

## Independent Auditor's Report

Board of Commissioners  
Housing Authority of the City of Idabel  
Idabel, Oklahoma

We have audited the accompanying basic financial statements of the Housing Authority of the City of Idabel, Oklahoma, as of and for the 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 Idabel's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Housing Authority of the City of Idabel, Oklahoma, as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 28, 2012 on our consideration of the Housing Authority of the City of Idabel'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 as listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Housing Authority of the City of Idabel, Oklahoma's basic financial statements. The Financial Data Schedule and Statement of Actual Modernization Costs are presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying Schedule of Expenditures of Federal Awards is also presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the Housing Authority of the City of Idabel, Oklahoma. The Financial Data Schedule, Statement of Actual Modernization Costs, and the Schedule of Expenditures of Federal Awards have 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.

*Urlaub & Co., PLLC*

Urlaub & Co., PLLC  
March 28, 2012

## **Housing Authority of the City of Idabel, Oklahoma**

### **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 Housing Authority of the City of Idabel, Oklahoma financial performance provides an overview of the Housing Authority's financial activities for the fiscal year ended June 30, 2011 please read the MD&A in conjunction with the Housing Authority's financial statements.

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 indication.

#### **Financial Highlights**

The Housing Authority's total assets changed during the year. Total assets increased from \$5,048,950 to \$5,177,956. Current assets also increased by \$129,006.

The Housing Authority's Tenant Revenue increased in 2011 by \$46,534 from \$339,291 in 2010 to \$385,825 in 2011.

Total revenues of the authority have decreased by \$469,257 in the fiscal year 2011. Total revenues for the year ended June 30, 2010 were \$1,582,300 as compared to \$1,113,043 for the year ended June 30, 2011. The major reason for the decrease in revenues was a decrease in activities in the Capital Grant Programs.

Total expenses for the year ended June 30, 2011 were \$972,812 as compared to expenses of \$1,046,875 for the year ended June 30, 2010. The decrease of \$74,063 is attributable to the decrease in the cost of administrative expenses, general expenses and casualty losses.

# **Housing Authority of the City of Idabel, Oklahoma**

Management's Discussion and Analysis (MD & A)  
June 30, 2011

## **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 Housing Authority's financial statements are presented as fund level financial statements because the Housing Authority only has proprietary funds.

The financial statements of the Housing Authority report information of the Housing Authority 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 the Housing Authority's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and obligations to the Housing Authority's creditors (liabilities). It also provides the basis for evaluating the capital structure of the Housing Authority and assessing the liquidity and financial flexibility of the Housing Authority.

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 the Housing Authority's 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 operation, 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. This financial information has been electronically transmitted to the Real Estate Assessment Center (REAC) for the year ended June 30, 2011.

## Housing Authority of the City of Idabel, Oklahoma

Management's Discussion and Analysis (MD & A)  
June 30, 2011

### Financial Analysis

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 the Housing Authority's assets and liabilities as of the close of business on June 30. The Statement of Changes in Net Assets summarizes the revenues and sources of those revenues generated during the year ended June 30 and the expenses incurred in operating the Housing Authority for the year ended June 30.

The Housing Authority accounts for its public housing activities in three related programs. The Housing Authority has a low rent and a non-profit program that provide housing for qualified tenants and a capital fund program that the Housing Authority uses for improvements to its low rent property. Our analysis below focuses on the net assets and the change in net assets of the Housing Authority as a whole and not the individual programs.

### **Net Assets June 30, 2011**

	2011	2010	Increase (Decrease)
Current assets, net of intra-program	\$ 719,459	\$ 454,447	\$ 265,012
Fixed assets, net	<u>4,458,497</u>	<u>4,594,503</u>	<u>(136,006)</u>
Total assets	<u>5,177,956</u>	<u>5,048,950</u>	<u>129,006</u>
Current liabilities, net of intra-program	128,469	112,849	12,620
Noncurrent liabilities	<u>309,523</u>	<u>336,368</u>	<u>(26,845)</u>
Total liabilities	<u>437,992</u>	<u>449,217</u>	<u>(11,225)</u>
Net assets			
Invested in capital assets, net of related debt	4,122,847	4,228,721	(105,874)
Unrestricted	<u>617,117</u>	<u>371,012</u>	<u>246,105</u>
Total net assets	<u>\$4,739,964</u>	<u>\$4,599,733</u>	<u>\$140,231</u>

**Housing Authority of the City of Idabel, Oklahoma**

Management's Discussion and Analysis (MD & A)  
June 30, 2011

**Changes in Net Assets  
For the Year Ended June 30**

	2011	2010	Increase (Decrease)
<b>Revenue</b>			
Tenant revenue	\$ 385,825	\$ 339,291	\$ 46,534
Federal grants and subsidies	602,315	1,082,509	(480,194)
Investment income	105	268	(163)
Other	<u>124,798</u>	<u>160,232</u>	<u>(35,434)</u>
Total revenue	<u>\$1,113,043</u>	<u>\$1,582,300</u>	<u>(\$469,257)</u>
<b>Expenses</b>			
Administration	\$ 187,893	\$ 195,149	\$ (7,256)
Utilities	122,474	120,959	1,515
Ordinary maintenance and operations	280,312	252,123	28,189
Protective services	270	302	(32)
General expenses	106,649	131,687	(25,038)
Non-routine maintenance	5,032	0	5,032
Casualty losses	16,708	117,103	(100,395)
Tenant Services	0	302	(302)
Depreciation	<u>253,474</u>	<u>229,250</u>	<u>24,224</u>
Total expenses	<u>\$ 972,812</u>	<u>\$1,046,875</u>	<u>\$ (74,063)</u>
Increase (decrease) in net assets	<u>\$ 140,231</u>	<u>\$ 535,425</u>	<u>\$ 395,194</u>

Total revenues of the authority have decreased by \$469,257 in the fiscal year 2011. Total revenues for the year ended June 30, 2010 were \$1,582,300 as compared to \$1,113,043 for the year ended June 30, 2011. The major reason for the decrease in revenues was due to the decrease activities in the capital grant program. Grant revenues are earned as the expenses are incurred.

