

AUDIT REPORT
AND
SUPPLEMENTAL DATA FOR

HOUSING AUTHORITY OF THE CITY OF BROKEN BOW
BROKEN BOW, OKLAHOMA

JUNE 30, 2011

KERSHAW CPA & ASSOCIATES, PC

5300 WEST OKMULGEE AVENUE
MUSKOGEE, OKLAHOMA 74401
PHONE (918) 684-1040
FAX (918) 684-1041

WEB: KERSHAWCPA.COM
E-MAIL: REK@KERSHAWCPA.COM

607 NORTH 1ST STREET
PONCA CITY, OKLAHOMA 74601
PHONE (580) 762-1040
FAX (580) 762-1047

HOUSING AUTHORITY OF THE CITY OF BROKEN BOW
BROKEN BOW, OKLAHOMA
JUNE 30, 2011

TABLE OF CONTENTS

	<u>PAGE</u>
INTRODUCTORY SECTION:	
BOARD OF DIRECTORS	3
FINANCIAL SECTION:	
INDEPENDENT AUDITOR'S REPORT	4-5
REQUIRED SUPPLEMENTARY INFORMATION: MANAGEMENT'S DISCUSSION AND ANALYSIS	6-13
BASIC FINANCIAL STATEMENTS:	
EXHIBIT A STATEMENT OF NET ASSETS	14
EXHIBIT B STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN TOTAL NET ASSETS	15
EXHIBIT C STATEMENT OF CASH FLOWS	16
NOTES TO THE FINANCIAL STATEMENTS	17-22
REQUIRED SUPPLEMENTARY INFORMATION:	
SCHEDULE 1 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	23
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	23
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	24-25
REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133	26-27
OTHER SUPPLEMENTARY INFORMATION:	
SUMMARY STATUS OF PRIOR YEAR AUDIT FINDINGS	28
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	29
FINANCIAL DATA SCHEDULE	30-34

HOUSING AUTHORITY OF THE CITY OF BROKEN BOW
BROKEN BOW, OKLAHOMA
JUNE 30, 2011

BOARD OF DIRECTORS

<u>NAME</u>	<u>POSITION</u>	<u>TERM EXPIRES</u>
Howard Minor	Chairman	7-5-2015
Midge Moore	Commissioner	7-5-2012
Scott Brumley	Commissioner	7-5-2012
Keith Sanders	Commissioner	7-5-2012
Clarisse Johnson	Commissioner	7-5-2014

Unaudited

KERSHAW CPA & ASSOCIATES, PC

5300 WEST OKMULGEE AVENUE
MUSKOGEE, OKLAHOMA 74401
PHONE (918) 684-1040
FAX (918) 684-1041

WEB: KERSHAWCPA.COM
E-MAIL: REK@KERSHAWCPA.COM

607 NORTH 1ST STREET
PONCA CITY, OKLAHOMA 74601
PHONE (580) 762-1040
FAX (580) 762-1047

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Housing Authority of the City of Broken Bow
Broken Bow, Oklahoma

I have audited the accompanying financial statements of the Housing Authority of the City of Broken Bow, as of and for the fiscal year ended June 30, 2011, as listed in the table of contents. These financial statements are the responsibility of the Housing Authority of the City of Broken Bow's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Housing Authority of the City of Broken Bow, Broken Bow, Oklahoma, as of June 30, 2011, and the changes in financial position thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, I have also issued my report dated January 24, 2012, on my consideration of the Housing Authority of the City of Broken Bow's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of 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 compliance with Government Auditing Standards and should be considered in assessing the results of my audit.

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

My audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented

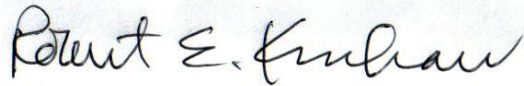
KERSHAW CPA & ASSOCIATES, PC

5300 WEST OKMULGEE AVENUE
MUSKOGEE, OKLAHOMA 74401
PHONE (918) 684-1040
FAX (918) 684-1041

WEB: KERSHAWCPA.COM
E-MAIL: REK@KERSHAWCPA.COM

607 NORTH 1ST STREET
PONCA CITY, OKLAHOMA 74601
PHONE (580) 762-1040
FAX (580) 762-1047

for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and is not a required part of the financial statements of the Housing Authority of the City of Broken Bow. The accompanying financial information listed as supplemental data in the table of contents, including the Financial Data Schedule, is presented for purposes of additional analysis and is not a required part of the financial statements of Housing Authority of the City of Broken Bow. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in my opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.



Robert E. Kershaw
Certified Public Accountant

January 24, 2012

Housing Authority of the City of Broken Bow
Management's Discussion and Analysis (MD&A)
June 30, 2011

Management's Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their *Statement No. 34 Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* issued June 1999.

Our discussion and analysis of the financial performance for the Housing Authority provides an overview of the financial activities for the fiscal year ended June 30, 2011. Please read the MD&A in conjunction with the Housing Authority's financial statements.

In 2011, the Authority's assets and liabilities were impacted by new construction and rehabilitation projects (related to the state/local tax credit program) involving 24 existing duplex units and several new construction duplexes. Revenues were impacted by the sale of housing units held by the Rents Supplement program which was phased out during the year.

FINANCIAL HIGHLIGHTS

Assets:

As of June 30, 2011, total assets were \$9,270,112 as compared to \$7,638,277, as of June 30, 2010, an increase of \$1,631,835. Current assets increased \$1,920,894, fixed assets decreased \$151,552, and non-current assets decreased \$137,507.

Liabilities:

Total liabilities increased \$1,608,599 from \$1,556,535 in 2010 to \$3,165,134 in 2011. Current liabilities increased \$281,907 and non-current liabilities increased \$1,326,692.

Revenues:

In 2011, total revenue increased \$375,634, from \$1,882,996 in 2010 to \$2,258,360, due mainly to gains on the sale of fixed assets and increases in other income.

Expenses:

Total expenses decreased \$2,352 due mainly to decreases in routine maintenance and general expenses.

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 balance sheet. The focus of enterprise funds is on income measurement which, together with the maintenance of equity, is an important financial indicator.

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 annual report also contains the Financial Data Schedule (FDS) as referenced in the section of Supplemental Information Required by HUD. The financial statements are presented as fund level financial statements because the Housing Authority only has proprietary funds.

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

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

The Statement of Cash Flows reports cash receipts, cash payments, and net changes in cash resulting from operating, 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.

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

The section Supplemental Information Required by HUD contains the Financial Data Schedule (FDS). HUD has established Uniform Financial Reporting Standards that require the Housing Authority to submit financial information electronically to HUD using the FDS format.

FINANCIAL ANALYSIS

One of the most important questions asked about the Authority's finances: "Is the Housing Authority as a whole better off, or worse off, as a result of the achievements of the reported fiscal year?" The information presented in this Management's Discussion and Analysis is to assist the reader in answering this question.

The Housing Authority's basic financial statements are the Statement of Net Assets and the Statement of Changes in Net Assets. The Statement of Net Assets provides a summary of assets and liabilities as of the close of business on June 30, 2011. The Statement of Changes in Net Assets summarizes the revenues and sources of those revenues generated and the expenses incurred in operations for the year ended June 30, 2011.

Housing Authority of the City of Broken Bow, Oklahoma
Management's Discussion and Analysis (MD & A)
June 30, 2011

The Broken Bow Housing Authority has a low rent program that provides housing for qualified tenants, a capital fund program that the Housing Authority uses for improvements to its low rent property, a Section 8 Housing Choice Voucher program that provides rental assistance to qualified individuals living in private housing, and state/local tax credit program. The following analysis focuses on the net assets and the change in net assets as a whole and not the individual programs.

