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June 11, 2009

Board of Commissioners  
Housing Authority of the City of Berne  
158 West Franklin Street  
Berne, Indiana 46711

We have reviewed the audit report prepared by Jean Sickels, CPA, Independent Public Accountant, 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 Accountant's opinion, the financial statements included in the report present fairly the financial condition of Housing Authority of the City of Berne, 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 Accountant's report is filed with this letter in our office as a matter of public record.

STATE BOARD OF ACCOUNTS

# HOUSING AUTHORITY OF THE CITY OF BERNE

AUDITED FINANCIAL STATEMENTS

BERNE, INDIANA  
JUNE 30, 2007

*Jean Sickels*  
Certified Public Accountant

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HOUSING AUTHORITY  
OF THE CITY OF  
BERNE

BERNE, INDIANA  
June 30, 2007

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*Jean Sickels*  
Certified Public Accountant  
870 Cinderella Court  
Decatur, GA 30033-5812

INDEPENDENT AUDITOR'S REPORT

Board of Commissioners  
Housing Authority of the City  
of Berne  
Berne, Indiana

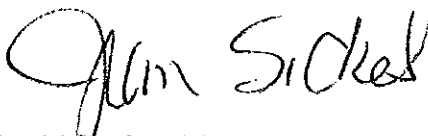
I have audited the financial statements of the Housing Authority of the City of Berne, herein referred to as the Authority, as of and for the year ended June 30, 2007, as listed in the table of contents. These financial statements are the responsibility of the Housing Authority's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Housing Authority of the City of Berne as of June 30, 2007, and the changes in financial position and its cash flows for the year indicated above, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated September 19, 2007, on my consideration of the Housing Authority of the City of Berne's internal control over financial reporting and my 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 my 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 my audit.

The Management's Discussion and Analysis, as detailed in the table of contents in this Report, is not a required part of the financial statements but is supplementary information, required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries made of management regarding the methods of measurement and presentation of the supplementary information. However, I did not audit the information and express no opinion on it.

  
Certified Public Accountant

Decatur, Georgia  
September 19, 2007

CITY OF BERNE HOUSING AUTHORITY  
Berne, IN 46711

MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2007

Our discussion and analysis of the City of Berne Housing Authority financial performance provides the reader with an overview to the Authority's financial activities for the fiscal year ended June 30, 2007. The information contained in this MD&A should be considered in conjunction with the Authority's basic financial statements which are included with the MD&A.

**Financial Highlights**

The Berne Housing Authority had a cash balance at June 30, 2007 of \$37,273 representing a decrease of \$ 61,987 from June 30, 2006. The assets of the Authority exceeded its liabilities at the close of the most recent fiscal year by \$121 (net assets). The Authority had HUD operating grants of \$ 373,239 and investment income of \$ 225. Approximately 46 checks were written during the year for HAP payments, payroll, payroll taxes and insurance.

**Using this Annual Report**

This annual report consists of the Management's discussion and Analysis, the basic financial statements, and notes to the financial statements. The MD&A provides a narrative of the Authority's financial performance and activities for the year ended June 30, 2007. The basic statements provide readers with a broad overview of the Authority's finances. The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

The basic financial statements consist of:

- Statement of Net Assets – presents information on all of the Authority's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial situation of the Authority is improving.
- Statement of Activities – presents information showing how the Authority's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Certain revenues and expenses are reported in this statement that will result in cash flows in future periods.

CITY OF BERNE HOUSING AUTHORITY  
BERNE, IN 46711

MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2007  
Continued

**Housing Authority Activities and Highlights**

The City of Berne Housing Authority achieved a 96.2% occupancy rate for the Swiss Meadows Housing Project, which is the only project in the Authority. This project is Section 8 New Construction. The average rent assistance payment was \$450.56.

