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December 29, 2009

Board of Commissioners  
The Housing Authority of the City of Charlestown  
200 Jennings Street  
Charlestown, Indiana 47111

We have reviewed the audit report prepared by McCauley, Nicolas & Company, LLC, Independent Public Accountants, for the period October 1, 2007 to September 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 Housing Authority of the City of Charlestown, as of September 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.

STATE BOARD OF ACCOUNTS

**THE HOUSING AUTHORITY OF THE  
CITY OF CHARLESTOWN  
Charlestown, Indiana**

**REPORT ON AUDIT OF FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION**

**for the year ended September 30, 2008**

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Independent Auditors' Report

Board of Commissioners  
The Housing Authority of  
the City of Charlestown  
Charlestown, Indiana 47111

We have audited the accompanying basic financial statements of the Housing Authority of the City of Charlestown as of and for the year ended September 30, 2008, as listed in the table of contents. These financial statements are the responsibility of the Housing Authority of the City of Charlestown's management. Our responsibility is to express an opinion on these 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 *Governmental Auditing Standards* issued by the Controller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Housing Authority of the City of Charlestown as of September 30, 2008, and the results of its operations, changes in net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3 through 7 is not a required part of the basic financial statements but is supplementary 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 supplementary information. However, we did not audit the information and express no opinion on it.

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Board of Commissioners  
The Housing Authority of  
the City of Charlestown  
Page 2

In accordance with *Government Auditing Standards*, we have also issued our report dated June 24, 2009, on our consideration of the Housing Authority of the City of Charlestown'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.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the Housing Authority of the City of Charlestown taken as a whole. The accompanying Schedule of Expenditures of Federal Awards on page 16 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations," and is also 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.

*McCauley, Nicolas & Company, LLC*

McCauley, Nicolas & Company, LLC  
Certified Public Accountants

Jeffersonville, Indiana  
June 24, 2009

# THE HOUSING AUTHORITY OF THE CITY OF CHARLESTOWN

Charlestown, Indiana

## MANAGEMENT DISCUSSION AND ANALYSIS

Year ended September 30, 2008

As management of Housing Authority of the City of Charlestown (the Authority), we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the year ended September 30, 2008.

### FINANCIAL HIGHLIGHTS

- Net assets of the Authority increased \$558,222 as of September 30, 2008 over the prior year.
- Operating revenue of the Authority increased by \$270,518 from prior year results.
- The Authority's cash balance at September 30, 2008 was \$1,136,611, representing an increase of \$570,447 from September 30, 2007.
- The Authority purchased property and equipment totaling \$408,429 during the fiscal year ended September 30, 2008.

### OVERVIEW OF THE AUTHORITY

The Housing Authority of the City of Charlestown, a nonprofit organization, is organized under the laws of the state of Indiana for the purpose of engaging in the development and administration of low-rent housing programs. The Authority owns and operates 250 public housing units and administers 70 Section 8 units under an Annual Contributions Contract 2050-V in Charlestown, Indiana.

A seven-member Board of Commissioners governs the Authority.

### OVERVIEW OF THE FINANCIAL STATEMENTS

The Authority's financial statements consist of two parts – management's discussion and analysis (this section) and the basic financial statements. The basic financial statements include the Authority-wide financial statements and notes to the financial statements.

- The Authority-wide financial statements provide information about the Authority's overall financial position and results of operations. These statements, which are presented on the accrual basis, consist of the Statement of Net Assets, the Statement of Revenue, Expenses and Changes in Net Assets and the Statement of Cash Flows (all of which are Proprietary Funds).
- The basic financial statements also include a "Notes to Financial Statements" section that provides additional information that is essential to a full understanding of the data provided in the Authority-wide statements.

The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of these statements.

**THE HOUSING AUTHORITY OF THE CITY OF CHARLESTOWN**  
Charlestown, Indiana

MANAGEMENT DISCUSSION AND ANALYSIS-Continued  
Year ended September 30, 2008

**OVERVIEW OF THE FINANCIAL STATEMENTS-Continued**

The primary focus of the Authority's financial statements is on the financial statements of a single business-type activity that combines all programs administered by the Authority. The Statement of Net Assets – Proprietary Fund includes all of the Authority's assets and liabilities. All of the current year's revenue and expenses are accounted for in the Statement of Revenue, Expenses and Changes in Net Assets – Proprietary Fund regardless of when cash is received or paid.