Total expenses for the year ended June 30, 2011 were \$972,812 as compared to expenses of \$1,046,875 for the year ended June 30, 2010. The decrease of \$74,063 is attributable to decreased cost of Administration, General Expenses and Casualty losses.

## Housing Authority of the City of Idabel, Oklahoma

Management's Discussion and Analysis (MD & A)  
June 30, 2011

### Capital Assets

At June 30, 2011, the Housing Authority had \$4,122,847 invested in capital assets. This amount represents a net decrease of \$105,874 for year ending 2011. The account invested in capital assets takes into account the debt attached to the fixed asset.

#### **Capital Assets at Year-end (Net of Accumulated Depreciation)**

	2011	2010	Increase (Decrease)
Land	\$ 62,440	\$ 2,440	\$ 0
Buildings	8,153,938	7,679,701	474,237
Furniture, Equipment & Machinery- Dwellings	124,516	118,078	6,438
Furniture, Equipment & Machinery- Admin.	138,591	174,608	(36,017)
Leasehold Improvements	751,609	740,773	10,836
Construction in Progress	660,422	1,040,407	(379,985)
Subtotal	\$ 9,891,516	\$ 9,816,007	\$ 75,509
Accumulated Depreciation	(5,433,019)	(5,221,504)	(211,515)
Net Capital Assets	\$ 4,458,497	\$ 4,594,503	\$ (136,006)

The increase in dwelling structures and leasehold improvements is due to the transfer of completed projects funded by the 2006 and 2007 CFP. The increase in dwelling equipment is due to the purchase of ranges purchased through the CFP program. The decrease in administrative equipment is due to the disposal of vehicles.

## **Housing Authority of the City of Idabel, Oklahoma**

Management's Discussion and Analysis (MD & A)  
June 30, 2011

### **Debt Administration**

As of June 30, 2011, the Housing Authority reported a balance of \$335,650 in outstanding loan payables as compared to the \$365,782 from the previous year. No additional debt has been incurred during the current fiscal year.

The Housing Authority classifies a portion of the employee's leave as long term debt. This is because the Housing Authority does not anticipate paying out the total amount in the upcoming fiscal year. The amount estimated as long term was \$9,477 for the current year.

### **Economic Factors**

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 other programs could be affected by the 2011 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 the Housing Authority's accountability for the money it receives. If you have questions about this report or wish to request additional financial information, contact Dana Baird, Executive Director, at the Housing Authority of the City of Idabel, Oklahoma, 901 Lyndon Rd., Idabel, Oklahoma 74745, telephone number (580) 286-9444.



**Housing Authority of the City of Idabel**  
**Idabel, Oklahoma**  
**Statement of Net Assets-Proprietary Fund Type**  
**June 30, 2011**

<b>ASSETS</b>					
<b>Current Assets:</b>					
	Cash and Cash Equivalents-Unrestricted			\$	533,253
	Cash-Restricted				133,003
	Accounts Receivable				9,817
	Investments				25,394
	Maintenance Inventories				6,194
	Prepaid Expenses				11,798
	<b>Total Current Assets</b>				<u>719,459</u>
<b>Noncurrent Assets:</b>					
	Land & Construction in Progress				978,983
	Other Capital Assets, Net of Depreciation				3,479,514
	<b>Total Noncurrent Assets</b>				<u>4,458,497</u>
	<b>Total Assets</b>			\$	<u>5,177,956</u>
<b>LIABILITIES</b>					
<b>Current Liabilities:</b>					
	Bank Overdraft				1,485
	Accounts Payable				12,918
	Wages Payable				7,727
	Interest Payable				897
	Compensated Absences (Current Portion)				1,543
	Intergovernmental Payables				37,962
	Tenant Security Deposits				28,834
	Deferred Revenue				1,499
	Mortgage Payable (Current Portion)				35,604
	<b>Total Current Liabilities</b>				<u>128,469</u>
<b>Noncurrent Liabilities:</b>					
	Compensated Absences - (Noncurrent Portion)				9,477
	Mortgage Payable (Noncurrent Portion)				300,046
	<b>Total Noncurrent Liabilities</b>				<u>309,523</u>
	<b>Total Liabilities</b>				<u>437,992</u>
<b>NET ASSETS</b>					
	Investment in Net Capital Assets, Net of Related Debt				4,122,847
	Unrestricted Net Assets				617,117
	<b>Total Net Assets</b>			\$	<u>4,739,964</u>

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

**Housing Authority of the City of Idabel**  
 Idabel, Oklahoma  
 Statement of Revenues, Expenses, and Changes in Fund Net Assets-  
 Proprietary Fund Type  
 For the Year Ended June 30, 2011

<b><i>OPERATING REVENUES</i></b>						
	Tenant Revenue					\$ 385,825
	HUD Operating Grants					484,845
	Other Revenue					<u>9,158</u>
	<b>Total Operating Revenues</b>					<u>879,828</u>
<b><i>OPERATING EXPENSES</i></b>						
	Administrative					187,893
	Utilities					122,474
	Maintenance					280,312
	General					95,582
	Interest Expense					11,337
	Nonroutine Expenses					5,032
	Depreciation					<u>253,474</u>
	<b>Total Operating Expenses</b>					<u>956,104</u>
	<b>Net Operating income (Loss)</b>					<u>(76,276)</u>
<b><i>NONOPERATING REVENUES (EXPENSES)</i></b>						
	Interest Income					105
	Insurance Proceeds					114,304
	Casualty Losses					(16,708)
	Gain or Loss on Sale of Assets					<u>1,336</u>
	<b>Net Nonoperating Revenues (Expenses)</b>					<u>99,037</u>
	<b>Income (Loss) Before Contributions</b>					22,761
	Capital Contributions					<u>117,470</u>
	<b>Change in Net Assets</b>					140,231
	<b>Total Net Assets-Beginning of Year</b>					<u>4,599,733</u>
	<b>Total Net Assets-End of Year</b>					<u><b>\$ 4,739,964</b></u>

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

**Housing Authority of the City of Idabel**  
 Idabel, Oklahoma  
 Statement of Cash Flows-Proprietary Fund Type  
 For the Year Ended June 30, 2011

