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AN EQUAL OPPORTUNITY EMPLOYER

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February 27, 2013

Board of Directors
Brazil Housing Authority
122 W. Jackson Street
Brazil, IN 47834

We have reviewed the audit report prepared by Pamela J. Simpson, CPA, Independent Public Accountant, for the period January 1, 2007 to December 31, 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 the Brazil Housing Authority, as of December 31, 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

**BRAZIL HOUSING AUTHORITY
BRAZIL, INDIANA**

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

TWELVE MONTHS ENDED DECEMBER 31, 2007

**BRAZIL HOUSING AUTHORITY
BRAZIL, INDIANA**

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PAMELA J. SIMPSON, C.P.A.

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UNQUALIFIED OPINION ON GENERAL-PURPOSE FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - GOVERNMENTAL ENTITY

Independent Auditor's Report

Board of Commissioners
Brazil Housing Authority
Brazil, Indiana

I have audited the accompanying financial statements of Brazil Housing Authority, as of and for the year ended December 31, 2007, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. My responsibility is to express an opinion on these basic financial statements based on my audit.

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

In my opinion, the basic financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Brazil Housing Authority, as of December 31, 2007 and the respective changes in financial position and cash flows for the year end in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated May 2, 2008, on my consideration of the Brazil Housing Authority'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 controls 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 and budgetary comparison information on pages 3 through 10, are 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 of management regarding the methods of measurement and presentation of the supplementary information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements of the Brazil Housing Authority, taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements of the Brazil Housing Authority. The accompanying financial data schedule and other additional statements and schedules listed as supplemental data in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements of the Brazil Housing Authority. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in my opinion, is fairly stated in all materials respects in relation to the financial statements taken as a whole.

Decatur, Illinois
May 2, 2008

Pamela J. Simpson
Certified Public Accountant

**BRAZIL HOUSING AUTHORITY
BRAZIL, INDIANA**

**STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
AS OF DECEMBER 31, 2007**

ASSETS

CURRENT ASSETS

Cash	\$ 171,427
Accounts receivable (interfund eliminated)	4,180
Accrued interest receivable	6,394
Investments	350,000
Inventory (net of obsolete inventories)	18,698
Deferred charges	<u>25,573</u>

Total Current Assets \$ 576,272

CAPITAL ASSETS

Land, buildings and equipment	\$ 13,445,167
Less: Accumulated depreciation	<u>-8,420,666</u>

Net Capital Assets \$ 5,024,501

OTHER ASSETS

Restricted cash	<u>\$ 10,902</u>
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Total Assets \$ 5,611,675

LIABILITIES

CURRENT LIABILITIES

Accounts payable (interfund eliminated)	\$ 74,973
Accrued liabilities	35,581
Deferred revenue	<u>988</u>

Total Current Liabilities \$ 111,542

NET ASSETS

Invested in capital assets	\$ 5,024,501
Restricted - HAP equity	10,902
Unrestricted	<u>464,730</u>

Total Net Assets \$ 5,500,133

**BRAZIL HOUSING AUTHORITY
BRAZIL, INDIANA**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN NET ASSETS -
PROPRIETARY FUNDS
TWELVE MONTHS ENDED DECEMBER 31, 2007**

Operating Income

Tenant rental revenue	\$ 588,671
Tenant revenue - other	<u>89,533</u>
Total Rental Income	\$ 678,204
HUD grants - operating	890,180
Fraud recovery	2,098
Other revenue	2,958
Gain (loss) on sale of fixed assets	<u>-5,575</u>
Total Operating Income	<u>\$ 1,567,865</u>

Operating Expenses

Administration	\$ 391,637
Tenant services	50,266
Utilities	260,082
Ordinary maintenance and operation	383,664
Extraordinary maintenance	896
General expense	107,397
Housing assistance payments	315,496
Depreciation	<u>471,285</u>
Total Operating Expenses	<u>\$ 1,980,723</u>
Net Operating Income (Loss)	<u>\$ -412,858</u>

Nonoperating Income (Expense)

HUD grants - capital	\$ 204,299
Interest income	<u>16,865</u>
Total Nonoperating Income (Expense)	<u>\$ 221,164</u>
Changes in net assets	\$ -191,694
Net assets, beginning of year	5,691,327
Prior period adjustments	<u>500</u>
Net assets, end of year	<u>\$ 5,500,133</u>

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

**BRAZIL HOUSING AUTHORITY
BRAZIL, INDIANA**

**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
TWELVE MONTHS ENDED DECEMBER 31, 2007**

Operating Activities

Operating grants	\$ 917,501
Tenant revenue	676,083
Other revenue	-519
Housing assistance payments	-315,496
Payments to employees	-340,050
Payments to suppliers and contractors	<u>-836,780</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 100,739</u>

