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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, 2008 to September 30, 2009. 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, 2009 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, 2009
AND
REPORTS ON COMPLIANCE AND
ON INTERNAL CONTROL

FAYETTE COUNTY HOUSING AUTHORITY
Connersville, Indiana

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SEPTEMBER 30, 2009

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

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, 2009, 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.

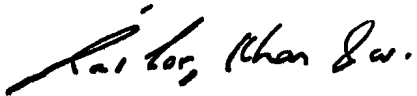
In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Fayette County Housing Authority, Indiana, as of September 30, 2009, and the changes in its financial position and its cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying basic financial statements have been prepared assuming that the Fayette County Housing Authority will continue as a going concern. As discussed in Note 4 to the financial statements, the Housing Authority has accumulated a large retained earnings deficit and an amount payable to Department of Housing and Urban Development. Because operations of the Authority could be substantially impeded if this liability were immediately required to be paid, raises substantial doubt about the Authority's ability to continue as a going concern. Management's plan in regard to this situation is also described in Note 4. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 3, 2010, 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 accompanying supplemental 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
June 3, 2010

Fayette County Housing Authority

Management's Discussion and Analysis (MD&A) September 30, 2009 (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, 2009. 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, 2009 was \$273,746. The net assets decreased by \$229,270, increasing the Authority's deficit net asset by 515.5% from the prior year.

Revenues for the Authority were \$1,161,570 for the year ended September 30, 2009. This was a decrease of \$17,680 or 1.5% from the prior year.

Expenses for the Authority were \$1,390,840 for the year ended September 30, 2009. This was an increase of \$133,544 or 10.6% from the prior year.

HUD operating grants was \$1,140,788 for the year ended September 30, 2009. This was a decrease of \$29,290 or 2.5% 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, 2009 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 \$273,746 at the close of the year ended September 30, 2009 down from a deficit balance of \$44,476 in 2008. The decrease in the net assets of \$229,270 was due to a loss in the change in net assets for the year. The unrestricted net assets were a deficit balance of \$278,900 as of September 30, 2009.

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

FINANCIAL ANALYSIS (CONTINUED)

CONDENSED STATEMENTS OF NET ASSETS
SEPTEMBER 30,

	2009	2008	Dollar Change	Percent Change
Current and other assets	\$ 266,899	\$ 495,283	\$ (228,384)	-46.1%
Capital assets	5,154	2,783	2,371	85.2%
Total Assets	272,053	498,066	(226,013)	-45.4%
Current liabilities	545,799	542,542	3,257	0.6%
Total Liabilities	545,799	542,542	3,257	0.6%
Net Assets				
Invested in capital assets	5,154	2,783	2,371	85.2%
Unrestricted	(278,900)	(47,259)	(231,641)	490.2%
Total Net Assets	\$ (273,746)	\$ (44,476)	\$ (229,270)	515.5%

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 \$17,680 due to decreases in HUD operating grants and interest income, which were partially offset by an increase in 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>2009</u>	<u>2008</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Revenues				
Operating - non-operating:				
HUD operating grants	\$ 1,140,788	\$ 1,170,078	\$ (29,290)	-2.5%
Interest income	1,089	2,455	(1,366)	-55.6%
Other income	19,693	6,717	12,976	193.2%
Total Revenues	<u>1,161,570</u>	<u>1,179,250</u>	<u>(17,680)</u>	-1.5%
Expenses				
Personal services	101,137	91,544	9,593	10.5%
Utilities	3,832	3,743	89	2.4%
Operations and maintenance	7,070	346	6,724	1943.4%
Insurance	2,838	2,955	(117)	-4.0%
Other supplies and expenses	49,265	65,948	(16,683)	-25.3%
Housing assistance payments	1,224,951	1,091,135	133,816	12.3%
Depreciation	1,747	1,625	122	7.5%
Total Expenses	<u>1,390,840</u>	<u>1,257,296</u>	<u>133,544</u>	10.6%
Change in net assets	(229,270)	(78,046)	(151,224)	
Beginning net assets	<u>(44,476)</u>	<u>33,570</u>	<u>(78,046)</u>	
Ending net assets	<u>\$ (273,746)</u>	<u>\$ (44,476)</u>	<u>\$ (229,270)</u>	

Total expenses for the Authority increased by \$133,544 due to increases in personal services, utilities, operations and maintenance, housing assistance payments and depreciation, which were partially offset by decreases in insurance and other supplies and expenses. Operations and maintenance increased primarily due to increases in material and contract costs.

