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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, 2007 to June 30, 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 Accountants' opinion, the financial statements included in the report present fairly the financial condition of the New Castle Housing Authority, as of June 30, 2008, 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. Page 5 in Section III contains the status of one prior audit finding.

STATE BOARD OF ACCOUNTS

NEW CASTLE HOUSING AUTHORITY
NEW CASTLE, INDIANA
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008
AND
REPORTS ON COMPLIANCE AND
ON INTERNAL CONTROL

NEW CASTLE HOUSING AUTHORITY
New Castle, Indiana

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

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, 2008, 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.

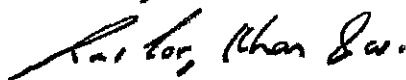
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and 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, 2008, 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 November 7, 2008, 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 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



Sailor, Khan & Co. LLC
November 7, 2008

New Castle Housing Authority

**Management's Discussion and Analysis (MD&A)
June 30, 2008
(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, 2008. 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, 2008 by \$4,213,972 (Net Assets).
- The PHA's investment in Capital Assets, net of related debt as of June 30, 2008 was \$3,908,088.
- The PHA's total revenue and contributions for the fiscal year end June 30, 2008 was \$2,002,585.
- The PHA's total expenses for the fiscal year end June 30, 2008 was \$2,073,708. Therefore, the PHA's expenses exceeds its revenues and contributions by \$71,123.

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>2008</u>	<u>2007</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Current and other assets	\$ 353,618	\$ 418,975	\$ (65,357)	-15.6%
Restricted assets	39,194	----	39,194	100.0%
Capital assets	<u>4,060,447</u>	<u>4,174,495</u>	<u>(114,048)</u>	-2.7%
Total Assets	<u>4,453,259</u>	<u>4,593,470</u>	<u>(140,211)</u>	-3.1%
Current liabilities	97,647	149,735	(52,088)	-34.8%
Noncurrent liabilities	<u>141,640</u>	<u>158,640</u>	<u>(17,000)</u>	-10.7%
Total Liabilities	<u>239,287</u>	<u>308,375</u>	<u>(69,088)</u>	-22.4%
Net Assets				
Invested in capital assets, net of related debt	3,908,088	4,010,131	(102,043)	-2.5%
Restricted for HAP	39,194	----	39,194	100.0%
Unrestricted	<u>266,690</u>	<u>274,964</u>	<u>(8,274)</u>	-3.0%
Total Net Assets	<u>\$ 4,213,972</u>	<u>\$ 4,285,095</u>	<u>\$ (71,123)</u>	-1.7%

**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 previous page, assets exceeded liabilities by \$4,213,972 at the close of the year ended June 30, 2008 down from \$4,285,095 in 2007. The decrease in net assets of \$71,123 was due to the loss in change in net assets for the year.

The unrestricted net assets were \$266,690 as of June 30, 2008. This amount may be used to meet the Authority's ongoing obligations. The Authority had \$39,194 of 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,**

	2008	2007	Dollar Change	Percent Change
Revenues and Contributions				
Operating - non-operating -capital contributions:				
Rental revenue	\$ 307,894	\$ 293,484	\$ 14,410	4.9%
HUD operating grants	1,572,210	1,705,012	(132,802)	-7.8%
Interest income	9,446	8,739	707	8.1%
Capital Contributions	93,548	166,371	(72,823)	-43.8%
Gain (loss) on disposition of capital items	(152)	---	(152)	100.0%
Other income	19,639	20,886	(1,247)	-6.0%
Total Revenues and Contributions	2,002,585	2,194,492	(191,907)	-8.7%
Expenses				
Personal services	398,135	404,047	(5,912)	-1.5%
Utilities	118,348	111,777	6,571	5.9%
Operations and maintenance	79,288	70,009	9,279	13.3%
Non routine maintenance	2,087	16,356	(14,269)	-87.2%
Insurance	43,147	39,678	3,469	8.7%
Payment in lieu of taxes	2,635	1,787	848	47.5%
Other supplies and expenses	60,135	70,285	(10,150)	-14.4%
Housing assistance payments	1,114,118	1,271,049	(156,931)	-12.3%
Interest expense	8,088	8,546	(458)	-5.4%
Depreciation	247,727	242,982	4,745	2.0%
Total Expenses	2,073,708	2,236,516	(162,808)	-7.3%
Change in net assets	(71,123)	(42,024)	(29,099)	
Beginning net assets	4,285,095	4,327,119	(42,024)	
Ending net assets	\$ 4,213,972	\$ 4,285,095	\$ (71,123)	