Net Assets

June 30,

	<u>2011</u>	<u>2010</u>	<u>Change</u>	<u>% of Change</u>
Current Assets	\$4,045,440	\$2,124,546	\$1,920,894	90.41%
Fixed Assets, Net	\$3,987,172	\$4,138,724	(\$151,552)	-3.66%
Non-Current Assets	\$1,237,500	\$1,375,007	(\$137,507)	-10.00%
Total Assets	\$9,270,112	\$7,638,277	\$1,631,835	21.36%
Current Liabilities	\$480,327	\$198,420	\$281,907	142.08%
Non-Current Liabilities	\$2,684,807	\$1,358,115	\$1,326,692	97.69%
Total Liabilities	\$3,165,134	\$1,556,535	\$1,608,599	103.34%
Net Assets:				
Invested in Fixed Assets	\$3,987,172	\$4,058,311	(\$71,139)	-1.75%
Restricted Assets	\$277,781	\$219,652	\$58,129	26.46%
Unrestricted Assets	\$1,840,025	\$1,803,779	\$36,246	2.01%
Total Net Assets	\$6,104,978	\$6,081,742	\$23,236	0.38%

Fixed Assets at Year-End

(Net of Accumulated Depreciation)

June 30,

	<u>2011</u>	<u>2010</u>	<u>Change</u>	<u>% of Change</u>
Land	\$225,269	\$235,269	(\$10,000)	-4.25%
Infrastructure	\$13,329	\$13,329	\$0	0.00%
Buildings	\$7,562,602	\$7,875,828	(\$313,226)	-3.98%
Furniture & Equipment - Dwell	\$177,758	\$95,992	\$81,766	85.18%
Furniture & Equipment - Admin	\$316,651	\$407,686	(\$91,035)	-22.33%

Unaudited

Housing Authority of the City of Broken Bow, Oklahoma
Management's Discussion and Analysis (MD & A)
June 30, 2011

Leasehold Improvements	\$1,293,927	\$1,277,632	\$16,295	1.28%
Construction in Progress	\$373,013	\$350,904	\$22,109	6.30%
Subtotal	\$9,962,549	\$10,256,640	(\$294,091)	-2.87%
Accumulated Depreciation	(\$5,975,377)	(\$6,117,916)	\$142,539	-2.33%
Net Fixed Assets	\$3,987,172	\$4,138,724	(\$151,552)	-3.66%

Assets:

Current assets are resources that are reasonably expected, based on the plans and intentions of the Authority, to be converted into cash or its equivalent during the current operating cycle.

As of June 30, 2011, current assets were \$4,045,440 as compared to \$2,124,546, as of June 30, 2010, an increase of \$1,920,894. Current assets' increase was due mainly to positive cash flow (revenue exceeding expenses, net of depreciation expense). The change in current assets consisted of increases in accounts receivables of \$1,444,873, cash/cash equivalents of \$571,727, and assets held for sale (related to the state/local tax credit program) of \$175,882 with decreases in investments of \$259,147, inventories of \$6,324, and prepaid expenses of \$6,117. Accounts receivables' increase was due primarily to work-in-progress receivables which were related to the tax credit program.

Fixed assets are long-term tangible assets obtained as a result of past transactions, events, or circumstances and include buildings, equipment, and improvements to buildings and land.

Fixed assets decreased \$151,552 due mainly to the disposal of assets associated with the Rent Supplement program.

During the year, the Authority sold property which resulted in decreases in land of \$10,000 and net decreases in buildings of \$313,226. Dwelling equipment's increase and administrative equipment's decrease was due mainly to asset transfers. Construction in progress increased \$22,109 and \$16,295 was capitalized into leasehold (site) improvements.

Non-current assets decreased \$137,507 from \$1,375,007 in 2010 to \$1,237,500 in 2011. Non-current assets consisted of mortgage receivables related to the state/local tax credit program.

The Housing Authority had \$121,958 in Capital Grant revenues to draw down and spend in the future.

Liabilities:

Current liabilities are current debts that are owed by the Authority and due within 12 months. It is expected that current liabilities will consume current financial resources to satisfy debt.

As of June 30, 2011, current liabilities were \$480,327 as compared to \$198,420, as of June 30, 2010, an increase of \$281,907. The change in current liabilities consisted of increases in other current liabilities (mainly payables related to the state/local tax credit program) of \$248,410,

Housing Authority of the City of Broken Bow, Oklahoma

Management's Discussion and Analysis (MD & A)

June 30, 2011

payment in lieu of taxes (PILOT) of \$20,808, vendor payables (operating payables) of \$14,651, deferred revenues of \$8,237, accrued interest payables of \$2,845, payroll taxes payables of \$2,098, and accrued compensated absences of \$400 with decreases in the current portion of long-term debt of \$12,357 and tenant security deposits of \$3,185.

Non-current liabilities are debts that are owed but not due within 12 months. It is not expected that these liabilities will consume the Authority's current financial resources to satisfy the debt.

Non-current liabilities increased \$1,326,692 from \$1,358,115 in 2010 to \$2,684,807 in 2011. Long-term debt increased \$1,321,988, non-current accrued compensated absences increased \$3,590 and other non-current liabilities (Section 8 FSS escrow accounts) increased \$1,114. Non-current accrued compensated absences are liabilities for wages such as vacation and sick wages earned but not yet taken.

Net Assets:

As of June 30, 2011, the Housing Authority had \$6,104,978 invested in total net assets. Of this amount, \$1,840,025 of unrestricted assets may be used to meet the Authority's future ongoing expenses and obligations. Restricted assets of \$277,781 were available for Section 8 Housing Assistance Payments (HAP). The remainder of \$3,987,172 represents the net fixed assets of land, buildings, furnishings, leasehold improvements, equipment, and construction in progress.

Debt:

Broken Bow Housing Authority's long-term debt consisted of \$2,627,544 in operating borrowings (loans and notes) related to the state/local tax credit program.

Expendable Fund Balance

	<u>2011</u>	<u>2010</u>	<u>Change</u>	<u>% of Change</u>
Expendable Fund Balance	<u>\$2,216,603</u>	<u>\$774,330</u>	<u>\$1,442,273</u>	<u>186.26%</u>
Number of Months Expendable Fund	<u>24.82</u>	<u>8.51</u>	<u>16.31</u>	<u>191.74%</u>

Expendable Fund Balance:

The expendable fund balance is a measure of the Authority's liquidity. If all current assets, less materials inventory and restricted assets, are converted to cash and the Authority pays all current liabilities, the amount of cash remaining is the expendable fund balance. Broken Bow Housing Authority's expendable fund balance increased \$1,442,273 due mainly to increases in current assets (figures based on 2011 unaudited and 2010 audited FDS information).

Number of Months Expendable Fund Balance:

The number of months in expendable funds is a measure of how many months the Authority could operate under current conditions without any additional income. The number of months in expendable funds is calculated by dividing the total expenses for the year, less depreciation, by twelve (12) to arrive at the average monthly expenses. The expendable fund balance is divided by the average monthly expense to arrive at the number of months expendable fund balance. The Authority's number of months expendable fund balance increased 16.31 months due to increases in the expendable fund balance (figures based on 2011 unaudited and 2010 audited FDS information).