Investing Activities

Investments (purchased) redeemed	\$ -21,580
Interest income	<u>16,865</u>
Net Cash Provided (Used) by Investing Activities	<u>\$ -4,715</u>

Capital and Related Financing Activities

HUD grants - capital	\$ 204,299
(Additions) deletions of fixed assets	<u>-219,658</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>\$ -15,359</u>
Net Change in Cash	\$ 80,665
Cash Balance at December 31, 2006	<u>101,664</u>
Cash Balance at December 31, 2007	<u>\$ 182,329</u>

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

**BRAZIL HOUSING AUTHORITY
BRAZIL, INDIANA**

**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
TWELVE MONTHS ENDED DECEMBER 31, 2007**

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

Net operating income (loss)	\$ -412,858
Adjustment to Reconcile Operating Income (Loss) to Net Cash Flows from Operating Activities:	
Depreciation	471,285
Adjustments to net assets	500
(Increase) decrease in accounts receivable	53,041
(Increase) decrease in deferred charges	559
(Increase) decrease in inventories	3,558
(Increase) decrease in other assets	-3,520
Increase (decrease) in accounts payable	-14,163
Increase (decrease) in accrued liabilities	3,173
Increase (decrease) in deferred revenues	<u>-836</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 100,739</u>

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

BRAZIL HOUSING AUTHORITY
BRAZIL, INDIANA

NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED DECEMBER 31, 2007

Note 1 - Summary of Significant Accounting Policies

(a) Organization -

The Brazil Housing Authority was established by the City of Brazil pursuant to the laws of the State of Indiana, to transact business and to have powers as defined therein. The Housing Authority was established to provide low-rent housing for qualified individuals in accordance with the rules and regulations prescribed by the Department of Housing and Urban Development and other applicable Federal Agencies.

Under the United States Housing Act of 1937, as amended, the U.S. Department of Housing and Urban Development (HUD) had direct responsibility for administering low-rent housing programs in the United States. Accordingly, HUD has entered into a contract with the Authority for the purpose of assisting in financing the acquisition, construction and leasing of housing units and to make annual contributions (subsidies) to the program for the purpose of maintaining its low-rent character.

In evaluating the Authority as a reporting entity, management has addressed its relationship with the City of Brazil and concluded that the City does not maintain an oversight responsibility for the Authority's operations. An independent Board of Commissioners, appointed by the City, is responsible for the activities of the Authority. The Authority recruits and employs its executive staff and has substantial legal authority to control its affairs without requiring approval of the City government. Debt incurred by the Authority is not an obligation of the City; the City does not review or approve the Authority's budget, is not entitled to any surplus funds generated by the Authority's operations and is not responsible for any deficits incurred by the Authority. Consequently, in accordance with evaluating the criteria set forth in Section 2100 and 2600 of the Governmental Accounting Standards Board Codification, management has concluded that the Brazil Housing Authority is a separate reporting entity. All funds and programs of the Housing Authority are included in these statements. The Housing Authority has no component units.

(b) Method of Accounting -

The financial statements of the Housing Authority have been prepared on the accrual basis of accounting and accordingly, reflect all significant receivables, payables and other liabilities.

The Housing Authority applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. The funds apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before

November 30, 1989, unless those pronouncements conflict or contradict GASB pronouncements, in which case, GASB prevails.

BRAZIL HOUSING AUTHORITY
BRAZIL, INDIANA

NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED DECEMBER 31, 2007
(CONTINUED)

Note 1 - Summary of Significant Accounting Policies

(c) Funds -

Each of the programs of the Housing Authority are organized on a basis of fund accounting, using a separate set of self balancing accounts as prescribed by HUD. The programs of the Housing Authority are:

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

These programs are all accounted for within the *Proprietary* (enterprise) fund as described below:

Proprietary Fund Types:

Proprietary funds use the economic resources measurement focus and utilize the accrual basis of accounting. All assets and liabilities associated with a proprietary fund's activities are included on the fund statement. Proprietary fund equity is segregated into Invested in Capital Assets Net of Related Debt, Restricted Net Assets and Unrestricted Net Assets.

(d) Cash and Cash Equivalents -

For purposes of the statement of cash flows, the Housing Authority considers all highly liquid investments to be cash equivalents. The term ■highly liquid■ refers to investments with a maturity of one month or less when purchased to be cash equivalents.

(e) Accounts Receivable -

The tenants accounts receivable discloses the gross amount due from the tenants at December 31, 2007, and does not take into consideration prepaid amounts. The Housing Authority provides for an allowance for doubtful accounts, based on the estimated collections of current accounts receivables. The Housing Authority periodically writes off uncollectible accounts receivable to the allowance account based on a review of the current status of existing receivables and the determination that the receivable will not be collected.