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

ANALYSIS OF FINANCIAL STATEMENTS (CONTINUED):

Total revenues and contributions decreased by \$191,907 due to decreases in HUD operating grants, capital contributions and other income, which were partially offset by increases in rental revenue, and interest income. The decrease in Housing and Urban Development (HUD) Operating & Capital Grants is primarily due the decrease in operating subsidy for the Low Rent Program.

Total expenses decreased by \$162,808 due to decreases in personal services, non-routine maintenance, other supplies and expenses, housing assistance payments, and interest expenses which were partially offset by increases in utilities, operations and maintenance, insurance, payment in lieu of taxes and depreciation. The increase in utility expenses is due to the increase in gas rates and electricity used. The increase in operations and maintenance is due to more maintenance expenses. The decrease in other supplies and expenses is due to less supplies being purchased. The decrease in non routine maintenance is due to fewer unexpected maintenance issues during the year. The decrease in housing assistance payments is due to fewer payments passed through to landlords for rent.

BUDGETARY HIGHLIGHTS:

Low Rent Public Housing (Operations Only)

The Board approved budget anticipated an operating loss of (\$35,561). Actual result of operation was an operation income before depreciation of \$176,604, for a variance of \$212,165.

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

Capital Assets - The New Castle Housing Authority's capital assets, as of June 30, 2008 amounts to \$4,060,447 (net of accumulated depreciation). The capital assets include land, buildings, improvements, equipment and construction in progress.

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

	<u>2008</u>	<u>2007</u>	<u>Dollar Change</u>
Land	\$ 917,432	\$ 917,432	\$ ----
Building	4,300,998	4,138,362	162,636
Furniture, equipment and machinery- dwelling	126,242	112,655	13,587
Furniture, equipment and machinery- administration	394,318	372,174	22,144
Leasehold improvements	1,929,771	1,929,771	----
Construction in progress	<u>83,657</u>	<u>156,557</u>	<u>(72,900)</u>
	7,752,418	7,626,951	125,467
Accumulated depreciation	<u>3,691,971</u>	<u>3,452,456</u>	<u>239,515</u>
Total	<u>\$ 4,060,447</u>	<u>\$ 4,174,495</u>	<u>\$ (114,048)</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 \$114,048 or 2.7% in terms of net book value. Actual expenditures to purchase equipment and construct capital assets were \$134,343 for the year. The Authority has \$296,069 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 \$152,360 as of June 30, 2008. Additional information regarding the Housing Authority's long term debt can be found in note 3h 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, Mr. Jerry Cash, 274 South 14th Street, New Castle, Indiana 47362.

SECTION II
FINANCIAL STATEMENTS
AND
NOTES TO FINANCIAL STATEMENTS

NEW CASTLE HOUSING AUTHORITY

New Castle, Indiana

STATEMENT OF NET ASSETS

June 30, 2008

ASSETS

Current Assets:

Cash and cash equivalents	\$ 115,601.82
Investments	198,748.45
Receivable - net of allowances:	
Accounts	18,937.12
Accrued interest	1,316.23
Inventory - net of allowances	8,347.30
Prepaid expenses	<u>10,666.48</u>
Total Current Assets	<u>353,617.40</u>

Noncurrent Assets:

Restricted assets:	
Cash and cash equivalents	<u>39,194.00</u>
Total restricted assets	<u>39,194.00</u>

Capital assets:

Land, improvements, and construction in progress	1,001,089.57
Other capital assets, net of depreciation	<u>3,059,357.74</u>
Total capital assets- net	<u>4,060,447.31</u>

Total Noncurrent Assets 4,099,641.31

Total Assets \$ 4,453,258.71

See notes to financial statements

NEW CASTLE HOUSING AUTHORITY

New Castle, Indiana

STATEMENT OF NET ASSETS (CONTINUED)