**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, 2009 amounts to \$5,154 (net of accumulated depreciation).

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

	<u>2009</u>	<u>2008</u>	<u>Dollar Change</u>
Furniture, equipment and machinery-administration	\$ 41,592	\$ 38,756	\$ 2,836
Accumulated depreciation	<u>36,438</u>	<u>35,973</u>	<u>465</u>
Total	<u>\$ 5,154</u>	<u>\$ 2,783</u>	<u>\$ 2,371</u>

The total increase in the Authority's capital assets for the current fiscal year was \$2,371 or 85.2% in terms of net book value. Actual expenditures to purchase equipment and construct capital assets were \$4,118 for the year.

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 2010 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, 2009

ASSETS

Current Assets:

Cash and cash equivalents	\$ 170,096.02
Receivable - net of allowances:	
Accounts	95,655.67
Prepaid expenses	<u>1,147.02</u>
Total Current Assets	<u>266,898.71</u>

Noncurrent Assets:

Capital assets:

Other capital assets, net of depreciation	<u>5,154.25</u>
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Total capital assets- net	<u>5,154.25</u>
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Total Noncurrent Assets	<u>5,154.25</u>
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Total Assets	<u>\$ 272,052.96</u>
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LIABILITIES

Current Liabilities:

Accounts Payable	\$ 543,118.96
Accrued salaries, wages and benefits	<u>2,679.65</u>

Total Current Liabilities	<u>545,798.61</u>
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Total Liabilities	<u>545,798.61</u>
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NET ASSETS

Invested in capital assets, net of related debt	5,154.25
Unrestricted	<u>(278,899.90)</u>

Total Net Assets	<u>(273,745.65)</u>
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Total Liabilities and Net Assets	<u>\$ 272,052.96</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, 2009

Operating Revenues:	
Operating subsidies- HUD grants	\$ 1,140,788.00
Other revenues	<u>19,692.82</u>
Total operating revenues	<u>1,160,480.82</u>
Operating Expenses:	
Personal services	101,136.30
Utilities	3,832.24
Operations and maintenance	7,070.25
Insurance	2,837.92
Other supplies and expenses	49,265.16
Housing assistance payments	1,224,950.73
Depreciation	<u>1,746.89</u>
Total operating expenses	<u>1,390,839.49</u>
Operating income (loss)	<u>(230,358.67)</u>
Non-operating revenues (expenses):	
Interest and investment earnings	<u>1,089.38</u>
Net non-operating revenues (expenses)	<u>1,089.38</u>
Change in net assets	(229,269.29)
Net assets at beginning of year	<u>(44,476.36)</u>
Net assets at end of year	\$ <u><u>(273,745.65)</u></u>

See notes to financial statements

FAYETTE COUNTY HOUSING AUTHORITY

Connersville, Indiana

STATEMENT OF CASH FLOWS

For Year Ended September 30, 2009

Cash flows from operating activities:	
Cash received from HUD grants- operating	\$ 1,140,788.00
Cash received from other operating activities	19,355.50
Cash payments for goods and services	(1,287,266.42)
Cash payments to employees-salaries	(91,342.14)
Cash payments for employee benefit contributions	<u>(7,114.51)</u>
Net cash provided (used) by operating activities	<u>(225,579.57)</u>
Cash flows from capital and related financing activities:	
Payments for capital assets	<u>(4,118.24)</u>
Net cash (used) for capital and related financing activities	<u>(4,118.24)</u>
Cash flows from investing activities:	
Interest and dividends	<u>1,089.38</u>
Net cash provided (used) from investing activities	<u>1,089.38</u>
Net increase (decrease) in cash and cash equivalents	(228,608.43)
Cash and cash equivalents at beginning of year	<u>398,704.45</u>
Cash and cash equivalents at end of year	\$ <u><u>170,096.02</u></u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating income (loss)	\$ (230,358.67)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation expense	1,746.89
Allowance for doubtful accounts	1,274.26
Changes in assets and liabilities:	
Receivables	(1,611.58)
Prepaid expenses	112.92
Accounts and other payables	576.96
Accrued expenses	<u>2,679.65</u>
Net cash provided (used) by operating activities	\$ <u><u>(225,579.57)</u></u>