(f) Inventories and Materials -

Inventories and materials are stated at cost which approximates market determined on a first-in, first-out basis.

(g) Investments -

Investments are stated at cost which approximates market.

**BRAZIL HOUSING AUTHORITY
BRAZIL, INDIANA**

**NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED DECEMBER 31, 2007
(CONTINUED)**

Note 1 - Summary of Significant Accounting Policies

(h) Fixed Assets -

For the purpose of determining, distinguishing and recording materials and non-expendable equipment and personal property purchased or acquired in connection with development, management, and maintenance of public housing developments owned or operated, the Housing Authority follows the following capitalization policy:

If the anticipated life or useful life of equipment or property is more than one (1) year, the same shall be capitalized and recorded as non-expendable equipment and charged as a capital expenditure.

Land, buildings and equipment contains the following:

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

These are recorded at cost. Depreciation of property and equipment is provided using the straight line method for financial reporting purposes at rates based on the following estimates:

Buildings	40 years
Equipment	5 - 10 years
Transportation equipment	5 years
Furniture and fixtures	10 years
Leasehold improvements	15 years

(i) Income Tax -

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

**BRAZIL HOUSING AUTHORITY
BRAZIL, INDIANA**

**NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED DECEMBER 31, 2007
(CONTINUED)**

Note 1 - Summary of Significant Accounting Policies

(j) Annual Contributions/Subsidies and Other Grants

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

Other grants (such as CFP grants) are recognized when program expenditures are incurred. Such revenue is subject to review by the Department of Housing and Urban Development and may result in disallowance in subsequent periods.

(k) The Housing Authority adopts a budget annually. The budget is submitted to the Board of Commissioners for approval. Subsequent budget revisions may also be required to be submitted to the Board for approval.

(l) The preparation of financial statements in conformity with generally accepted accounting principles require the Housing Authority to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Note 2 - Cash and Investments

Statutes authorize the Housing Authority to invest in certificates of deposit, money market funds, United States government securities and repurchase agreements fully collateralized by United States government securities.

All cash and investments are insured up to \$100,000 by the Federal Deposit Insurance Corporation (FDIC) or other equivalent insurance company of the depository financial institutions. The deposits exceeding the insured or registered limits are public funds covered by the State of Indiana Public Deposit Fund.

Custodial Credit Risk

a. Deposits - Custodial credit risk is the risk that in the event of a financial institution failure, the Authority's deposits may not be returned to or that the Authority will not be able to recover collateral securities in the possession of an outside party.

- b. Investments - Custodial credit risk is the risk that in the event of the failure of the depository, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of the outside party.

**BRAZIL HOUSING AUTHORITY
BRAZIL, INDIANA**

**NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED DECEMBER 31, 2007
(CONTINUED)**

Note 2 - Cash and Investments (Continued)

Credit Risk Investments, Concentration of Credit Risk and Interest Rate Risks - Investments

Credit Risk is the risk that an issuer or other counter party to an investment will not fulfill its obligations. The Housing Authority has no investment policy that limits its investment choices other than the limitation of state law and/or the Department of Urban Development regulations.

Concentrations of Credit Risk is the risk of loss attributed to the amount of the investment in a single issuer. The Authority does not have a formal investment policy covering the concentration of credit risk.

Investment Rate Risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Housing Authority has no formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

The cash deposits held at financial institutions can be categorized according to three levels of risk. These three levels of risk are as follows:

Category 1 - Deposits which are insured or collateralized with securities held by the Housing Authority or by its agent in the Housing Authority's name.

Category 2 - Deposits which are collateralized with securities held by the pledging financial institution's trust department or agent in the Housing Authority's name.

Category 3 - Deposits which are not collateralized or insured.

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

<u>Program</u>	<u>Book Balance</u>	<u>Bank Balance</u>
Low Rent	\$ 156,517	\$ 204,865
Voucher (restricted and unrestricted)	<u>25,812</u>	<u>26,513</u>
Total	<u>\$ 182,329</u>	<u>\$ 231,378</u>

**BRAZIL HOUSING AUTHORITY
BRAZIL, INDIANA**

**NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED DECEMBER 31, 2007
(CONTINUED)**

Note 2 - Cash and Investments (Continued)

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

- Category 1 - Investments that are insured, registered or collateralized with securities held by the Housing Authority or by its agent in the Housing Authority's name.
- Category 2 - Investments which are uninsured and unregistered held by the counter-party's trust department or agent in the Housing Authority's name.
- Category 3 - Uninsured or unregistered investments held by the counter-party, its trust or its agent, but not in the Housing Authority's name.

