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September 30, 2013

Board of Directors
Fayette County Housing Authority
326 Central Avenue
Connersville, IN 47331

We have reviewed the audit report prepared by Sailor, Khan & Co., 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 Fayette County Housing Authority, 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

FAYETTE COUNTY HOUSING AUTHORITY
CONNERSVILLE, INDIANA
FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2008
AND
REPORTS ON COMPLIANCE AND
ON INTERNAL CONTROL

FAYETTE COUNTY HOUSING AUTHORITY
Connersville, Indiana

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SEPTEMBER 30, 2008

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

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

Board of Commissioners
Fayette County Housing Authority
Connersville, Indiana

We have audited the accompanying basic financial statements of the Fayette County Housing Authority, Indiana, (Authority) as of and for the year ended September 30, 2008, as listed in the table of contents. These basic financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

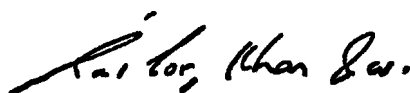
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Fayette County Housing Authority, Indiana, as of September 30, 2008, and the changes in its financial position and its cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 2, 2009, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

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



Sailor, Khan & Co. LLC
July 2, 2009

Fayette County Housing Authority

Management's Discussion and Analysis (MD&A) September 30, 2008 (Unaudited)

This section of the Fayette County Housing Authority (Authority) annual financial report presents our management's discussion and analysis of the Authority's financial performance during the fiscal year ended on September 30, 2008. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities and to identify any significant changes in financial position. Please read and consider the information presented in conjunction with the financial statements as a whole.

For accounting purposes, the Housing Authority is classified as an enterprise fund. Enterprise funds account for activities similar to those found in the private business sector, where the determination of net income is necessary or useful to sound financial administration. Enterprise funds are reported using the full accrual method of accounting in which all assets and all liabilities associated with the operation of these funds are included on the statement of net assets. The focus of enterprise funds is on income measurement, which, together with the maintenance of equity, is an important financial indication.

FINANCIAL HIGHLIGHTS

The term "net assets" refers to the difference between assets and liabilities. The Authority's total deficit in net assets as of September 30, 2008 was \$44,476. The net assets decreased by \$78,046, making the Authority have a deficit net asset, an decrease of 232.5% from the prior year.

Revenues for the Authority were \$1,179,249 for the year ended September 30, 2008. This was a decrease of \$40,359 or 3.3% from the prior year.

Expenses for the Authority were \$1,257,296 for the year ended September 30, 2008. This was an increase of \$63,754 or 5.3% from the prior year.

HUD operating grants was \$1,170,078 for the year ended September 30, 2008. This was a decrease of \$33,174 or 2.8% from the prior year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report includes this *Management Discussion and Analysis* report, the *Basic Financial Statements* and the *Notes to the Financial Statements*. This report also contains the Financial Data Schedule (FDS) as referenced in the section of *Supplemental Information*. The Authority's financial statements are presented as fund level financial statements because the Authority only has proprietary funds.

Required Financial Statements

The financial statements of the Housing Authority report information of the Authority using accounting methods similar to those used by private sector companies. These statements offer short- and long-term financial information about its activities. The Statement of Net Assets includes all the Authority's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and obligations of the Authority creditors (liabilities). It also provides the basis for evaluating the capital structure of the Authority and assessing the liquidity and financial flexibility of the Authority.

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

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Assets. This statement measures the success of the Authority's operations over the past year and can be used to determine whether the Authority has successfully recovered all its costs through its user fees and other charges, profitability and credit worthiness.

The final required financial statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing and financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements and provide more detailed data.

Supplemental Information

This report also contains the Financial Data Schedule (FDS) as referenced in the section of *Supplemental Information*. HUD has established *Uniform Financial Reporting Standards* that require Housing Authorities to submit financial information electronically to HUD using the FDS format. This financial information was electronically transmitted to the Real Estate Assessment Center (REAC) for the year ended September 30, 2008 and is required to be included in the audit reporting package.

FINANCIAL ANALYSIS

Net assets may serve, over time, as a useful indicator of a government's financial position. As stated in the table on the following page, assets were less than liabilities by a \$44,476 at the close of the year ended September 30, 2008 down from a balance of \$33,570 in 2007. The decrease in the net assets of \$78,046 was due a loss in the change in net assets for the year. The unrestricted net assets were a deficit balance of \$47,259 as of September 30, 2008.

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

FINANCIAL ANALYSIS (CONTINUED)

**CONDENSED STATEMENTS OF NET ASSETS
SEPTEMBER 30,**

	<u>2008</u>	<u>2007</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Current and other assets	\$ 495,283	\$ 573,314	\$ (78,031)	-13.6%
Capital assets	<u>2,783</u>	<u>4,408</u>	<u>(1,625)</u>	-36.9%
Total Assets	<u>498,066</u>	<u>577,722</u>	<u>(79,656)</u>	-13.8%
Current liabilities	<u>542,542</u>	<u>544,152</u>	<u>(1,610)</u>	-0.3%
Total Liabilities	<u>542,542</u>	<u>544,152</u>	<u>(1,610)</u>	-0.3%
Net Assets				
Invested in capital assets	2,783	4,408	(1,625)	-36.9%
Unrestricted	<u>(47,259)</u>	<u>29,162</u>	<u>(76,421)</u>	-262.1%
Total Net Assets	<u>\$ (44,476)</u>	<u>\$ 33,570</u>	<u>\$ (78,046)</u>	-232.5%

While the Statement of Net Assets shows the change in financial position of net assets, the Statements of Revenues, Expenses, and Changes in Net Assets provides answers as to the nature and source of these changes.

As can be seen in the table on the following page total revenues and contributions decreased by \$40,359 due to decreases in HUD operating grants, interest income and other income. HUD revenue will often vary from year to year since it is dependent on the federal budget (operating subsidy) and availability and/or use of grant revenues. Interest income decreased due to falling interest rates.

