ 35,000.00</u>	<u>\$ 35,000.00</u>

Transfers are used to move revenues from the program that is authorized to transfer them to the program in accordance with budgetary authorizations.

Interprogram Receivable/Payable

Public and Indian Housing - Low Rent	\$ 23,223.50
Housing Choice Vouchers	(16,510.55)
Capital Fund Program	<u>(6,712.95)</u>
Total	<u>\$ ----</u>

NEW CASTLE HOUSING AUTHORITY

New Castle, Indiana

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2007

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

3i. Unrestricted net assets - Prior-period Error Corrections

Following is the composite of error corrections:

1. Accounts payable - HUD - correct to prior year settlement amount	\$ (23,141.05)
2. Allowance for doubtful accounts- fraud recovery - correct for prior year	4,869.46
3. PILOT liability - correct to prior year	<u>(47.98)</u>
Totals	<u>\$ (18,319.57)</u>

NOTE 4 - Other Notes

4a. Employee Retirement Plan

Defined Contribution Plan: The Authority has also provided a defined contribution plan. The defined contribution plan is available to all full-time employees not already participating in another plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan, investment earnings, and forfeitures of other participants' benefits that may be allocated to such participant's account. Benefits vest after ten years of service. The Authority contributed 8.75 to 9.75 percent of covered payroll.

For the year ended June 30, 2007, the following amounts related to the defined contribution plan:

Authority total payroll	\$ 294,252.09
Payroll for covered employees	\$ 258,736.64
Employer (Authority) contributions made	\$ 23,933.14

NEW CASTLE HOUSING AUTHORITY

New Castle, Indiana

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2007

NOTE 4 - Other Notes (Continued)

4b. Risk Management

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

Type of Loss	Method Managed
a. Torts, errors and omissions	Purchased insurance with Farm Bureau Insurance
b. Injuries to employees (workers' compensation)	Purchased insurance with Travelers Insurance Company; Claims are administered by The Pfenninger Agency, Inc.
c. Physical property loss and natural disasters	Purchased commercial insurance with \$1,000.00 deductibles.
d. Health and life	Purchased health insurance with Anthem - Blue Cross and Blue Shield; Life insurance is provided by Companion Life Insurance

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

4c. Commitments and Contingencies

Commitments—Construction

At June 30, 2007, the Authority had the following pending construction projects in progress:

	<u>Funds Approved</u>	<u>Funds Expended - Project to Date</u>
CFP 501-05	\$ 206,824.00	\$ 201,372.16
CFP 501-06	<u>206,863.00</u>	<u>69,282.80</u>
	<u>\$ 413,687.00</u>	<u>\$ 270,654.96</u>

Contingencies

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

NEW CASTLE HOUSING AUTHORITY

New Castle, Indiana

COMBINING STATEMENT OF NET ASSETS BY PROGRAM

June 30, 2007

	<u>Low Rent Program</u>	<u>Housing Choice Vouchers</u>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 50,586.57	\$ 75,289.77
Investments	191,989.96	----
Receivable - net of allowances:		
Accounts	13,273.37	----
Due from (to) interprogram	23,223.50	(16,510.55)
Inventory - net of allowances	10,645.56	----
Prepaid expenses	<u>16,238.15</u>	<u>----</u>
Total Current Assets	<u>305,957.11</u>	<u>58,779.22</u>
Noncurrent Assets:		
Capital assets:		
Land, improvements, and construction in progress	917,432.10	----
Other capital assets, net of depreciation	<u>3,058,781.71</u>	<u>199.34</u>
Total capital assets- net	<u>3,976,213.81</u>	<u>199.34</u>
Total Noncurrent Assets	<u>4,014,422.91</u>	<u>199.34</u>
Total Assets	<u>\$ 4,282,170.92</u>	<u>\$ 58,978.56</u>

NEW CASTLE HOUSING AUTHORITY

New Castle, Indiana

COMBINING STATEMENT OF NET ASSETS BY PROGRAM (CONTINUED)

June 30, 2007

	<u>Low Rent Program</u>	<u>Housing Choice Vouchers</u>
LIABILITIES		
Current Liabilities:		
Accounts Payable	\$ 18,488.61	\$ ----
Accrued salaries, wages and benefits	3,881.66	----
Accrued compensated absences	17,387.51	4,494.79
Tenant security deposit liability	38,209.10	----
Interest payable	113.50	----
Current portion of long term debt	12,357.00	----
Deferred revenues	<u>2,997.20</u>	<u>----</u>
Total Current Liabilities	<u>93,434.58</u>	<u>4,494.79</u>
Noncurrent Liabilities:		
Long term debt	152,007.60	----
Accrued compensated absences	<u>6,133.12</u>	<u>499.45</u>
Total Noncurrent Liabilities	<u>158,140.72</u>	<u>499.45</u>
Total Liabilities	<u>251,575.30</u>	<u>4,994.24</u>
NET ASSETS		
Invested in capital assets, net of related debt	3,811,849.21	199.34
Unrestricted	<u>218,746.41</u>	<u>53,784.98</u>
Total Net Assets	<u>4,030,595.62</u>	<u>53,984.32</u>
Total Liabilities and Net Assets	<u>\$ 4,282,170.92</u>	<u>\$ 58,978.56</u>