Changes in Net Assets

For the Year Ended June 30

	<u>2011</u>	<u>2010</u>	<u>Change</u>	<u>% of Change</u>
Revenue:				
Tenant Revenue	\$413,849	\$425,582	(\$11,733)	-2.76%
Federal Grants & Subsidy	\$1,416,004	\$1,443,178	(\$27,174)	-1.88%
Investment Income	\$6,982	\$8,066	(\$1,084)	-13.44%
Other Income	\$184,965	\$5,225	\$179,740	3440.00%
Gain/Loss on Sale of Fixed Assets	\$236,830	\$945	\$235,885	24961.38%
Total Revenue	\$2,258,630	\$1,882,996	\$375,634	19.95%
Expenses:				
Administrative	\$465,960	\$387,172	\$78,788	20.35%
Tenant Services	\$5,899	\$8,517	(\$2,618)	-30.74%
Utilities	\$69,024	\$73,644	(\$4,620)	-6.27%
Routine Maintenance	\$407,539	\$446,640	(\$39,101)	-8.75%
General Expenses	\$119,039	\$154,348	(\$35,309)	-22.88%
Interest Expenses	\$4,112	\$1,714	\$2,398	139.91%
Non-Routine Expenses	\$0	\$14,572	(\$14,572)	-100.00%
Housing Assistance Payments	\$640,019	\$607,412	\$32,607	5.37%
Casualty Losses	\$0	\$5,494	(\$5,494)	-100.00%
Depreciation	\$231,000	\$245,431	(\$14,431)	-5.88%
Total Operating Expenses	\$1,942,592	\$1,944,944	(\$2,352)	-0.12%
Increase (Decrease) in Net Assets	\$316,038	(\$61,948)	\$377,986	-610.17%

Revenues:

The Authority has two basic sources of revenues, rents and other tenant charges plus funds received from the Department of Housing and Urban Development (HUD) in the form of operating subsidies and capital improvement grants.

Tenant revenue decreased \$11,733 due to decreases in tenant rent revenue of \$13,410 with increases in other tenant revenue of \$1,677.

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. In 2011, Broken Bow Housing Authority's operating grant, Housing Assistance Payments, and Administrative Fees increased \$45,505 while Capital Grant revenue decreased \$72,679 that resulted in a net decrease of \$27,174.

Investment income decreased \$1,084 and other income increased \$179,740 (due mainly to reimbursed expenses related to the state/local tax credit program).

In 2011, the Authority realized \$236,830 in gains on the sale of housing units associated with the Rent Supplements program.

Expenses:

Administrative expenses increased \$78,788 from \$387,172 in 2010 to \$465,960 in 2011. Administrative operating expenses increased \$41,722 due mainly to increases in other administrative operating expenses (administrative contract costs, fee/dues, training, and miscellaneous sundry expenses). Administrative salaries increased \$13,929 and employee benefits increased \$23,777. Audit fees decreased \$640.

Tenant services expenses decreased \$2,618 primarily because more services were provided for residents in 2010 than in 2011.

Utilities decreased \$4,620 due to decreases in water of \$3,360, natural gas of \$1,477, and sewer of \$1,016 with increases in electricity of \$1,233.

Routine maintenance expenses decreased \$39,101 due to decreases in labor of \$60,479, employee benefits of \$5,000, and maintenance contract costs of \$11,308 with increases in materials of \$37,686.

General expenses decreased \$35,309 from \$154,348 in 2010 to \$119,039 in 2011. Other general expenses decreased \$35,236 due to decreases in miscellaneous expenses related to the state/local tax credit program. Insurance expenses decreased \$21,121 due to decreases in workers compensation insurance. Tenant bad-debt expenses increased \$19,662 (because more rents were deemed to be uncollectible) and payment in lieu of taxes increased \$1,386.

Interest expenses increased \$2,398 from \$1,714 in 2010 to \$4,112 in 2011.

Non-routine expenses decreased \$14,572 because the Authority did not experience any unexpected or emergency repairs during the year.

Housing Authority of the City of Broken Bow, Oklahoma

Management's Discussion and Analysis (MD & A)

June 30, 2011

Housing Assistance Payments (HAP) expenses increased \$32,607 due mainly to increases in costs per unit leased.

In 2010, the Authority reported \$5,494 in casualty losses as compared to no casualty losses, in 2011.

Depreciation expenses decreased \$14,431 from \$245,431 in 2010 to \$231,000 in 2011. Changes in depreciation expense will be dependent upon additions, disposals, and assets that have been fully depreciated.

ECONOMIC FACTORS

The Housing Authority is primarily dependent upon HUD for the funding of operations. The Housing Authority is affected by both federal budgetary decisions and by local economic conditions. The funding of programs could be significantly affected by the 2010 and 2011 federal budget.

CONTACTING THE HOUSING AUTHORITY'S FINANCIAL MANAGEMENT

Our financial report is designed to provide our citizens, taxpayers, and creditors with a general overview of the Housing Authority's finances and to show accountability for the money it receives. If you have questions about this report or wish to request additional financial information contact Frank Meddock, Executive Director, Housing Authority of the City of Broken Bow, 710 East Third, Broken Bow, OK, 74728, telephone number (580) 584-6939.

**HOUSING AUTHORITY OF THE CITY OF BROKEN BOW
BROKEN BOW, OKLAHOMA
STATEMENT OF NET ASSETS
JUNE 30, 2011**

	2011	Memo Only 2010
<u>ASSETS</u>		
<u>Current Assets:</u>		
Cash	\$ 806,617	\$ 296,532
Cash - Tenant Security Deposits	20,138	23,323
Cash - Other Restricted	181,389	116,562
Accounts Receivable, Net	1,597,333	152,460
Investments, Unrestricted	227,542	436,661
Investments, Restricted	18,126	68,154
Inventory, Net	7,705	14,029
Prepaid Expenses	45,300	51,417
Total Current Assets	2,904,150	1,159,138
<u>Noncurrent Assets:</u>		
Accounts Receivable - Long Term	1,237,500	1,375,007
Property Held for Resale	1,141,290	965,408
Net Capital Assets	3,987,172	4,138,724
Total Noncurrent Assets	6,365,962	6,479,139
TOTAL ASSETS	\$ 9,270,112	\$ 7,638,277
<u>LIABILITIES & NET ASSETS</u>		
<u>Current Liabilities:</u>		
Accounts Payable	\$ 28,602	\$ 13,951
Accrued Expenses	362,306	87,745
Tenant Security Deposits	20,138	23,323
Prepaid Tenant Rents	69,281	61,044
Current Portion of Long Term Debt	-	12,357
Total Current Liabilities	480,327	198,420
<u>Noncurrent Liabilities:</u>		
Mortgages and Notes Payable	2,684,807	1,358,115
Total Liabilities	3,165,134	1,556,535
<u>NET ASSETS</u>		
Invested in capital assets, net of related debt	3,987,172	4,058,311
Restricted for debt service	237,104	219,652
Unrestricted	1,880,702	1,803,779
TOTAL NET ASSETS	6,104,978	6,081,742
TOTAL LIABILITIES AND NET ASSETS	\$ 9,270,112	\$ 7,638,277

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

EXHIBIT B

**HOUSING AUTHORITY OF THE CITY OF BROKEN BOW
BROKEN BOW, OKLAHOMA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN TOTAL NET ASSETS
FOR THE TWELVE MONTHS ENDED JUNE 30, 2011**

	<u>2011</u>	<u>Memo Only 2010</u>
<u>OPERATING REVENUE:</u>		
Dwelling Rental	\$ 413,849	\$ 425,582
HUD Operating Subsidies and Vouchers	1,250,949	1,205,444
Capital Grants	165,055	237,734
Other Income	421,795	6,170
Total Operating Revenue	<u>2,251,648</u>	<u>1,874,930</u>
<u>OPERATING EXPENSES:</u>		
Tenant Assistance Payments	640,019	607,412
Tenant Services	5,899	8,517
Administration	465,960	387,172
Utilities	69,024	73,644
Maintenance	407,539	446,640
Protective Services	-	-
Insurance Premiums	55,608	76,729
Other General Expenses	63,431	97,685
Depreciation	231,000	245,431
Total Operating Expenses	<u>1,938,480</u>	<u>1,943,230</u>
NET OPERATING INCOME (LOSS)	313,168	(68,300)
<u>NON-OPERATING REVENUES (EXPENSES):</u>		
Interest Income	6,982	8,066
Interest Expense	(4,112)	(1,714)
NET NON-OPERATING REVENUES (EXPENSES)	<u>2,870</u>	<u>6,352</u>
CHANGE IN NET ASSETS	316,038	(61,948)
TOTAL NET ASSETS, BEGINNING OF YEAR	6,081,742	6,135,305
PRIOR YEAR ADJUSTMENTS	<u>(292,802)</u>	<u>8,385</u>
TOTAL NET ASSETS, END OF YEAR	<u>\$ 6,104,978</u>	<u>\$ 6,081,742</u>