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

FINANCIAL ANALYSIS (CONTINUED)

**CONDENSED STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED SEPTEMBER 30,**

	<u>2008</u>	<u>2007</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Revenues				
Operating - non-operating:				
HUD operating grants	\$ 1,170,078	\$ 1,203,252	\$ (33,174)	-2.8%
Interest income	2,455	2,977	(522)	-17.5%
Other income	<u>6,717</u>	<u>13,380</u>	<u>(6,663)</u>	-49.8%
Total Revenues	<u>1,179,250</u>	<u>1,219,609</u>	<u>(40,359)</u>	-3.3%
Expenses				
Personal services	91,544	94,233	(2,689)	-2.9%
Utilities	3,743	2,926	817	27.9%
Operations and maintenance	346	1,035	(689)	-66.6%
Insurance	2,955	2,931	24	0.8%
Other supplies and expenses	65,948	47,343	18,605	39.3%
Housing assistance payments	1,091,135	1,043,264	47,871	4.6%
Depreciation	<u>1,625</u>	<u>1,810</u>	<u>(185)</u>	-10.2%
Total Expenses	<u>1,257,296</u>	<u>1,193,542</u>	<u>63,754</u>	5.3%
Change in net assets	(78,046)	26,067	(104,113)	
Beginning net assets	<u>33,570</u>	<u>7,503</u>	<u>26,067</u>	
Ending net assets	<u>\$ (44,476)</u>	<u>\$ 33,570</u>	<u>\$ (78,046)</u>	

Total expenses for the Authority increased by \$63,754 due to increases in utilities, insurance, other supplies and expenses and housing assistance payments, which were slightly offset by decreases in personal services, operations and maintenance and depreciation. Utilities increased due to rising utility rates. Other supplies and expenses increased due to increases in office supply costs, additional training and travel.

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

CAPITAL ASSETS

Capital Assets - The Fayette County Housing Authority's investment in capital assets, as of September 30, 2008 amounts to \$2,783 (net of accumulated depreciation).

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

	<u>2008</u>	<u>2007</u>	<u>Dollar Change</u>
Furniture, equipment and machinery-administration	\$ 38,756	\$ 38,756	\$ ----
Accumulated depreciation	<u>35,973</u>	<u>34,348</u>	<u>1,625</u>
Total	<u>\$ 2,783</u>	<u>\$ 4,408</u>	<u>\$ (1,625)</u>

The total decrease in the Authority's capital assets for the current fiscal year was \$1,625 or 36.9% in terms of net book value.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The Housing Authority is primarily dependent upon HUD for the funding of operations; therefore, the Housing Authority is affected more by the Federal budget than by local economic conditions. The funding of programs could be significantly affected by the 2009 Federal budget.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the Authority's finances for all those with an interest in its finances. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to Ms. Amanda Caldwell, Executive Director; Fayette County Housing Authority; 326 Central Avenue; Connersville, Indiana 47331; (765) 825-4668.

SECTION II
FINANCIAL STATEMENTS
AND
NOTES TO FINANCIAL STATEMENTS

FAYETTE COUNTY HOUSING AUTHORITY

Connersville, Indiana

STATEMENT OF NET ASSETS

September 30, 2008

ASSETS

Current Assets:

Cash and cash equivalents	\$ 398,704.45
Receivable - net of allowances:	
Accounts	95,318.35
Prepaid expenses	<u>1,259.94</u>
Total Current Assets	<u>495,282.74</u>

Noncurrent Assets:

Capital assets:

Other capital assets, net of depreciation	<u>2,782.90</u>
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Total capital assets- net	<u>2,782.90</u>
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Total Noncurrent Assets	<u>2,782.90</u>
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Total Assets	<u>\$ 498,065.64</u>
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LIABILITIES

Current Liabilities:

Accounts Payable	\$ <u>542,542.00</u>
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Total Current Liabilities	<u>542,542.00</u>
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Total Liabilities	<u>542,542.00</u>
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NET ASSETS

Invested in capital assets, net of related debt	2,782.90
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Unrestricted	<u>(47,259.26)</u>
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Total Net Assets	<u>(44,476.36)</u>
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Total Liabilities and Net Assets	<u>\$ 498,065.64</u>
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See notes to financial statements

FAYETTE COUNTY HOUSING AUTHORITY

Connersville, Indiana

STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS

For Year Ended September 30, 2008

Operating Revenues:	
Operating subsidies- HUD grants	\$ 1,170,078.00
Other revenues	<u>6,716.50</u>
Total operating revenues	<u>1,176,794.50</u>
Operating Expenses:	
Personal services	91,543.62
Utilities	3,743.43
Operations and maintenance	345.62
Insurance	2,955.43
Other supplies and expenses	65,947.56
Housing assistance payments	1,091,135.20
Depreciation	<u>1,625.28</u>
Total operating expenses	<u>1,257,296.14</u>
Operating income (loss)	<u>(80,501.64)</u>
Non-operating revenues (expenses):	
Interest and investment earnings	<u>2,454.88</u>
Net non-operating revenues (expenses)	<u>2,454.88</u>
Change in net assets	(78,046.76)
Net assets at beginning of year	<u>33,570.40</u>
Net assets at end of year	\$ <u><u>(44,476.36)</u></u>

See notes to financial statements

FAYETTE COUNTY HOUSING AUTHORITY

Connersville, Indiana

STATEMENT OF CASH FLOWS

For Year Ended September 30, 2008

Cash flows from operating activities:

Cash received from HUD grants- operating	\$ 1,170,078.00
Cash received from other operating activities	5,965.03
Cash payments for goods and services	(1,164,109.90)
Cash payments to employees-salaries	(86,648.19)
Cash payments for employee benefit contributions	<u>(6,505.42)</u>
Net cash provided (used) by operating activities	<u>(81,220.48)</u>

Cash flows from investing activities:

Interest and dividends	<u>2,454.88</u>
Net cash provided (used) from investing activities	<u>2,454.88</u>

Net increase (decrease) in cash and cash equivalents	(78,765.60)
Cash and cash equivalents at beginning of year	<u>477,470.05</u>

Cash and cash equivalents at end of year	<u>\$ 398,704.45</u>
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Reconciliation of operating income (loss) to net cash provided (used) by operating activities:

Operating income (loss)	\$ (80,501.64)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation expense	1,625.28
Changes in assets and liabilities:	
Receivables	(751.47)
Prepaid expenses	17.34
Accrued expenses	<u>(1,609.99)</u>
Net cash provided (used) by operating activities	<u>\$ (81,220.48)</u>

See notes to financial statements

FAYETTE COUNTY HOUSING AUTHORITY

Connersville, Indiana

NOTES TO THE BASIC FINANCIAL STATEMENTS

September 30, 2008

NOTE 1 - Summary of Significant Accounting Policies

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

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

1a. Financial Reporting Entity

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

Primary Government: Housing Authority

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

1b. Basis of Presentation

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

FAYETTE COUNTY HOUSING AUTHORITY

Connersville, Indiana

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

September 30, 2008

NOTE 1 - Summary of Significant Accounting Policies (Continued)

1b. Basis of Presentation (Continued)

Following is a description of the Authority's programs:

Program	Brief Description
Housing Choice Vouchers	Accounts for activities of the Voucher program which assists very low-income families, the elderly, and the disabled to afford decent, safe and sanitary housing in the private market.