NEW CASTLE HOUSING AUTHORITY

New Castle, Indiana

COMBINING STATEMENT OF NET ASSETS BY PROGRAM (CONTINUED)

June 30, 2007

	<u>New Construction Program</u>	<u>Capital Fund Program</u>	<u>Totals</u>
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 54,238.31	\$ ----	\$ 180,114.65
Investments	----	----	191,989.96
Receivable - net of allowances:			
Accounts	----	6,712.95	19,986.32
Due from (to) interprogram	----	(6,712.95)	----
Inventory - net of allowances	----	----	10,645.56
Prepaid expenses	----	----	16,238.15
	<u>54,238.31</u>	<u>----</u>	<u>418,974.64</u>
Total Current Assets			
Noncurrent Assets:			
Capital assets:			
Land, improvements, and construction in progress	----	156,557.10	1,073,989.20
Other capital assets, net of depreciation	----	41,525.29	3,100,506.34
	<u>----</u>	<u>198,082.39</u>	<u>4,174,495.54</u>
Total capital assets- net			
	<u>----</u>	<u>198,082.39</u>	<u>4,212,704.64</u>
Total Noncurrent Assets			
	<u>----</u>	<u>198,082.39</u>	<u>4,212,704.64</u>
Total Assets	<u>\$ 54,238.31</u>	<u>\$ 198,082.39</u>	<u>\$ 4,593,470.18</u>

NEW CASTLE HOUSING AUTHORITY

New Castle, Indiana

COMBINING STATEMENT OF NET ASSETS BY PROGRAM (CONTINUED)

June 30, 2007

	New Construction Program	Capital Fund Program	Totals
LIABILITIES			
Current Liabilities:			
Accounts Payable	\$ 51,806.00	\$ ----	\$ 70,294.61
Accrued salaries, wages and benefits	----	----	3,881.66
Accrued compensated absences	----	----	21,882.30
Tenant security deposit liability	----	----	38,209.10
Interest payable	----	----	113.50
Current portion of long term debt	----	----	12,357.00
Deferred revenues	----	----	2,997.20
	<u>51,806.00</u>	<u>----</u>	<u>149,735.37</u>
Total Current Liabilities			
Noncurrent Liabilities:			
Long term debt	----	----	152,007.60
Accrued compensated absences	----	----	6,632.57
	<u>----</u>	<u>----</u>	<u>158,640.17</u>
Total Noncurrent Liabilities			
	<u>51,806.00</u>	<u>----</u>	<u>308,375.54</u>
Total Liabilities			
NET ASSETS			
Invested in capital assets, net of related debt	----	198,082.39	4,010,130.94
Unrestricted	2,432.31	----	274,963.70
	<u>2,432.31</u>	<u>198,082.39</u>	<u>4,285,094.64</u>
Total Net Assets			
Total Liabilities and Net Assets	<u>\$ 54,238.31</u>	<u>\$ 198,082.39</u>	<u>\$ 4,593,470.18</u>

NEW CASTLE HOUSING AUTHORITY

New Castle, Indiana

**COMBINING STATEMENT OF REVENUE, EXPENSES AND
CHANGES IN FUND NET ASSETS BY PROGRAM**

For Year Ended June 30, 2007

	<u>Low Rent Program</u>	<u>Housing Choice Vouchers</u>
Operating Revenues:		
Rental revenue	\$ 293,483.78	\$ -----
Operating subsidies- HUD grants	267,488.50	1,093,774.00
Other revenues	<u>25,358.30</u>	<u>(4,472.62)</u>
Total operating revenues	<u>586,330.58</u>	<u>1,089,301.38</u>
Operating Expenses:		
Personal services	295,597.48	101,834.38
Utilities	111,777.21	-----
Operations and maintenance	65,294.30	4,580.00
Non routine maintenance	16,356.08	-----
Insurance	39,677.77	-----
Payment in lieu of taxes	1,787.49	-----
Other supplies and expenses	40,709.57	23,537.00
Housing assistance payments	-----	975,587.27
Depreciation	<u>240,405.25</u>	<u>23.00</u>
Total operating expenses	<u>811,605.15</u>	<u>1,105,561.65</u>
Operating income (loss)	<u>(225,274.57)</u>	<u>(16,260.27)</u>
Non-operating revenues (expenses):		
Interest and investment earnings	8,030.30	482.85
Interest expense	<u>(8,545.99)</u>	<u>-----</u>
Net non-operating revenues (expenses)	<u>(515.69)</u>	<u>482.85</u>
Income (loss) before other revenues, expenses, gains, losses and transfers	(225,790.26)	(15,777.42)

NEW CASTLE HOUSING AUTHORITY

New Castle, Indiana

**COMBINING STATEMENT OF REVENUE, EXPENSES AND
CHANGES IN FUND NET ASSETS BY PROGRAM (CONTINUED)**

For Year Ended June 30, 2007

	<u>Low Rent Program</u>	<u>Housing Choice Vouchers</u>
Operating transfers in (out)	<u>35,000.00</u>	<u>-----</u>
Change in net assets	(190,790.26)	(15,777.42)
Net assets at beginning of year	3,837,670.56	88,033.33
Prior period error corrections	<u>(47.98)</u>	<u>(18,271.59)</u>
Net assets adjusted at beginning of year	3,837,622.58	69,761.74
Equity transfers	<u>383,763.30</u>	<u>-----</u>
Net assets at end of year	<u>\$ 4,030,595.62</u>	<u>\$ 53,984.32</u>