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

<u>Program</u>	<u>Book Balance</u>	<u>Market Value</u>
Low Rent	\$ 301,000	\$ 301,000
Voucher	<u>49,000</u>	<u>49,000</u>
Total	<u>\$ 350,000</u>	<u>\$ 350,000</u>

Note 3 - Compensated Absences

All regular full-time employees will be eligible for paid annual leave as follows:

Years 1-3	12 days
Years 4-15	18 days
Over 15 years	24 days

To recognize commitment to the agency, the Authority does increase the paid annual leave effective the 4th and 16th year of service. Employees will first earn and have these bonus days posted to their account on the anniversary of their employment date on the 4th and 16th year. Thereafter the days will be posted on the 1st of January.

The Housing Authority requires all employees to take their annual/vacation leave each year as earned; however, if business circumstances prohibit employees from using their annual leave, carryover of not more than 5 days may be permitted with the prior approval of the Executive Director.

BRAZIL HOUSING AUTHORITY
BRAZIL, INDIANA
NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED DECEMBER 31, 2007
(CONTINUED)

Note 3 - Compensated Absences (Continued)

Vacation Leave

Employees will not earn vacation during their first three months of the probationary period. Accrual begins the 1st day of the fourth month of employment.

Sick Leave

Employees shall begin accruing sick leave at the rate of one (1) day per month, after they have satisfactorily completed the first three months of the probationary period.

Note 4 - Defined Contribution Plan

The Housing Authority provides pension benefits for all of its full-time employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate after 90 days. The plan requires the Housing Authority and the employee to contribute 7.5% and 5.5% of covered wages, respectively.

The amounts contributed for the twelve months ended December 31, 2007 were \$22,642 and \$16,561, respectively.

Note 5 - Accounts Receivable

Accounts receivable consists of the following accounts:

Tenants accounts receivable (net)	\$ 4,060
Accounts receivable - other	<u>120</u>
Total	<u><u>\$ 4,180</u></u>

Note 6 - Investments

At December 31, 2007 investments consist of the following:

	<u>Rate</u>	
Certificate of deposit	4.64-5.16%	\$ <u>350,000</u>

**BRAZIL HOUSING AUTHORITY
BRAZIL, INDIANA**

**NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED DECEMBER 31, 2007
(CONTINUED)**

Note 7 - Deferred Charges

This classification includes the following accounts:

Prepaid insurance	\$ 13,842
Other	<u>11,731</u>
Total	<u>\$ 25,573</u>

Note 8 - Fixed Assets

Balance as of December 31, 2007	\$ 5,024,501
Balance as of December 31, 2006	<u>5,276,128</u>
Net Increase (Decrease)	<u>\$ -251,627</u>

Reconciliation

Disposals	\$ -5,575
Property betterments and additions	225,233
Current year depreciation expense	<u>-471,285</u>
Net Increase (Decrease)	<u>\$ -251,627</u>

<u>Analysis</u>	01/01/2007 <u>Balance</u>	Additions/ <u>Transfers</u>	Deletions/ <u>Transfers</u>	12/31/2007 <u>Balance</u>
Land	\$ 173,525	\$ 0	\$ 0	\$ 173,525
Buildings	12,120,802	238,168	0	12,358,970

Equipment and furniture	603,044	216,442	122,225	697,261
Construction in progress	<u>345,668</u>	<u>106,011</u>	<u>236,268</u>	<u>215,411</u>
Subtotal	\$ 13,243,039	\$ 560,621	\$ 358,493	\$ 13,445,167
Accumulated depreciation	<u>-7,966,911</u>	<u>17,530</u>	<u>471,285</u>	<u>-8,420,666</u>
Total	<u>\$ 5,276,128</u>	<u>\$ 578,151</u>	<u>\$ 829,778</u>	<u>\$ 5,024,501</u>

**BRAZIL HOUSING AUTHORITY
BRAZIL, INDIANA**

**NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED DECEMBER 31, 2007
(CONTINUED)**

Note 9 - Accounts Payable

This classification includes the following accounts:

Vendors and contractors	\$ 42,980
Tenants security deposits	31,225
Accounts payable - other	<u>768</u>
Total	<u>\$ 74,973</u>

Note 10 - Notes Payable

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

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

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

Note 11 - Accrued Liabilities

Accrued liabilities consists of the following:

Payment in lieu of taxes	<u>\$ 35,581</u>
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Note 12 - Deferred Revenue

This classification consists of the following accounts:

Tenants prepaid rent	\$ <u>988</u>
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**BRAZIL HOUSING AUTHORITY
BRAZIL, INDIANA**

**NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED DECEMBER 31, 2007
(CONTINUED)**

Note 13 - Allocation of Costs

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

Note 14 - Contingencies

Federal Grants

In the normal course of operations, the Housing Authority receives grant funds from the Department of Housing and Urban Development. The programs are subject to audit by agents of HUD, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as a result of these audits is not believed to be material.