1c. Measurement Focus and Basis of Accounting

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

Measurement Focus

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

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

Basis of Accounting

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

1d. Assets, Liabilities, and Equity

Cash

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

FAYETTE COUNTY HOUSING AUTHORITY

Connersville, Indiana

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

September 30, 2008

NOTE 1 - Summary of Significant Accounting Policies (Continued)

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

Receivables

Receivables consist of all revenues earned at year-end and not yet received. Accounts receivable-other and fraud recovery compose the majority of receivables. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable.

Budgets and Budgetary Accounting

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

Estimates and Assumptions

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

Capital Assets

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

In the financial statements, capital assets purchased or acquired with an original cost of \$500.00 or more are accounted for as capital assets. All capital assets are valued at historical cost, or estimated historical cost if actual is unavailable, except for donated capital assets which are recorded at their estimated fair value at the date of donation.

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

Furniture, equipment and machinery - administration	5-7	years
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Compensated Absences

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

FAYETTE COUNTY HOUSING AUTHORITY

Connersville, Indiana

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

September 30, 2008

NOTE 1 - Summary of Significant Accounting Policies (Continued)

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

Equity Classifications

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

- a. Invested in capital assets, net of related debt—Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowing that are attributable to the acquisition, construction, or improvement of those assets. The Authority had no related debt.
- b. Unrestricted net assets - All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

1e. Revenues, Expenditures, and Expenses

Operating Revenues and Expenses

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

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

Interfund Transfers

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

FAYETTE COUNTY HOUSING AUTHORITY

Connersville, Indiana

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

September 30, 2008

NOTE 2 - Stewardship, Compliance, and Accountability

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

2a. Program Accounting Requirements

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

Program	Required By
Housing Choice Vouchers	U.S. Department of Housing and Urban Development

2b. Deposits and Investments Laws and Regulations

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

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

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

NOTE 3 - Detail Notes on Transaction Classes/Accounts

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

3a. Cash

Deposits

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it or the Authority will not be able to recover collateral securities in the possession of an outside party. As of September 30, 2008, the Authority's bank balances of \$400,929.21, were insured by federal depository insurance or collateralized with securities held by the pledging financial institutions in the Authority's name.

FAYETTE COUNTY HOUSING AUTHORITY

Connersville, Indiana

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

September 30, 2008

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

3b. Accounts Receivable

Accounts receivable consist primarily of receivable from a not-for-profit organization and a former employee in the amount of \$34,816.88 and \$49,348.00 respectively, in addition of an over withholding of payroll deductions of \$22.47. A lawsuit is pending, however, no new information is available regarding HUD/OIG audit or the Attorney General civil suit against the parties. Collectibility on these accounts is uncertain, however, management has elected not to record any allowance as of September 30, 2008, until more information is obtained.

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

Accounts receivable - other	\$ 84,187.35
Fraud recovery	<u>11,131.00</u>
	<u>\$ 95,318.35</u>

3c. Capital Assets

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

	<u>Balance October 1, 2007</u>	<u>Additions</u>	<u>(Deductions)</u>	<u>Balance September 30, 2008</u>
Furniture, equipment and machinery- administration	\$ 38,756.37	\$ -----	\$ -----	\$ 38,756.37
Accumulated depreciation	<u>34,348.19</u>	<u>1,625.28</u>	<u>-----</u>	<u>35,973.47</u>
Total	<u>\$ 4,408.18</u>			<u>\$ 2,782.90</u>

3d. Accounts Payable

Accounts payable at September 30, 2008, is composed of accounts payable - HUD in the amount of \$542,542.00.

3e. Compensated Absences

The Housing Authority had no liability for compensated absences at September 30, 2008.

FAYETTE COUNTY HOUSING AUTHORITY

Connersville, Indiana

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

September 30, 2008

NOTE 4 - Going Concern

The Housing Authority has accumulated a large deficit in its net assets and has an amount of \$542,542.00 owed to HUD. The Housing Authority does not have a plan in writing to begin to liquidate the liability and reduce the deficit. The Housing Authority does plan to increase lease up thereby increasing income. The Housing Authority intends to provide benefits (healthcare, retirement, etc), if the income increases. If a 'profit' is still shown once these benefits have been provided, that profit may then be used by the Housing Authority to reduce the debt owed to HUD. Payments made to HUD from October 2000 through September 30, 2007 had been made in the form of HUD's offset towards the PHA account under an unwritten understanding. Subsequent offsets will most likely not be made due to Fayette County Housing Authority's lack of available funding. If offsets were made to recover the debt, Fayette County Housing Authority would be unable to operate and pay HAP payments. The financial statements do not include any adjustments that may be necessary should the PHA be unable to continue as a going concern.

The Housing Authority's unrestricted net assets (equity) is a deficit of \$47,259.26. Coupled with the Housing Authority's investment in capital assets the Housing Authority has a total net asset (equity) deficit of \$44,476.36.

NOTE 5 - Other Notes

5a. Employee Retirement Plan

The Authority does not provide a retirement plan for it's employees.

5b. Risk Management

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

Type of Loss	Method Managed
a. Torts, errors and omissions	Purchased insurance with Auto Owners Insurance Company.
b. Injuries to employees (workers' compensation)	Purchased insurance with Auto Owners Insurance Company. Claims are administered by First Financial Insurance Company.
c. Physical property loss and natural disasters	Purchased commercial insurance with \$250 deductibles.

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

FAYETTE COUNTY HOUSING AUTHORITY

Connersville, Indiana

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

September 30, 2008

NOTE 5 - Other Notes (Continued)

5c. Economic Dependency

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

5d. Contingencies

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

The Authority has not signed a repayment agreement with the U.S. Department of Housing and Urban Development. The ultimate amount of an executed repayment agreement, if any, cannot presently be determined, and no provision for any liability that may result, if any, has been made in the financial statements.