NEW CASTLE HOUSING AUTHORITY

New Castle, Indiana

**COMBINING STATEMENT OF REVENUE, EXPENSES AND
CHANGES IN FUND NET ASSETS BY PROGRAM (CONTINUED)**

For Year Ended June 30, 2007

	New Construction Program	Capital Fund Program	Totals
Operating Revenues:			
Rental revenue	\$ -----	\$ -----	\$ 293,483.78
Operating subsidies- HUD grants	308,750.00	35,000.00	1,705,012.50
Other revenues	-----	-----	20,885.68
	<u>308,750.00</u>	<u>35,000.00</u>	<u>2,019,381.96</u>
Operating Expenses:			
Personal services	6,615.46	-----	404,047.32
Utilities	-----	-----	111,777.21
Operations and maintenance	135.00	-----	70,009.30
Non routine maintenance	-----	-----	16,356.08
Insurance	-----	-----	39,677.77
Payment in lieu of taxes	-----	-----	1,787.49
Other supplies and expenses	6,038.07	-----	70,284.64
Housing assistance payments	295,462.00	-----	1,271,049.27
Depreciation	-----	2,553.31	242,981.56
	<u>308,250.53</u>	<u>2,553.31</u>	<u>2,227,970.64</u>
Total operating expenses	<u>308,250.53</u>	<u>2,553.31</u>	<u>2,227,970.64</u>
Operating income (loss)	<u>499.47</u>	<u>32,446.69</u>	<u>(208,588.68)</u>
Non-operating revenues (expenses):			
Interest and investment earnings	225.44	-----	8,738.59
Interest expense	-----	-----	(8,545.99)
	<u>225.44</u>	<u>-----</u>	<u>192.60</u>
Net non-operating revenues (expenses)	<u>225.44</u>	<u>-----</u>	<u>192.60</u>
Income (loss) before other revenues, expenses, gains, losses and transfers	724.91	32,446.69	(208,396.08)

NEW CASTLE HOUSING AUTHORITY

New Castle, Indiana

**COMBINING STATEMENT OF REVENUE, EXPENSES AND
CHANGES IN FUND NET ASSETS BY PROGRAM (CONTINUED)**

For Year Ended June 30, 2007

	New Construction Program	Capital Fund Program	Totals
Capital contributions	-----	166,371.29	166,371.29
Operating transfers in (out)	-----	(35,000.00)	-----
Change in net assets	724.91	163,817.98	(42,024.79)
Net assets at beginning of year	1,707.40	418,027.71	4,345,439.00
Prior period error corrections	-----	-----	(18,319.57)
Net assets adjusted at beginning of year	1,707.40	418,027.71	4,327,119.43
Equity transfers	-----	(383,763.30)	-----
Net assets at end of year	\$ <u>2,432.31</u>	\$ <u>198,082.39</u>	\$ <u>4,285,094.64</u>

NEW CASTLE HOUSING AUTHORITY

New Castle, Indiana

COMBINING STATEMENT OF CASH FLOWS BY PROGRAM

For Year Ended June 30, 2007

	<u>Low Rent Program</u>	<u>Housing Choice Vouchers</u>
Cash flows from operating activities:		
Cash received from tenants	\$ 294,714.26	\$ -----
Cash received from HUD grants- operating	258,652.00	1,070,632.95
Cash received from other operating activities	22,192.30	396.84
Cash payments for goods and services	(284,334.30)	(1,003,394.57)
Cash payments to employees-salaries	(216,891.69)	(75,803.46)
Cash payments to employees-compensated absences	-----	(6,970.96)
Cash payments for employee benefit contributions	(78,559.34)	(22,526.29)
Cash payments for in lieu of property taxes	(2,479.97)	-----
Net cash provided (used) by operating activities	<u>(6,706.74)</u>	<u>(37,665.49)</u>
Cash flows from noncapital financing activities:		
Operating transfers in (out)	35,000.00	-----
Receipts (payments) from interprograms	(6,105.87)	6,105.87
Net cash provided (used) from non capital financing activities	<u>28,894.13</u>	<u>6,105.87</u>
Cash flows from capital and related financing activities:		
Proceeds from capital debt	180,534.00	-----
Receipts (payments) from interprograms	(9,214.28)	-----
Proceeds from sale of assets	151.76	-----
Payments for capital assets	(22,050.66)	-----
Principal paid on capital debt	(192,060.86)	-----
Interest paid on capital debt	(8,553.94)	-----
Net cash (used) for capital and related financing activities	<u>(51,193.98)</u>	<u>-----</u>
Cash flows from investing activities:		
Proceeds from sale of (payments) for investments	(6,889.00)	-----
Interest and dividends	8,030.30	482.85
Receipts (payments) from tenant security deposits	2,461.66	-----
Net cash provided (used) from investing activities	<u>3,602.96</u>	<u>482.85</u>
Net increase (decrease) in cash and cash equivalents	(25,403.63)	(31,076.77)
Cash and cash equivalents at beginning of year	<u>75,990.20</u>	<u>106,366.54</u>
Cash and cash equivalents at end of year	<u>\$ 50,586.57</u>	<u>\$ 75,289.77</u>