June 30, 2008

LIABILITIES

Current Liabilities:

Accounts Payable	\$ 18,630.34
Accrued salaries, wages and benefits	1,653.27
Accrued compensated absences	17,764.37
Tenant security deposit liability	42,259.22
Interest payable	126.24
Current portion of long term debt	12,692.91
Deferred revenues	<u>4,520.50</u>

Total Current Liabilities 97,646.85

Noncurrent Liabilities:

Long term debt	139,666.21
Accrued compensated absences	<u>1,973.81</u>

Total Noncurrent Liabilities 141,640.02

Total Liabilities 239,286.87

NET ASSETS

Invested in capital assets	3,908,088.19
Restricted for:	
HAP	39,194.00
Unrestricted	<u>266,689.65</u>

Total Net Assets 4,213,971.84

Total Liabilities and Net Assets \$ 4,453,258.71

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, 2008

Operating Revenues:	
Rental revenue	\$ 307,893.94
Operating subsidies- HUD grants	1,572,209.72
Other revenues	<u>19,639.00</u>
Total operating revenues	<u>1,899,742.66</u>
Operating Expenses:	
Personal services	398,135.43
Utilities	118,347.75
Operations and maintenance	79,287.63
Non routine maintenance	2,086.87
Insurance	43,146.87
Payment in lieu of taxes	2,634.84
Other supplies and expenses	60,134.76
Housing assistance payments	1,114,118.00
Depreciation	<u>247,726.76</u>
Total operating expenses	<u>2,065,618.91</u>
Operating income (loss)	<u>(165,876.25)</u>
Non-operating revenues (expenses):	
Interest and investment earnings	9,446.02
Interest expense	(8,088.06)
Gain (Loss) on sale of fixed assets	<u>(152.28)</u>
Net non-operating revenues (expenses)	<u>1,205.68</u>
Income (loss) before other revenues, expenses, gains, losses and transfers	(164,670.57)
Capital contributions	<u>93,547.77</u>
Change in net assets	(71,122.80)
Net assets at beginning of year	<u>4,285,094.64</u>
Net assets at end of year	<u>\$ 4,213,971.84</u>

See notes to financial statements

NEW CASTLE HOUSING AUTHORITY

New Castle, Indiana

STATEMENT OF CASH FLOWS

For Year Ended June 30, 2008

Cash flows from operating activities:	
Cash received from tenants	\$ 305,720.43
Cash received from HUD grants- operating	1,522,768.22
Cash received from other operating activities	21,055.21
Cash payments for goods and services	(1,413,418.67)
Cash payments to employees-salaries	(306,679.01)
Cash payments to employees-compensated absences	(2,630.80)
Cash payments for employee benefit contributions	(99,830.70)
Cash (payments) receipts for in lieu of property taxes	<u>(1,787.49)</u>
Net cash provided (used) by operating activities	<u>25,197.19</u>
Cash flows from capital and related financing activities:	
Capital contributions	94,513.07
Proceeds from sale of assets	512.50
Payments for capital assets	(130,882.21)
Principal paid on capital debt	(12,005.48)
Interest paid on capital debt	<u>(8,075.32)</u>
Net cash (used) for capital and related financing activities	<u>(55,937.44)</u>
Cash flows from investing activities:	
Proceeds from sale of (payments) for investments	(6,758.49)
Interest and dividends	8,129.79
Receipts (payments) from tenant security deposits	<u>4,050.12</u>
Net cash provided (used) from investing activities	<u>5,421.42</u>
Net increase (decrease) in cash and cash equivalents	(25,318.83)
Cash and cash equivalents at beginning of year	<u>180,114.65</u>
Cash and cash equivalents at end of year	\$ <u><u>154,795.82</u></u>
Cash and cash equivalents	\$ 115,601.82
Restricted cash and cash equivalents	<u>39,194.00</u>
Total cash and cash equivalents at end of year	\$ <u><u>154,795.82</u></u>

See notes to financial statements

NEW CASTLE HOUSING AUTHORITY

New Castle, Indiana

STATEMENT OF CASH FLOWS (CONTINUED)