Note 15 - Prior Year Adjustments Posted Directly to Surplus

Restate travel advance account	\$ <u>500</u>
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Note 16 - Risk Management

The Housing Authority carries commercial insurance coverage to cover exposure and the risk of losses related to torts, thefts, damages, destruction of assets, errors and omissions, injuries, natural disasters and defalcation.

For insured programs there has been no significant reduction in insurance coverage. Settled claims have not exceeded insurance coverage or the risk pool coverage in the current or past three years.

Note 17 - Economic Dependency

The Housing Authority received some of its revenue (61%) from the United States Department of

Housing and Urban Development. This funding is subject to federal government appropriations and potential funding reductions.

SUPPLEMENTAL DATA

**BRAZIL HOUSING AUTHORITY
BRAZIL, INDIANA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2007**

<u>Federal Grantor/Program</u>	<u>Federal CFDA Number</u>	<u>Contract Number</u>	<u>Grant Period</u>	<u>Program Amount</u>	<u>Receipts or Revenue Recognized</u>	<u>Disbursements/ Expenditures</u>
<u>U.S. Department of HUD</u>						
Direct Programs:						
Public and Indian Housing*	14.850a	C-913	FYE 12/31/07	\$ 418,908	\$ 418,908	\$ 418,908
Housing Choice Vouchers*	14.871	C-2040	FYE 12/31/07	\$ 397,762	\$ 397,762	\$ 397,762
Capital Funds Program	14.872	C-913	FYE 12/31/07	\$ 1,176,022	\$ 277,809	\$ 277,809
Total Housing Assistance				<u>\$ 1,992,692</u>	<u>\$ 1,094,479</u>	<u>\$ 1,094,479</u>

*Denotes major program.

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS (SEFA)
TWELVE MONTHS ENDED DECEMBER 31, 2007**

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

**BRAZIL HOUSING AUTHORITY
BRAZIL, INDIANA**

**STATEMENT OF NET ASSETS
DECEMBER 31, 2007**

<u>ASSETS</u>	<u>Low Rent</u>	<u>Capital Funds</u>	<u>Voucher</u>
CURRENT ASSETS			
Cash	\$ 156,517	\$ 0	\$ 14,910
Accounts receivable	4,180	0	0
Accrued interest receivable	5,499	0	895
Investments	301,000	0	49,000
Inventory (net of obsolete inventories)	18,698	0	0
Deferred charges	<u>25,431</u>	<u>0</u>	<u>142</u>
Total Current Assets	<u>\$ 511,325</u>	<u>\$ 0</u>	<u>\$ 64,947</u>
CAPITAL ASSETS			
Land, buildings and equipment	\$ 13,102,938	\$ 342,071	\$ 158
Less: Accumulated depreciation	<u>-8,420,508</u>	<u>0</u>	<u>-158</u>
Net Capital Assets	<u>\$ 4,682,430</u>	<u>\$ 342,071</u>	<u>\$ 0</u>
OTHER ASSETS			
Restricted cash	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 10,902</u>
Total Assets	<u>\$ 5,193,755</u>	<u>\$ 342,071</u>	<u>\$ 75,849</u>
<u>LIABILITIES</u>			
CURRENT LIABILITIES			
Accounts payable	\$ 74,973	\$ 0	\$ 0
Accrued liabilities	35,581	0	0
Deferred revenue	<u>988</u>	<u>0</u>	<u>0</u>
Total Current Liabilities	<u>\$ 111,542</u>	<u>\$ 0</u>	<u>\$ 0</u>
<u>NET ASSETS</u>			
Invested in capital assets	\$ 4,682,430	\$ 342,071	\$ 0
Restricted - HAP equity	0	0	10,902
Unrestricted	<u>399,783</u>	<u>0</u>	<u>64,947</u>
Total Net Assets	<u>\$ 5,082,213</u>	<u>\$ 342,071</u>	<u>\$ 75,849</u>