NEW CASTLE HOUSING AUTHORITY

New Castle, Indiana

COMBINING STATEMENT OF CASH FLOWS BY PROGRAM (CONTINUED)

For Year Ended June 30, 2007

	<u>Low Rent Program</u>	<u>Housing Choice Vouchers</u>
Cash and cash equivalents	\$ 12,377.47	\$ 75,289.77
Restricted cash and cash equivalents	<u>38,209.10</u>	<u>-----</u>
Total cash and cash equivalents at end of year	<u>\$ 50,586.57</u>	<u>\$ 75,289.77</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	\$ (225,274.57)	\$ (16,260.27)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation expense	240,405.25	23.00
Allowance for doubtful accounts	1,231.80	6,614.53
Changes in assets and liabilities:		
Receivables	(11,282.02)	(1,745.07)
Inventory	(4,501.97)	309.70
Prepaid expenses	(6,571.69)	-----
Accounts and other payables	(138.19)	(23,141.05)
Deferred revenues	(721.80)	-----
Compensated absences	1,885.90	(3,466.33)
Accrued expenses	<u>(1,739.45)</u>	<u>-----</u>
Net cash provided (used) by operating activities	<u>\$ (6,706.74)</u>	<u>\$ (37,665.49)</u>

NEW CASTLE HOUSING AUTHORITY

New Castle, Indiana

COMBINING STATEMENT OF CASH FLOWS BY PROGRAM (CONTINUED)

For Year Ended June 30, 2007

	New Construction Program	Capital Fund Program	Totals
Cash flows from operating activities:			
Cash received from tenants	\$ -----	\$ -----	\$ 294,714.26
Cash received from HUD grants- operating	308,391.00	35,000.00	1,672,675.95
Cash received from other operating activities	-----	-----	22,589.14
Cash payments for goods and services	(301,635.07)	-----	(1,589,363.94)
Cash payments to employees-salaries	(4,841.99)	-----	(297,537.14)
Cash payments to employees-compensated absences	-----	-----	(6,970.96)
Cash payments for employee benefit contributions	(2,327.05)	-----	(103,412.68)
Cash payments for in lieu of property taxes	-----	-----	(2,479.97)
Net cash provided (used) by operating activities	<u>(413.11)</u>	<u>35,000.00</u>	<u>(9,785.34)</u>
Cash flows from noncapital financing activities:			
Operating transfers in (out)	-----	(35,000.00)	-----
Net cash provided (used) from non capital financing activities	<u>-----</u>	<u>(35,000.00)</u>	<u>-----</u>
Cash flows from capital and related financing activities:			
Proceeds from capital debt	-----	-----	180,534.00
Capital contributions	-----	157,157.01	157,157.01
Receipts (payments) from interprograms	-----	9,214.28	-----
Proceeds from sale of assets	-----	-----	151.76
Payments for capital assets	-----	(166,371.29)	(188,421.95)
Principal paid on capital debt	-----	-----	(192,060.86)
Interest paid on capital debt	-----	-----	(8,553.94)
Net cash (used) for capital and related financing activities	<u>-----</u>	<u>-----</u>	<u>(51,193.98)</u>
Cash flows from investing activities:			
Proceeds from sale of (payments) for investments	-----	-----	(6,889.00)
Interest and dividends	225.44	-----	8,738.59
Receipts (payments) from tenant security deposits	-----	-----	2,461.66
Net cash provided (used) from investing activities	<u>225.44</u>	<u>-----</u>	<u>4,311.25</u>

NEW CASTLE HOUSING AUTHORITY

New Castle, Indiana

COMBINING STATEMENT OF CASH FLOWS BY PROGRAM (CONTINUED)

For Year Ended June 30, 2007

	New Construction Program	Capital Fund Program	Totals
Net increase (decrease) in cash and cash equivalents	(187.67)	----	(56,668.07)
Cash and cash equivalents at beginning of year	<u>54,425.98</u>	<u>----</u>	<u>236,782.72</u>
Cash and cash equivalents at end of year	<u>\$ 54,238.31</u>	<u>\$ ----</u>	<u>\$ 180,114.65</u>
Cash and cash equivalents	\$ 54,238.31	\$ ----	\$ 141,905.55
Restricted cash and cash equivalents	<u>----</u>	<u>----</u>	<u>38,209.10</u>
Total cash and cash equivalents at end of year	<u>\$ 54,238.31</u>	<u>\$ ----</u>	<u>\$ 180,114.65</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Operating income (loss)	\$ 499.47	\$ 32,446.69	\$ (208,588.68)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation expense	-----	2,553.31	242,981.56
Allowance for doubtful accounts	-----	-----	7,846.33
Changes in assets and liabilities:			
Receivables	-----	-----	(13,027.09)
Inventory	-----	-----	(4,192.27)
Prepaid expenses	-----	-----	(6,571.69)
Accounts and other payables	(359.00)	-----	(23,638.24)
Deferred revenues	-----	-----	(721.80)
Compensated absences	(553.58)	-----	(2,134.01)
Accrued expenses	<u>-----</u>	<u>-----</u>	<u>(1,739.45)</u>
Net cash provided (used) by operating activities	<u>\$ (413.11)</u>	<u>\$ 35,000.00</u>	<u>\$ (9,785.34)</u>