<b><i>CASH FLOWS FROM OPERATING ACTIVITIES:</i></b>				
	Cash Received from Grantor			485,155
	Cash Received from Tenants			378,429
	Cash Received from Misc. Sources			11,138
	Cash Payments to Employees			(227,344)
	Cash Payments to Vendors			<u>(449,645)</u>
	<b>Net Cash Provided by Operating Activities</b>			<u>197,733</u>
<b><i>CASH FLOWS FROM INVESTING ACTIVITIES</i></b>				
	Purchase of Investment			(25,394)
	Interest Received			<u>125</u>
	<b>Net Cash Used by Investing Activities</b>			<u>(25,269)</u>
<b><i>CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES</i></b>				
	Capital Grant Funding Received from HUD			117,470
	Principal Payments on Long-Term Debt			(30,132)
	Insurance Proceeds			114,304
	Casualty Losses			(16,708)
	Cash from sale of Equipment			1,336
	Property and Equipment Purchased			<u>(117,470)</u>
	<b>Net Cash Provided by Financing Activities</b>			<u>68,800</u>
	Net Increase (Decrease) in Cash			241,264
	Cash and Cash Equivalent-Beginning of Year			<u>424,992</u>
	Cash and Cash Equivalent-End of Year			<u>\$ 666,256</u>
	Reconciliation to Cash Accounts			
	Cash Equivalents-Unrestricted			533,253
	Restricted Cash			<u>133,003</u>
	<b>Total Cash Equivalents</b>			<u><u>666,256</u></u>

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



**Housing Authority of the City of Idabel**  
 Idabel, Oklahoma  
 Notes to the Basic Financial Statements  
 June 30, 2011

**Note 1 Reporting Entity**

The Housing Authority of the City of Idabel was created for the purpose of administering Public Housing Programs authorized by the United States Housing Act of 1937. The Department of Housing and Urban Development has direct responsibility for the administering of low-income housing programs. The Housing Authority has entered into an annual contribution contract with the Department of Housing and Urban Development for the funding of these programs through annual contributions and subsidies.

The Housing Authority’s basic financial statements include all organizations, activities, and functions that comprise the Housing Authority. Component units are legally separate entities for which the Housing Authority is financially accountable. The decision to include a component unit in the reporting entity is defined by applying the criteria identified by the Governmental Accounting Standards Board (“GASB”) in its Statement No. 14, “The Financial Reporting Entity,” as amended by GASB 39, “Determining Whether Certain Organizations Are Component Units.” Financial accountability is defined as the ability to appoint a voting majority of the organization’s governing body and either (1) the Housing Authority’s ability to impose its will over the organization or (2) the potential that the organization will provide a financial benefit to, or impose a financial burden on, the Housing Authority.

*Blended Component Units*

Blended component units are separate legal entities that meet the component unit criteria described above and whose governing body is the same or substantially the same as the Board of Commissioners of the Housing Authority or the component unit provides services entirely to the Housing Authority. These component units are blended into those of the Housing Authority by appropriate activity type to compose the primary government presentation.

**Blended Component Units**

Component units that are blended into the reporting activity types of the Housing Authority’s report are presented below:

<i>Component Unit</i>	<i>Brief Description/Inclusion Criteria</i>
Community Frameworks, Inc.	Created to provide affordable home financing to low and moderate income persons

**Housing Authority of the City of Idabel**  
Idabel, Oklahoma  
Notes to the Basic Financial Statements-Cont.  
June 30, 2011

The following programs are administered by the Housing Authority:

*Public Housing Program-*

This program consists of 198 public housing units. Under this program, HUD provides funding through an annual contribution contract. These funds, along with dwelling rental income received from the tenants, are used to maintain the dwelling units.

*Capital Fund Program-*

The purpose of this program is to provide funding for the modernization and improvement of the Public Housing Program. These resources allow the Housing Authority to provide capital improvements for the current dwelling structures and assist in their operations.

*Capital Fund Stimulus Grant-*

The Formula Capital Fund Stimulus Grant is a formula based grant funded through the American Recovery and Reinvestment Act of 2009. The purpose of this grant is to provide funding for the modernization and improvement of the Low Rent Public Housing Program. These resources allow the Authority to provide more jobs and provide energy efficient modernization and renovation of the current dwelling structures.

*Community Frameworks, Inc. (Component Unit)-*

Community Frameworks, Inc. is a non-profit corporation established for the purpose of providing comprehensive housing services, opportunities, and services for individuals, families, homeless persons, elderly handicapped and other targeted populations. The non-profit corporation purchased a market rate apartment complex that was financed through a mortgage. The complex consists of 50 units.

**Note 2      Summary of Significant Accounting Policies**

**A. Basis of Accounting**

The Housing Authority's basic financial statements consist of a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Net Assets, and a Statement of Cash Flows.

A Statement of Net Assets provides information about the assets, liabilities, and net assets of the Authority at the end of the year. Assets and liabilities are classified as current, non-current, or other assets. Net assets are classified according to availability of assets to satisfy the Authority's obligations. Invested in capital assets, net of related debt represents that value of capital assets, net of accumulated depreciation, less any outstanding debt incurred to acquire or construct the assets. Restricted net assets represent resources that have been externally restricted for specific purposes. Unrestricted net assets include all other net assets, including those that have been

**Housing Authority of the City of Idabel**  
Idabel, Oklahoma  
Notes to the Basic Financial Statements-Cont.  
June 30, 2011

designated by management to be used for other than general operating purposes.

A Statement of Revenues, Expenses and Changes in Net Assets provides information about the Authority's financial activities during the year. Revenues and expenses are classified as either operating or non-operating, and all changes in net assets are reported, including capital contributions. Operating revenues and expenses generally result from providing which is objective. Accordingly, revenue such as dwelling rent, operating grants and subsidies from HUD, and other tenant charges are considered to be operating revenues. Other revenues, such as interest income and capital contributions provided for building improvement projects or equipment purchases, are considered to be non-operating revenues. Operating expenses include: administrative, maintenance, utilities, tenant services, depreciation on capital assets, and other general expenses.