For Year Ended June 30, 2008

Noncash Investing, Capital and Financing Activities:	
Acquisition of capital assets on account	\$ <u>3,461.10</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating income (loss)	\$ (165,876.25)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation expense	247,726.76
Allowance for doubtful accounts	(7,368.53)
Allowance for inventory	439.33
Changes in assets and liabilities:	
Receivables	7,452.43
Inventory	1,858.93
Prepaid expenses	5,571.67
Accounts and other payables	(55,125.37)
Deferred revenues	1,523.30
Compensated absences	(8,776.69)
Accrued expenses	<u>(2,228.39)</u>
Net cash provided (used) by operating activities	\$ <u>25,197.19</u>

See notes to financial statements

NEW CASTLE HOUSING AUTHORITY

New Castle, Indiana

NOTES TO THE BASIC FINANCIAL STATEMENTS

June 30, 2008

NOTE 1 - Summary of Significant Accounting Policies

The New Castle Housing Authority (Authority) is a non-profit entity established to provide low-rent housing, under the low rent program Annual Contributions Contract for qualified individuals in accordance with the rules and regulations prescribed by the Department of Housing and Urban Development and other Federal agencies.

The Housing Authority complies with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the financial statements for the proprietary fund, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. For enterprise funds, GASB Statement Nos. 20 and 34 provide the Housing Authority the option of electing to apply FASB pronouncements issued after November 30, 1989, except for those that conflict with or contradict a GASB pronouncement. The Housing Authority has elected not to apply those pronouncements. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this Note.

1a. Financial Reporting Entity

The Housing Authority's financial reporting entity comprises the following:

Primary Government: Housing Authority

In determining the financial reporting entity, the Housing Authority complies with the provisions of GASB Statement No. 14 as amended by GASB No. 39, "The Financial Reporting Entity," and includes all component units, if any, of which the Housing Authority appointed a voting majority of the units' board; the Housing Authority is either able to impose its will on the unit or a financial benefit or burden relationship exists. There are no agencies, organizations or activities meeting this criteria.

1b. Basis of Presentation

Financial statements of the reporting entity's programs are organized and reported as an enterprise fund and are accounted for by providing a set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditure/expenses. Enterprise funds are used to account for business-like activities provided to its tenants. These activities are financed primarily by user charges and/or Federal funding and the measurement of financial activity focuses on net income measurement similar to the private sector. The reporting entity includes all of the Authority's programs as an enterprise fund.

NEW CASTLE HOUSING AUTHORITY

New Castle, Indiana

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2008

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. The New Construction program was closed at June 30, 2007.

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.

NEW CASTLE HOUSING AUTHORITY

New Castle, Indiana

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2008

NOTE 1 - Summary of Significant Accounting Policies (Continued)

1c. Measurement Focus and Basis of Accounting (Continued)

Basis of Accounting

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

1d. Assets, Liabilities, and Equity

Cash 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, if any, are eliminated for financial statement presentation.

Receivables

Receivables consist of all revenues earned at year-end and not yet received. Tenant accounts receivable, accrued interest receivable, fraud recovery 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.

NEW CASTLE HOUSING AUTHORITY

New Castle, Indiana

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2008

NOTE 1 - Summary of Significant Accounting Policies (Continued)

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

Budgets and Budgetary Accounting

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

Estimates and Assumptions

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

Capital Assets

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

In the financial statements, capital assets purchased or acquired with an original cost of \$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

Restricted Assets

Restricted assets include cash and investments legally restricted as to their use. The primary restricted assets are related to Housing Choice Vouchers which is a HUD program.

NEW CASTLE HOUSING AUTHORITY

New Castle, Indiana

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2008

NOTE 1 - Summary of Significant Accounting Policies (Continued)

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

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 three components:

- a. Invested in capital assets, net of related debt—Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowing that are attributable to the acquisition, construction, or improvement of those assets. The Authority had no related debt.
- b. Restricted net assets - Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provision or enabling legislation.
- c. Unrestricted net assets—All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

1e. Revenues, Expenditures, and Expenses

Operating Revenues and Expenses

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

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

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.