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

EXHIBIT C

**HOUSING AUTHORITY OF THE CITY OF BROKEN BOW
BROKEN BOW, OKLAHOMA
STATEMENT OF CASH FLOWS
FOR THE TWELVE MONTHS ENDED JUNE 30, 2011**

	<u>2011</u>	<u>Memo Only 2010</u>
<u>Net Cash Flows from Operating Activities:</u>		
Cash From Dwelling Rentals	\$ 413,849	\$ 425,582
Cash From HUD and Other Sources	535,485	1,548,302
Cash Payments to Employees	(320,988)	(367,538)
Cash Payments for Goods and Services	<u>(1,260,721)</u>	<u>(1,407,186)</u>
Net Cash Provided (Used) by Operating Activities	<u>(632,375)</u>	<u>199,160</u>
<u>Net Cash Flows from Capital & Related Financing Activities:</u>		
Additions to Capital Assets	(165,055)	(251,786)
Proceeds from sale of Capital Assets	85,608	-
Changes in Long-Term Debt	1,314,335	3,521
Interest Paid On Long-Term Debt	<u>(4,112)</u>	<u>(1,714)</u>
Net Cash Provided (Used) by Capital & Related Financing Activities	<u>1,230,776</u>	<u>(249,979)</u>
<u>Net Cash Flows from Investing Activities:</u>		
Interest Income	<u>6,982</u>	<u>8,066</u>
Net Cash Provided (Used) by Investing Activities	<u>6,982</u>	<u>8,066</u>
Net Increase (Decrease) in Cash and Cash Equivalents	605,383	(42,753)
Cash & Cash Equivalents, Beginning of Year	941,232	975,600
Cash & Cash Equivalents, Prior Year Adjustment	<u>(292,802)</u>	<u>8,385</u>
Cash & Cash Equivalents, End of Year	<u>\$ 1,253,812</u>	<u>\$ 941,232</u>
<u>Reconciliation of operating income (loss) to net cash provided operating activities:</u>		
Net Operating Income (Loss)	\$ 313,168	\$ (68,300)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities		
Depreciation	231,000	245,431
(Increase)Decrease in Short Term Accounts Receivable	(1,444,873)	92,856
(Increase)Decrease in Long Term Accounts Receivable	137,507	(50,512)
(Increase)Decrease in Prepaid Expenses	6,117	(25,490)
(Increase)Decrease in Inventory	6,324	(8,556)
(Increase)Decrease in Property Held for Sale	(175,882)	(51,872)
Increase(Decrease) in Accounts Payable	14,651	(28,984)
Increase(Decrease) in Accrued Expenses	274,561	37,977
Increase(Decrease) in Tenant Security Deposits	(3,185)	(2,020)
Increase(Decrease) in Prepaid Rents	<u>8,237</u>	<u>58,630</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ (632,375)</u>	<u>\$ 199,160</u>

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

HOUSING AUTHORITY OF THE CITY OF BROKEN BOW
BROKEN BOW, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Entity - The Housing Authority of the City of Broken Bow, Oklahoma was organized for the primary purpose of providing low-income housing to the public.

The financial statements of the Housing Authority are prepared in accordance with generally accepted accounting principles (GAAP). The Housing Authority's reporting entity applies to all relevant *Governmental Accounting Standards Board (GASB)* pronouncements. Proprietary funds and similar component units apply to *Financial Accounting Standards Board (FASB)* pronouncements and *Accounting Principles Board (APB)* opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict *GASB* pronouncements, in which case, *GASB* prevails.

Principles Used to Determine Scope of Entity:

The reporting entity of the Housing Authority includes the governing board and all related organizations for which the Housing Authority exercises oversight responsibility.

The criteria used to determine whether the Housing Authority exercises oversight responsibility includes: designation of management, selection of board of directors, financial interdependency, ability to influence financial matters, and scope of public service.

The Housing Authority has determined that no other outside agency meets the above criteria and, therefore, no other agency has been listed as a component unit of the Housing Authority's financial statements.

Basis of Presentation - The financial statements of the Housing Authority have been prepared using the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned and expenses are recorded when the liability is incurred. The financial statements of this audit report were prepared using the following fund types:

Proprietary Fund Types:

Enterprise Funds - Enterprise funds are used to account for the acquisition, operation, and maintenance of the Housing Authority, which are financed primarily by tenant rents. The Housing Authority used an enterprise fund to account for all of its operations.

Property Held for Resale - Property held for resale is stated at cost.

Risk Management - Significant losses are covered by commercial insurance for all significant Authority operations.

Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

HOUSING AUTHORITY OF THE CITY OF BROKEN BOW
BROKEN BOW, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 2 - CASH

The Housing Authority's cash balance and investments consist of demand deposits and time deposits maintained at financial institutions insured by the Federal Deposit Insurance Corporation (FDIC). The Housing Authority may invest funds in accordance with HUD guidelines as referenced by the Financial Management Handbook.

For purposes of the Statement of Cash Flows, the Housing Authority considers all highly liquid investments to be cash equivalents. All certificates of deposit, other time deposits and investments are considered cash equivalents.

Custodial Credit Risk

At June 30, 2011, the Authority held deposits of approximately \$1,253,812 at financial institutions. The Authority's cash deposits, including interest-bearing certificates of deposit are covered by Federal Depository Insurance (FDIC) or collateralized with securities held by the Authority or by its agent in the Authority's name.

Investment Interest Rate Risk

The Authority does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Investment Credit Risk

The Authority has no policy that limits its investment choices other than the limitation of state law as follows:

- a. Direct obligations of the U.S. Government, its agencies and instrumentalities to which the full faith and credit of the U.S. Government is pledged, or obligations to the payment of which the full faith and credit of the State is pledged.
- b. Certificates of deposits or savings accounts that are either insured or secured with acceptable collateral with in-state financial institutions, and fully insured certificates of deposit or savings accounts in out-of-state financial institutions.
- c. With certain limitation, negotiable certificates of deposit, prime bankers' acceptances, prime commercial paper and repurchase agreements with certain limitations.
- d. County, municipal or school district tax supported debt obligations, bond or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality or school district.
- e. Notes or bonds secured by mortgage or trust deed insured by the Federal Housing Administrator and debentures issued by the Federal Housing Administrator, and in obligations of the National Mortgage Association.
- f. Money market funds regulated by the SEC and in which investments consist of the investments mentioned in the previous paragraphs (a.-d.).

NOTE 3 - ACCOUNTS RECEIVABLE

All receivables from tenants are for rentals and service charges. These receivables are shown net of an allowance for uncollectible amounts. This amount is estimated based upon historical information. The allowance is \$27,000 at June 30, 2011.

HOUSING AUTHORITY OF THE CITY OF BROKEN BOW
 BROKEN BOW, OKLAHOMA
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2011

NOTE 4 - CAPITAL ASSETS

Capital assets are valued at cost when purchased and at fair market value when donated. The costs of the assets are depreciated over the estimated useful life of the asset. All items with an estimated useful life of one year or more are capitalized and depreciated using the straight-line method. The Authority does not have a set capitalization threshold, but rather determines capitalization on a case-by-case basis. Depreciation expense for the fiscal year ended June 30, 2011 is \$231,000.