A Statement of Cash Flow provides information about the Authority's sources and uses of cash and cash equivalents during the year. Increases and decreases in cash and cash equivalents are classified as either, operating activities, non-capital financing, capital financing or investing.

The Housing Authority uses a single enterprise fund to maintain its financial records on an accrual basis. The Housing Authority's individual programs are accounted for in self-balancing accounts to account for specific resources allocated to them for the purpose of carrying on programs requirements. The individual programs of the Housing Authority are considered to be a single Proprietary Fund Type.

The enterprise method is used to account for those operations that are financed and operated in a manner similar to private business, or where the board has decided that the determination of revenues earned, costs incurred, and/or net income is necessary for management accountability.

The enterprise fund is accounted for on a flow of economic resources measurement focus and the accrual basis of accounting. All assets and all liabilities associated with the operation of the Housing Authority are included on the Statement of Net Assets.

The accounting and reporting policies of the Housing Authority relating to the funds included in the accompanying financial statements conform to generally accepted accounting principles applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled *Audits of State and Local Governmental Units*, and by the Financial Accounting Standards Board (FASB) when applicable. Proprietary Funds and similar component units apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles

**Housing Authority of the City of Idabel**

Idabel, Oklahoma

Notes to Basic Financial Statements-Cont.

June 30, 2011

Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. For enterprise funds, GASB Statement Nos. 20 and 34 provide the Housing Authority the option of electing to apply FASB pronouncements issued after November 30, 1989; however, the Housing Authority had elected not to apply those pronouncements.

In addition, the financial statements include the implementation of GASB Statement #34, Basic Financial Statement – Management’s Discussion and Analysis-for State and Local Governments and related standards. This standard provides for significant changes in terminology, and the inclusion of a management discussion and analysis as supplementary information and other changes.

**B. Cash and Cash Equivalents**

Cash and cash equivalents include all cash balances and highly liquid investments with a maturity of three months or less. Cash equivalents are carried at fair value. Investments with an initial maturity of more than three months are reported as investments.

The Housing Authority is authorized to invest in financial instruments that have been HUD approved. Generally, these financial instruments consist of direct obligations of the Federal Government, obligations of Federal Government agencies, demand and savings accounts, and Certificates of Deposits. Types and amounts of investments held at fiscal year-end are described in a subsequent note on investments.

**C. Receivables**

Tenant Accounts Receivable consists primarily of tenant charges, including dwelling rents, and other tenant charges. Accrued interest receivable consists of amounts earned on investments at the end of the year. Accounts Receivable – HUD consists of operating subsidies or grant income earned at the end of the year.

**D. Inventory**

The Housing Authority’s inventory balances consist of expendable supplies held for consumption. The inventory is valued at cost. The Housing Authority uses the first-in, first-out basis in determination of cost.



**Housing Authority of the City of Idabel**  
Idabel, Oklahoma  
Notes to Basic Financial Statements-Cont.  
June 30, 2011

**E. Fixed Assets**

Fixed assets owned by the Housing Authority are recorded at cost or, in contributed property, at their fair market value at the time of contribution. Repairs and maintenance are recorded as expensed; renewals and betterments are capitalized. The policy of the Housing Authority is to capitalize all assets with a cost in excess of \$5,000. The exception is ranges and refrigerators which are capitalized regardless of cost. Depreciation has been calculated on each class of depreciable property using the straight line method. Estimated useful lives are as follows:

Buildings	20-40 Years
Building Improvements	15-20 Years
Furniture & Equipment	3-10 Years

**F. Restricted Assets**

Restricted assets consist of legally restricted funds whose requirements imposed by HUD represent a legally enforceable requirement upon assets. Restricted assets also consist of tenant security deposits maintain under the Low Rent Housing Program and Component Unit as well as unspent insurance proceeds received from flood damages.

**G. Compensated Absences**

The Housing Authority of the City of Idabel allows its full time employees to accumulate up to 80 hours worth of earned annual leave, and such leave is fully vested when earned. Unused leave will be paid upon the termination of an employee.

**H. Equity Classifications**

Equity is classified as net assets and displayed in three components.

*Invested in Capital Assets, Net of Related Debt* – Consists of capital assets net of accumulated depreciation and reduced by any outstanding balances of any bonds, mortgages, notes, or other borrowing that are attributable to the acquisition, construction, or improvement of those assets.

*Restricted Net Assets* - consists of assets that are restricted by limitations placed on these assets by an external source or party.

*Unrestricted Net Assets* – All other assets net assets that do not meet the definition, of “restricted” or “invested in capital assets, net of related debt”.

**I. Determination of Use of Net Asset Balances**

When the Housing Authority incurs an expense for which it may use either restricted or unrestricted net assets, it uses restricted net assets first unless unrestricted net assets will have to be returned due to funds not being utilized. Restricted net assets are those assets which have been restricted by an outside party.

**Housing Authority of the City of Idabel**  
Idabel, Oklahoma  
Notes to Basic Financial Statements-Cont.  
June 30, 2011

**J. Revenue Recognition**

The Proprietary Fund Type is accounted for an economical resources measurement focus using the accrual basis of accounting. Revenues are recognized when earned. Grant revenue is recognized when program expenditures are incurred and/or program funding is approved, depending on the requirements of the individual program type. Proprietary fund distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Housing Authority's enterprise fund are charges to tenants for rent and operating subsidies from HUD. Operating expenses for the enterprise fund include the costs of maintaining the facilities. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

**K. Income Tax**

The Housing Authority is a governmental subdivision of the City of Idabel and is exempt from Federal and State income taxes. The Housing Authority operates a Component Unit that is exempt from federal income taxes under section 501 (C) (3) of the Internal Revenue Code and did not conduct unrelated business activities. Therefore, no provision for income taxes has been made in the accompanying financial statements.

**L. Budget Policy and Practice**

An annual Operating Budget is prepared and submitted to the Board of Commissioners for approval. A budget revision is prepared and approved prior to year-end to account for significant differences throughout the year that would reflect deviations from the original budget.