**Financial Analysis of the Authority**

**Statement of Net Assets**-the following table summarizes the changes in Net Assets between June 30, 2007 and 2006:

	<u>2007</u>	<u>2006</u>	<u>Net Change</u>
<b>ASSETS</b>			
<b><u>Current Assets</u></b>			
Cash Unrestricted	\$37,273	\$99,260	-\$61,987
Accounts Receivable-	25,908	0	25,908
	-----	-----	-----
<b>Current Assets</b>	<b>63,181</b>	<b>99,260</b>	<b>-36,079</b>
<b><u>Property &amp; Equipment</u></b>			
Office Equipment - net	4,746	1,056	3,690
	-----	-----	-----
<b>Property &amp; Equipment</b>	<b>4,746</b>	<b>1,056</b>	<b>3,690</b>
<b>TOTAL ASSETS</b>	<b>67,927</b>	<b>100,316</b>	<b>-32,389</b>
<b>LIABILITIES &amp; NET ASSETS</b>			
<b><u>Current Liabilities</u></b>			
Accounts Payable	185	32,695	-32,510
	-----	-----	-----
<b>Current Liabilities</b>	<b>185</b>	<b>32,695</b>	<b>-32,510</b>
<b>TOTAL LIABILITIES</b>	<b>185</b>	<b>32,695</b>	<b>-32,510</b>
<b>NET ASSETS</b>			
Invested in capital assets	4,746	1,056	3,690
Unrestricted	62,996	66,565	(3,569)
	-----	-----	-----
<b>NET ASSETS</b>	<b>\$67,742</b>	<b>\$67,621</b>	<b>\$121</b>
	=====	=====	=====

CITY OF BERNE HOUSING AUTHORITY  
BERNE, IN 46711

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2007

Continued

**Statement of Activities** -the following table summarizes the changes in Operating Income between June 30, 2007 and 2006:

	<u>2007</u>	<u>2006</u>	<u>Net Change</u>
<b>REVENUES</b>			
HUD Operating Grants	\$373,239	\$351,844	\$21,395
Investment Income	225	294	(69)
	-----	-----	-----
<b>TOTAL REVENUE</b>	<b>373,464</b>	<b>352,138</b>	<b>21,326</b>
<b>EXPENSES</b>			
Operating Expenses	18,200	17,423	777
Housing Assistance Payments	353,693	332,396	21,297
Depreciation Expense	1,450	704	0
	-----	-----	-----
<b>TOTAL EXPENSES</b>	<b>373,343</b>	<b>350,523</b>	<b>22,820</b>
 Net Income (Loss)	 \$121	 \$1,615	 (\$1,494)
	=====	=====	=====

**Explanation of Changes from Fiscal Year 2006 to Fiscal Year 2007**

The change of \$ 61,987 in the Cash Unrestricted account was due to the fact that the FY 2006 Accounts Payable was paid which was \$32,695. Also, the housing assistance payments were more than the HUD operating grants received resulting in an Accounts Receivable from HUD of \$25,908.

The change in the Accounts Receivable of \$25,908 was due to higher housing assistance payments made than operating grants received and that there wasn't a receivable at the FY 2006. The average assistance payment was \$450.56 which was almost \$30 higher than the 2006 average payment.

The change in the Accounts payable was the amount that was due to HUD for the FY 2006 paid in October and November 2006. There wasn't a HUD payable owed at the end of the fiscal year 2007 resulting in the decrease of \$32,510.

The increase of \$ 21,395 in the HUD Operating Grants was due to more revenue earned by the Housing Authority as some families in the housing project had less or no income.

The increase in the housing assistance payments were also due to lower family income during the fiscal year ended June 30, 2007.

CITY OF BERNE HOUSING AUTHORITY  
BERNE, IN 46711

MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2007  
Continued

**Capital Asset Activity**

The Authority purchased one capital asset during the fiscal year for \$ 5,141.00. It was a Panasonic #DP-3030 Copier.