See notes to financial statements

FAYETTE COUNTY HOUSING AUTHORITY

Connersville, Indiana

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

September 30, 2009

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, 2009

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. Tenant accounts receivable, accrued interest receivable and accounts receivable from U.S. Department of Housing and Urban Development compose the majority of receivables. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable.

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	3 - 7 years
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FAYETTE COUNTY HOUSING AUTHORITY

Connersville, Indiana

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

September 30, 2009

NOTE 1 - Summary of Significant Accounting Policies (Continued)

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

Compensated Absences

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

Equity Classifications

Equity is classified as net assets and displayed in 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.

FAYETTE COUNTY HOUSING AUTHORITY

Connersville, Indiana

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

September 30, 2009

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 and Investments

Deposits

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it or the Authority will not be able to recover collateral securities in the possession of an outside party. As of September 30, 2009, the Authority's bank balances of \$182,274.32, 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, 2009

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, 2009, until more information is obtained.

Receivables detail at September 30, 2009, is as follows:

Fraud recovery	\$ 12,742.58
Allowance for doubtful accounts	<u>(1,274.26)</u>
Tenants accounts receivable - net	11,468.32
Accounts receivable - other	<u>84,187.35</u>
	<u>\$ 95,655.67</u>

3c. Capital Assets

Capital asset activity for the year ended September 30, 2009, was as follows:

	<u>Balance October 1, 2008</u>	<u>Additions</u>	<u>(Deductions)</u>	<u>Balance September 30, 2009</u>
Furniture, equipment and machinery- administration	\$ 38,756.37	\$ <u>4,118.24</u>	\$ <u>(1,282.90)</u>	\$ 41,591.71
Accumulated depreciation	<u>35,973.47</u>	\$ <u>1,746.89</u>	\$ <u>(1,282.90)</u>	<u>36,437.46</u>
Total	<u>\$ 2,782.90</u>			<u>\$ 5,154.25</u>

FAYETTE COUNTY HOUSING AUTHORITY

Connersville, Indiana

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

September 30, 2009

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

3d. Accounts Payable

Payable detail at September 30, 2009, is as follows:

Accounts payable - vendors	\$	576.96
Accounts payable - HUD		<u>542,542.00</u>
	\$	<u>543,118.96</u>

3e. Compensated Absences

The Housing Authority had no liability for compensated absences at September 30, 2009.

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 \$278,899.90. Coupled with the Housing Authority's investment in capital assets the Housing Authority has a total net asset (equity) deficit of \$273,745.65.

NOTE 5 - Other Notes

5a. Employee Retirement Plan

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

FAYETTE COUNTY HOUSING AUTHORITY

Connersville, Indiana

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

September 30, 2009

NOTE 5 - Other Notes (Continued)

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.

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, 2009

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>		
2009	Housing Choice Vouchers	14.871	\$ <u>1,140,788.00</u>
	Total		\$ <u>1,140,788.00</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

Housing Authority of the County of Fayette (IN073)
Connersville, IN

Entity Wide Balance Sheet Summary

Submission Type: Audited/A-133 Fiscal Year End: 09/30/2009

	14.871 Housing Choice Vouchers	Subtotal	Total
111 Cash - Unrestricted	\$170,096	\$170,096	\$170,096
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	\$170,096	\$170,096	\$170,096
121 Accounts Receivable - PHA Projects			
122 Accounts Receivable - HUD Other Projects			
124 Accounts Receivable - Other Government			
125 Accounts Receivable - Miscellaneous	\$84,187	\$84,187	\$84,187
126 Accounts Receivable - Tenants			
126.1 Allowance for Doubtful Accounts - Tenants			
126.2 Allowance for Doubtful Accounts - Other	\$0	\$0	\$0
127 Notes, Loans, & Mortgages Receivable - Current			
128 Fraud Recovery	\$12,743	\$12,743	\$12,743
128.1 Allowance for Doubtful Accounts - Fraud	-\$1,274	-\$1,274	-\$1,274
129 Accrued Interest Receivable			
120 Total Receivables, Net of Allowances for Doubtful Accounts	\$95,656	\$95,656	\$95,656
131 Investments - Unrestricted			
132 Investments - Restricted			
135 Investments - Restricted for Payment of Current Liability			
142 Prepaid Expenses and Other Assets	\$1,147	\$1,147	\$1,147
143 Inventories			