**M. Interfund Transfers**

During the course of operations, the Housing Authority's operations have utilized a centralized revolving account to record disbursements for the individual programs. These receivable and payable balances have been eliminated in the preparation of the basic financial statements. In addition, offsetting inter-program operating transfers between individual programs have been eliminated in the preparation of the financial statements.

**N. Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

**Housing Authority of the City of Idabel**  
 Idabel, Oklahoma  
 Notes to Basic Financial Statements-Cont.  
 June 30, 2011

**Note 3 Cash and Investments**

The Housing Authority's policies regarding cash and investment balances are discussed in Note 2.B. The composition of the Housing Authority's cash, cash equivalents and investments on June 30, 2011, was as follows:

Cash on hand, deposits in banks, savings deposits	\$ 666,256
U.S. certificates of deposit	<u>25,394</u>
Total Deposits	<u>\$ 691,650</u>

Custodial credit risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Housing Authority will not be able to recover the value of its investment. The Housing Authority's bank balances in the amount of \$696,273 were secured through federal depository insurance or collateralized securities at June 30, 2011. The investment balances of \$25,394 were also secured through federal depository insurance or collateralized securities at June 30, 2011. The Housing Authority had no custodial credit risk for its investments as of June 30, 2011.

Interest rate risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Authority's policy minimizes the risk by staggering the maturity dates of its investments as well as limiting terms to one year.

Credit risk

Credit risk is defined as the risk that an issuer or other counterparts to an investment in debt securities will not fulfill its obligation.

Concentration of credit risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. Investments are concentrated to one primary financial institution. The concentration of credit risk is reduced by investing in secured certificates of deposit.

**Note 4 Restricted Cash and Investments**

Restricted assets totaling \$133,003 represents funds held for the following purposes:

Restricted Item	Amount
Low Rent Housing Program:	
Security Deposit Funds	\$ 23,034
Insurance Proceeds	108,516
Component Unit	
Security Deposit Funds	1,453

**Housing Authority of the City of Idabel**  
 Idabel, Oklahoma  
 Notes to Basic Financial Statements-Cont.  
 June 30, 2011

It was noted that the security deposit funds are not enough to meet the escrow liability balance of \$5,800.

**Note 5 Accounts Receivable**

A summary of accounts receivable at June 30, 2011 is as follows:

Low Rent Housing Program:	
Accounts Receivable - Tenants	\$ 7,318
Allowance for Doubtful Accounts - Tenants	( 2,000)
Interest Receivable	3
Miscellaneous	<u>2,966</u>
Total Accounts Receivable	<u>8,287</u>
Component Unit:	
Accounts Receivable - Tenants	2,245
Allowance for Doubtful Accounts	<u>( 715)</u>
Total Accounts Receivable	<u>1,530</u>
Total Accounts Receivable	<u>\$ 9,817</u>

**Note 6 Fixed Assets**

A summary of capital assets at June 30, 2011 by class is as follows:

	Balance at 6/30/10	Additions	Retire.	Balance at 6/30/11
Capital assets not being depreciated				
Land	\$ 62,440	\$ -	\$ -	\$ 62,440
Construction in Progress	<u>1,040,407</u>	<u>105,090</u>	<u>485,073</u>	<u>660,424</u>
Total capital assets not being depreciated	<u>1,102,847</u>	<u>105,090</u>	<u>485,073</u>	<u>722,864</u>
Capital assets being depreciated				
Buildings and Improvements	8,420,474	485,073	-	8,905,547
Furniture and Equipment	<u>292,686</u>	<u>12,380</u>	<u>41,960</u>	<u>263,106</u>
Total capital assets, being depreciated	<u>8,713,160</u>	<u>497,453</u>	<u>41,960</u>	<u>9,168,653</u>
Less Accumulated depreciation for:				
Buildings and Improvements	4,990,729	233,848	-	5,224,577
Furniture and Equipment	<u>230,775</u>	<u>19,626</u>	<u>41,958</u>	<u>208,443</u>
Total Accumulated Depreciation	<u>5,221,504</u>	<u>253,474</u>	<u>41,958</u>	<u>5,433,020</u>
Total capital assets, being depreciated, net	<u>3,491,656</u>	<u>243,979</u>	<u>2</u>	<u>3,735,633</u>
Net Capital Assets	<u>\$ 4,594,503</u>	<u>\$ 349,069</u>	<u>\$ 485,075</u>	<u>\$ 4,458,497</u>

Depreciation expense is \$253,474 for the current year.



**Housing Authority of the City of Idabel**  
 Idabel, Oklahoma  
 Notes to Basic Financial Statements-Cont.  
 June 30, 2011

The Component Unit has long-term debt payable to Idabel National Bank in the amount of \$335,650. Loan #16475170 is secured by real estate purchased with the financing. The long-term portion of this debt is \$300,046 and the current portion is \$35,604. Additions during the year consist of property insurance paid by mortgagor.

Maturities of the debt are as follows:

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
6/30/12	\$ 35,604	\$ 10,241	\$ 45,845
6/30/13	36,779	9,066	45,845
6/30/14	37,992	7,853	45,845
6/30/15	39,246	6,599	45,845
6/30/16	40,540	5,305	45,845
6/30/17-6/30/20	<u>145,489</u>	<u>7,773</u>	<u>153,262</u>
	\$ <u>335,650</u>	\$ <u>46,837</u>	\$ <u>382,487</u>

**Note 11 Deferred Revenues**

The deferred revenue balance of \$1,499 consists primarily of Tenants Prepaid Rents collected at June 30, 2011.

**Note 12 Retirement Plan**

All Housing Authority employees who have a minimum of one year of service are eligible to participate in the Oklahoma Public Employees Retirement System. Employees are entitled to receive benefits once they have reached the age of 62 with six full years of employment or when the sum of the employees age and years of service equal 90. These benefits are paid on a monthly basis for the rest of the participant's life and are equal to a percentage of their final average salary for each year of prior service and a percentage of their final average salary for each year of participating service. A copy of the Comprehensive Annual Financial Report can be viewed on the internet at their website [www.opers.ok.gov](http://www.opers.ok.gov).