FAYETTE COUNTY HOUSING AUTHORITY

Connersville, Indiana

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

Year Ended September 30, 2008

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

<u>Fiscal Year</u>	<u>Federal Grantor</u>	<u>Federal CFDA No.</u>	<u>Expenditures</u>
	<u>U.S. Department of HUD</u>		
	<u>Low Income Public Housing</u>		
	<u>Major - Direct Program</u>		
2008	Housing Choice Vouchers	14.871	\$ <u>1,170,078.00</u>
	Total		\$ <u>1,170,078.00</u>

NOTES TO THE SCHEDULE OF FEDERAL AWARDS

NOTE 1 - Significant Accounting Policies

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

EXHIBIT A
FINANCIAL DATE SCHEDULE

Entity Wide Balance Sheet Summary

IN073

09/30/2008

Audited/A-133

	Project Total	14.871	COCC	Subtotal	ELIM
111 Cash - Unrestricted		398704		398704	
112 Cash - Restricted - Modernization and Development					
113 Cash - Other Restricted					
114 Cash - Tenant Security Deposits					
115 Cash - Restricted for Payment of Current Liabilities		398704		398704	
100 Total Cash					
121 Accounts Receivable - PHA Projects					
122 Accounts Receivable - HUD Other Projects					
124 Accounts Receivable - Other Government		84188		84188	
125 Accounts Receivable - Miscellaneous					
126 Accounts Receivable - Tenants					
126.1 Allowance for Doubtful Accounts - Tenants					
126.2 Allowance for Doubtful Accounts - Other		0		0	
127 Notes, Loans, & Mortgages Receivable - Current					
128 Fraud Recovery		11131		11131	
128.1 Allowance for Doubtful Accounts - Fraud		0		0	
129 Accrued Interest Receivable					
120 Total Receivables, Net of Allowances for Doubtful Accounts		95319		95319	
131 Investments - Unrestricted					
132 Investments - Restricted					
135 Investments - Restricted for Payment of Current Liability					
142 Prepaid Expenses and Other Assets		1260		1260	
143 Inventories					
143.1 Allowance for Obsolete Inventories					
144 Inter Program Due From					
145 Assets Held for Sale					
150 Total Current Assets		495283		495283	

	Project Total	14.871	COCC	Subtotal	ELIM
347 Inter Program - Due To					
348 Loan Liability - Current					
310 Total Current Liabilities		542542		542542	
351 Long-term Debt, Net of Current - Capital Projects/Mortgage Revenue					
352 Long-term Debt, Net of Current - Operating Borrowings					
353 Non-current Liabilities - Other					
354 Accrued Compensated Absences - Non Current					
355 Loan Liability - Non Current					
356 FASB 5 Liabilities					
357 Accrued Pension and OPEB Liabilities					
360 Total Non-Current Liabilities		0		0	
300 Total Liabilities		542542		542542	
508.1 Invested in Capital Assets, Net of Related Debt					
509.2 Fund Balance Reserved		2783		2783	
511.2 Unreserved, Designated Fund Balance					
511.1 Restricted Net Assets					
512.1 Unrestricted Net Assets		-47259		-47259	
512.2 Unreserved, Undesignated Fund Balance					
513 Total Equity/Net Assets		-44476		-44476	
600 Total Liabilities and Equity/Net Assets		498066		498066	

	Total
111 Cash - Unrestricted	398704
112 Cash - Restricted - Modernization and Development	
113 Cash - Other Restricted	
114 Cash - Tenant Security Deposits	
115 Cash - Restricted for Payment of Current Liabilities	
100 Total Cash	398704
121 Accounts Receivable - PHA Projects	
122 Accounts Receivable - HUD Other Projects	
124 Accounts Receivable - Other Government	
125 Accounts Receivable - Miscellaneous	84188
126 Accounts Receivable - Tenants	
126.1 Allowance for Doubtful Accounts - Tenants	
126.2 Allowance for Doubtful Accounts - Other	0
127 Notes, Loans, & Mortgages Receivable - Current	
128 Fraud Recovery	11131
128.1 Allowance for Doubtful Accounts - Fraud	0
129 Accrued Interest Receivable	
120 Total Receivables, Net of Allowances for Doubtful Accounts	95319
131 Investments - Unrestricted	
132 Investments - Restricted	
135 Investments - Restricted for Payment of Current Liability	
142 Prepaid Expenses and Other Assets	1260
143 Inventories	
143.1 Allowance for Obsolete Inventories	
144 Inter Program Due From	
145 Assets Held for Sale	
150 Total Current Assets	495283
161 Land	
162 Buildings	
163 Furniture, Equipment & Machinery - Dwellings	
164 Furniture, Equipment & Machinery - Administration	38756
165 Leasehold Improvements	

	Total
166 Accumulated Depreciation	-35973
167 Construction in Progress	
168 Infrastructure	
160 Total Capital Assets, Net of Accumulated Depreciation	2783
171 Notes, Loans and Mortgages Receivable - Non-Current	
172 Notes, Loans, & Mortgages Receivable - Non Current - Past Due	
173 Grants Receivable - Non Current	
174 Other Assets	
176 Investments in Joint Ventures	
180 Total Non-Current Assets	2783
190 Total Assets	498066
311 Bank Overdraft	
312 Accounts Payable <= 90 Days	
313 Accounts Payable >90 Days Past Due	
321 Accrued Wage/Payroll Taxes Payable	
322 Accrued Compensated Absences - Current Portion	
324 Accrued Contingency Liability	
325 Accrued Interest Payable	
331 Accounts Payable - HUD PHA Programs	542542
332 Account Payable - PHA Projects	
333 Accounts Payable - Other Government	
341 Tenant Security Deposits	
342 Deferred Revenues	
343 Current Portion of Long-term Debt - Capital Projects/Mortgage Revenue Bonds	
344 Current Portion of Long-term Debt - Operating Borrowings	
345 Other Current Liabilities	
346 Accrued Liabilities - Other	
347 Inter Program - Due To	
348 Loan Liability - Current	
310 Total Current Liabilities	542542
351 Long-term Debt, Net of Current - Capital Projects/Mortgage Revenue	

	Total
352 Long-term Debt, Net of Current - Operating Borrowings	
353 Non-current Liabilities - Other	
354 Accrued Compensated Absences - Non Current	
355 Loan Liability - Non Current	
356 FASB 5 Liabilities	
357 Accrued Pension and OPEB Liabilities	
350 Total Non-Current Liabilities	0
300 Total Liabilities	542542
508.1 Invested in Capital Assets, Net of Related Debt	2783
509.2 Fund Balance Reserved	
511.2 Unreserved, Designated Fund Balance	
511.1 Restricted Net Assets	
512.1 Unrestricted Net Assets	-47259
512.2 Unreserved, Undesignated Fund Balance	
513 Total Equity/Net Assets	-44476
600 Total Liabilities and Equity/Net Assets	498066