NEW CASTLE HOUSING AUTHORITY

New Castle, Indiana

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2008

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 Construction	U.S. Department of Housing and Urban Development

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, 2008, the Authority complied, in all material respects, with these revenue restrictions.

NEW CASTLE HOUSING AUTHORITY

New Castle, Indiana

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2008

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, 2008, the Authority's bank balances of \$174,057.00, were insured by federal depository insurance in the amount of \$100,000 and the balance was collateralized with securities held by the pledging financial institutions in the Authority's name.

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, 2008, the Authority's investments were \$198,748.45. These investments were insured by federal depository insurance in the amount of \$100,000 and the balance was collateralized with 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.

NEW CASTLE HOUSING AUTHORITY

New Castle, Indiana

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2008

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

3b. Restricted Assets

The restricted assets as of June 30, 2008, are as follows:

<u>Type of Restricted Assets</u>	<u>Cash Including Time Deposits</u>	<u>Investments</u>	<u>Total</u>
Unspent HAP subsidy	\$ 36,844.97	\$ ----	\$ 36,844.97
	<u>\$ 36,844.97</u>	<u>\$ ----</u>	<u>\$ 36,844.97</u>

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

3c. Accounts Receivable

Receivables detail at June 30, 2008, is as follows:

Tenant accounts receivable	\$ 7,811.88	
Allowance for doubtful accounts	<u>(2,844.20)</u>	
Tenants accounts receivable - net		\$ 4,967.68
Fraud recovery	2,481.50	
Allowance for doubtful accounts	<u>(731.71)</u>	
Fraud recovery - net		1,749.79
Accounts receivable - HUD - operating subsidy		6,472.00
Accounts receivable - HUD - capital fund		<u>5,747.65</u>
		<u>\$ 18,937.12</u>

NEW CASTLE HOUSING AUTHORITY

New Castle, Indiana

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2008

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

3d. Capital Assets

Capital asset activity for the year ended June 30, 2008, was as follows:

	Balance July 1, 2007	Additions	(Deductions)	Balance June 30, 2008
Land	\$ 917,432.10	\$ ----	\$ ----	\$ 917,432.10
Building	4,138,362.15	162,635.55	----	4,300,997.70
Furniture, equipment and machinery- dwelling	112,654.65	13,587.21	----	126,241.86
Furniture, equipment and machinery- administration	372,173.64	31,020.18	(8,875.45)	394,318.37
Leasehold improvements	1,929,771.34	----	----	1,929,771.34
Construction in progress	156,557.10	----	(72,899.63)	83,657.47
	7,626,950.98	<u>\$ 207,242.94</u>	<u>\$ (81,775.08)</u>	7,752,418.84
Accumulated depreciation	<u>3,452,455.44</u>	<u>\$ 247,726.76</u>	<u>\$ (8,210.67)</u>	<u>3,691,971.53</u>
Total	<u>\$ 4,174,495.54</u>			<u>\$ 4,060,447.31</u>

3e. Accounts Payable

Payable detail at June 30, 2008, is as follows:

Accounts payable - vendors	\$ 15,995.50
Accounts payable - other government - PILOT	<u>2,634.84</u>
	<u>\$ 18,630.34</u>

3f. Compensated Absences

Accumulated unpaid compensated absences are accrued. The liability for compensated absences at June 30, 2008 is \$19,738.18.

NEW CASTLE HOUSING AUTHORITY

New Castle, Indiana

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2008

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

3g. Non-current Liabilities

As of June 30, 2008, the non-current liabilities are comprised of the following:

Accrued compensated absences - non current portion	\$ <u>1,973.81</u>
Total	\$ <u><u>1,973.81</u></u>

The following is a summary of changes in non-current liabilities for the year ended June 30, 2008:

	<u>Balance June 30, 2007</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2008</u>	<u>Amounts Due within One Year</u>
Accrued compensated absences	\$ <u>6,632.57</u>	\$ ----	\$ <u>4,658.76</u>	\$ <u>1,973.81</u>	\$ <u>17,764.37</u>
Total	\$ <u><u>6,632.57</u></u>	\$ <u><u>----</u></u>	\$ <u><u>4,658.76</u></u>	\$ <u><u>1,973.81</u></u>	\$ <u><u>17,764.37</u></u>