Housing Authority of the County of Fayette (IN073)

Connersville, IN

Entity Wide Balance Sheet Summary

Submission Type: Audited/A-133

Fiscal Year End: 09/30/2009

	14.871 Housing Choice Vouchers	Subtotal	Total
143.1 Allowance for Obsolete Inventories			
144 Inter Program Due From			
145 Assets Held for Sale			
150 Total Current Assets	\$266,899	\$266,899	\$266,899
161 Land			
162 Buildings			
163 Furniture, Equipment & Machinery - Dwellings			
164 Furniture, Equipment & Machinery - Administration	\$41,591	\$41,591	\$41,591
165 Leasehold Improvements			
166 Accumulated Depreciation	-\$36,437	-\$36,437	-\$36,437
167 Construction in Progress			
168 Infrastructure			
160 Total Capital Assets, Net of Accumulated Depreciation	\$5,154	\$5,154	\$5,154
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	\$5,154	\$5,154	\$5,154
190 Total Assets	\$272,053	\$272,053	\$272,053
311 Bank Overdraft			
312 Accounts Payable <= 90 Days	\$577	\$577	\$577

Housing Authority of the County of Fayette (IN073)

Connersville, IN

Entity Wide Balance Sheet Summary

Submission Type: Audited/A-133

Fiscal Year End: 09/30/2009

	14,871 Housing Choice Vouchers	Subtotal	Total
313 Accounts Payable >90 Days Past Due			
321 Accrued Wage/Payroll Taxes Payable	\$2,680	\$2,680	\$2,680
322 Accrued Compensated Absences - Current Portion			
324 Accrued Contingency Liability			
325 Accrued Interest Payable			
331 Accounts Payable - HUD PHA Programs	\$542,542	\$542,542	\$542,542
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			
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	\$545,799	\$545,799	\$545,799
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			
350 Total Non-Current Liabilities	\$0	\$0	\$0

Housing Authority of the County of Fayette (IN073)
Connersville, IN

Entity Wide Balance Sheet Summary

Submission Type: Audited/A-133

Fiscal Year End: 09/30/2009

	14,871 Housing Choice Vouchers	Subtotal	Total
300 Total Liabilities	\$545,799	\$545,799	\$545,799
508.1 Invested In Capital Assets, Net of Related Debt	\$5,154	\$5,154	\$5,154
509.2 Fund Balance Reserved			
511.2 Unreserved, Designated Fund Balance			
511.1 Restricted Net Assets			
512.1 Unrestricted Net Assets	-\$278,900	-\$278,900	-\$278,900
512.2 Unreserved, Undesignated Fund Balance			
513 Total Equity/Net Assets	-\$273,746	-\$273,746	-\$273,746
600 Total Liabilities and Equity/Net Assets	\$272,053	\$272,053	\$272,053

Housing Authority of the County of Fayette (IN073)

Connersville, IN

Entity Wide Revenue and Expense Summary

Fiscal Year End: 09/30/2009

Submission Type: Audited/A-133

	14.871 Housing Choice Vouchers	Subtotal	Total
70300 Net Tenant Rental Revenue			
70400 Tenant Revenue - Other			
70500 Total Tenant Revenue	\$0	\$0	\$0
70600 HUD PHA Operating Grants	\$1,140,788	\$1,140,788	\$1,140,788
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	\$148	\$148	\$148
71200 Mortgage Interest Income			
71300 Proceeds from Disposition of Assets Held for Sale			
71310 Cost of Sale of Assets			
71400 Fraud Recovery	\$3,468	\$3,468	\$3,468
71500 Other Revenue	\$17,500	\$17,500	\$17,500
71600 Gain or Loss on Sale of Capital Assets			
72000 Investment Income - Restricted	\$940	\$940	\$940
70000 Total Revenue	\$1,162,844	\$1,162,844	\$1,162,844
91100 Administrative Salaries	\$94,022	\$94,022	\$94,022