Entity Wide Revenue and Expense Summary

IN073

09/30/2008

Audited/A-133

	Project Total	14.871	COCC	Subtotal	ELIM
70300 Net Tenant Rental Revenue					
70400 Tenant Revenue - Other					
70500 Total Tenant Revenue	0	0		0	
70600 HUD PHA Operating Grants					
70610 Capital Grants		1170078		1170078	
70710 Management Fee					
70720 Asset Management Fee					
70730 Book Keeping Fee					
70740 Front Line Service Fee					
70750 Other Fees					
70700 Total Fee Revenue					
70800 Other Government Grants					
71100 Investment Income - Unrestricted		286		286	
71200 Mortgage Interest Income					
71300 Proceeds from Disposition of Assets Held for Sale					
71310 Cost of Sale of Assets					
71400 Fraud Recovery		6716		6716	
71500 Other Revenue					
71600 Gain or Loss on Sale of Capital Assets					
72000 Investment Income - Restricted		2169		2169	
70000 Total Revenue	1179249	1179249		1179249	
91100 Administrative Salaries		85038		85038	
91200 Auditing Fees		4500		4500	
91300 Management Fee					
91310 Book-keeping Fee					
91400 Advertising and Marketing		106		106	
91500 Employee Benefit contributions - Administrative		6505		6505	

	Project Total	14.871	COCC	Subtotal	ELIM
91600 Office Expenses		34469		34469	
91700 Legal Expense		1500		1500	
91800 Travel		2775		2775	
91810 Allocated Overhead					
91900 Other		17597		17597	
91000 Total Operating - Administrative		152490		152490	
92000 Asset Management Fee					
92100 Tenant Services - Salaries					
92200 Relocation Costs					
92300 Employee Benefit Contributions - Tenant Services					
92400 Tenant Services - Other					
92500 Total Tenant Services		0		0	
93100 Water		405		405	
93200 Electricity		1307		1307	
93300 Gas		2031		2031	
93400 Fuel					
93500 Labor					
93600 Sewer					
93700 Employee Benefit Contributions - Utilities					
93800 Other Utilities Expense					
93000 Total Utilities		3743		3743	
94100 Ordinary Maintenance and Operations - Labor					
94200 Ordinary Maintenance and Operations - Materials and Other		346		346	
94300 Ordinary Maintenance and Operations Contracts					
94500 Employee Benefit Contributions - Ordinary Maintenance					
94000 Total Maintenance		346		346	
95100 Protective Services - Labor					
95200 Protective Services - Other Contract Costs					
95300 Protective Services - Other					
95500 Employee Benefit Contributions - Protective Services					
95000 Total Protective Services		0		0	

	Project Total	14.871	COCC	Subtotal	ELIM
96110 Property Insurance		833		833	
96120 Liability Insurance		1956		1956	
96130 Workmen's Compensation		167		167	
96140 All Other Insurance					
96100 Total Insurance Premiums		2956		2956	
96200 Other General Expenses		5000		5000	
96210 Compensated Absences					
96300 Payments in Lieu of Taxes					
96400 Bad debt - Tenant Rents					
96500 Bad debt - Mortgages					
96600 Bad debt - Other					
96800 Severance Expense					
96000 Total Other General Expenses		5000		5000	
96710 Interest of Mortgage (or Bonds) Payable					
96720 Interest on Notes Payable (Short and Long Term)					
96730 Amortization of Bond Issue Costs					
96700 Total Interest Expense and Amortization Cost		0		0	
96900 Total Operating Expenses		164535		164535	
97000 Excess of Operating Revenue over Operating Expenses		1014714		1014714	
97100 Extraordinary Maintenance					
97200 Casualty Losses - Non-capitalized					
97300 Housing Assistance Payments		1091135		1091135	
97350 HAP Portability-In					
97400 Depreciation Expense		1625		1625	
97500 Fraud Losses					
97600 Capital Outlays - Governmental Funds					
97700 Debt Principal Payment - Governmental Funds					
97800 Dwelling Units Rent Expense					
90000 Total Expenses		1257295		1257295	

	Project Total	14.871	COCC	Subtotal	ELIM
10010 Operating Transfer In					
10020 Operating transfer Out					
10030 Operating Transfers from/to Primary Government					
10040 Operating Transfers from/to Component Unit					
10050 Proceeds from Notes, Loans and Bonds					
10060 Proceeds from Property Sales					
10070 Extraordinary Items, Net Gain/Loss					
10080 Special Items (Net Gain/Loss)					
10091 Inter Project Excess Cash Transfer In					
10092 Inter Project Excess Cash Transfer Out					
10093 Transfers between Program and Project - In					
10094 Transfers between Project and Program - Out		0		0	
10100 Total Other financing Sources (Uses)					
10000 Excess (Deficiency) of Total Revenue Over (Under) Total Expenses		-78046		-78046	
11020 Required Annual Debt Principal Payments					
11030 Beginning Equity		33570		33570	
11040 Prior Period Adjustments, Equity Transfers and Correction of Errors		0		0	
11050 Changes in Compensated Absence Balance					
11060 Changes in Contingent Liability Balance					
11070 Changes in Unrecognized Pension Transition Liability					
11080 Changes in Special Term/Severance Benefits Liability					
11090 Changes in Allowance for Doubtful Accounts - Dwelling Rents					
11100 Changes in Allowance for Doubtful Accounts - Other					
11170 Administrative Fee Equity		-44476		-44476	
11180 Housing Assistance Payments Equity		0		0	
11190 Unit Months Available		3488		3488	
11210 Number of Unit Months Leased		3488		3488	
11270 Excess Cash					
11610 Land Purchases					
11620 Building Purchases					
11630 Furniture & Equipment - Dwelling Purchases					
11640 Furniture & Equipment - Administrative Purchases					

	Project Total	14.871	COCC	Subtotal	ELIM
11650 Leasehold Improvements Purchases					
11660 Infrastructure Purchases					
13510 CFFP Debt Service Payments					
13901 Replacement Housing Factor Funds					

	Total
70300 Net Tenant Rental Revenue	
70400 Tenant Revenue - Other	
70500 Total Tenant Revenue	0
70600 HUD PHA Operating Grants	1170078
70610 Capital Grants	
70710 Management Fee	
70720 Asset Management Fee	
70730 Book Keeping Fee	
70740 Front Line Service Fee	
70750 Other Fees	
70700 Total Fee Revenue	
70800 Other Government Grants	
71100 Investment Income - Unrestricted	286
71200 Mortgage Interest Income	
71300 Proceeds from Disposition of Assets Held for Sale	
71310 Cost of Sale of Assets	
71400 Fraud Recovery	6716
71500 Other Revenue	
71600 Gain or Loss on Sale of Capital Assets	
72000 Investment Income - Restricted	2169
70000 Total Revenue	1179249
91100 Administrative Salaries	85038
91200 Auditing Fees	4500
91300 Management Fee	
91310 Book-keeping Fee	
91400 Advertising and Marketing	106
91500 Employee Benefit contributions - Administrative	6505
91600 Office Expenses	34469
91700 Legal Expense	1500
91800 Travel	2775
91810 Allocated Overhead	
91900 Other	17597