- The Authority-wide statements report the Authority's net assets and how they changed. Net assets – the difference between the Authority's assets and liabilities – are one way to measure the Authority's financial position.

**AN OVERVIEW OF THE AUTHORITY-WIDE FINANCIAL POSITION AND OPERATIONS**

The Authority's overall financial position and operations for the past two years are summarized below based on the information included in the current and prior financial statements.

***The Housing Authority of the City of Charlestown***  
***Statement of Net Assets - Proprietary Fund***

	<u>2008</u>	<u>2007</u>	Total Percentage Change
Current Assets	\$ 1,774,926	\$ 1,337,472	32.7%
Property and equipment, net	<u>5,171,264</u>	<u>5,086,114</u>	<u>1.7%</u>
Total Assets	<u>\$ 6,946,190</u>	<u>\$ 6,423,586</u>	<u>8.1%</u>
Current Liabilities	\$ 238,979	\$ 187,689	27.3%
Non-current liabilities	<u>-</u>	<u>86,908</u>	<u>-100.0%</u>
Total Liabilities	<u>\$ 238,979</u>	<u>\$ 274,597</u>	<u>-13.0%</u>
Net Assets			
Invested in capital assets	\$ 5,171,264	\$ 5,086,114	1.7%
Unrestricted net assets	1,498,578	1,024,307	46.3%
Restricted net assets	<u>37,369</u>	<u>38,568</u>	<u>0.0%</u>
Total Net Assets	<u>\$ 6,707,211</u>	<u>\$ 6,148,989</u>	<u>9.1%</u>

**THE HOUSING AUTHORITY OF THE CITY OF CHARLESTOWN**  
Charlestown, Indiana

MANAGEMENT DISCUSSION AND ANALYSIS—Continued  
Year ended September 30, 2008

**AN OVERVIEW OF THE AUTHORITY-WIDE FINANCIAL POSITION AND OPERATIONS—**  
Continued

The Authority's total assets at September 30, 2008 were \$6,946,190, an increase of approximately \$523,000, or 8.1%, from September 30, 2007. The change in total assets consisted primarily of a net increase of approximately \$485,000 in cash and certificates of deposit and \$85,000 in property and equipment, net of disposals and accumulated depreciation.

Cash and Certificates of Deposit

Total cash and certificates of deposit increased by approximately \$485,000 or 39.0% as of September 30, 2008 compared to September 30, 2007.

Accounts Receivable - tenant

Accounts receivable, net, increased by \$1,980 in 2008.

Accounts Receivable – HUD

At September 30, 2007, the Authority had a receivable of \$50,207 from HUD related to expenditures in the Capital Fund program. There were no receivables from HUD at September 30, 2008.

Long-term Debt

The Authority does not have any long-term liabilities at this time.

Net Assets

The Authority's financial position improved as net assets increased by \$558,222, or 9.1%, during 2008. The Authority continued to maintain a positive change in net assets to cover operating expenses.

The results of operations for the Authority are presented on the following page:

**THE HOUSING AUTHORITY OF THE CITY OF CHARLESTOWN**  
Charlestown, Indiana

MANAGEMENT DISCUSSION AND ANALYSIS-Continued  
Year ended September 30, 2008

**AN OVERVIEW OF THE AUTHORITY-WIDE FINANCIAL POSITION AND OPERATIONS-**  
Continued

*The Housing Authority of the City of Charlestown*

*Statement of Revenue, Expenses and Changes in Net Assets - Proprietary Fund*

	2008	2007	Increase/Decrease	
			Amount	Percentage
<b>OPERATING REVENUE</b>				
Tenant rental revenue	\$ 728,907	\$ 684,083	\$ 44,824	6.6%
HUD PHA grants	922,416	694,571	227,845	32.8%
Other revenue	<u>22,945</u>	<u>25,096</u>	<u>(2,151)</u>	<u>-8.6%</u>
TOTAL OPERATING REVENUE	<u>1,674,268</u>	<u>1,403,750</u>	<u>270,518</u>	<u>19.3%</u>
<b>OPERATING EXPENSES</b>				
Administration	286,448	264,768	21,680	8.2%
Tenant service	6,624	8,718	(2,094)	-24.0%
Utilities	200,004	206,482	(6,478)	-3.1%
Ordinary maintenance and operations	328,479	369,835	(41,356)	-11.2%
Protective services	26,000	26,000	-	0.0%
Insurance premiums	59,093	-	-	0.0%
Other general expenses	71,946	108,824	(36,878)	-33.9%
Housing assistance payments	253,204	232,675	20,529	8.8%
Depreciation	<u>323,279</u>	<u>301,603</u>	<u>21,676</u>	<u>7.2%</u>
TOTAL OPERATING EXPENSES	<u>1,555,077</u>	<u>1,518,905</u>	<u>36,172</u>	<u>2.4%</u>
Operating loss	<u>119,191</u>	<u>(115,155)</u>	<u>234,346</u>	<u>203.5%</u>
<b>NONOPERATING REVENUE (EXPENSE)</b>				
Extraordinary maintenance	(7,600)	-	(7,600)	0.0%
Gain (loss) on disposal of fixed assets	-	500	(500)	-100.0%
Interest and investment revenue	<u>38,202</u>	<u>37,128</u>	<u>1,074</u>	<u>2.9%</u>
TOTAL NONOPERATING REVENUE	<u>30,602</u>	<u>37,628</u>	<u>(7,026)</u>	<u>-18.7%</u>
Loss before capital grant	149,793	(77,527)	227,320	293.2%
Capital fund grant	<u>408,429</u>	<u>275,389</u>	<u>133,040</u>	<u>48.3%</u>
CHANGE IN NET ASSETS	<u>\$ 558,222</u>	<u>\$ 197,862</u>	<u>\$ 360,360</u>	<u>182.1%</u>

The details of the changes are explained in the Results of Operations section.

**THE HOUSING AUTHORITY OF THE CITY OF CHARLESTOWN**  
Charlestown, Indiana

MANAGEMENT DISCUSSION AND ANALYSIS-Continued  
Year ended September 30, 2008

**RESULTS OF OPERATIONS**

Net assets of the Authority increased \$558,222 from the September 30, 2007 amount of \$6,148,989 by 9.1% to \$6,707,211.

Revenues of the Authority's activities are generated principally from HUD operating subsidies. In 2008 the Authority's revenues for its activities totaled \$2,120,899. Of this total, \$1,330,845, or 62.7%, is from HUD operating subsidies. Operating expense of the Authority's activities consist primarily of maintenance and operations, depreciation, administration and housing assistance payments. The total expenses are \$1,562,677, of which \$253,204, or 16.2%, were housing assistance payments.

Change in net assets for the year ended September 30, 2008 was \$558,222 compared to \$197,862 for the year ended September 30, 2007.

**CAPITAL ASSETS**

At September 30, 2008, the Authority has approximately \$5 million invested in a variety of capital assets reflected in the following schedule, which represents an increase of \$85,150 (net of depreciation) from the preceding year.

	<u>2008</u>	<u>2007</u>
Land	\$ 1,217,739	\$ 1,217,739
Buildings	8,802,328	8,301,741
Dwelling equipment	147,123	191,649
Office furniture and equipment	103,921	119,556
Construction in progress	<u>216,941</u>	<u>431,494</u>
Total property and equipment	10,488,052	10,262,179
Less accumulated depreciation	<u>(5,316,788)</u>	<u>(5,176,065)</u>
Property and equipment, net	<u>\$ 5,171,264</u>	<u>\$ 5,086,114</u>

Additions consisted primarily of capital improvements to the Authority's public housing units and were supported largely through capital fund grants.

**REQUEST FOR INFORMATION**

The financial report is designed to provide a general overview of the Authority's finances. Questions concerning any of the information provided in this report should be addressed to the following address:

The Housing Authority of the City of Charlestown  
Attn: Executive Director  
200 Jennings Street  
Charlestown, IN 47111