Estimated useful lives of the assets are as follows:

Buildings	40 Years
Site Improvements	20 Years
Equipment	3 to 10 Years

A summary of the capital assets is as follows:

	Balance at June 30, 2011	Balance at June 30, 2010	Increase (Decrease)
Land	\$ 225,269	\$ 235,269	\$ (10,000)
Infrastructure	13,329	13,329	-
Buildings	7,562,602	7,875,828	(313,226)
Furniture, Equipment & Machinery - Dwell	177,758	95,992	81,766
Furniture, Equipment & Machinery - Admin	316,651	407,686	(91,035)
Leasehold Improvements	1,293,927	1,277,632	16,295
Subtotal	9,589,536	9,905,736	(316,200)
Less: Accum. Depr.	(5,975,377)	(6,117,916)	142,539
Net Capital Assets	3,614,159	3,787,820	(173,661)
 Construction in Progress	 373,013	 350,904	 22,109
Net Capital Assets	\$ 3,987,172	\$ 4,138,724	\$ (151,552)

NOTE 5 - NOTES AND MORTGAGES PAYABLE

Compensated Absences

As of June 30, 2011, the Authority had \$43,486 of compensated absences. \$39,137.00 of this liability was classified as long term.

Note payable to U.S. Department of Agriculture

The note carries a stated interest rate of 9% with monthly payments of \$914 and will mature in 2017. Collateral for this obligation is real estate. This is a subsidized loan from the Department of Agriculture; the subsidized rate makes the effective interest rate of the obligation 1%. During the fiscal year ending June 30, 2011, the property and related debt were purchased by Smith Farm Estates, LLC.

HOUSING AUTHORITY OF THE CITY OF BROKEN BOW
 BROKEN BOW, OKLAHOMA
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2011

	Balance @ 7-1-10	Additions	Retirements	Balance @ 6-30-11
Note payable - USDA	\$ 65,760	\$ -	\$ (65,760)	\$ -
	65,760	-	(65,760)	-

Principal and interest required for this obligation till maturity is as follows.

Year Ending June 30,	Principal	Interest	Total
2012	\$ -	\$ -	\$ -
2013	-	-	-
2014	-	-	-
2015	-	-	-
2016	-	-	-
2017-2021	-	-	-
Total	\$ -	\$ -	\$ -

Note payable to U.S. Department of Agriculture

The note carries a stated interest rate of 8% with monthly payments of \$178 and will mature in 2017. Collateral for this obligation is real estate. This is a subsidized loan from the Department of Agriculture; the subsidized rate makes the effective interest rate of the obligation 1%. During the fiscal year ending June 30, 2011, the property and related debt were purchased by Smith Farm Estates, LLC.

	Balance @ 7-1-10	Additions	Retirements	Balance @ 6-30-11
Note payable - USDA	\$ 14,653	\$ -	\$ (14,653)	\$ -
	14,653	-	(14,653)	-

Principal and interest required for this obligation till maturity is as follows.

Year Ending June 30,	Principal	Interest	Total
2012	\$ -	\$ -	\$ -
2013	-	-	-
2014	-	-	-
2015	-	-	-
2016	-	-	-
2017-2021	-	-	-
Total	\$ -	\$ -	\$ -

NOTE 6- ECONOMIC DEPENDENCY

The 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. If significant budget cuts are made at the federal level, the amount of the funds the Housing Authority receives could be reduced significantly, and have an adverse impact on its

HOUSING AUTHORITY OF THE CITY OF BROKEN BOW
BROKEN BOW, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

operations. Management is not aware of any actions that will adversely affect the amount of funds the Housing Authority will receive in the next fiscal year.

NOTE 7 - BUDGETARY PROCESS

Pursuant to HUD Guidelines, the Housing Authority adopts a budget annually. The director prepares the budget with consultation by the Housing Authority's fee accountant. The Board of Directors then approves it. Revisions to the budget are made as needed.

NOTE 8 - CONTINGENT LIABILITIES

During the year ending June 30, 2005, the Authority received federal monies passed through the agency of the State of Oklahoma, the Oklahoma Housing Financing Authority. The Authority also received funds from the Federal Home Loan Bank Board. These funds were to be used to construct two low income housing projects. The funds need not be repaid as long as the facilities that are being constructed remain as low income housing. The Authority passed the funds through to two for-profit entities. The for-profit entities are building the facilities using the monies from the Authority and also using tax credits that were awarded the Authority and also passed through to the for-profit entities. The two facilities are owned by the for-profit entities. The tax credits were awarded to the Authority with the provision that they be used to help construct low income housing. The federal funds passed through to the for-profit entities are loans from the Authority to the for-profit entities. If the two facilities are converted to non low income housing the monies are required to be repaid to the Authority from the for-profit entities immediately and the Authority is required to repay the monies to the various granting agencies immediately. These funds are not required to be paid back for 15 years, as long as the facilities remain low income housing. The federal monies totaled \$716,940. Additional federal money in the amount of \$520,560 was distributed during the year ending June 30, 2006. These funds are presented as revenues in the statement of revenues over expenses for the Authority and also as long term accounts receivable. The total amount of long term accounts receivable from such entities as of June 30, 2011 is \$1,237,500. At the end of the 15 year period, the liability from the for-profit entities may be exchanged for the properties. The Authority is the property manager and handles all operations of the two facilities.

During the year ending June 30, 2011, the Authority received funds from the Federal Home Loan Bank Board. These funds were to be used to construct a low income housing project. The funds need not be repaid as long as the facilities that are being constructed remain as low income housing. The Authority passed the funds through to a for-profit entity. The for-profit entities are building the facilities using the monies from the Authority and also using tax credits that were awarded the Authority and also passed through to the for-profit entities. The two facilities are owned by the for-profit entity. The tax credits were awarded to the Authority with the provision that they be used to help construct low income housing. The federal funds passed through to the for-profit entities are loans from the Authority to the for-profit entities. If the facility is converted to non low income housing the monies are required to be repaid to the Authority from the for-profit entity immediately and the Authority is required to repay the monies to the various granting agencies immediately. These funds are not required to be paid back for 15 years, as long as the facilities remain low income housing. The federal monies totaled \$200,000. Additional federal money will be distributed during the next fiscal year. There are currently two constructions loans of \$973,723.38 and \$200,421.50, which will be paid from tax credits and other funds. There is also a permanent loan in the amount of \$15,899. At the end of the 15

HOUSING AUTHORITY OF THE CITY OF BROKEN BOW
BROKEN BOW, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

year period, the liability from the for-profit entity may be exchanged for the property. The Authority is the property manager and handles all operations of the facility.

Other Contingencies

The entity is subject to possible examinations by federal regulators who determine compliance with terms, conditions, laws and regulations governing grants given to the entity in the current and prior years. These examinations may result in required refunds by the entity to the federal grantors and/or program beneficiaries.

NOTE 9 - RETIREMENT PLAN

The Housing Authority participates in a defined contribution plan administered by the Housing Renewal and Local Agency Retirement Plan. The Housing Authority and the participants are required to contribute 8 ½% and 5%, respectively. For the fiscal year, actual contributions by the Housing Authority and the participants were \$33,615.43 and \$19,425.61, respectively for a total of \$53,041.04. Participating employees shall vest in Employer contributions at the rate of twenty percent per each full year of continuous and uninterrupted service with the Employer.

NOTE 10 - INTERPROGRAM ACCOUNTS

Inter-program receivables and payables arise from Inter-program transactions and are recorded by all programs affected in the period in which transactions are executed. These receivables and payables are eliminated for presentation of the financial statements.