**Debt Administration**

The Authority does not have any debt at the fiscal year end of June 30, 2007.

**HAP Changes**

As of June 30, 2007 the Authority no longer is the Traditional Contract Administrator who administers the monthly HAP subsidies for the Section 8 New Construction contract for 68 apartments in the Swiss Meadows Housing project. The responsibility for the contract administration was assigned on July 1, 2007 to the Performance Based Contract Administrator (PBCA) in Indianapolis, IN. This has resulted in the Authority having no contracts to administer.

**Request for Information**

This financial report is designed to provide a general overview of the Authority's accountability for all those interested. If you should have additional questions regarding the financial information, you can contact our office in writing at the following address:

**City of Berne Housing Authority**  
Attn: Gwen Maller, Executive Director  
158 W. Franklin  
Berne, IN 46711

**FINANCIAL STATEMENTS**

HOUSING AUTHORITY OF THE CITY OF BERNE  
Berne, Indiana

STATEMENT OF NET ASSETS  
JUNE 30, 2007

Annual Contributions Contract C-2073

	New Construction
<b>ASSETS</b>	
<b>Current Assets</b>	
Cash and cash equivalents	\$ 37,273
Accounts receivable	25,908
<b>Total Current Assets</b>	<b>63,181</b>
<b>Capital Assets</b>	
Depreciable capital assets, net	4,746
<b>Total Capital Assets</b>	<b>4,746</b>
<b>Total Assets</b>	<b>67,927</b>
<b>LIABILITIES</b>	
<b>Current liabilities</b>	
Accounts payable	185
<b>Total Current liabilities</b>	<b>185</b>
<b>NET ASSETS</b>	
Invested in capital assets	4,746
Unrestricted	62,996
<b>Total Net Assets</b>	<b>\$ 67,742</b>

The accompanying notes are an integral part of these financial statements.

HOUSING AUTHORITY OF THE CITY OF BERNE  
Berne, Indiana

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2007

Annual Contributions Contract C-2073

	New Construction
<b>OPERATING REVENUES</b>	
Other income	\$ 0
<b>TOTAL OPERATING REVENUE</b>	<b>0</b>
<b>OPERATING EXPENSES</b>	
Administrative	17,883
General Expense	317
Depreciation	1,450
Housing assistance payments	353,693
<b>TOTAL OPERATING EXPENSES</b>	<b>373,343</b>
OPERATING INCOME (LOSS)	(373,343)
<b>NON NONOPERATING REVENUES (EXPENSES)</b>	
Federal operating grants	373,239
Interest income	225
<b>NET NONOPERATING REVENUES (EXPENSES)</b>	<b>373,464</b>
<b>CHANGE IN NET ASSETS</b>	<b>121</b>
TOTAL NET ASSETS - BEGINNING OF YEAR	67,621
TOTAL NET ASSETS - END OF YEAR	\$ 67,742

The accompanying notes are an integral part of these financial statements.

HOUSING AUTHORITY OF THE CITY OF BERNE  
Berne, Indiana

STATEMENT OF CASH FLOWS  
JUNE 30, 2007

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Payments to landlords	\$ (353,693)
Payments to employees	(50,710)
<b>Net Cash Used by Operating Activities</b>	<b>(404,403)</b>
 <b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Operating grants received	347,331
<b>Net Cash Flows Provided</b>	<b>347,331</b>
by Noncapital Financing Activities	347,331
 <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Acquisition and construction of capital assets	(5,140)
<b>Net Cash Flows (Used)</b>	<b>(5,140)</b>
by Capital and Related Financing Activities	(5,140)
 <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest income	225
<b>Net Cash Flows Provided</b>	<b>225</b>
by Investing Activities	225
 <b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	 <b>(61,987)</b>
 Balance - Beginning of year	 99,260
 Balance - End of year	 <b>\$ 37,273</b>
 <b>RECONCILIATION OF OPERATING (LOSS) TO NET CASH USED BY OPERATING ACTIVITIES</b>	
 Operating income (loss)	 \$ (373,343)
Adjustments to reconcile net income to net cash Provided by operating activities:	
Depreciation	1,450
<b>Changes in operating assets and liabilities:</b>	
(Increase) Decrease in:	
Accounts payable	(32,510)
<b>Net Cash Flows Provided (Used)</b>	<b>(404,403)</b>
by Operating Activities	\$ (404,403)

The accompanying notes are an integral part of these financial statements.