3h. 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, 2008:

Type of Debt	<u>Balance June 30, 2007</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2008</u>	<u>Amounts Due within One Year</u>
Notes Payable	\$ <u>164,364.60</u>	\$ ----	\$ <u>12,004.88</u>	\$ <u>152,359.72</u>	\$ <u>12,692.91</u>
Total	\$ <u><u>164,364.60</u></u>	\$ <u><u>----</u></u>	\$ <u><u>12,004.88</u></u>	\$ <u><u>152,359.72</u></u>	\$ <u><u>12,692.91</u></u>

Annual Debt Service Requirements

The annual debt service requirements to maturity for long-term debt as of June 30, 2008, 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>152,359.72</u></u>

NEW CASTLE HOUSING AUTHORITY

New Castle, Indiana

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2008

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

3h. Long-term Debt (Continued)

Annual Debt Service Requirements (Continued)

Year Ending June 30	Principle Payable	Interest Payable
2009	\$ 12,692.91	\$ 7,368.79
2010	13,347.49	6,617.32
2011	14,035.82	5,932.74
2012	14,745.33	5,213.34
2013	15,623.43	4,457.37
2014-2018	<u>81,914.14</u>	<u>9,626.87</u>
Total	\$ <u>152,359.12</u>	\$ <u>39,216.43</u>

3i. Interprogram Transactions

Transfers are used to move revenues from the program that is authorized to transfer them to the program in accordance with budgetary authorizations. Offsetting operating transfers, if any, are eliminated for financial statement presentation.

NEW CASTLE HOUSING AUTHORITY

New Castle, Indiana

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2008

NOTE 4 - Other Notes

4a. Employee Retirement Plan

The Public Employees' Retirement Fund (PERF) is an agent multiple-employers public employee retirement system and a defined benefit plan that acts as a common investment and administrative agent for the state and local governments in Indiana.

The authority under which benefit provisions and obligations to contribute to the Plan by the members and employers is established in the Indiana Code, Title 5, Articles 10.2 and 10.3, amended only by Indiana General Assembly.

PERF issues a financial report that includes financial statements and required supplementary information. The report may be obtained at www.perf.in.gov

Included are descriptions of the Actuarial Methods and Major Plan Provisions and the type of benefits provided.

The census data is collected as of July 1, 2007 and the Actuarial Valuation date is July 1, 2007. All employees currently covered by the Plan's provisions are included in the census data. All information is determined in accordance with GASB 27. There is no relationship to the Plan sponsor that may impair the objectivity of the valuation.

Included are the Schedule of Funding Progress as of July 1, 2007, the Schedule of Employer Contributions for the Plan year July 1, 2006 through June 30, 2007, the Development of the Net Pension Benefit Obligation as of June 30, 2007, and Plan information.

Annual Required Contributions	\$	20,015
Interest on Net Pension Obligation		(815)
Adjustment To Annual Required		<u>929</u>
Annual Pension Costs		20,129
Contributions Made		<u>22,896</u>
Increase (Decrease) In Net Pension Obligation		(2,767)
Net Pension Obligation, Beginning of Year		<u>(11,248)</u>
Net Pension Obligation, End of Year	\$	<u><u>(14,015)</u></u>

NEW CASTLE HOUSING AUTHORITY

New Castle, Indiana

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2008

NOTE 4 - Other Notes (Continued)

4a. Employee Retirement Plan (Continued)

Three Year Trend Information

	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6-30-2005	\$ 21,704	100%	\$ (14,978)
6-30-2006	23,598	84%	(11,248)
6-30-2007	20,129	114%	(14,015)

Required Supplementary Information

	Actuarial Value Of Assets	Actuarial Accrued Liability-AAL	Excess of Assets Over (Unfunded) AAL	Funded Ratio	Covered Payroll	Excess/ Unfunded AAL as A % Of Covered Payroll
7-1-2005	\$ 250,452	\$ 390,961	\$ (140,509)	64%	\$ 248,129	57%
7-1-2006	293,390	360,413	(67,023)	81%	249,932	27%
7-1-2007	181,688	259,775	(78,087)	70%	179,908	43%