**BRAZIL HOUSING AUTHORITY
BRAZIL, INDIANA**

**STATEMENT OF REVENUE AND EXPENDITURES
TWELVE MONTHS ENDED DECEMBER 31, 2007**

<u>Operating Income</u>	<u>Low Rent</u>	<u>Capital Funds</u>	<u>Voucher</u>
Tenant rental revenue	\$ 588,671	\$ 0	\$ 0
Tenant revenue - other	<u>89,533</u>	<u>0</u>	<u>0</u>
Total Rental Income	\$ 678,204	\$ 0	\$ 0
HUD grants - operating	418,908	73,510	397,762
Fraud recovery	0	0	2,098
Other revenue	2,958	0	0
Gain (loss) on sale of fixed assets	<u>-5,575</u>	<u>0</u>	<u>0</u>
Total Operating Income	<u>\$ 1,094,495</u>	<u>\$ 73,510</u>	<u>\$ 399,860</u>
 <u>Operating Expenses</u>			
Administration	\$ 291,283	\$ 36,510	\$ 63,844
Tenant services	50,266	0	0
Utilities	260,082	0	0
Ordinary maintenance and operation	383,664	0	0
Extraordinary maintenance	896	0	0
General expense	106,510	0	887
Housing assistance payments	0	0	315,496
Depreciation	<u>471,285</u>	<u>0</u>	<u>0</u>
Total Operating Expenses	<u>\$ 1,563,986</u>	<u>\$ 36,510</u>	<u>\$ 380,227</u>
Net Operating Income (Loss)	<u>\$ -469,491</u>	<u>\$ 37,000</u>	<u>\$ 19,633</u>
 <u>Nonoperating Income (Expense)</u>			
HUD grants - capital	\$ 0	\$ 204,299	\$ 0
Interest income	14,517	0	2,348
Transfer	<u>37,000</u>	<u>-37,000</u>	<u>0</u>
Total Nonoperating Income (Expense)	<u>\$ 51,517</u>	<u>\$ 167,299</u>	<u>\$ 2,348</u>
Changes in Net Assets	<u>\$ -417,974</u>	<u>\$ 204,299</u>	<u>\$ 21,981</u>

**BRAZIL HOUSING AUTHORITY
BRAZIL, INDIANA**

**STATEMENT OF CHANGES IN NET ASSETS
TWELVE MONTHS ENDED DECEMBER 31, 2007**

<u>Invested in Capital Assets</u>	<u>Low Rent</u>	<u>Capital Funds</u>	<u>Voucher</u>
Balance at December 31, 2006	\$ 4,802,968	\$ 473,160	\$ 0
Transfer	335,388	-335,388	0
Current year net income (loss)	<u>-455,926</u>	<u>204,299</u>	<u>0</u>
Balance at December 31, 2007	<u>\$ 4,682,430</u>	<u>\$ 342,071</u>	<u>\$ 0</u>
 <u>Restricted</u>			
Balance at December 31, 2006	\$ 0	\$ 0	\$ 0
Transfer	0	0	-22,990
Current year net income (loss)	<u>0</u>	<u>0</u>	<u>33,892</u>
Balance at December 31, 2007	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 10,902</u>
 <u>Unrestricted</u>			
Balance at December 31, 2006	\$ 361,331	\$ 0	\$ 53,868
Transfer	0	0	22,990
Current year net income (loss)	37,952	0	-11,911
Prior year adjustment	<u>500</u>	<u>0</u>	<u>0</u>
Balance at December 31, 2007	<u>\$ 399,783</u>	<u>\$ 0</u>	<u>\$ 64,947</u>
Total Net Assets	<u>\$ 5,082,213</u>	<u>\$ 342,071</u>	<u>\$ 75,849</u>

**BRAZIL HOUSING AUTHORITY
BRAZIL, INDIANA**

**STATEMENT OF CASH FLOWS
TWELVE MONTHS ENDED DECEMBER 31, 2007**

<u>Operating Activities</u>	<u>Low Rent</u>	<u>Capital Funds</u>	<u>Voucher</u>
Operating grants	\$ 418,908	\$ 100,831	\$ 397,762
Tenant revenue	676,083	0	0
Other revenue	-2,617	0	2,098
Housing assistance payments	0	0	-315,496
Payments to employees	-283,102	-25,558	-31,390
Payments to suppliers and contractors	<u>-764,707</u>	<u>-38,273</u>	<u>-33,800</u>
 Net Cash Provided (Used) by Operating Activities	 \$ 44,565	 \$ 37,000	 \$ 19,174
 <u>Investing Activities</u>			
 Investments (purchased) redeemed	 \$ -18,559	 \$ 0	 \$ -3,021
Interest income	<u>14,517</u>	<u>0</u>	<u>2,348</u>
 Net Cash Provided (Used) by Investing Activities	 \$ -4,042	 \$ 0	 \$ -673
 <u>Capital and Related Financing Activities</u>			
 HUD grants - capital	 \$ 0	 \$ 204,299	 \$ 0
(Additions) deletions to fixed assets	-15,359	-204,299	0
Transfer	<u>37,000</u>	<u>-37,000</u>	<u>0</u>
 Net Cash Provided (Used) by Capital and Related Financing Activities	 \$ 21,641	 \$ -37,000	 \$ 0
 Net Change in Cash	 \$ 62,164	 \$ 0	 \$ 18,501
 Cash Balance at December 31, 2006	 <u>94,353</u>	 <u>0</u>	 <u>7,311</u>
 Cash Balance at December 31, 2007	 <u>\$ 156,517</u>	 <u>\$ 0</u>	 <u>\$ 25,812</u>