HOUSING AUTHORITY OF THE CITY OF BERNE  
Berne, Indiana

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007

**NOTE A - Summary of Significant Accounting Policies and Organization:**

Reporting Entity

The financial statements of the HOUSING AUTHORITY OF THE CITY OF BERNE ("the Authority") have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Government Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Significant Authority accounting policies are described below.

The entity is a public corporation, legally separate, fiscally independent, and governed by the Board of Commissioners. As required by generally accepted accounting principles, these financial statements present the financial position and results of operations of the Housing Authority of the City of Berne, a primary government. There are no component units to be included herewith, but this report does include all programs which are controlled by the entity's governing body.

The financial statements of the Housing Authority of the City of Berne include the following:

Management:

The Authority had 68 units in management at June 30, 2007.

Project

Units

New Construction

68

Basis of Accounting and Presentation

The accounting policies of the Authority conform to generally accepted accounting principles (GAAP) promulgated by the Governmental Accounting Standards Board (GASB) and the Financial Accounting Standards Board (FASB) as applicable to special-purpose governments engaged in business-type activities. Pursuant to the election option made available by GASB Statement No. 20, pronouncements of the Financial Accounting Standards Board (FASB) issued before November 30, 1989, in accounting and reporting for its proprietary operations have been applied, but has elected not to apply FASB pronouncements issued after November 30, 1989.

The Authority presents its financial statements using enterprise accounting. Although the Authority accounts for its programs using accounts for its internal reporting, the Authority is considered to be a unified enterprise fund for reporting purposes. Accordingly, the Authority uses the economic resources measurement focus and the related accrual basis of accounting. Under the economic resources measurement focus, the Authority accounts for all assets and liabilities. Under the accrual basis of accounting, expenses are recorded when the goods and services are received, irrespective of when paid for, and revenues are recorded as earned, irrespective of when cash is received.

Net Assets

Generally accepted accounting principles for state and local governments requires that resources be classified for accounting and reporting purposes into the following three net asset categories:

HOUSING AUTHORITY OF THE CITY OF BERNE  
Berne, Indiana

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

(Continued)

NOTE A - Summary of Significant Accounting Policies: (Continued)

Invested in Capital Assets, Net of Related Debt - Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets. The Authority has no debt.

Restricted - Net assets whose use by the Authority is subject to externally imposed stipulations that can be fulfilled by actions of the Authority pursuant to those stipulations or that expire by the passage of time. Such assets include assets restricted for capital acquisitions and debt service. The Authority has no restricted net assets.

Unrestricted - Net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of management or the Authority Board or may otherwise be limited by contractual agreements with outside parties.

Budgets - Budgets are prepared on an annual basis for each major operating program and are used as a management tool throughout the accounting cycle.

Budget compared to actual presentation is not presented because the Authority does not annually adopt a legally authorized budget. The Authority's budget is adopted by the Authority's board. This budget does not represent a legally binding appropriated budget that has been signed into law or a nonappropriated budget authorized by constitution. The Authority's budget represents budgetary execution and management by its board; therefore, budgetary data and presentation is not required.

Cash and Cash Equivalents - Cash and cash equivalents include cash on hand, certificates of deposit, savings accounts, and highly liquid investments (including restricted assets) with a maturity of three months or less when purchased. Certificates of deposit that are redeemable immediately with little or no penalty are considered cash equivalents.