	Total
91000 Total Operating - Administrative	152490
92000 Asset Management Fee	
92100 Tenant Services - Salaries	
92200 Relocation Costs	
92300 Employee Benefit Contributions - Tenant Services	
92400 Tenant Services - Other	
92500 Total Tenant Services	0
93100 Water	405
93200 Electricity	1307
93300 Gas	2031
93400 Fuel	
93500 Labor	
93600 Sewer	
93700 Employee Benefit Contributions - Utilities	
93800 Other Utilities Expense	
93000 Total Utilities	3743
94100 Ordinary Maintenance and Operations - Labor	
94200 Ordinary Maintenance and Operations - Materials and Other	346
94300 Ordinary Maintenance and Operations Contracts	
94500 Employee Benefit Contributions - Ordinary Maintenance	
94000 Total Maintenance	346
95100 Protective Services - Labor	
95200 Protective Services - Other Contract Costs	
95300 Protective Services - Other	
95500 Employee Benefit Contributions - Protective Services	
95000 Total Protective Services	0
96110 Property Insurance	833
96120 Liability Insurance	1956
96130 Workmen's Compensation	167
96140 All Other Insurance	

	Total
96100 Total insurance Premiums	2956
96200 Other General Expenses	5000
96210 Compensated Absences	
96300 Payments in Lieu of Taxes	
96400 Bad debt - Tenant Rents	
96500 Bad debt - Mortgages	
96600 Bad debt - Other	
96800 Severance Expense	
96000 Total Other General Expenses	5000
96710 Interest of Mortgage (or Bonds) Payable	
96720 Interest on Notes Payable (Short and Long Term)	
96730 Amortization of Bond Issue Costs	
96700 Total Interest Expense and Amortization Cost	0
96900 Total Operating Expenses	164535
97000 Excess of Operating Revenue over Operating Expenses	1014714
97100 Extraordinary Maintenance	
97200 Casualty Losses - Non-capitalized	
97300 Housing Assistance Payments	1091135
97350 HAP Portability-In	
97400 Depreciation Expense	1625
97500 Fraud Losses	
97600 Capital Outlays - Governmental Funds	
97700 Debt Principal Payment - Governmental Funds	
97800 Dwelling Units Rent Expense	
90000 Total Expenses	1257295
10010 Operating Transfer In	
10020 Operating transfer Out	
10030 Operating Transfers from/to Primary Government	
10040 Operating Transfers from/to Component Unit	

	Total
10050 Proceeds from Notes, Loans and Bonds	
10060 Proceeds from Property Sales	
10070 Extraordinary Items, Net Gain/Loss	
10080 Special Items (Net Gain/Loss)	
10091 Inter Project Excess Cash Transfer In	
10092 Inter Project Excess Cash Transfer Out	
10093 Transfers between Program and Project - In	
10094 Transfers between Project and Program - Out	
10100 Total Other financing Sources (Uses)	0
10000 Excess (Deficiency) of Total Revenue Over (Under) Total Expenses	-78046
11020 Required Annual Debt Principal Payments	
11030 Beginning Equity	33570
11040 Prior Period Adjustments, Equity Transfers and Correction of Errors	0
11050 Changes in Compensated Absence Balance	
11060 Changes in Contingent Liability Balance	
11070 Changes in Unrecognized Pension Transition Liability	
11080 Changes in Special Term/Severance Benefits Liability	
11090 Changes in Allowance for Doubtful Accounts - Dwelling Rents	
11100 Changes in Allowance for Doubtful Accounts - Other	
11170 Administrative Fee Equity	-44476
11180 Housing Assistance Payments Equity	0
11190 Unit Months Available	3488
11210 Number of Unit Months Leased	3488
11270 Excess Cash	
11610 Land Purchases	
11620 Building Purchases	
11630 Furniture & Equipment - Dwelling Purchases	
11640 Furniture & Equipment - Administrative Purchases	
11650 Leasehold Improvements Purchases	
11660 Infrastructure Purchases	
13510 CFFP Debt Service Payments	
13901 Replacement Housing Factor Funds	

SECTION III
REPORTS ON COMPLIANCE
AND
ON INTERNAL CONTROL

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

Board of Commissioners
Fayette County Housing Authority
Connersville, Indiana

We have audited the basic financial statements of the Fayette County Housing Authority, Indiana, (Authority) as of and for the year ended September 30, 2008, and have issued our report thereon dated July 2, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

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

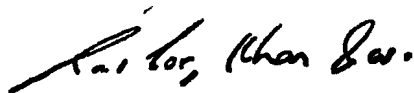
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies above is a material weakness.

Compliance and Other Matters

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

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

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



Sailor, Khan & Co. LLC
July 2, 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
Fayette County Housing Authority
Connersville, Indiana

Compliance

We have audited the compliance of the Fayette County Housing Authority, Indiana, (Authority) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended 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 each of its major federal programs for the year ended September 30, 2008. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs.

Internal Control Over Compliance

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

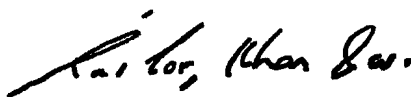
Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the Authority's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed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

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

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the Authority's internal control. We did not consider any of the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses.

The Authority's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Authority's written response and, accordingly, we express no opinion on it.