Housing Authority of the County of Fayette (IN073)

Connersville, IN

Entity Wide Revenue and Expense Summary

Fiscal Year End: 09/30/2009

Submission Type: Audited/A-133

	14.871 Housing Choice Vouchers	Subtotal	Total
91200 Auditing Fees			
91300 Management Fee			
91310 Book-keeping Fee	\$47	\$47	\$47
91400 Advertising and Marketing			
91500 Employee Benefit contributions - Administrative	\$7,115	\$7,115	\$7,115
91600 Office Expenses	\$15,993	\$15,993	\$15,993
91700 Legal Expense	\$1,200	\$1,200	\$1,200
91800 Travel	\$8,395	\$8,395	\$8,395
91810 Allocated Overhead			
91900 Other	\$23,630	\$23,630	\$23,630
91000 Total Operating - Administrative	\$150,402	\$150,402	\$150,402
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	\$0
93100 Water	\$402	\$402	\$402
93200 Electricity	\$1,362	\$1,362	\$1,362
93300 Gas	\$2,068	\$2,068	\$2,068
93400 Fuel			
93500 Labor			
93600 Sewer			
93700 Employee Benefit Contributions - Utilities			

Housing Authority of the County of Fayette (IN073)

Connersville, IN

Entity Wide Revenue and Expense Summary

Submission Type: Audited/A-133

Fiscal Year End: 09/30/2009

	14.871 Housing Choice Vouchers	Subtotal	Total
93800 Other Utilities Expense			
93000 Total Utilities	\$3,832	\$3,832	\$3,832
94100 Ordinary Maintenance and Operations - Labor			
94200 Ordinary Maintenance and Operations - Materials and Other			
94300 Ordinary Maintenance and Operations Contracts	\$7,070	\$7,070	\$7,070
94500 Employee Benefit Contributions - Ordinary Maintenance			
94000 Total Maintenance	\$7,070	\$7,070	\$7,070
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	\$0
96110 Property Insurance			
96120 Liability Insurance	\$1,038	\$1,038	\$1,038
96130 Workmen's Compensation	\$1,800	\$1,800	\$1,800
96140 All Other Insurance			
96100 Total Insurance Premiums	\$2,838	\$2,838	\$2,838
96200 Other General Expenses			
96210 Compensated Absences			
96300 Payments in Lieu of Taxes			
96400 Bad debt - Tenant Rents			
96500 Bad debt - Mortgages			

Housing Authority of the County of Fayette (IN073)

Connersville, IN

Entity Wide Revenue and Expense Summary

Submission Type: Audited/A-133 Fiscal Year End: 09/30/2009

	14.871 Housing Choice Vouchers	Subtotal	Total
96600 Bad debt - Other	\$1,274	\$1,274	\$1,274
96800 Severance Expense			
96000 Total Other General Expenses	\$1,274	\$1,274	\$1,274
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	\$0
96900 Total Operating Expenses	\$165,416	\$165,416	\$165,416
97000 Excess of Operating Revenue over Operating Expenses	\$997,428	\$997,428	\$997,428
97100 Extraordinary Maintenance			
97200 Casualty Losses - Non-capitalized			
97300 Housing Assistance Payments	\$1,224,951	\$1,224,951	\$1,224,951
97350 HAP Portability-In			
97400 Depreciation Expense	\$1,747	\$1,747	\$1,747
97500 Fraud Losses			
97600 Capital Outlays - Governmental Funds			
97700 Debt Principal Payment - Governmental Funds			
97800 Dwelling Units Rent Expense			
90000 Total Expenses	\$1,392,114	\$1,392,114	\$1,392,114
10010 Operating Transfer In			
10020 Operating transfer Out			

Housing Authority of the County of Fayette (IN073)
 Connersville, IN
Entity Wide Revenue and Expense Summary