NOTE 11 - SUBSEQUENT EVENTS

The Authority did not have any subsequent events through January 24, 2012, which is the date the financial statements were issued, for events requiring recording or disclosure in the financial statements for the year ending June 30, 2011.

**HOUSING AUTHORITY OF THE CITY OF BROKEN BOW
BROKEN BOW, OKLAHOMA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2011**

<u>Federal Grantor/ Program Title</u>	<u>Federal CFDA No.</u>	<u>Agency Number</u>	<u>Federal Expenditures</u>
U.S. Department of Housing and Urban Development:			
 Direct Programs			
Rent Supplements-Rental Housing for Lower Income Famil	14.149	OK006	\$ 9,166
Low Rent Public Housing	14.850	OK006	297,167
Public Housing Capital Fund Program	14.872	OK006	228,397
Housing Choice Vouchers	14.871	OK006	841,370
Formula Capital Fund Stimulus Grant	14.885	OK006	39,904
 Total			<u>\$ 1,416,004</u>

**HOUSING AUTHORITY OF THE CITY OF BROKEN BOW
BROKEN BOW, OKLAHOMA
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2011**

NOTE 1 - GENERAL

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal awards of the Housing Authority of the City of Broken Bow, Oklahoma (the "Housing Authority"). The Housing Authority reporting entity is defined in Note 1 to the Housing Authority's basic financial statements. Federal awards received directly from federal agencies, as well as federal awards passed through other government agencies, are included on the schedule.

NOTE 2 - BASIS OF ACCOUNTING

The accompanying Schedule of Expenditures of Federal Awards is present using the accrual basis of accounting, which is described in Note 1 to the Housing Authority's basic financial statements.

NOTE 3 - RELATIONSHIP TO BASIC FINANCIAL STATEMENTS

Federal awards revenues are reported in the Housing Authority's basic financial statements as follows:

	<u>Federal Sources</u>
General	\$ 1,416,004
Total	<u>\$ 1,416,004</u>

NOTE 4 - RELATIONSHIP TO FEDERAL FINANCIAL REPORTS

Amounts reported in the accompanying schedule agree with the amounts reported in the related federal financial reports except for changes made to reflect amounts in accordance with generally accepted accounting principles.

KERSHAW CPA & ASSOCIATES, PC

5300 WEST OKMULGEE AVENUE
MUSKOGEE, OKLAHOMA 74401
PHONE (918) 684-1040
FAX (918) 684-1041

WEB: KERSHAWCPA.COM
E-MAIL: REK@KERSHAWCPA.COM

607 NORTH 1ST STREET
PONCA CITY, OKLAHOMA 74601
PHONE (580) 762-1040
FAX (580) 762-1047

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*

To the Board of Directors
Housing Authority of the City of Broken Bow
Broken Bow, Oklahoma

I have audited the financial statements of the Housing Authority of the City of Broken Bow, as of June 30, 2011, and have issued my report thereon dated January 24, 2012. I conducted my audit in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and in accordance with Oklahoma Statutes.

Internal Control Over Financial Reporting

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

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

KERSHAW CPA & ASSOCIATES, PC

5300 WEST OKMULGEE AVENUE
MUSKOGEE, OKLAHOMA 74401
PHONE (918) 684-1040
FAX (918) 684-1041

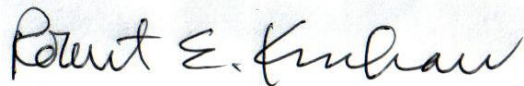
WEB: KERSHAWCPA.COM
E-MAIL: REK@KERSHAWCPA.COM

607 NORTH 1ST STREET
PONCA CITY, OKLAHOMA 74601
PHONE (580) 762-1040
FAX (580) 762-1047

Compliance and Other Matters

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

This report is intended solely for the information and use of the board of directors and management of the Housing Authority of the City of Broken Bow, Broken Bow, Oklahoma, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Robert E. Kershaw, CPA

January 24, 2012

KERSHAW CPA & ASSOCIATES, PC

5300 WEST OKMULGEE AVENUE
MUSKOGEE, OKLAHOMA 74401
PHONE (918) 684-1040
FAX (918) 684-1041

WEB: KERSHAWCPA.COM
E-MAIL: REK@KERSHAWCPA.COM

607 NORTH 1ST STREET
PONCA CITY, OKLAHOMA 74601
PHONE (580) 762-1040
FAX (580) 762-1047

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Directors
Housing Authority of the City of Broken Bow
Broken Bow, Oklahoma

Compliance

I have audited the compliance of the Housing Authority of the City of Broken Bow with 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 financial assistance programs for the year ending June 30, 2011. The Housing Authority of the City of Broken Bow'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 Housing Authority of the City of Broken Bow's management. My responsibility is to express an opinion on the Housing Authority of the City of Broken Bow's compliance based on my audit.

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

In my opinion, the Housing Authority of the City of Broken Bow 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 June 30, 2011.

Internal Control Over Compliance

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

KERSHAW CPA & ASSOCIATES, PC

5300 WEST OKMULGEE AVENUE
MUSKOGEE, OKLAHOMA 74401
PHONE (918) 684-1040
FAX (918) 684-1041

WEB: KERSHAWCPA.COM
E-MAIL: REK@KERSHAWCPA.COM

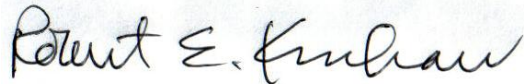
607 NORTH 1ST STREET
PONCA CITY, OKLAHOMA 74601
PHONE (580) 762-1040
FAX (580) 762-1047

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity'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 entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

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

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

This report is intended solely for the information and use of the board of directors and management of Housing Authority of the City of Broken Bow, Oklahoma, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Robert E. Kershaw, CPA

January 24, 2012

HOUSING AUTHORITY OF THE CITY OF BROKEN BOW
BROKEN BOW, OKLAHOMA
SUMMARY STATUS OF PRIOR AUDIT FINDINGS
JUNE 30, 2011

The prior report on the audit of the financial statements as of and for the twelve months ended June 30, 2010, contained no findings.

HOUSING AUTHORITY OF THE CITY OF BROKEN BOW
 BROKEN BOW, OKLAHOMA
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 FOR THE YEAR ENDED JUNE 30, 2011

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issue: Unqualified

Internal control over financial reporting:

Material weaknesses identified? yes no

Significant deficiencies identified that are not considered to be material weaknesses? yes none reported

Noncompliance material to financial statements noted?

yes no

Federal Awards

Internal control over major programs:

Material weaknesses identified? yes no

Significant deficiencies identified that are not considered to be material weaknesses? yes none reported

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

Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?

yes no

Identification of major programs:

#14.871 Housing Choice Vouchers

Dollar threshold used to distinguish between type A and type B programs:

\$300,000

Auditee qualified as low-risk auditee?