**BRAZIL HOUSING AUTHORITY
BRAZIL, INDIANA**

**STATEMENT OF CASH FLOWS
TWELVE MONTHS ENDED DECEMBER 31, 2007**

Reconciliation of Operating Income (Loss) to Net Cash

<u>Provided (Used) by Operating Activities</u>	<u>Low Rent</u>	<u>Capital Funds</u>	<u>Voucher</u>
Net operating income (loss)	\$ -469,491	\$ 37,000	\$ 19,633
Adjustment to Reconcile Operating Income (Loss) to Net Cash Flows from Operating Activities:			
Depreciation	471,285	0	0
Adjustments to net assets	500	0	0
(Increase) decrease in accounts receivable	25,720	27,321	0
(Increase) decrease in deferred charges	525	0	34
(Increase) decrease in inventories	3,558	0	0
(Increase) decrease in other assets	-3,027	0	-493
Increase (decrease) in accounts payable	13,158	-27,321	0
Increase (decrease) in accrued liabilities	3,173	0	0
Increase (decrease) in deferred revenues	<u>-836</u>	<u>0</u>	<u>0</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 44,565</u>	<u>\$ 37,000</u>	<u>\$ 19,174</u>

PAMELA J. SIMPSON, C.P.A.

433 WEST PERSHING ROAD

DECATUR, ILLINOIS 62526

(217) 872-1908

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
Brazil Housing Authority
Brazil, Indiana

I have audited the financial statements of the governmental activities of Brazil Housing Authority as of and for the year ended December 31, 2007, which collectively comprise the Brazil Housing Authority's basic financial statements and have issued my report thereon dated May 2, 2008. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

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

Compliance and Other Matters

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

I noted certain matters that we reported to management of Brazil Housing Authority, in a separate letter dated May 2, 2008.

This reported in intended solely for the information of management, the Board of Commissioners, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Decatur, Illinois
May 2, 2008

Pamela J. Simpson
Certified Public Accountant

PAMELA J. SIMPSON, C.P.A.

433 WEST PERSHING ROAD

DECATUR, ILLINOIS 62526

(217) 872-1908

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
Brazil Housing Authority
Brazil, Indiana

Compliance

I have audited the compliance of Brazil Housing Authority with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2007. Brazil Housing Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Brazil Housing Authority's management. My responsibility is to express an opinion on Brazil Housing Authority's compliance based on my audit.

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

In my opinion, Brazil Housing Authority complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2007. However, the results of my auditing procedures disclosed no instances of noncompliance with those requirements.

Internal Control Over Compliance

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

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

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

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

In addition, I noticed other matters involving the internal control and its operation that I have reported to management of Brazil Housing Authority in a separate letter dated May 2, 2008.

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

Decatur, Illinois
May 2, 2008

Pamela J. Simpson
Certified Public Accountant

**BRAZIL HOUSING AUTHORITY
BRAZIL, INDIANA**

STATUS OF PRIOR AUDIT FINDINGS

The prior audit report for the period ended December 31, 2006 contained no findings.

**BRAZIL HOUSING AUTHORITY
BRAZIL, INDIANA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - SUMMARY
FOR THE YEAR ENDED DECEMBER 31, 2007**

Section I - Summary of Auditor's Results

Low Risk Auditee _____ yes X no

Financial Statements

Type of auditor's report: Unqualified

* Material weakness(es) identified? _____ yes X no

* Significant deficiency (ies) identified that are not
considered to be material weaknesses? _____ yes X none reported

Noncompliance material to financial statements noted _____ yes X no

Federal Awards

Internal control over major programs:

* Material weakness(es) identified? _____ yes X no

* Significant deficiency (ies) identified that are not
considered to be material weaknesses? _____ yes X none reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in
accordance with section 510(a) of Circular A-133? _____ yes X no

Major Programs: (Threshold \$300,000)

CFDA Number(s)

Public and Indian Housing 14.850a

Housing Choice Voucher Program 14.871

**BRAZIL HOUSING AUTHORITY
BRAZIL, INDIANA**

FINDINGS AND RECOMMENDATIONS

Section II - Financial Statements Findings

There were no audit findings discussed with Michael K. Hagemeyer, Executive Director, during the course of the audit or at an exit conference held April 30, 2008.