NEW CASTLE HOUSING AUTHORITY

New Castle, Indiana

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

Year Ended June 30, 2007

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

<u>Fiscal Year</u>	<u>Federal Grantor</u>	<u>Federal CFDA No.</u>	<u>Expenditures</u>
<u>U.S. Department of HUD</u>			
<u>Low Income Public Housing Major - Direct Program</u>			
2007	New Construction Program	14.182	\$ <u>307,236.28</u>
<u>Public and Indian Housing Nonmajor - Direct Program</u>			
2007	Low Rent Program	14.850a	\$ <u>267,488.50</u>
<u>Low Income Public Housing Major - Direct Program</u>			
2007	Housing Choice Vouchers	14.871	\$ <u>1,093,774.00</u>
<u>Public and Indian Housing Nonmajor - Direct Program</u>			
2007	Capital Fund program	14.872	\$ <u>201,371.29</u>
Total			\$ <u>1,869,870.07</u>

NOTES TO THE SCHEDULE OF FEDERAL AWARDS

NOTE 1 - Significant Accounting Policies

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

NEW CASTLE HOUSING AUTHORITY

New Castle, Indiana

FINANCIAL DATA SCHEDULE

Year Ended June 30, 2007

FDS Line Item No.	Low Rent Program 14.850a	Housing Choice Vouchers 14.871
	<u> </u>	<u> </u>
Assets:		
Current Assets:		
Cash		
111 Cash-unrestricted	\$ 12,377.47	\$ 75,289.77
114 Cash-tenant security deposits	<u>38,209.10</u>	<u> </u>
100 Total cash	<u>50,586.57</u>	<u>75,289.77</u>
Accounts and notes receivable:		
122 Accounts receivable-HUD	8,836.50	
125 Accounts receivable- miscellaneous	3,166.00	
126 Accounts receivable- tenants-dwelling rents	5,600.78	
126.1 Allowance for doubtful accounts-dwelling rents	(4,329.91)	
128 Fraud recovery		6,614.53
128.1 Allowance for doubtful accounts-fraud	<u> </u>	<u>(6,614.53)</u>
120 Total receivables, net of allowance for doubtful accounts	<u>13,273.37</u>	<u> </u>
Current investments:		
131 Investments-unrestricted	191,989.96	
142 Prepaid expenses and other assets	16,238.15	
143 Inventories	10,645.56	
144/ (347) Interprogram due from	<u>23,223.50</u>	<u>(16,510.55)</u>
150 Total current assets	<u>305,957.11</u>	<u>58,779.22</u>
Noncurrent Assets:		
Fixed assets:		
161 Land	917,432.10	
162 Buildings	4,138,362.15	
163 Furniture, equipment and machinery-dwellings	109,702.65	
164 Furniture, equipment and machinery-administration	251,788.66	40,463.18
165 Leasehold improvements	1,929,771.34	
166 Accumulated depreciation	<u>(3,370,843.09)</u>	<u>(40,263.84)</u>
160 Total fixed assets, net of accumulated depreciation	<u>3,976,213.81</u>	<u>199.34</u>

NEW CASTLE HOUSING AUTHORITY

New Castle, Indiana

FINANCIAL DATA SCHEDULE (CONTINUED)

Year Ended June 30, 2007

FDS Line Item No.	Low Rent Program 14.850a	Housing Choice Vouchers 14.871
	<u> </u>	<u> </u>
180 Total noncurrent assets	3,976,213.81	199.34
190 Total Assets	\$ <u>4,282,170.92</u>	\$ <u>58,978.56</u>
Liabilities and Equity:		
Liabilities:		
Current Liabilities:		
312 Accounts payable < 90 days	\$ (16,701.12)	\$ ----
321 Accrued wage / payroll taxes payable	(3,881.66)	----
322 Accrued compensated absences- current portion	(17,387.51)	(4,494.79)
325 Accrued interest payable	(113.50)	----
333 Accounts payable -other government	(1,787.49)	----
341 Tenant security deposits	(38,209.10)	----
342 Deferred revenues	(2,997.20)	----
343 Current portion of L - T debt capital projects	<u>(12,357.00)</u>	----
310 Total current liabilities	<u>(93,434.58)</u>	<u>(4,494.79)</u>
Noncurrent Liabilities:		
351 Long-term debt, net of current-capital projects	(152,007.60)	----
354 Accrued compensated absences- non current portion	<u>(6,133.12)</u>	<u>(499.45)</u>
350 Total noncurrent liabilities	<u>(158,140.72)</u>	<u>(499.45)</u>
300 Total liabilities	<u>(251,575.30)</u>	<u>(4,994.24)</u>
Equity:		
508.1 Investment in capital assets , Net of Related Debt	<u>(3,811,849.21)</u>	<u>(199.34)</u>
512.1 Unrestricted Net Assets	<u>(218,746.41)</u>	<u>(53,784.98)</u>
600 Total Liabilities and Equity	\$ <u>(4,282,170.92)</u>	\$ <u>(58,978.56)</u>