Summary of Major Actuarial Assumptions

Interest	7.25% (net of administrative and investment expenses)
Future Salary Increases	Based on PERF experience 1995-2000
Cost of Living Increases	An increase of 1.0% (compounded) is assumed to be applied to the pension benefit each year following retirement. No increase is assumed to be applied to the PERF annuity benefit.
Mortality	UP-1994. Pre-retirement mortality based on PERF experience 1995-2000.
Disability	Based on PERF experience 1995-2000.
Termination	Select and ultimate tables based on PERF experience 1995-2000. Separate tables are used for State employees and political subdivision employees.
Retirement	Based on PERF experience 1995-2000.
Spouse's Benefit	90% of participants are assumed either to be married or to have a dependent beneficiary. Males are assumed to be 3 years older than their spouses.

Summary of Major Plan Provisions

Participation	All full time employees of the State of Indiana and all full time employees of political subdivisions which have adopted the plan must become members of PERF upon date of hire.
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NEW CASTLE HOUSING AUTHORITY

New Castle, Indiana

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2008

NOTE 4 - Other Notes (Continued)

4a. Employee Retirement Plan (Continued)

Eligibility for Annuity Benefits:

Normal Retirement	Earliest of: Age 65 with 10 years of creditable service; Age 60 with 15 years of creditable service; Sum of age and creditable service equal to 85 (but not earlier than age 55).
Early Retirement	Age 50 with 15 years of creditable service
Late Retirement	Subject to continued employment after normal retirement
Disability Retirement	5 years of creditable service and qualified for Social Security disability benefits or federal Civil Service disability benefits.
Termination	10 years of creditable service and election not to take lump sum payment of employee account balance with interest.
Pre-Retirement Death	If death occurs in service, 15 years of creditable service. If death occurs after separating from service, age 50 with 15 years of creditable service.

Amount of Benefits:

Normal Retirement	The normal retirement benefit is an annuity payable for life with 60 months guaranteed and is equal to 1.1 % of average monthly earnings* times years of creditable service earned.
Early Retirement	The early retirement benefit is the accrued retirement benefit determined as of the early retirement date and payable commencing at the normal retirement date. A participant may elect to have the benefit commence prior to normal retirement provided the benefit is reduced by 1/10% for each of the first 60 months and by 5/12% for each of the next 120 months that the benefit commencement date precedes the normal retirement date.
Late Retirement	The late retirement benefit is calculated in the same manner as the normal retirement benefit. Creditable service and earnings earned after normal retirement is included in the computation.
Disability Retirement	The disability retirement benefit is the accrued retirement benefit determined as of the disability date and payable commencing the month following disability date without reduction for early commencement.

* Average monthly earnings is the monthly average of earnings during the 5 years within the 10 years preceding retirement that produce the highest such average. Earnings include basic salary, the participant's 3% mandatory contribution paid by the employer, and up to \$2,000 of additional compensation received from the employer in anticipation of the participant's termination or retirement.

Termination	The termination benefit is the accrued retirement benefit determined as of the termination date and payable commencing at 65. If the participant has 15 or more years of creditable service, then the participant may elect to receive a reduced early retirement benefit.
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NEW CASTLE HOUSING AUTHORITY

New Castle, Indiana

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2008

NOTE 4 - Other Notes (Continued)

4a. Employee Retirement Plan (Continued)

Pre-Retirement Death The spouse or dependent beneficiary is entitled to receive the monthly life annuity under the assumption that the participant retired on the later of age 50 or the day before the date of death and elected the joint and full survivor option.

Employee Contributions Each participant is required to contribute to an employee annuity at the rate of 3% of pay (unless the employer has opted to make the contribution for the employee). These contributions are kept on deposit and credited with interest until such time as they are refunded or used to provide the annuity benefit at retirement.

The benefits provided by employee contributions are in addition to the benefits provided by employer contributions. The monthly annuity provided at a normal retirement age of 65 is equal to \$1.00 for each \$108.79 of accumulated employee contributions plus interest.