Section III - Federal Awards Findings

There were no audit findings discussed with Michael K. Hagemeyer, Executive Director, during the course of the audit or at an exit conference held April 30, 2008.

**BRAZIL HOUSING AUTHORITY
BRAZIL, INDIANA**

**SCHEDULE OF ADJUSTING JOURNAL ENTRIES
DECEMBER 31, 2007**

<u>Low Rent</u>	<u>Audit Account Number</u>	<u>Debit</u>	<u>Credit</u>	<u>Posting Account Number</u>
(1)				
Interest income	3610	\$ 5,437.87		2806
Accrued interest receivable	1145		\$ 5,437.87	1145
(To correct amount set up as accrued)				
(2)				
Administrative salaries	4110	\$ 2,999.50		2806
Accounts receivable - CFP	1157		\$ 2,999.50	1157
(To write off interfund not valid)				
(3)				
Allowance for doubtful accounts	1122.1	\$ 478.48		1122.1
Collection losses	4570		\$ 478.48	2806
(To reverse vacated tenant receivable counted twice)				
(4)				
Maintenance materials	4420	\$ 2,700.00		2806
Electricity	4320	2,132.67		2806
Gas	4330	184.57		2806
Vendors and contractors	2111		\$ 5,017.24	2111
(To record additional vendor payables)				
(5)				
Loss on disposal of assets	6120	\$ 588.35		2806
Employee benefits contribution	4540		\$ 588.35	2806
(To properly record receipt for reimbursement for work apparel)				
(6)				
Petty cash (travel advance)	----	\$ 500.00		----
Retained earnings	2806		\$ 500.00	2806
(To set up travel advance account on the books)				
 <u>Voucher</u>				
(1)				
Interest income	3610	\$ 885.24		2806
Accrued interest receivable	1145		\$ 885.24	1145
(To correct amount set up as accrued)				

**BRAZIL HOUSING AUTHORITY
BRAZIL, INDIANA**

**SCHEDULE OF ADJUSTING JOURNAL ENTRIES
DECEMBER 31, 2007**

<u>Capital Funds</u>	<u>Audit</u> <u>Account Number</u>	<u>Debit</u>	<u>Credit</u>	<u>Posting</u> <u>Account Number</u>
(1)				
Accounts payable - L/R	501-05-1157	\$ 3,000.00		501-05-1157
Accounts receivable - HUD	501-06-1125	.50		501-06-1125
Accounts receivable - HUD	501-05-1125		\$ 3,000.00	501-05-1125
Accounts receivable - L/R	501-06-1157		.50	501-06-1157
(To write off interfund with Low Rent - not valid)				

PAMELA J. SIMPSON, C.P.A.

**433 WEST PERSHING ROAD
DECATUR, ILLINOIS 62526
(217) 872-1908**

Board of Commissioners
Brazil Housing Authority
Brazil, Indiana

In planning and performing my audit of the financial statements of Brazil Housing Authority as of and for the year ended December 31, 2007, in accordance with auditing standards generally accepted in the United State of America, I considered the Housing Authorities internal control over financial reporting (internal control) as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Brazil Housing Authority's internal control. Accordingly, I do not express an opinion on the effectiveness of Brazil Housing Authority's internal control.

The administration of the Housing Authority is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgements by the administration are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use of disposition and that transactions are executed in accordance with authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may nevertheless occur and not be detected. Also, projection of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

My study and evaluation made for the limited purpose described in the first paragraph would not necessarily disclose all material weaknesses in the system. However, my study and evaluation disclosed certain conditions in the following areas of which you should be aware in order to improve operating efficiencies and strengthen internal controls:

1. While reviewing the Housing Authority's system of internal controls, it came to my attention that not all internal control procedures being followed have been included in the written policy/procedural manual.

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

A more detailed written manual will aid in the training of new staff, assure management of consistency

in policy application as well as accurate financial reporting.

2. The Housing Authority's current policy is to depreciate all assets purchased through open Capital Fund Grants once the grant is totally expended and transferred into the Public Housing Program. GAAP requires that all assets be depreciated once they are placed in service, therefore, the Housing Authority should begin depreciating all equipment purchased with CFP funds at the time the equipment is placed in service.
3. While reviewing the personnel policy relating to accrued vacation, I noted that the policy does not address carry over of unused but earned time from one year to next. In order to consistently record all liabilities the policy should be expanded to address this issue.

Please feel free to contact me if you have any questions.

Decatur, Illinois
May 2, 2008

Pamela J. Simpson
Certified Public Accountant