Submission Type: Audited/A-133 Fiscal Year End: 09/30/2009

	14,871 Housing Choice Vouchers	Subtotal	Total
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			
10100 Total Other financing Sources (Uses)	\$0	\$0	\$0
10000 Excess (Deficiency) of Total Revenue Over (Under) Total	-\$229,270	-\$229,270	-\$229,270
11020 Required Annual Debt Principal Payments	\$0	\$0	\$0
11030 Beginning Equity	-\$44,476	-\$44,476	-\$44,476
11040 Prior Period Adjustments, Equity Transfers and Correction of			
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	-\$273,746	-\$273,746	-\$273,746
11180 Housing Assistance Payments Equity	\$0	\$0	\$0
11190 Unit Months Available	4488	4488	4488

Housing Authority of the County of Fayette (IN073)

Connersville, IN

Entity Wide Revenue and Expense Summary

Fiscal Year End: 09/30/2009

Submission Type: Audited/A-133

	14,871 Housing Choice Vouchers	Subtotal	Total
11210 Number of Unit Months Leased	3625	3625	3625
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

Khan & Co. LLC

**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, 2009, and have issued our report thereon dated June 3, 2010. 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.

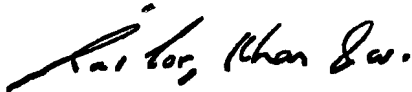
Compliance and Other Matters

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
June 3, 2010

Khan & Co. LLC**Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133**

Board of Commissioners
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, 2009. 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, 2009. 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.

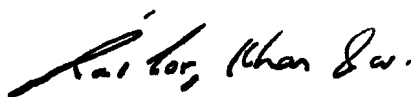
Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the Authority's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed 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
June 3, 2010

FAYETTE COUNTY HOUSING AUTHORITY

Connersville, Indiana

SIGNIFICANT DEFICIENCIES COMMUNICATED IN PRIOR YEARS

September 30, 2009

The prior audit report for the year ended September 30, 2008 contained a total of twelve significant deficiencies:

Financial Statement Findings

1. **Finding:** Excess Deficit
Status: Not implemented - see current finding #1
2. **Finding:** Closing Entries
Status: Not implemented - see current finding #2
3. **Finding:** Accounts Receivable - Other
Status: Not implemented - see current finding #3
4. **Finding:** Internal Control Procedures
Status: Not implemented - see current finding #4
5. **Finding:** Unlocated Information
Status: Implemented
6. **Finding:** Minutes Not Signed
Status: Implemented
7. **Finding:** Financial Statements
Status: Not implemented - see current finding #5

Federal Awards Findings

8. **Finding:** Excess Deficit
Status: Not implemented - see current finding #8
9. **Finding:** Financial Data Submission
Status: Not implemented - see current finding #9
10. **Finding:** Office of Management and Budget (OMB) Compliance
Status: Implemented
11. **Finding:** Donations
Status: Implemented
12. **Finding:** Tenant Files
Status: Implemented

FAYETTE COUNTY HOUSING AUTHORITY

Connersville, Indiana

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

September 30, 2009

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?	Yes

FAYETTE COUNTY HOUSING AUTHORITY

Connersville, Indiana

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

September 30, 2009

SECTION II - FINANCIAL STATEMENT FINDINGS

The current audit report for the year ended September 30, 2009 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 the amount owed to HUD.

Management's Response/Action Plan:

The Authority has started an In-Kind payment process to reduce the excess deficit. The Indiana State Office of HUD will review the value added activities and make the needed adjustment to the deficit. All employees of the Authority and all Board members are responsible for completing these activities and reporting bank to the Executive Director, Amanda Caldwell.

Person Responsible: Amanda Caldwell and FCHA Board
Date of Completion: FCHA has 50 years to complete the repayment

FAYETTE COUNTY HOUSING AUTHORITY

Connersville, Indiana

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

September 30, 2009

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 financial statements.

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:

The Authority is in the process of reviewing our options for fee accountants. Training our current one or looking for another option.

Person Responsible: FCHA Board
Date of Completion: October 1, 2010

FAYETTE COUNTY HOUSING AUTHORITY

Connersville, Indiana

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

September 30, 2009

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:

After working with the current auditor, I believe this has been resolved.