NEW CASTLE HOUSING AUTHORITY

New Castle, Indiana

FINANCIAL DATA SCHEDULE (CONTINUED)

Year Ended June 30, 2007

FDS Line Item No.		Low Rent Program 14.850a	Housing Choice Vouchers 14.871
	Revenue:		
703	Net rental revenue	\$ (299,692.49)	\$ -----
705	Total tenant revenue	(299,692.49)	-----
706	HUD PHA operating grants	(267,488.50)	(1,093,774.00)
711	Investment income-unrestricted	(8,030.30)	(482.85)
714	Fraud recovery	-----	(2,041.91)
715	Other revenue	(25,358.30)	(100.00)
700	Total revenue	(600,569.59)	(1,096,398.76)
	Expenses:		
	Administrative		
911	Administrative salaries	113,409.10	75,551.46
912	Auditing fees	1,751.00	872.50
914	Compensated absences	1,885.90	3,504.63
915	Employee benefit contributions-administrative	47,280.23	21,643.50
916	Other operating-administrative	37,013.00	22,664.50
	Tenant services		
924	Tenant services-other	1,945.57	-----
	Utilities		
931	Water	18,314.80	-----
932	Electricity	84,032.27	-----
933	Gas	9,430.14	-----
	Ordinary maintenance and operation		
941	Ordinary maintenance and operation-labor	100,197.54	252.00
942	Ordinary maintenance and operation-materials & other	28,387.57	-----
943	Ordinary maintenance and operation-contract costs	36,906.73	4,580.00
945	Employee benefit contributions-ordinary maintenance	31,279.11	882.79

NEW CASTLE HOUSING AUTHORITY

New Castle, Indiana

FINANCIAL DATA SCHEDULE (CONTINUED)

Year Ended June 30, 2007

FDS Line Item No.		Low Rent Program 14.850a	Housing Choice Vouchers 14.871
	General expenses		
961	Insurance premiums	39,677.77	----
963	Payments in lieu of taxes	1,787.49	----
964	Bad debts- tenant rents	6,208.71	----
966	Bad debts- other	-----	6,614.53
967	Interest expense	8,545.99	----
968	Severance expense	1,545.60	----
969	Total operating expenses	<u>569,598.52</u>	<u>136,565.91</u>
970	Excess (deficit) operating revenue over operating expenses	<u>30,971.07</u>	<u>959,832.85</u>
971	Extraordinary maintenance	16,356.08	-----
973	Housing assistance payments	-----	975,587.27
974	Depreciation expense	<u>240,405.25</u>	<u>23.00</u>
	Total expenses other than total operating	<u>256,761.33</u>	<u>975,610.27</u>
1000	Excess (deficit) of revenue over expenses before operating transfers in (out) and depreciation add back	(225,790.26)	(15,777.42)
1001	Operating transfers in	<u>35,000.00</u>	-----
	Excess (deficit) of revenue over expenses after operating transfers in (out) and depreciation add back	<u>\$ (190,790.26)</u>	<u>\$ (15,777.42)</u>

NEW CASTLE HOUSING AUTHORITY

New Castle, Indiana

FINANCIAL DATA SCHEDULE (CONTINUED)

Year Ended June 30, 2007

FDS Line Item No.	New Construction Program 14.182	Capital Fund Program 14.872	Total
Assets:			
Current Assets:			
Cash			
111	\$ 54,238.31	\$ ----	\$ 141,905.55
114	----	----	38,209.10
100	<u>54,238.31</u>	<u>----</u>	<u>180,114.65</u>
Accounts and notes receivable:			
122	----	6,712.95	15,549.45
125	----	----	3,166.00
126	----	----	5,600.78
126.1	----	----	(4,329.91)
128	----	----	6,614.53
128.1	----	----	(6,614.53)
120	<u>----</u>	<u>6,712.95</u>	<u>19,986.32</u>
Current investments:			
131	----	----	191,989.96
142	----	----	16,238.15
143	----	----	10,645.56
144/ (347)	----	(6,712.95)	----
150	<u>54,238.31</u>	<u>----</u>	<u>418,974.64</u>

NEW CASTLE HOUSING AUTHORITY

New Castle, Indiana

FINANCIAL DATA SCHEDULE (CONTINUED)