**THE HOUSING AUTHORITY OF THE CITY OF CHARLESTOWN**  
Charlestown, Indiana

STATEMENT OF NET ASSETS-PROPRIETARY FUND  
September 30, 2008

<b><u>ASSETS</u></b>	
<b>CURRENT ASSETS</b>	
Cash	\$ 1,136,611
Certificates of deposit	593,154
Accounts receivable - tenants	4,261
Other assets	39,239
Inventory - materials and supplies	<u>1,661</u>
<b>TOTAL CURRENT ASSETS</b>	<b><u>1,774,926</u></b>
<b>PROPERTY AND EQUIPMENT</b>	
Land	1,217,739
Buildings	8,802,328
Furniture, equipment and machinery - dwellings	132,113
Furniture, equipment and machinery - administration	118,931
Construction in progress	<u>216,941</u>
Total property and equipment	10,488,052
Less accumulated depreciation	<u>(5,316,788)</u>
<b>PROPERTY AND EQUIPMENT, NET</b>	<b><u>5,171,264</u></b>
<b>TOTAL ASSETS</b>	<b><u>\$ 6,946,190</u></b>
<b><u>LIABILITIES AND NET ASSETS</u></b>	
<b>CURRENT LIABILITIES</b>	
Accounts payable	\$ 10,195
Accounts payable - other government	53,606
Accrued compensated absences - current portion	131,831
Security deposits	34,364
Accrued wages/payroll taxes payable	1,805
Deferred revenues	<u>7,178</u>
<b>TOTAL CURRENT LIABILITIES</b>	<b><u>238,979</u></b>
<b>NET ASSETS</b>	
Invested in capital assets	5,171,264
Unrestricted net assets	1,498,578
Restricted net assets	<u>37,369</u>
<b>TOTAL NET ASSETS</b>	<b><u>6,707,211</u></b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 6,946,190</u></b>

See notes to financial statements.

**THE HOUSING AUTHORITY OF THE CITY OF CHARLESTOWN**  
Charlestown, Indiana

STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS-PROPRIETARY FUND  
September 30, 2008

**OPERATING REVENUE**

Tenant revenue	\$ 728,907
HUD PHA operating grants	922,416
Other revenue	<u>22,945</u>

**TOTAL OPERATING REVENUE** 1,674,268

**OPERATING EXPENSES**

Administration	286,448
Tenant service	6,624
Utilities	200,004
Ordinary maintenance and operations	328,479
Protective services	26,000
Insurance premiums	59,093
Other general expenses	71,946
Housing assistance payments	253,204
Depreciation	<u>323,279</u>

**TOTAL OPERATING EXPENSES** 1,555,077

Operating income 119,191

**NONOPERATING REVENUE (EXPENSES)**

Extraordinary maintenance	(7,600)
Interest and investment revenue	<u>38,202</u>

**TOTAL NONOPERATING REVENUE** 30,602

Income before capital grant 149,793

Capital fund grant 408,429

**CHANGE IN NET ASSETS** 558,222

**NET ASSETS, BEGINNING OF YEAR** 6,148,989

**NET ASSETS, END OF YEAR** \$ 6,707,211

See notes to financial statements.

**THE HOUSING AUTHORITY OF THE CITY OF CHARLESTOWN**  
Charlestown, Indiana

STATEMENT OF CASH FLOWS - PROPRIETARY FUND  
for year ended September 30, 2008

**OPERATING ACTIVITIES**

Cash received from tenant	\$ 730,905
HUD PHA grants	1,381,052
Interest earned	38,202
Other cash received	22,945
	<u>2,173,104</u>

Administrative expenses	281,400
Tenant service	6,624
Utilities	200,004
Ordinary maintenance and operating	327,080
Protective services	26,000
Insurance premiums	60,169
Other general expenses	66,753
Housing assistance payments	253,204
Extraordinary maintenance	7,600
	<u>1,228,834</u>

Net cash provided by operating activities 944,270

**INVESTING ACTIVITIES**

Purchase of property and equipment	(458,636)
Proceeds from redemption of certificates of deposit, net	84,813

Net cash (used) by investing activities (373,823)

Net increase in cash 570,447

**OPERATING CASH**

Beginning of year	<u>566,164</u>
End of year	<u>\$ 1,136,611</u>

**OPERATING ACTIVITIES**

Change in net assets	\$ 558,222
Adjustments to reconcile changes in net assets to net cash provided by operating activities:	
Depreciation expense	323,279
Collection losses	5,693
(Increase) in:	
Accounts receivable - tenants	(7,673)
Accounts receivable - HUD	50,207
Inventory - materials and supplies	1,029
Other assets	(1,076)
Increase (decrease) in:	
Accounts payable	10,193
Accounts payable - other government	5,193
Accrued compensated absences	(5,415)
Security deposits	(20)
Accrued wages/payroll taxes payable	640
Deferred revenue	3,998
	<u>3,998</u>

Net cash provided by operating activities \$ 944,270

See notes to financial statements.

**THE HOUSING AUTHORITY OF THE CITY OF CHARLESTOWN**  
Charlestown, Indiana

NOTES TO FINANCIAL STATEMENTS

**NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

This summary of significant accounting policies of the Housing Authority of Charlestown (the "Authority") is presented to assist in understanding the Authority's financial statements. The financial statements and notes are representations of the Authority's management, who is responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of the financial statements.