For the purposes of the Statement of Cash Flows, the Authority considers all highly liquid deposits (including restricted assets) with a maturity of three months or less when purchased and non negotiable Certificates of Deposit to be cash equivalents. There were no noncash investing, non capital, capital and financing activities during the year.

Tenant Receivables - Receivables (if any) for rentals and service charges are reported at net of an allowance for doubtful accounts. The Authority board takes monthly action as required to write off specific uncollectible accounts receivable balances.

Prepaid - Prepays (if any) represent payments made to vendors for services that will benefit beyond June 30, 2007.

Inventories - Inventories (if any) are valued at cost, which approximates market value, using the first-in/first/out (FIFO) method. The consumption method is applied and expense is charged when inventory items are used for the units.

HOUSING AUTHORITY OF THE CITY OF BERNE  
Berne, Indiana

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

(Continued)

NOTE A - Summary of Significant Accounting Policies: (Continued)

Capital assets - Capital assets purchased are recorded on the Statement of Net Assets at the time of purchase. Such assets are recorded at cost. The capitalization policy of the Authority requires assets to be capitalized when their cost is \$1,000 or more. Donated assets are recorded at fair market value at the date of donation. Because developments and major capital repairs or improvements are financed through cash advances from HUD, there are no capitalized interest costs in current programs.

Depreciation of capital assets is computed by the straight-line method based upon the estimated useful lives of the assets as follows:

<u>Class</u>	<u>Life</u>
Furniture, Equipment & Machinery	5-7 years

Compensated Absences - Compensated absences are those absences for which employees will be paid, such as vacation and sick leave. A liability for compensated absences that is attributable to services already rendered and that are not contingent on a specific event that is outside the control of the Authority and its employees, is accrued as employees earn the rights to the benefits. Compensated absences that relate to future services or that are contingent on a specific event that is outside the control of the Authority and its employees are accounted for in the period in which such services are rendered or in which such events take place.

Operating Revenues and Expenses - Operating revenues and expenses generally result from providing and producing goods and/or services in connection with providing low income housing programs. Operating expenses include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Restricted Assets - When both restricted (if any) and unrestricted resources are available for use, it is the Authority's policy to use unrestricted resources first, then restricted resources as they are needed.

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

Leasing Activities (as Lessor) - The Authority is the lessor of dwelling units primarily to low-income residents. The rents under the leases are determined generally by the resident's income as adjusted for eligible deductions regulated by HUD, although the resident may opt for a flat rent. Leases may be cancelled by the lessee at any time. The Authority may cancel the lease only for cause.

Revenues associated with these leases are recorded in the financial statements and schedules as "Rental income". Rental income per resident generally remains consistent from year to year, but is affected by general economic conditions which impact personal income, such as local job availability.

HOUSING AUTHORITY OF THE CITY OF BERNE  
Berne, Indiana

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

(Continued)

**NOTE B - Deposits and Cash and Cash Equivalents:**

**HUD Deposit Restrictions**

HUD requires Authorities to invest excess HUD program funds in obligations of the United States, certificates of deposit or any other federally insured instruments.

HUD also requires that deposits of HUD program funds be fully insured or collateralized at all times. Acceptable security includes FDIC/FSLIC insurance and the market value of securities purchased and pledged to the political subdivision. Pursuant to HUD restrictions, obligations of the United States are allowed as security for deposits. Obligations furnished as security must be held by the Authority or with an unaffiliated bank or trust company for the account of the Authority.

**Risk Disclosures**

A. **Interest Rate Risk:** As a means of limiting its exposure to fair value losses arising from rising interest rates, the Authority's investment policy limits the Authority's investment portfolio to maturities not to exceed two years at time of purchase.

At year end, all the Authority's deposits were either available on demand or have maturities of less than two years.