Year Ended June 30, 2007

FDS Line Item No.		New Construction Program 14,182	Capital Fund Program 14,872	Total
	Noncurrent Assets:			
	Fixed assets:			
161	Land	----	----	917,432.10
162	Buildings	----	----	4,138,362.15
163	Furniture, equipment and machinery-dwellings	----	2,952.00	112,654.65
164	Furniture, equipment and machinery- administration	38,775.94	41,145.86	372,173.64
165	Leasehold improvements	----	----	1,929,771.34
166	Accumulated depreciation	(38,775.94)	(2,572.57)	(3,452,455.44)
167	Construction in progress	----	156,557.10	156,557.10
160	Total fixed assets, net of accumulated depreciation	----	198,082.39	4,174,495.54
180	Total noncurrent assets	----	198,082.39	4,174,495.54
190	Total Assets	<u>\$ 54,238.31</u>	<u>\$ 198,082.39</u>	<u>\$ 4,593,470.18</u>
	Liabilities and Equity:			
	Liabilities:			
	Current Liabilities:			
312	Accounts payable < 90 days	\$ ----	\$ ----	\$ (16,701.12)
321	Accrued wage / payroll taxes payable	----	----	(3,881.66)
322	Accrued compensated absences- current portion	----	----	(21,882.30)
325	Accrued interest payable	----	----	(113.50)
331	Accounts payable -HUD PHA programs	(51,806.00)	----	(51,806.00)
333	Accounts payable -other government	----	----	(1,787.49)
341	Tenant security deposits	----	----	(38,209.10)
342	Deferred revenues	----	----	(2,997.20)
343	Current portion of L - T debt capital projects	----	----	(12,357.00)
310	Total current liabilities	<u>(51,806.00)</u>	----	<u>(149,735.37)</u>

NEW CASTLE HOUSING AUTHORITY

New Castle, Indiana

FINANCIAL DATA SCHEDULE (CONTINUED)

Year Ended June 30, 2007

FDS Line Item No.	New Construction Program 14.182	Capital Fund Program 14.872	Total
Noncurrent Liabilities:			
351	Long-term debt, net of current-capital projects	----	(152,007.60)
354	Accrued compensated absences- non current portion	----	(6,632.57)
350	Total noncurrent liabilities	----	(158,640.17)
300	Total liabilities	(51,806.00)	(308,375.54)
Equity:			
508.1	Investment in capital assets , Net of Related Debt	(198,082.39)	(4,010,130.94)
512.1	Unrestricted Net Assets	(2,432.31)	(274,963.70)
600	Total Liabilities and Equity	<u>\$ (54,238.31)</u>	<u>\$ (4,593,470.18)</u>
Revenue:			
703	Net rental revenue	\$ ----	\$ (299,692.49)
705	Total tenant revenue	----	(299,692.49)
706	HUD PHA operating grants	(308,750.00)	(1,705,012.50)
706.1	HUD PHA capital grants	----	(166,371.29)
711	Investment income-unrestricted	(225.44)	(8,738.59)
714	Fraud recovery	----	(2,041.91)
715	Other revenue	----	(25,458.30)
700	Total revenue	<u>(308,975.44)</u>	<u>(2,207,315.08)</u>
Expenses:			
Administrative			
911	Administrative salaries	4,841.99	193,802.55
912	Auditing fees	872.50	3,496.00
914	Compensated absences	(553.58)	4,836.95
915	Employee benefit contributions-administrative	2,327.05	71,250.78
916	Other operating-administrative	5,165.57	64,843.07

NEW CASTLE HOUSING AUTHORITY

New Castle, Indiana

FINANCIAL DATA SCHEDULE (CONTINUED)

Year Ended June 30, 2007

FDS Line Item No.		New Construction Program 14.182	Capital Fund Program 14.872	Total
	Tenant services			
924	Tenant services-other	----	----	1,945.57
	Utilities			
931	Water	----	----	18,314.80
932	Electricity	----	----	84,032.27
933	Gas	----	----	9,430.14
	Ordinary maintenance and operation			
941	Ordinary maintenance and operation-labor	----	----	100,449.54
942	Ordinary maintenance and operation-materials & other	----	----	28,387.57
943	Ordinary maintenance and operation-contract costs	135.00	----	41,621.73
945	Employee benefit contributions-ordinary maintenance	----	----	32,161.90
	General expenses			
961	Insurance premiums	----	----	39,677.77
963	Payments in lieu of taxes	----	----	1,787.49
964	Bad debts- tenant rents	----	----	6,208.71
966	Bad debts- other	----	----	6,614.53
967	Interest expense	----	----	8,545.99
968	Severance expense	----	----	1,545.60
969	Total operating expenses	<u>12,788.53</u>	----	<u>718,952.96</u>

NEW CASTLE HOUSING AUTHORITY

New Castle, Indiana

FINANCIAL DATA SCHEDULE (CONTINUED)

Year Ended June 30, 2007

FDS Line Item No.	New Construction Program 14.182	Capital Fund Program 14.872	Total	
970	Excess (deficit) operating revenue over operating expenses	296,186.91	201,371.29	1,488,362.12
971	Extraordinary maintenance	----	----	16,356.08
973	Housing assistance payments	295,462.00	----	1,271,049.27
974	Depreciation expense	----	2,553.31	242,981.56
	Total expenses other than total operating	295,462.00	2,553.31	1,530,386.91
1000	Excess (deficit) of revenue over expenses before operating transfers in (out) and depreciation add back	724.91	198,817.98	(42,024.79)
1001	Operating transfers in	----	----	35,000.00
1002	Operating transfers out	----	(35,000.00)	(35,000.00)
	Excess (deficit) of revenue over expenses after operating transfers in (out) and depreciation add back	\$ 724.91	\$ 163,817.98	\$ (42,024.79)

**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
New Castle Housing Authority
New Castle, Indiana

We have audited the basic financial statements of the New Castle Housing Authority, Indiana, (Authority) as of and for the year ended June 30, 2007, and have issued our report thereon dated October 11, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the 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 Authority's financial statements that is more than inconsequential will not be prevented or detected by the Authority's internal control. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs to be significant deficiency in internal control over financial reporting.