Nature of Operations

The Authority, a nonprofit organization, is organized under the laws of the State of Indiana for the purpose of engaging in the development and administration of low-rent housing programs. The Authority owns and operates 250 public housing units and administers 70 Section 8 units under an Annual Contributions Contract 2050-V in Charlestown, Indiana.

Reporting Entity

In evaluating the Authority as a reporting entity, management has addressed its relationship with the City of Charlestown and concluded that the City does not maintain an oversight responsibility for the Authority's operations. The Authority recruits and employs its executive staff and has substantial legal authority to control its affairs without requiring approval of the City government. Debt incurred by the Authority is not an obligation of the City; the City does not review or approve the Authority's budget; is not entitled to any surplus funds generated by the Authority's operations; and is not responsible for any deficits incurred by the Authority. Consequently, in accordance with the criteria set forth in Section 2100 and 2600 of the Governmental Accounting Standards Board Codification, management has concluded that the Housing Authority of the City of Charlestown is a separate reporting entity.

Basis of Presentation

All of the Authority's programs are accounted for as one business-type activity for financial reporting purposes. This financial statement presentation provides an indication of the financial performance of the Authority as a whole. Enterprise designations are used to account for activities (a) which are financed with debt that is solely secured by pledge of the net revenues from fees and charges of the activity; (b) which are governed by laws or regulations that require that the activity's costs of providing services be recovered with fees and charges, rather than taxes or similar revenues; or (c) that the pricing policies of the activity establish fees and charges designated to recover its costs.

In accordance with Governmental Accounting Standards Board (GASB) Statement 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Authority's proprietary funds follow all GASB pronouncements and those Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins that were issued on or before November 30, 1989, except those that conflict with or contradict a GASB pronouncement.

**THE HOUSING AUTHORITY OF THE CITY OF CHARLESTOWN**  
Charlestown, Indiana

NOTES TO FINANCIAL STATEMENTS—Continued

**NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

Basis of Accounting

The financial statements of the Authority have been prepared on the accrual basis of accounting.

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 assets and liabilities, if any) at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

The Authority considers all short-term investments with an original maturity of three months or less to be cash equivalents. There were no cash equivalents at September 30, 2008.

Allowance for Doubtful Accounts

The Authority uses the allowance for bad debts method of valuing doubtful accounts receivable which is based on historical experience, coupled with a review of the current status of existing receivables. Management has determined that no allowance for doubtful accounts was required at September 30, 2008.

Inventories

Inventories, consisting of materials and supplies, are stated at the lower of cost or market, reported on a first-in, first-out basis.

Property and Equipment

Property and equipment are stated at cost. Maintenance and repairs are charged to expense as incurred; renewals or betterments are capitalized. Gain or loss on retirements and disposition of assets is credited or charged to operations, and respective costs and accumulated depreciation are eliminated from the accounts.

Depreciation is provided on the basis of the estimated useful lives of the assets using the straight-line method. The estimated useful lives are 10 - 39 years for building and improvements and 5 - 7 years for building equipment, furniture, maintenance equipment and miscellaneous assets.

Revenue and Expenses

Revenue is recorded as earned and expenses are charged against such revenue as incurred without regard to the date of receipt or payment of cash.

**THE HOUSING AUTHORITY OF THE CITY OF CHARLESTOWN**  
Charlestown, Indiana

NOTES TO FINANCIAL STATEMENTS—Continued

**NOTE 2—CASH DEPOSITS**

In March 2003, the GASB issued Statement No. 40 “Deposits and Investment Risk Disclosures,” which is effective for periods beginning after June 15, 2004. Risk disclosures in previous financial statements (under the provisions of GASB Statement No. 3) focused only on custodial credit risk. GASB Statement No. 40 not only addresses custodial credit risk but other common areas of investment risk as well, including interest rate risk, credit risk, and concentration of credit risk.

**A. Custodial Credit Risk**

Custodial credit risk for deposits and investments is the risk that, in the event of failure by a financial institution, the Authority may not be able to recover the value of its deposits and investments or collateral securities that are in the possession of the financial institution. Statutes authorize the Authority to invest in certificates of deposit, money market funds, United States government securities and repurchase agreements fully collateralized by United States government securities. All cash and investments are insured up to \$100,000 by the Federal Deposit Insurance Corporation (FDIC) or other equivalent insurance company of depository financial institutions. Effective October 3, 2008, the FDIC insurance coverage limit was increased to \$250,000. The deposits exceeding the insured or registered limits are public funds covered by the State of Indiana Public Deposit Fund.