yes no

SECTION II - FINANCIAL STATEMENT FINDINGS

None

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None

FINANCIAL DATA SCHEDULE

Housing Authority of the City of Broken Bow (OK006)
BROKEN BOW, OK

Entity Wide Balance Sheet Summary

Submission Type: Audited/A-133

Fiscal Year End: 06/30/2011

	Project Total	14.871 Housing Choice Vouchers	2 State/Local	14.149 Rent Supplements Rental Housing for Lower Income	14.885 Formula Capital Fund Stimulus Grant	Subtotal	ELIM	Total
111 Cash - Unrestricted	\$372,187		\$434,430			\$806,617		\$806,617
112 Cash - Restricted - Modernization and Development								
113 Cash - Other Restricted								
114 Cash - Tenant Security Deposits	\$17,838	\$181,389	\$2,300			\$201,527		\$201,527
115 Cash - Restricted for Payment of Current Liabilities								
100 Total Cash	\$390,025	\$181,389	\$436,730	\$0	\$0	\$1,008,144	\$0	\$1,008,144
121 Accounts Receivable - PHA Projects								
122 Accounts Receivable - HUD Other Projects								
124 Accounts Receivable - Other Government								
125 Accounts Receivable - Miscellaneous	\$5,399		\$1,523,646			\$1,529,045		\$1,529,045
126 Accounts Receivable - Tenants	\$7,182		\$29,276			\$36,458		\$36,458
126.1 Allowance for Doubtful Accounts - Tenants	-\$2,000		-\$25,000			-\$27,000		-\$27,000
126.2 Allowance for Doubtful Accounts - Other	\$0		-\$44,981			-\$44,981		-\$44,981
127 Notes, Loans, & Mortgages Receivable - Current	\$7,301		\$96,187			\$103,488		\$103,488
128 Fraud Recovery								
128.1 Allowance for Doubtful Accounts - Fraud								
129 Accrued Interest Receivable	\$298		\$25			\$323		\$323
120 Total Receivables, Net of Allowances for Doubtful Accounts	\$18,180	\$0	\$1,579,153	\$0	\$0	\$1,597,333	\$0	\$1,597,333
131 Investments - Unrestricted	\$103,716		\$123,826			\$227,542		\$227,542
132 Investments - Restricted		\$18,126				\$18,126		\$18,126
135 Investments - Restricted for Payment of Current Liability								
142 Prepaid Expenses and Other Assets	\$13,246	\$2,411	\$29,643			\$45,300		\$45,300
143 Inventories	\$8,111					\$8,111		\$8,111
143.1 Allowance for Obsolete Inventories	-\$406					-\$406		-\$406
144 Inter Program Due From	\$140,412					\$140,412	-\$140,412	\$0
145 Assets Held for Sale			\$1,141,290			\$1,141,290		\$1,141,290
150 Total Current Assets	\$673,284	\$201,926	\$3,310,642	\$0	\$0	\$4,185,852	-\$140,412	\$4,045,440
161 Land	\$225,269					\$225,269		\$225,269
162 Buildings	\$7,145,362		\$417,240			\$7,562,602		\$7,562,602
163 Furniture, Equipment & Machinery - Dwellings	\$105,256		\$72,502			\$177,758		\$177,758
164 Furniture, Equipment & Machinery - Administration	\$314,326	\$2,325				\$316,651		\$316,651
165 Leasehold Improvements	\$1,230,373		\$63,554			\$1,293,927		\$1,293,927
166 Accumulated Depreciation	-\$5,821,468	-\$1,223	-\$152,686			-\$5,975,377		-\$5,975,377
167 Construction in Progress	\$373,013					\$373,013		\$373,013
168 Infrastructure	\$13,329					\$13,329		\$13,329
160 Total Capital Assets, Net of Accumulated Depreciation	\$3,585,460	\$1,102	\$400,610	\$0	\$0	\$3,987,172	\$0	\$3,987,172

FINANCIAL DATA SCHEDULE

171	Notes, Loans and Mortgages Receivable - Non-Current			\$1,237,500			\$1,237,500		\$1,237,500
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	\$3,585,460	\$1,102	\$1,638,110	\$0	\$0	\$5,224,672	\$0	\$5,224,672
190	Total Assets	\$4,258,744	\$203,028	\$4,948,752	\$0	\$0	\$9,410,524	-\$140,412	\$9,270,112
311	Bank Overdraft								
312	Accounts Payable <= 90 Days	\$5,178	\$418	\$23,006			\$28,602		\$28,602
313	Accounts Payable >90 Days Past Due								
321	Accrued Wage/Payroll Taxes Payable	\$6,668		\$4,678			\$11,346		\$11,346
322	Accrued Compensated Absences - Current Portion	\$2,212	\$1,192	\$945			\$4,349		\$4,349
324	Accrued Contingency Liability								
325	Accrued Interest Payable			\$2,909			\$2,909		\$2,909
331	Accounts Payable - HUD PHA Programs								
332	Account Payable - PHA Projects								
333	Accounts Payable - Other Government	\$90,182					\$90,182		\$90,182
341	Tenant Security Deposits	\$17,838		\$2,300			\$20,138		\$20,138
342	Deferred Revenues	\$60,633	\$5,977	\$2,671			\$69,281		\$69,281
343	Current Portion of Long-term Debt - Capital Projects/Mortgage Revenue								
344	Current Portion of Long-term Debt - Operating Borrowings								
345	Other Current Liabilities	\$251,518		\$2,002			\$253,520		\$253,520
346	Accrued Liabilities - Other								
347	Inter Program - Due To		\$13,859	\$126,553			\$140,412	-\$140,412	\$0
348	Loan Liability - Current								
310	Total Current Liabilities	\$434,229	\$21,446	\$165,064	\$0	\$0	\$620,739	-\$140,412	\$480,327
351	Long-term Debt, Net of Current - Capital Projects/Mortgage Revenue			\$2,627,544			\$2,627,544		\$2,627,544
352	Long-term Debt, Net of Current - Operating Borrowings								
353	Non-current Liabilities - Other		\$18,126				\$18,126		\$18,126
354	Accrued Compensated Absences - Non Current	\$19,907	\$10,725	\$8,505			\$39,137		\$39,137
355	Loan Liability - Non Current								
356	FASB 5 Liabilities								
357	Accrued Pension and OPEB Liabilities								
350	Total Non-Current Liabilities	\$19,907	\$28,851	\$2,636,049	\$0	\$0	\$2,684,807	\$0	\$2,684,807
300	Total Liabilities	\$454,136	\$50,297	\$2,801,113	\$0	\$0	\$3,305,546	-\$140,412	\$3,165,134
508.1	Invested In Capital Assets, Net of Related Debt	\$3,585,460	\$1,102	\$400,610			\$3,987,172		\$3,987,172
509.2	Fund Balance Reserved								
511.2	Unreserved, Designated Fund Balance								
511.1	Restricted Net Assets		\$237,104				\$237,104		\$237,104
512.1	Unrestricted Net Assets	\$219,148	-\$85,475	\$1,747,029	\$0	\$0	\$1,880,702		\$1,880,702
512.2	Unreserved, Undesignated Fund Balance								
513	Total Equity/Net Assets	\$3,804,608	\$152,731	\$2,147,639	\$0	\$0	\$6,104,978	\$0	\$6,104,978
600	Total Liabilities and Equity/Net Assets	\$4,258,744	\$203,028	\$4,948,752	\$0	\$0	\$9,410,524	-\$140,412	\$9,270,112

FINANCIAL DATA SCHEDULE

Housing Authority of the City of Broken Bow (OK006)