Person Responsible: Sheryl Myers, Fee Accountant
Date of Completion: August 1, 2010

FAYETTE COUNTY HOUSING AUTHORITY

Connersville, Indiana

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

September 30, 2009

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 Executive Director will be getting with another Agency to review the Internal Controls they have in place. The FCHA Board and Director compiled internal controls but they were not specific enough.

Person Responsible: Amanda Caldwell, Executive Director
Date of Completion: October 1, 2010

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

September 30, 2009

SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)

5. 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:

During the monthly board meeting the FCHA and Director review financials and approve them.

Person Responsible: Amanda Caldwell, Executive Director and FCHA Board

Date of Completion: Started with the June, 2010 Board meeting.

FAYETTE COUNTY HOUSING AUTHORITY

Connersville, Indiana

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

September 30, 2009

SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)

6. Bank Reconciliation

Criteria

The Authority is responsible for establishing and maintaining controls in the bank reconciliation and reporting of cash.

Condition:

We noted a material difference existed between the amount reported on the bank reconciliation and the amount shown on the Authority's trial balance. We also noted numerous outstanding checks listed on the bank reconciliation which are more than 90 days outstanding, and represent a material amount to the Housing Authority.

Questioned Costs:

None.

Effect:

The PHA's cash balance was understated requiring an adjustment to cash.

Cause:

The Housing Authority's management failed to properly review their bank reconciliation and accompanying bank statements.

Recommendation:

We recommend the Authority take steps to establish a system of review and control over the PHA's bank reconciliation to ensure accurate reporting. We also recommend the Authority research all outstanding checks.

Management's Response/Action Plan:

This was an oversight by all parties and has since been fixed.

Person Responsible: Amanda Caldwell, Executive Director and FCHA Board
Date of Completion: Started with the June, 2010 Board meeting.

FAYETTE COUNTY HOUSING AUTHORITY

Connersville, Indiana

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

September 30, 2009

SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)

7. Depreciation Schedule Detail and Capitalization Policy:

Criteria:

The Housing Authority must review their depreciation schedule to ensure all capitalized assets are shown on the schedule, and any assets no longer in service are written off. In addition the Housing Authority should capitalize those assets which meet the criteria of the capitalization policy.

Condition:

During our audit we noted assets that had been capitalized, but were not shown on the depreciation schedule, therefore depreciation on the assets was not recorded and depreciation had to be adjusted. Also we noted an asset purchased in fiscal year ending September 30, 2009 which meets the capitalization criteria and was not originally capitalized. In addition we noted assets which were no longer in service shown on the schedule.

Questioned Costs:

None.

Effect:

The Housing Authority did not follow its capitalization policy and its depreciation schedule is incomplete.

Cause:

The Housing Authority did not devote adequate attention towards review of its depreciation schedule.

Recommendation:

We recommend the Housing Authority place greater emphasis on following its capitalization policy. We also recommend the Authority ensure all capitalized items are listed on the depreciation schedule and depreciated accordingly and write off any assets no longer in service.

Management's Response/Action Plan:

The depreciation schedule will be reviewed by Director and FCHA Board.

Person Responsible: Amanda Caldwell, Executive Director and FCHA Board

Date of Completion: October 1, 2010

FAYETTE COUNTY HOUSING AUTHORITY

Connersville, Indiana

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

September 30, 2009

SECTION III - FEDERAL AWARD FINDINGS

The current audit report for the year ended September 30, 2009 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 the amount owed to HUD.

FAYETTE COUNTY HOUSING AUTHORITY

Connersville, Indiana

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

September 30, 2009

SECTION III - FEDERAL AWARD FINDINGS (CONTINUED)

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

Management's Response/Action Plan:

The Authority has started an In-Kind payment process to reduce the excess deficit. The Indiana State Office of HUD will review the value added activities and make the needed adjustment to the deficit. All employees of the Authority and all Board members are responsible for completing these activities and reporting back to the Executive Director, Amanda Caldwell.

Person Responsible: Amanda Caldwell and FCHA Board
Date of Completion: FCHA has 50 years to complete the repayment

FAYETTE COUNTY HOUSING AUTHORITY

Connersville, Indiana

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

September 30, 2009

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. 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 2009 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 Meyers
Date of Completion: Will be submitted by November 20, 2010.