**B. Interest Rate Risk**

Interest rate risk is the risk that changes in interest rates of investments will adversely affect the fair value of an investment. The Authority’s investment policy limits investments to provide the optimum return on the investment consistent with the cash management program of the Authority.

Investments are made based upon prevailing market conditions at the time of the transaction. The Authority reviews its cash and investment needs in order to maintain adequate liquidity to meet its cash flow needs. Investments will typically be limited to securities maturing in periods of up to one year, or such lesser period that coincides with expected disbursements by the Authority.

**C. Credit Risk**

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Investments are made under the ‘prudent investor’ standard to ensure that (a) due diligence is exercised in accordance with State law, (b) any negative deviations are reported timely and (c) reasonable action is taken to control any adverse developments. The Authority’s investment policy requires investment in instruments authorized by HUD Notice PIH 95-27.

**THE HOUSING AUTHORITY OF THE CITY OF CHARLESTOWN**  
Charlestown, Indiana

NOTES TO FINANCIAL STATEMENTS—Continued

**NOTE 2—CASH DEPOSITS—Continued**

**D. Concentration of Credit Risk**

The Authority's investment policy requires diversification of the overall portfolio to eliminate the risk of loss resulting from an over-concentration of assets in a specific maturity, a specific issuer and/or a specific class of securities.

**E. Foreign Currency Risk**

Foreign currency risk is the risk that changes in exchange rates will adversely affect fair value of an investment or a deposit. All of the Authority's deposits and investments are denominated in United States currency.

The carrying value of cash and certificates of deposit owned at September 30, 2008 was \$1,136,611 and \$593,154, respectively. The bank balance of cash and certificates of deposit owned at September 30, 2008 was \$1,151,690 and \$593,154, respectively.

**NOTE 3—PROPERTY AND EQUIPMENT**

The following is the detailed transactions of property and equipment during the year ended September 30, 2008:

	Balance at 10/01/07	Additions	Disposals	Transfers	Balance at 09/30/08
Land	\$ 1,217,739	\$ -	\$ -	\$ -	\$ 1,217,739
Buildings	8,301,741	191,489	(47,200)	356,298	8,802,328
Dwelling equipment	191,649	-	(119,721)	60,185	132,113
Office furniture and equipment	119,556	-	(15,635)	15,010	118,931
Construction in progress	431,494	216,940	-	(431,493)	216,941
	<u>\$ 10,262,179</u>	<u>\$ 408,429</u>	<u>\$ (182,556)</u>	<u>\$ -</u>	<u>\$ 10,488,052</u>

Total depreciation expense for the year ended September 30, 2008 was \$323,279.

**NOTE 4—RESTRICTED NET ASSETS**

In accordance with guidelines established by HUD, any housing assistance payment (HAP) budget authority provided to a housing authority in excess of actual program expenses for the same period must be maintained as restricted net assets to be used only for HAP payments incurred in the running of the Housing Choice Voucher program. Accordingly, the Authority has recorded \$37,369 as restricted net assets at September 30, 2008.

**THE HOUSING AUTHORITY OF THE CITY OF CHARLESTOWN**  
Charlestown, Indiana

NOTES TO FINANCIAL STATEMENTS—Continued

**NOTE 5—RETIREMENT PLAN**

The Authority contributes to a simplified employee pension plan for all of the eligible employees in the amount of 13% of wages. All employees are eligible who are at least 21 years of age and have worked at least 3 of the preceding 5 years. Contributions to the SEPP IRA are fully vested with the employees when made. Pension expense for the year ended September 30, 2008 was \$38,865.

**NOTE 6—COMPENSATED ABSENCES**

Regular full and part-time employees receive sick leave each year and vacation leave based upon length of employment. The vacation and sick leave benefits accumulate and can be carried forward to successive years; vacation and sick leave is also paid to employees upon termination. Accordingly, at September 30, 2008, a liability of \$131,831 has been recorded for accrued compensated absences.

**NOTE 7—INCOME TAXES**

The Authority has qualified with the Internal Revenue Service and the Indiana Department of Revenue as a tax-exempt organization for income tax purposes and, accordingly, there is no provision in the financial statements for federal or state income taxes.