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 Pfenninger Agency, Inc.
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 Anthem - Blue Cross and Blue Shield.

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.

NEW CASTLE HOUSING AUTHORITY

New Castle, Indiana

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2008

NOTE 4 - Other Notes (Continued)

4c. Economic Dependency

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

4d. Commitments and Contingencies

Commitments—Construction

At June 30, 2008, the Authority had the following pending construction projects in progress:

	<u>Funds Approved</u>	<u>Funds Expended - Project to Date</u>
CFP 501-06	\$ 206,863.00	\$ 69,282.80
CFP 501-01	191,135.00	32,646.25
	<u>\$ 397,998.00</u>	<u>\$ 101,929.05</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

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

Year Ended June 30, 2008

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>Public and Indian Housing Nonmajor - Direct Program</u>		
2008	Low Rent Program	14.850a	\$ <u>286,725.50</u>
	<u>Low Income Public Housing Major - Direct Program</u>		
2008	Housing Choice Vouchers	14.871	\$ <u>1,255,285.00</u>
	<u>Public and Indian Housing Nonmajor - Direct Program</u>		
2008	Capital Fund program	14.872	\$ <u>123,746.99</u>
	Total		\$ <u>1,665,757.49</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

PHA'S STATEMENT AND CERTIFICATION OF
CAPITAL FUND PROGRAM COSTS

June 30, 2008

1. Actual Capital Fund Program costs are as follows:

	<u>CFP 501-05</u>
Funds approved	\$ 206,824.00
Funds expended	<u>206,824.00</u>
Excess of Funds Approved	\$ <u>-----</u>
Funds advanced	\$ 206,824.00
Funds expended	<u>206,824.00</u>
Excess (deficiency) of Funds Advanced	\$ <u>-----</u>

2. The costs as shown on the Actual Cost Certificate dated April 23, 2008 submitted to HUD for approval is in agreement with the PHA's records as of June 30, 2008.
3. All costs have been paid and all related liabilities have been discharged through payments.

SECTION III
REPORTS ON COMPLIANCE
AND
ON INTERNAL CONTROL

**Report on Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements Performed
in Accordance With *Government Auditing Standards***

Board of Commissioners
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, 2008, and have issued our report thereon dated November 7, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A 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.

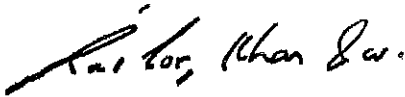
A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Authority's internal control.

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 or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

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
November 7, 2008

Khan & Co. LLC**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, 2008. 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, 2008.

Internal Control Over Compliance

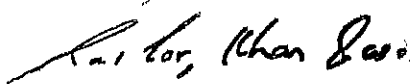
The management of the Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal program. In planning and performing our audit, we considered the Authority's internal control over 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 deficiency, 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
November 7, 2008

NEW CASTLE HOUSING AUTHORITY

New Castle, Indiana

SIGNIFICANT DEFICIENCIES COMMUNICATED IN PRIOR YEARS

June 30, 2008

The prior audit report for the year ended June 30, 2007 contained a total of one significant deficiency:

Financial Statement Findings

Finding: Internal Control Policy
Status: Implemented

Federal Awards Findings

None.

NEW CASTLE HOUSING AUTHORITY

New Castle, Indiana

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 2008

SECTION I - SUMMARY OF AUDITOR RESULTS

Financial Statement:

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
▶ Material weakness(es) identified?	No
▶ Significant deficiency (ies) identified that are not considered to be material weaknesses?	None reported
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
▶ Significant deficiency (ies) 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

Number(s) Name of Federal Program

14-871 Section 8 Housing Choice Vouchers

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

NEW CASTLE HOUSING AUTHORITY

New Castle, Indiana

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

June 30, 2008

SECTION II - FINANCIAL STATEMENT FINDINGS

The current audit report for the year ended June 30, 2008 disclosed no Financial Statement audit findings.

SECTION III - FEDERAL AWARD FINDINGS

The current audit report for the year ended June 30, 2008 disclosed no Federal Awards audit findings.

QUESTIONED COSTS

None