All employees covered under this plan are required by statute to contribute between 3.5% and 8.5% percent of their salary to the pension plan. The Housing Authority is required to contribute any additional amounts necessary to pay the employee benefits when they are due. The employee portion contributed to the pension plan for the year ended June 30, 2011, was \$10,455 representing 5.5% of the participant payroll. The Housing Authority portion was \$25,786, representing 14.50%. A total amount of \$37,241 was contributed to the plan. Contributions from the employee and employer in the previous year totaled \$9,391 and \$25,629 respectively.

**Housing Authority of the City of Idabel**  
 Idabel, Oklahoma  
 Notes to Basic Financial Statements-Cont.  
 June 30, 2011

**Note 13 Risk Management**

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

<u>Type of Loss</u>	<u>Method Managed</u>
a. Employee Dishonesty	Purchased insurance with Housing Authority Risk Retention
b. Physical Property Loss	Purchased insurance with Housing Authority Insurance Services, Inc.
c. Liability	Purchased insurance with Housing Authority Risk Retention
d. Worker's Compensation	Purchased insurance with Compsource Oklahoma
e. Automobile Liability	Purchased insurance with Traveler's Property Casualty Company of America

**Note 14 Commitments and Contingencies**

Contingencies

The Authority participates in grant programs which are governed by various rules and regulations of grantor agencies and therefore subject to their review and audits. Such audits could lead to a request for reimbursement to the agency for ineligible expenditures. Based upon prior experience, the Authority believes such disallowances, if any, would be immaterial.

Grant Commitments

The Authority had the following grant commitments in progress at June 30, 2011. These grants are summarized as follows:

<b>Grant</b>	<b>Grant Award</b>	<b>Grant Expend. thru June 30, 2011</b>
Capital Fund Program 501-07	\$ 281,551	\$ 278,673
Capital Fund Program 501-08	284,201	261,847
Capital Fund Program 501-09	283,121	16,030
Capital Fund Program 501-10	281,058	16,935
Formula Capital Fund Stimulus Grant	<u>359,742</u>	<u>359,742</u>
Total	\$ <u>1,489,673</u>	\$ <u>933,227</u>

**Housing Authority of the City of Idabel**  
Idabel, Oklahoma  
Notes to Basic Financial Statements-Cont.  
June 30, 2011

*Subsequent Construction Commitments*

The Authority entered into the following subsequent construction commitments with contractors:

<b>Work Item</b>	<b>Amount</b>	<b>Funded by</b>
Plumbing, Parking Lot Repair, Security Screens	\$ 419,300	2009 & 2010 CFP
Flood Damage Repair	\$ 135,400	Insurance Proceeds, CFP and Operations

**Note 15 Economic Dependency**

The Housing Authority is economically dependent on annual contributions and grants received from HUD. The extent of this funding from HUD depends upon appropriations from the federal level.



**Housing Authority of the City of Idabel**  
 Idabel, Oklahoma  
 Statement of Actual Modernization Costs  
 June 30, 2011

(1) The actual Modernization Cost of the Project is as follows:

<u>Classification</u>	<u>Project</u> <u>OK56P004501-06</u>
Administration	\$ 117.16
Fees & Costs	23,231.00
Site Improvement	7,969.00
Dwelling Structures	194,418.59
Dwelling Equipment	36,450.00
Nondwelling Structures	0.00
Nondwelling Equipment	<u>18,423.25</u>
 Total Cost	 \$ <u>280,609.00</u>

(2) The total cost as shown on the Actual Modernization Cost Certificate submitted to HUD on January 18, 2011 is in agreement with the Housing Authority's records.

(3) All modernization costs and related liabilities have been paid.

(4) The Housing Authority had no budget overruns.

Funds Approved	\$ 280,609.00
Funds Advanced	<u>280,609.00</u>
Excess of Funds Approved	\$ <u>0.00</u>
Funds Advanced	\$ 280,609.00
Funds Expended	<u>280,609.00</u>
Excess of Funds Advanced	\$ <u>0.00</u>

**Housing Authority of the City of Idabel**  
 Idabel, Oklahoma  
 Schedule of Expenditures of Federal Awards  
 For the Year Ended June 30, 2011

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
<b>U.S. Department of Housing and Urban Development</b>		
Low Rent Housing Program	14.850	\$ 484,740
Capital Fund Program	14.872	80,071
Formula Capital Fund Stimulus Grant (ARRA)	14.885	<u>37,504</u>
Total Expenditures of Federal Awards		\$ <u>602,315</u>

**Note 1. Basis of Presentation**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Housing Authority of Idabel and is presented on the accrual basis and in conformity with generally accepted accounting principles accepted in the United States of America. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

**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  
Housing Authority of the City of Idabel  
Idabel, Oklahoma

We have audited the financial statements of the Housing Authority of the City of Idabel as of and for the year ended June 30, 2011, and have issued our report thereon dated March 28, 2012. 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

Management of the Housing Authority of the City of Idabel is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Housing Authority of the City of Idabel'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 of the effectiveness of the Housing Authority of the City of Idabel's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Housing Authority of the City of Idabel'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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be a material weakness and other deficiencies that we consider to be significant deficiencies.

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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Housing Authority of the City of Idabel's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness. 2011-01.

A significant deficiency is a deficiency or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies which are identified as 2011-2, 2011-3, and 2011-4.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Housing Authority of the City of Idabel'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 responses as items 2011-1 and 2011-4.

The Housing Authority of the City of Idabel'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 Housing Authority of the City of Idabel's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Commissioners, management, and the U.S. Department of Housing and Urban Development and is not intended to be and should not be used by anyone other than these specified parties.

*Urlaub & Co., PLLC*

Urlaub & Co., PLLC  
March 28, 2012

**REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Commissioners  
Housing Authority of the City of Idabel  
Idabel, Oklahoma

**Compliance**

We have audited the Housing Authority of the City of Idabel, Oklahoma's compliance of with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Housing Authority of the City of Idabel, Oklahoma's major federal programs for the year ended June 30, 2011. The Housing Authority of the City of Idabel, Oklahoma'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 Idabel, Oklahoma's management. Our responsibility is to express an opinion on the Housing Authority of the City of Idabel, Oklahoma'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 of a major federal program occurred. An audit includes examining, on a test basis, evidence about the Housing Authority of the City of Idabel, Oklahoma'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 of the Housing Authority of the City of Idabel, Oklahoma's compliance with those requirements.