FASB Interpretation No. 48 ("FIN 48"), *Accounting for Uncertainty in Income Taxes*, originally effective for fiscal years beginning after December 15, 2007, was issued to provide recognition and measurement requirements for accounting for uncertain tax positions taken on a tax return for all entities, including pass-through entities such as S corporations and partnerships. FASB Staff Position ("FSP") FIN 48-3 was issued on December 30, 2008 to defer the effective date of FIN 48 until fiscal years beginning after December 15, 2008.

Subsequently, in accordance with FSP FIN 48-3, the Authority has elected to defer the application of FIN 48. The Authority has implemented a policy to evaluate all local, state, and federal income tax returns for potential uncertain tax positions taken, as defined by FIN 48, in the year in which the tax returns are filed.

**NOTE 8—MAJOR FUNDING SOURCE**

The Authority is substantially funded by Federal awards. Management does not anticipate any material change in funding.

**THE HOUSING AUTHORITY OF THE CITY OF CHARLESTOWN**  
Charlestown, Indiana

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
for the year ended September 30, 2008

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
U.S. Department of Housing and Urban Development:		
Low Rent Public Housing	14.850	\$ 541,755
Section 8 Housing Choice Vouchers	14.871	291,616
Public Housing Capital Fund Program	14.872	<u>497,474</u>
		<u>\$1,330,845</u>

**Basis of Presentation**

The above schedule of expenditures of federal awards includes the federal grant activity of the Authority and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**THE HOUSING AUTHORITY OF THE CITY OF CHARLESTOWN**  
Charlestown, Indiana

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
for the year ended September 30, 2008

**A. SUMMARY OF AUDIT RESULTS**

1. The auditors' report expresses an unqualified opinion on the financial statements of Housing Authority of the City of Charlestown.
2. No significant deficiencies relating to the audit of the financial statements are reported in the 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*.
3. No instances of noncompliance material to the financial statements of the Housing Authority of the City of Charlestown were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal award programs are reported in the Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133.
5. The auditors' report on compliance for the major federal award programs for Housing Authority of the City of Charlestown expresses an unqualified opinion.
6. The audit disclosed no audit findings relating to major federal award programs for Housing Authority of the City of Charlestown which are required to be reported under Section 510(a) of OMB Circular A-133.

7. The programs tested as major programs included:

<u>Description</u>	<u>Federal CFDA No.</u>
Low Rent Public Housing	14.850

8. The threshold for distinguishing Type A and B programs was \$300,000.
9. The Authority was determined to be a low-risk auditee.

**B. FINDINGS—FINANCIAL STATEMENTS AUDIT**

None.

**C. FINDING—MAJOR FEDERAL AWARD PROGRAMS AUDIT**

There were no findings or questioned costs.

**THE HOUSING AUTHORITY OF THE CITY OF CHARLESTOWN**  
Charlestown, Indiana

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
for the year ended September 30, 2008

None



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  
The Housing Authority of the City of Charlestown  
Charlestown, Indiana 47111

We have audited the financial statements of the Housing Authority of the City of Charlestown (the "Authority") as of and for the year ended September 30, 2008, and have issued our report thereon dated June 24, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial statements 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 audit 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 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 no 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 grants, 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 use of the Board of Commissioners, management, specific legislative or regulatory bodies and federal awarding agencies and is not intended to be and should not be used by anyone other than these specific parties.

*McCauley, Nicolas & Company, LLC*

McCauley, Nicolas & Company, LLC  
Certified Public Accountants

Jeffersonville, Indiana  
June 24, 2009



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  
The Housing Authority of  
the City of Charlestown  
Charlestown, Indiana 47111

Compliance

We have audited the compliance of the Housing Authority of the City of Charlestown (the "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 September 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 its major federal programs for the year ended September 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 programs. In planning and performing our audit, we considered the Authority's internal control over compliance with 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 and to test and report on the internal control over 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 organization's internal control over compliance exists when the design of 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 material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the organization's internal control.

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

This report is intended solely for the information and use of the Board of Commissioners, management, specific legislative or regulatory bodies and federal awarding agencies and is not intended to be and should not be used by anyone other than these specific parties.

*McCauley, Nicolas & Company, LLC*

McCauley, Nicolas & Company, LLC  
Certified Public Accountants

Jeffersonville, Indiana  
June 24, 2009