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 Authority's internal control.

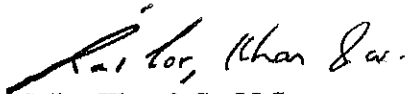
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiency above is not a material weakness.

Compliance and Other Matters

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

The Authority's written response to the significant deficiency identified in our audit has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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



Sailor, Khan & Co. LLC
October 11, 2007

**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
New Castle Housing Authority
New Castle, Indiana

Compliance

We have audited the compliance of the New Castle Housing Authority, Indiana, (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 June 30, 2007. The Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

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

In our opinion, the Authority complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

Internal Control Over Compliance

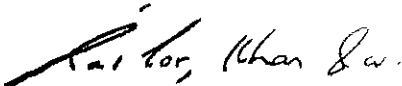
The management of the Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal program. In planning and performing our audit, we considered the Authority's internal control over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

A *control deficiency* in an Authority'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 Authority'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 Authority's internal control.

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

Our 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 the Authority's internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we considered to be material weaknesses as defined above.

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



Sailor, Khan & Co. LLC
October 11, 2007

NEW CASTLE HOUSING AUTHORITY

New Castle, Indiana

SIGNIFICANT DEFICIENCIES COMMUNICATED IN PRIOR YEARS

June 30, 2007

The prior audit report for the year ended June 30, 2006 contained no audit findings.

NEW CASTLE HOUSING AUTHORITY

New Castle, Indiana

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 2007

SECTION I - SUMMARY OF AUDITOR RESULTS

Financial Statement:

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

Federal Awards:

Internal control over major programs:	
▶ Material weakness(es) identified?	No
▶ Reportable condition(s) identified that are not considered to be material weaknesses?	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) on Circular A-133?	No

Identification of major programs:

CFDA	
<u>Number(s)</u>	<u>Name of Federal Program</u>
14-182	Section 8 New Construction
14-871	Section 8 Housing Choice Vouchers

Dollar threshold used to distinguish between type A and type B programs:	\$300,000
Auditee qualified as low-risk auditee?	Yes

NEW CASTLE HOUSING AUTHORITY

New Castle, Indiana

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

June 30, 2007

SECTION II - FINANCIAL STATEMENT FINDINGS

The current audit report for the year ended June 30, 2007 disclosed the following Financial Statement audit findings:

1. Internal Control Policy

Criteria:

To ensure effectiveness of Internal Control, there needs to be an adequate design of internal controls describing the separation of primary functions. Internal control design must be considered to create effective segregation of primary duties and to strengthen the control environment.

Condition:

The Authority does not have an internal control policy.

Questioned Costs:

none

Effect:

With the adequate design of segregation of duties, there is the reduced risk of error and other intentional activities that could affect the integrity of the financial statements or physical custody of assets.

Cause:

The documentation of implemented internal control policies was lacking.

Recommendation:

We recommend the Authority's management and its Board design a system of internal control that would address all of the features of an effective internal control system with due consideration to the limitations imposed on the system.

NEW CASTLE HOUSING AUTHORITY

New Castle, Indiana

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

June 30, 2007

SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)

1. Internal Control Policy (Continued)

Management's Response:

The Authority's executive director and it's board chairman have presented and reviewed this information with the Board of Commissioners who have in turn assigned responsibility for resolving the findings to the executive director, Jerry Cash, in consultation with the board chairman.

Action Plan:

A comprehensive set of Internal Control Policies have been drafted that we believe address to the best of our ability a strategy for ensuring satisfactory segregation of duties and for documenting that we are following those policies and procedures. We have discussed with the field auditor and with Mr. Sailor the limitations we face with regard to our small agency size and limited staffing. None-the-less, we believe that the policies we have developed and the related changes in procedure and documentation that will result with their full implementation will achieve an acceptable level of segregation without incurring a level of risk that would be unacceptable to a reasonably prudent governing body. Accordingly, we enclose for your review and comment the following Internal Control Policies and Procedures:

- Control Activities for Cash (Balances, Receipts, and Disbursements)
- Control Activities for Investments
- Control Activities for Liabilities (Notes Payable)
- Control Activities for Property
- Control Activities for Accounts Receivable (Receivable Balances and Tenant Files)
- Control Activities for Inventory (Inventory Balances)
- Control Activities for Liabilities (Accounts Payable and Purchases)
- Control Activities for Payroll, Employee Benefits, and Related Liabilities
- Control Activities for Financials

It is our intent that these Internal Control Policies with any additions or revisions you might recommend will be submitted to the Board of Commissioners for approval at the January 2008 Annual Meeting. And that, if approved, these policies and procedures will be fully implemented by March 31, 2008.

NEW CASTLE HOUSING AUTHORITY

New Castle, Indiana

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

June 30, 2007

SECTION III - FEDERAL AWARD FINDINGS

The current audit report for the year ended June 30, 2007 disclosed no Federal Awards audit findings.