BROKEN BOW, OK

Entity Wide Revenue and Expense Summary

Submission Type: Audited/A-133

Fiscal Year End: 06/30/2011

	Project Total	14.871 Housing Choice Vouchers	2 State/Local	14.149 Rental Supplement's Rental Housing for Lower	14.885 Formula Capital Fund Stimulus Grant	Subtotal	ELIM	Total
70300 Net Tenant Rental Revenue	\$311,694		\$80,671	\$10,354		\$402,719		\$402,719
70400 Tenant Revenue - Other	\$3,339		\$7,478	\$313		\$11,130		\$11,130
70500 Total Tenant Revenue	\$315,033	\$0	\$88,149	\$10,667	\$0	\$413,849	\$0	\$413,849
70600 HUD PHA Operating Grants	\$400,413	\$841,370		\$9,166		\$1,250,949		\$1,250,949
70610 Capital Grants	\$125,151				\$39,904	\$165,055		\$165,055
70710 Management Fee								
70720 Asset Management Fee								
70730 Book Keeping Fee								
70740 Front Line Service Fee								
70750 Other Fees								
70700 Total Fee Revenue						\$0	\$0	\$0
70800 Other Government Grants								
71100 Investment Income - Unrestricted	\$1,581	\$303	\$2,122	\$19		\$4,025		\$4,025
71200 Mortgage Interest Income			\$2,814			\$2,814		\$2,814
71300 Proceeds from Disposition of Assets Held for Sale								
71310 Cost of Sale of Assets								
71400 Fraud Recovery								
71500 Other Revenue	\$6,669	\$11,716	\$165,233	\$1,347		\$184,965		\$184,965
71600 Gain or Loss on Sale of Capital Assets	\$75			\$236,755		\$236,830		\$236,830
72000 Investment Income - Restricted		\$117		\$26		\$143		\$143
70000 Total Revenue	\$848,922	\$853,506	\$258,318	\$257,980	\$39,904	\$2,258,630	\$0	\$2,258,630
91100 Administrative Salaries	\$97,683	\$92,402	\$8,586	\$12,154		\$210,825		\$210,825
91200 Auditing Fees	\$7,555	\$1,680	\$236			\$9,471		\$9,471
91300 Management Fee								
91310 Book-keeping Fee								
91400 Advertising and Marketing		\$183				\$183		\$183
91500 Employee Benefit contributions - Administrative	\$43,877	\$28,820	\$17,052	\$2,712		\$92,461		\$92,461
91600 Office Expenses	\$25,129	\$2,318	\$2,243	\$75		\$29,765		\$29,765
91700 Legal Expense			\$300			\$300		\$300
91800 Travel	\$579	\$10,442	\$200			\$11,221		\$11,221
91810 Allocated Overhead								
91900 Other	\$53,374	\$3,658	\$54,199	\$503		\$111,734		\$111,734
91000 Total Operating - Administrative	\$228,197	\$139,503	\$82,816	\$15,444	\$0	\$465,960	\$0	\$465,960

FINANCIAL DATA SCHEDULE

92000	Asset Management Fee							
92100	Tenant Services - Salaries							
92200	Relocation Costs							
92300	Employee Benefit Contributions - Tenant Services							
92400	Tenant Services - Other	\$1,190		\$4,659	\$50	\$5,899		\$5,899
92500	Total Tenant Services	\$1,190	\$0	\$4,659	\$50	\$0	\$5,899	\$0
93100	Water	\$16,649		\$219	\$252	\$17,120		\$17,120
93200	Electricity	\$17,240		\$1,480	\$1,509	\$20,229		\$20,229
93300	Gas	\$6,297		\$381	\$697	\$7,375		\$7,375
93400	Fuel							
93500	Labor							
93600	Sewer	\$24,105		\$53	\$142	\$24,300		\$24,300
93700	Employee Benefit Contributions - Utilities							
93800	Other Utilities Expense							
93000	Total Utilities	\$64,291	\$0	\$2,133	\$2,600	\$0	\$69,024	\$0
94100	Ordinary Maintenance and Operations - Labor	\$98,760		\$2,653	\$8,750	\$110,163		\$110,163
94200	Ordinary Maintenance and Operations - Materials and Other	\$139,568		\$12,077	\$6,661	\$158,306		\$158,306
94300	Ordinary Maintenance and Operations Contracts	\$69,901		\$11,790	\$9,470	\$91,161		\$91,161
94500	Employee Benefit Contributions - Ordinary Maintenance	\$45,719		\$558	\$1,632	\$47,909		\$47,909
94000	Total Maintenance	\$353,948	\$0	\$27,078	\$26,513	\$0	\$407,539	\$0
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	\$0	\$0	\$0	\$0
96110	Property Insurance	\$31,529		\$6,471	\$3,397	\$41,397		\$41,397
96120	Liability Insurance	\$6,141				\$6,141		\$6,141
96130	Workmen's Compensation							
96140	All Other Insurance	\$4,142	\$3,145	\$442	\$341	\$8,070		\$8,070
96100	Total Insurance Premiums	\$41,812	\$3,145	\$6,913	\$3,738	\$0	\$55,608	\$0
96200	Other General Expenses		\$157			\$157		\$157
96210	Compensated Absences							
96300	Payments in Lieu of Taxes	\$24,740			\$3,932	\$28,672		\$28,672
96400	Bad debt - Tenant Rents	\$20,602		\$14,000		\$34,602		\$34,602
96500	Bad debt - Mortgages							
96600	Bad debt - Other							
96800	Severance Expense							
96000	Total Other General Expenses	\$45,342	\$157	\$14,000	\$3,932	\$0	\$63,431	\$0
96710	Interest of Mortgage (or Bonds) Payable				\$486	\$486		\$486
96720	Interest on Notes Payable (Short and Long Term)			\$3,626		\$3,626		\$3,626
96730	Amortization of Bond Issue Costs							
96700	Total Interest Expense and Amortization Cost	\$0	\$0	\$3,626	\$486	\$0	\$4,112	\$0
96900	Total Operating Expenses	\$734,780	\$142,805	\$141,225	\$52,763	\$0	\$1,071,573	\$0

FINANCIAL DATA SCHEDULE

97000	Excess of Operating Revenue over Operating Expenses	\$114,142	\$710,701	\$117,093	\$205,217	\$39,904	\$1,187,057	\$0	\$1,187,057
97100	Extraordinary Maintenance								
97200	Casualty Losses - Non-capitalized								
97300	Housing Assistance Payments		\$640,019				\$640,019		\$640,019
97350	HAP Portability-In								
97400	Depreciation Expense	\$200,065	\$332	\$24,584	\$6,019		\$231,000		\$231,000
97500	Fraud Losses								
97600	Capital Outlays - Governmental Funds								
97700	Debt Principal Payment - Governmental Funds								
97800	Dwelling Units Rent Expense								
90000	Total Expenses	\$934,845	\$783,156	\$165,809	\$58,782	\$0	\$1,942,592	\$0	\$1,942,592
10010	Operating Transfer In	\$21,007					\$21,007	-\$21,007	\$0
10020	Operating transfer Out	-\$21,007					-\$21,007	\$21,007	\$0
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	\$0	\$0	\$0	\$0	\$0
10000	Excess (Deficiency) of Total Revenue Over (Under) Total Expenses	-\$85,923	\$70,350	\$92,509	\$199,198	\$39,904	\$316,038	\$0	\$316,038
11020	Required Annual Debt Principal Payments	\$0	\$0	\$0	\$80,413	\$0	\$80,413		\$80,413
11030	Beginning Equity	\$3,850,627	\$82,381	\$2,055,130	\$93,604	\$0	\$6,081,742		\$6,081,742
11040	Prior Period Adjustments, Equity Transfers and Correction of Errors	\$39,904			-\$292,802	-\$39,904	-\$292,802		-\$292,802
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		-\$84,373				-\$84,373		-\$84,373
11180	Housing Assistance Payments Equity		\$237,104				\$237,104		\$237,104
11190	Unit Months Available	1680	2604	180	144		4608		4608
11210	Number of Unit Months Leased	1470	2237	177	144		4028		4028
11270	Excess Cash	\$163,726					\$163,726		\$163,726
11610	Land Purchases	\$0					\$0		\$0
11620	Building Purchases	\$123,146					\$123,146		\$123,146
11630	Furniture & Equipment - Dwelling Purchases	\$9,264					\$9,264		\$9,264
11640	Furniture & Equipment - Administrative Purchases	\$27,895					\$27,895		\$27,895
11650	Leasehold Improvements Purchases	\$4,750					\$4,750		\$4,750
11660	Infrastructure Purchases	\$0					\$0		\$0
13510	CFFP Debt Service Payments	\$0					\$0		\$0
13901	Replacement Housing Factor Funds	\$0					\$0		\$0