B. **Credit Risk:** This is a risk that a security or a portfolio will lose some or all of its value due to a real or perceived change in the ability of the issuer to repay its debt. The Authority's investment policy is that none of its total portfolio may be invested in securities of any single issuer, other than the US Government, its agencies and instrumentalities.

The carrying amounts of the Authority's cash deposits were \$37,273 at June 30, 2007. Bank balances before reconciling items were \$37,453 at that date, the total amount of which was collateralized or insured with securities held by an unaffiliated banking institution in the Authority's name.

Deposits consist of the following:

Deposits in bank	<u>\$ 37,273</u>
------------------	------------------

**NOTE C - Capital Assets:**

A summary in changes in capital assets is as follows:

	Beginning Balance <u>6/30/06</u>	<u>Increases</u>	<u>Decreases</u>	Ending Balance <u>6/30/07</u>
Capital Assets, being depreciated:				
Equipment	\$ 9,927	\$ 5,141	\$ 6,516	\$ 8,552
 Total Capital Assets, being depreciated	 <u>9,927</u>	 <u>5,141</u>	 <u>6,516</u>	 <u>8,552</u>

HOUSING AUTHORITY OF THE CITY OF BERNE  
Berne, Indiana

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

(Continued)

**NOTE C - Capital Assets:** (Continued)

Less Accumulated Depreciation:				
Equipment	( 8,871)	( 1,451)	0	( 3,806)
Total Accumulated Depreciation	( 8,871)	( 1,451)	0	( 3,806)
Total Capital Assets, being depreciated, net	1,056	( )	0	4,746
Capital Assets, Net	<u>\$ 1,056</u>	<u>\$ ( )</u>	<u>\$ 0</u>	<u>\$ 4,746</u>

Depreciation expense of \$1,451 was incurred during the year.

**NOTE D - Accounts Payable:**

Accounts payable at June 30, 2007, consist of the following:

Other accounts payable	\$ 185
Total	<u>\$ 185</u>

**NOTE E - Commitments and Contingencies:**

**Examinations:** The Authority is subject to possible examinations made 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. There were no examinations during the year ended June 30, 2007.

**Grant Disallowances:** Amounts received or receivable from HUD are subject to audit and adjustment by HUD. Any disallowed claims, including amounts already collected, would constitute a liability of the Authority. The amounts, if any, of expenses which may be disallowed by the grantor cannot be determined at this time although the Authority expects such amounts, if any, to be immaterial.

**NOTE F - Risk Management:**

The Authority is exposed to various risks of losses related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority carries commercial insurance coverage for these risks to the extent deemed prudent by Authority management, which includes public officials, workman's compensation, property, and auto insurance. Settled claims have not exceeded this commercial coverage in any of the past 3 years.

**NOTE G - Economic Dependency:**

The Authority receives approximately 99% of its revenues from HUD. If the amount of revenues received from HUD falls below critical levels, the Authority's operations could be adversely affected.

*Jean Sickels*  
Certified Public Accountant  
870 Cinderella Court  
Decatur, GA 30033-5812

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  
Housing Authority of the City  
of Berne  
Berne, Indiana

I have audited the financial statements of the Housing Authority of the City of Berne, as of and for the year ended June 30, 2007 and have issued my report thereon dated September 19, 2007, which included a disclaimer of opinion on Management's Discussion and Analysis. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the Housing Authority of the City of Berne's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operation that I consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Housing Authority of the City of Berne's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests did not disclose 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 use of the audit committee, management and the Department of Housing and Urban Development and is not intended to be and should not be used by anyone other than these specified parties.

  
Certified Public Accountant

Decatur, Georgia  
September 19, 2007

HOUSING AUTHORITY OF THE CITY OF BERNE  
Berne, Indiana

JUNE 30, 2007

SCHEDULE OF FINDINGS AND RESPONSES

STATUS OF PRIOR AUDIT FINDINGS

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

FINDINGS, RECOMMENDATIONS AND REPLIES

There were no current audit findings.