As described in items 2011-5 and 2011-6 in the accompanying schedule of findings and questioned costs, the Housing Authority of the City of Idabel did not comply with requirements regarding with Allowable costs/cost principles that are applicable to its Low Rent Housing Program. Compliance with such requirements is necessary, in our opinion, for the Housing Authority of the City of Idabel to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the Housing Authority of the City of Idabel, Oklahoma complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

### **Internal Control Over Compliance**

Management of the Housing Authority of the City of Idabel, Oklahoma is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Housing Authority of the City of Idabel, Oklahoma's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 Housing Authority of the City of Idabel's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2011-5 to be a material weakness.

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

This report is intended solely for the information and use of the Board of Commissioners, management, and the U.S. Department of Housing and Urban Development and is not intended to be and should not be used by anyone other than these specified parties.

*Urlaub & Co., PLLC*

Urlaub & Co., PLLC  
March 28, 2012

**Housing Authority of the City of Idabel**  
Idabel, Oklahoma  
Summary Schedule of Prior Audit Findings  
For the Year Ended June 30, 2011

- 2010-1    Cost Allocation/Use of Low Rent Program Funds  
          See current finding 2011-1.
  
- 2010-2    Lack of Segregation of Duties  
          See current finding 2011-2.
  
- 2010-3    Financial Statement Presentation  
          See current finding 2011-3.
  
- 2010-4    Low Rent Tenant Files  
          See current finding 2011-6.

**Housing Authority of the City of Idabel**  
 Idabel, Oklahoma  
 Schedule of Findings and Questioned Costs  
 For the Year Ended June 30, 2011

**Summary of Auditor's Results**

***Financial Statements***

The auditor's report expresses an unqualified opinion on the financial statements of the Housing Authority of the City of Idabel.

Internal control over financial reporting			
Material weakness identified?	X	Yes	No
Significant deficiencies identified that are not considered to be material weaknesses?	X	Yes	No
Noncompliance material to financial statements?	X	Yes	No

***Federal Awards***

Internal control over major programs:			
Material weakness identified?	X	Yes	No
Significant deficiencies identified that are not considered to material weaknesses?		Yes	X No

The auditor's report issued on compliance for major programs expresses a qualified opinion.

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?	X	Yes	No
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The auditor tested the following programs as major programs:

CFDA #14.850	Low Rent Housing Program
CFDA #14.885	Formula Capital Fund Stimulus Program (ARRA)

The threshold used for distinguishing between Type A and B programs was \$300,000.

The auditor determined that the Housing Authority of the City of Idabel did not qualify as a low-risk auditee.



**Housing Authority of the City of Idabel**  
Idabel, Oklahoma  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2011

**Findings – Financial Statements Audit**

***MATERIAL WEAKNESS***

***2011-1 Cost Allocation/Use of Low Rent Program Funds***

*Criteria:* The Annual Contributions Contract for the operations of the Low Rent Housing Program requires that funds be used for the payment of costs related to the operations of the Low Rent project.

*Condition:* The Housing Authority, through its non-profit corporation (component unit), purchased a market-rate apartment complex in a previous year. The apartment complex is in a dire cash flow position and is unable to generate sufficient funds to meet the operating and financing costs. Costs that should be shared between Public Housing and the Non-profit Corporation are not being allocated. Costs that are not being charged to the non-profit Corporation include: administrative salaries, audit cost, office expenses, maintenance, etc. As of June 30, 2011 the non-profit corporation owes the Low Rent Housing Program \$46,790.

*Questioned Cost:* Unable to Determine.

*Context:* During our analysis of the financial statements of the non-profit corporation, we noted that administrative salaries, maintenance labor, employee benefits, maintenance materials and other indirect costs are not being charged or allocated from the Low Rent Housing Program. In addition, the non-profit has an inter-program account balance owed to the Low Rent Housing program for utilities that cannot currently be reimbursed due to their present financial condition.

*Effect:* The Low Rent Housing Program is funding the share of costs that should be charged to the non-profit corporation. These costs constitute ineligible use of funds that violate the Annual Contributions Contract. The Low Rent Housing Program has apparently been indirectly financing the costs of the non-profit corporation for a few years. The dollar value of Low Rent Housing Program funds used for the operation of the non-profit corporation could not be determined.

*Recommendation:* The Housing Authority should prepare a cost allocation plan providing for the proper sharing of costs between the Low Rent Housing Program and the non-profit corporation or establish a management agreement charging a market rate management fee to recover the costs. Maintenance time and materials used from the inventory should be charged to the non-profit corporation for the actual time and usage incurred.

**Housing Authority of the City of Idabel**  
Idabel, Oklahoma  
Schedule of Findings and Questioned Costs-Cont.  
For the Year Ended June 30, 2011

*Reply:* The Idabel Housing Authority will contact fee accountant and prepare a cost allocation for the administrative cost and maintenance time and materials will be charged for the actual time and material cost. We are presently looking at other avenues of financing for the non-profit.

***SIGNIFICANT DEFICIENCY***

***2011-2 Lack of Segregation of Duties***

*Criteria:* Internal control is a process, affected by the Housing Authority's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations.

*Condition:* Due to the limited employees and resources available to the Housing Authority of the City of Idabel, many aspects of the internal control structure that rely on segregation of duties are missing. Specific accounting processes noted that are affected by the lack of segregation of duties include: Cash disbursements, payroll disbursements, cash receipting, and specific reporting functions required for the Housing Authority.

*Context:* During our analysis of the internal control structure, we noted that the structure was limited due to the number of employees and economic resources available to the Housing Authority of the City of Idabel. Many aspects needed to implement an acceptable internal control process are not feasible.

*Effect:* Due to the limitations of the internal control system, a potential material misstatement of the financial statements may not be prevented or detected.