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



Sailor, Khan & Co. LLC
July 2, 2009

FAYETTE COUNTY HOUSING AUTHORITY

Connersville, Indiana

SIGNIFICANT DEFICIENCIES COMMUNICATED IN PRIOR YEARS

September 30, 2008

The prior audit report for the year ended September 30, 2007 contained a total of five significant deficiencies:

Financial Statement Findings

Finding: Excess Deficit
Status: Not implemented - see current finding #1

Finding: Prior Year Adjusting Entries
Status: Implemented

Finding: Internal Control Procedures
Status: Not implemented - see current finding #4

Federal Awards Findings

Finding: Financial Data Submission
Status: Not implemented - see current finding #9

Finding: Excess Deficit (same as financial statement finding #1)
Status: Not implemented - see current finding #8

FAYETTE COUNTY HOUSING AUTHORITY

Connersville, Indiana

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

September 30, 2008

SECTION I - SUMMARY OF AUDITOR RESULTS

Financial Statement:

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

Federal Awards:

Internal control over major programs:	
▶ Material weakness(es) identified?	No
▶ Significant deficiency (ies) identified that are not considered to be material weaknesses?	Yes
Type of auditor's report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) on Circular A-133?	Yes
Identification of major programs:	

CFDA	
Number(s)	Name of Federal Program
14-871	Section 8 Housing Choice Vouchers

Dollar threshold used to distinguish between type A and type B programs:	\$300,000
Auditee qualified as low-risk auditee?	No

FAYETTE COUNTY HOUSING AUTHORITY

Connersville, Indiana

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

September 30, 2008

SECTION II - FINANCIAL STATEMENT FINDINGS

The current audit report for the year ended September 30, 2008 disclosed the following Financial Statement audit findings:

1. Excess Deficit

Criteria:

We noted that a large deficit in net assets continues to exist from prior years.

Condition:

Under the terms of the annual contributions contract, each project shall be developed and administered to promote efficiency, economy and stability.

Questioned Costs:

None.

Effect:

The PHA has accumulated a large deficit in its net assets.

Cause:

The PHA over-requisitioned funds annually in an effort to cover prior year deficits in the years prior to fiscal year ended 2002.

Recommendation:

We recommend the current administration continue its efforts in monitoring its expenses carefully. Reduction in excess deficit reserve largely depends upon PHA's efforts to increase its units leased to the maximum, thus increasing its income and ensuring that expenses are incurred to the extent of routine PHA operations. In addition, any amounts recovered from the former employee or the related corporation should be used towards the repayment of amount owed to HUD.

Management's Response/Action Plan:

The Authority, during FY 2009, began using the Reserved Net Assets.
Person Responsible - Amanda Caldwell and FCHA Board
Date of Completion - ongoing

FAYETTE COUNTY HOUSING AUTHORITY

Connersville, Indiana

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

September 30, 2008

SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)

2. Closing Entries

Criteria:

Unspent housing assistance funds must be reported as restricted cash and restricted equity on the Housing Authority's financials.

Condition:

The Housing Authority has designated an account for unspent housing assistance, but there was not a restricted cash and equity account reflected on their general ledger. In addition the unspent housing assistance was closed to the accounts payable-HUD account instead of restricted equity.

Questioned Costs:

None.

Effect:

General ledger accounts are not being properly stated after closing. The closing entries have created an imbalance in the retained earnings account.

Cause:

There is an inadequate understanding of current HUD accounting procedures and Financial Data Submission (FDS) standards.

Recommendation:

We recommend the Housing Authority take steps to obtain an understanding of current HUD and FDS accounting requirements.

Management's Response/Action Plan:

Fee accountant, Sheryl Myers, will fix this error. Training has been completed since the audit and a better understanding of HUD accounting requirements was achieved.

Person Responsible - Sheryl Myers

Date of Completion - July 31, 2008

FAYETTE COUNTY HOUSING AUTHORITY

Connersville, Indiana

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

September 30, 2008

SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)

3. Accounts Receivable - Other

Criteria:

Amounts recorded as receivable must be examined periodically to determine the amount to be considered doubtful.

Condition:

A large amount has been recorded as a receivable on the Housing Authority's financials. This amount has not changed in several years and an allowance has not been created for the amount that is considered to be doubtful in its ability to be collected.

Questioned Costs:

None.

Effect:

The Housing Authority's assets appear to be overstated.

Cause:

The doubtful portion of this accounts receivable has not been assessed by management.

Recommendation:

We recommend the Housing Authority review all accounts receivables and determine what portion is considered doubtful in its ability to be collected and make appropriate journal entries to account for the allowance.

Management's Response/Action Plan:

The Authority was unaware that this is an issue. This problem has not been brought up during past audits but will be looked into.

Person Responsible - Amanda Caldwell and FCHA Board

Date of Completion - January 19, 2010 (board mtg.)

FAYETTE COUNTY HOUSING AUTHORITY

Connersville, Indiana

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

September 30, 2008

SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)

4. Internal Control Procedures

Criteria:

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

Condition:

We noted the Authority's internal control procedures are not sufficient.

Questioned Costs:

None.

Effect:

In the absence of adequate internal control procedures there is an increased risk of error and other intentional activities that could affect the integrity of the financial statements or physical custody of assets.

Cause:

The Authority's internal control policy and procedures are not adequate.

Recommendation:

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

Management's Response/Action Plan:

The internal controls were addressed and put into policy after the last audit. The Authority will revisit these policies at the next board meeting.

Person Responsible - Amanda Caldwell and FCHA Board

Date of Completion - Will start the process at the January 19, 2010 Board meeting.

FAYETTE COUNTY HOUSING AUTHORITY

Connersville, Indiana

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

September 30, 2008

SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)

5. Unlocated Information

Criteria:

Requested information should be readily available for audit examination.

Condition:

The Housing Authority could not locate a cancelled payroll check for period ending September 30, 2008.

Questioned Costs:

None.

Effect:

Integrity of financial information may not be adequate.

Cause:

It appears the Housing Authority did not devote adequate attention towards maintaining proper supporting documentation.

Recommendation:

We recommend the Housing Authority place greater emphasis in safe keeping its records and ensuring all information is readily available.

Management's Response/Action Plan:

All financial information is kept by Executive Director and fee accountant. If Director was unable to provide a copy then the fee accountant would have been able to provide it. The Authority is not aware of the specific cancelled payroll check that is needed in order to provide it to you.

FAYETTE COUNTY HOUSING AUTHORITY

Connersville, Indiana

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

September 30, 2008

SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)

6. Minutes Not Signed

Criteria:

Housing Authority Board minutes are incomplete unless they are signed by the Chairman and the Secretary.

Condition:

We noted several of the minutes of the Board of Commissioners were not signed by the Secretary and the Chairman of the Board.

Questioned Costs:

None.

Effect:

Minutes of the meetings are considered incomplete.

Cause:

The Housing Authority did not place adequate emphasis on the completeness of Board minutes.

Recommendations:

We recommend the Housing Authority ensure all minutes are adequately signed.

Management's Response/Action Plan:

The Authority was not aware that the Secretary of the Board (Executive Director) had to sign minutes. In the past audits this was not brought to our attention.

Person Responsible - Amanda Caldwell

Date of Completion - Went into effect immediately

FAYETTE COUNTY HOUSING AUTHORITY

Connersville, Indiana

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

September 30, 2008

SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)

7. Financial Statements

Criteria:

The Authority is responsible for establishing and maintaining controls over the preparation of the financial statements.

Condition:

We believe the Authority did not have controls over the preparation of the financial statements, including footnote disclosures, to prevent or detect a misstatement in the financial statements.

Questioned Costs:

None.

Effect:

As a result, potential misstatements in the financial statements may go undetected.

Cause:

The size of the organization was primarily the reason for the lack of systematic controls over the preparation of the financial statements.

Recommendation:

We recommend that the Authority take steps to establish a system of controls over financial reporting to prevent or detect misstatements in the financial statements.

Management's Response/Action Plan:

The Authority is unsure of the request with this finding. Every report is read and examined by the Executive Director and the FCHA Board. Is the request of this audit to have another accountant review the financial information.

FAYETTE COUNTY HOUSING AUTHORITY

Connersville, Indiana

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

September 30, 2008

SECTION III - FEDERAL AWARD FINDINGS

The current audit report for the year ended September 30, 2008 disclosed the following Federal Awards audit findings:

8. Excess Deficit (same as financial statement finding #1)

Federal Program:

14.871 - Section 8 Housing Choice Vouchers

Criteria:

We noted that a large deficit in net assets continues to exist from prior years.

Condition:

Under the terms of the annual contributions contract, each project shall be developed and administered to promote efficiency, economy and stability.

Questioned Costs:

None.

Effect:

The PHA has accumulated a large deficit in its net assets.

Cause:

The PHA over-requisitioned funds annually in an effort to cover prior year deficits in the years prior to fiscal year ended 2002.

Recommendation:

We recommend the current administration continue its efforts in monitoring its expenses carefully. Reduction in excess deficit reserve largely depends upon PHA's efforts to increase its units leased to the maximum, thus increasing its income and ensuring that expenses are incurred to the extent of routine PHA operations. In addition, any amounts recovered from the former employee or the related corporation should be used towards the repayment of amount owed to HUD.

Management's Response/Action Plan:

The Authority, during FY 2009, began using the Reserved Net Assets.
Person Responsible - Amanda Caldwell and FCHA Board
Date of Completion - ongoing

FAYETTE COUNTY HOUSING AUTHORITY

Connersville, Indiana

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

September 30, 2008

SECTION III - FEDERAL AWARD FINDINGS (CONTINUED)

9. Financial Data Submission

Federal Program

14.871 Housing Choice Voucher

Criteria:

The Housing Authority must complete their unaudited financial data submission within two months after their fiscal year end. This year the submission deadline was extended to April 13, 2009 due to the implementation of the asset management on the Real Estate Assessment Center (REAC) online system. Failure to comply with the aforementioned deadline resulted in a late presumptive failure.

Condition:

The Housing authority has failed to complete their unaudited financial data submission in the time frame set by the Department of Housing and Urban Development.

Questioned Costs:

None.

Effect:

The Housing Authority is not acting within HUD guidelines. In addition, the corresponding audited submission can not be completed and approved until an unaudited submission is completed and approved by REAC.

Cause:

Management failed to recognize and meet required deadlines.

Recommendation:

We recommend the Housing Authority immediately complete their fiscal year 2008 unaudited submission and take steps to ensure future submission are completed before Federal deadlines.

Management's Response/Action Plan:

Future submissions will be completed within the set deadlines. Fee accountant, Sheryl Myers, along with Executive Director, Amanda Caldwell, will ensure a timely submission.

Person Responsible - Amanda Caldwell and Sheryl Myers

Date of Completion - Will be submitted by November 30, 2010.

FAYETTE COUNTY HOUSING AUTHORITY

Connersville, Indiana

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

September 30, 2008

SECTION III - FEDERAL AWARD FINDINGS (CONTINUED)

10. Office of Management and Budget (OMB) Compliance

Federal Program

14.871 Housing Choice Voucher

Criteria:

Housing Authority's which are designated as OMB A-133 must submit their audits to the Federal Audit Clearinghouse within nine months after their fiscal year end.

Condition:

The Housing Authority failed to complete their financials in a timely fashion.

Questioned Costs:

None.

Effect:

The Housing Authority is noncompliant with OMB submission standards.

Cause:

Management failed to recognize and meet required deadlines.

Recommendation:

We recommend the Housing Authority take steps to ensure future submission are completed before Federal deadlines.

Management's Response/Action Plan:

Future submissions will be completed within the set deadlines. Fee accountant, Sheryl Myers, along with Executive Director, Amanda Caldwell, will ensure a timely submission.

Person Responsible - Amanda Caldwell and Sheryl Myers

Date of Completion - Will be submitted by November 30, 2010.

FAYETTE COUNTY HOUSING AUTHORITY

Connersville, Indiana

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

September 30, 2008

SECTION III - FEDERAL AWARD FINDINGS (CONTINUED)

11. Donations

Federal Program

14.871 Housing Choice Voucher

Criteria:

The Housing Choice Voucher (HCV) program objective is to provide rental assistance to help very low income families afford decent, safe, and sanitary rental housing.

Condition:

The Housing Authority made a donation to a non housing related program.

Questioned Costs:

\$5,000.00

Effect:

Housing Authority assets have been used for activities outside the objective of the HCV program.

Cause:

Management failed to obtain HUD approval prior to making this donation.

Recommendation:

We recommend the Housing Authority consult with their HUD representative prior to obligating Housing Authority funds to organizations or activities outside their normal scope of operation.

Management's Response/Action Plan:

The FCHA Board was misinformed by HUD officials in Indianapolis in regards to In-Kind items. The board was under the impression that this type of donation was an acceptable form of In-Kind payment. The error has been noted and further In-Kind will have pre-approval from Forest Jones of the Indianapolis Field Office.

FAYETTE COUNTY HOUSING AUTHORITY

Connersville, Indiana

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

September 30, 2008

SECTION III - FEDERAL AWARD FINDINGS (CONTINUED)

12. Tenant Files

Federal Program

14.871 Housing Choice Voucher

Criteria:

HUD guidelines on tenant file documentation and maintenance must be followed.

Condition:

We noted tenant files did not contain documentation supporting their annual inspections of properties rented to their tenants.

Questioned Costs:

None.

Effect:

Tenant files are incomplete.

Cause:

Lack of supervisory review.

Recommendation:

We recommend the Housing Authority ensure all tenant files contain signed release forms.

Management's Response/Action Plan:

New software was purchased for the Authority where the inspections are archived in the computer systems. The actual forms were shredded after the inspection was entered into the software. A visit by the Indianapolis Field Office brought this issue to our attention and it has since been corrected. The forms are printed off and placed into tenant files.