*Recommendation:* Although the Housing Authority does not have enough resources to completely address this issue; steps can be taken to reduce the risk. Steps that can be taken are to have the board of directors become a more active component of the internal control system and to formalize the internal control procedures of the Authority. From a practical point, a cost/benefit analysis must be performed to determine if the benefit arrived is worth the potential additional cost incurred. In many cases, the cost will be too high to fully implement the needed controls.

*Reply:* Segregation of duties by the Idabel Housing Authority is limited due to the small number of employees and the economic resources that are available. The administrative staff has segregate duties as much as possible.

**Housing Authority of the City of Idabel**  
Idabel, Oklahoma  
Schedule of Findings and Questioned Costs-Cont.  
For the Year Ended June 30, 2011

***2011-3 Financial Statement Presentation***

*Criteria:* Controls of the drafting of the financial statement prepared in conformity with generally accepted accounting principles (GAAP) must be documented. These controls should address the selection of accounting principles used, the controls over the preparation of the period-end financial statements, and the authorization of nonrecurring adjustments.

*Condition:* The Housing Authority has not established effective controls over the preparation of the overall financial statements and accompanying notes to verify the statements have been prepared in accordance with generally accepted accounting principles.

*Context:* During the course of our audit, we noted material misstatements of the financial statements regarding the allocation of costs between the Low Rent Housing Program and non-profit corporation which has led to a material weakness.

*Effect:* Due to the limitations of the internal control system, material misstatements of the financial statements were not detected.

*Recommendation:* We recommend that the Housing Authority document the year end procedures used to arrive at the year end financial statements. Year end financial statements must be prepared free from material misstatement.

*Reply:* The Idabel Housing Authority will make sure fee accountant shows cost allocations between low-rent and the non-profit.

***2011-4 Community Frameworks, Security Deposit Fund***

*Criteria:* The Housing Authority is required to maintain an escrow account for the collection of security deposits as required by the State of Oklahoma Non-Residential/Residential Landlord and Tenant Act.

*Condition:* The Housing Authority has a liability balance of \$5,800. However, there is not sufficient cash balances to support the balance. Total cash balances, including the bank overdraft of the program, is (\$32), a net shortage of \$(5,832).

*Context:* During our analysis of the balance sheet, it was noted that sufficient funds have not been set aside to fund the security deposit liability.

*Effect:* The project does not have sufficient funds to cover tenant's security deposit balances as of June 30, 2011.

**Housing Authority of the City of Idabel**  
Idabel, Oklahoma  
Schedule of Findings and Questioned Costs-Cont.  
For the Year Ended June 30, 2011

*Recommendation:* We recommend that the Housing Authority establish a separate bank account for the maintaining of the tenant security deposits. This account should be restricted for the sole use of collecting and refunding security deposits.

*Reply:* The Idabel Housing Authority will verify that deposits are segregated into a separate account which will be fully funded by the end of the next fiscal year.

## **Findings and Questioned Costs – Major Federal Award Programs Audit**

### ***Department of Housing and Urban Development***

14.850 – Low Rent Housing Program

#### ***MATERIAL WEAKNESS***

##### ***2011-5 Cost Allocation/Use of Low Rent Program Funds:***

Material Weakness discussed as Finding 2011-1 applies to this program.

#### ***SIGNIFICANT DEFICIENCY***

##### ***2011-6 Low Rent Tenant Files***

*Criteria:* The Housing Authority should have controls in place which determine appropriate tenant file documentation as prescribed by HUD regulations.

*Condition:* Tenant inspections and income verifications are not being completed and/or documented in a timely manner.

*Context:* During our analysis of the tenant files that consisted of a sample of seventeen, we noted the following deficiencies:

- 7 tenant files lacked current inspections.
- 1 tenant file lacked proper income verification.

*Effect:* Failure to inspect units on an annual basis or obtain third party income verification could resulting errors regarding tenant rent amounts or noncompliance with HUD regulations.

*Recommendation:* We recommend that the Housing Authority review HUD regulations related to tenant file documentation. It is also recommended that the Housing Authority review quality control procedures to verify that tenant files comply with HUD regulations.

*Reply:* Quality control will be performed to assure all income is properly documented in the tenant files and all inspections are done in a timely manner.

**HOUSING AUTHORITY OF THE CITY OF IDABEL, OKLAHOMA**  
**CORRECTIVE ACTION PLAN**  
**YEAR ENDED JUNE 30, 2011**

The Housing Authority of the City of IDABEL, OKLAHOMA respectfully submits the following corrective action plan for the year ended June 30, 2011.

Name and Address of independent account firm:

Urlaub & Co., PLLC  
P.O. Box 2663  
Ada, OK 74821

Audit Period: June 30, 2011

The findings from the June 30, 2011 schedule of findings and questioned costs are discussed below.

**SECTION II – Financial Statement Findings**

**2011-1 Cost Allocation/Use of Low Rent Program Funds**

Response: The Idabel Housing Authority will contact fee accountant and prepare a cost allocation for the administrative cost and maintenance time and materials will be charged for the actual time and material cost. We are presently looking at other avenues of financing for the non-profit.

**2011-2 Lack of Segregation of Duties**

Response: Segregation of duties by the Idabel Housing Authority is limited due to the small number of employees and the economic resources that are available. The administrative staff has segregate duties as much as possible.

**2011-3 Financial Statement Presentation**

Response: The Idabel Housing Authority will make sure fee accountant shows cost allocations between low-rent and the non-profit.

**2011-4 Community Frameworks, Security Deposit Fund**

Response: The Idabel Housing Authority will verify that deposits are segregated into a separate account which will be fully funded by the end of the next fiscal year.

**SECTION III – Federal Award Findings and Questioned Costs**

**14.850 – Low Rent Housing Program**

**2011-5 – Cost Allocation/Use of Low Rent Program Funds**

See Response listed for Finding 2011-1

**2011-6 Low Rent Tenant Files**

Response: Quality control will be performed to assure all third party verifications are done and all inspections are performed in a timely manner.

Sincerely,

IDABEL HOUSING AUTHORITY

Dana Baird  
Executive Director