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July 9, 2014

Board of Directors
Marion Housing Authority
601 S. Adams Street
Marion, IN 46953

We have reviewed the audit report prepared by Pamela J. Simpson, CPA, Independent Public Accountant, for the period July 1, 2007 to June 30, 2008. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountant's opinion, the financial statements included in the report present fairly the financial condition of the Marion Housing Authority, as of June 30, 2008 and the results of its operations for the period then ended, on the basis of accounting described in the report.

The Independent Public Accountant's report is filed with this letter in our office as a matter of public record.

STATE BOARD OF ACCOUNTS

**HOUSING AUTHORITY
OF THE CITY OF MARION
MARION, INDIANA**

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

TWELVE MONTHS ENDED JUNE 30, 2008

**HOUSING AUTHORITY OF THE CITY OF MARION
MARION, INDIANA**

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PAMELA J. SIMPSON, C.P.A.

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Independent Auditor's Report

Board of Directors
Housing Authority of the City of Marion
Marion, Indiana

I have audited the accompanying financial statements of Housing Authority of the City of Marion, as of and for the year ended June 30, 2008, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. My responsibility is to express an opinion on these basic financial statements based on my audit.

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

In my opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Housing Authority of the City of Marion, as of June 30, 2008 and the respective changes in financial position and cash flows for the year end in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated July 15, 2009, on my consideration of the Housing Authority of the City of Marion's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal controls over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.

The management's discussion and analysis and budgetary comparison information on pages 3 through 15, are not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, I did not audit the information and express no opinion on it.

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

A handwritten signature in black ink that reads "Pamela J. Simpson". The signature is written in a cursive style with a loop at the end of the last name.

Certified Public Accountant

Decatur, Illinois
July 15, 2009

**HOUSING AUTHORITY OF THE CITY OF MARION, INDIANA
MANAGEMENT DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2008**



Mission

As stewards of public funds and trust, the Marion Housing Authority will provide safe, decent, affordable housing opportunities through public and private partnerships, while serving all customers with respect. (2005-2009 Agency Plan)

The Marion Housing Authority owns and manages 100 low income family units, 170 elderly/disabled units, 421 Section 8 vouchers, 98 Section 8 New Construction units, 25 Affordable Housing units, 51 market rate units, which also include commercial retail space. The Authority manages 8 Affordable Housing units and 36 Tax Credit, all single-family, units. The Authority also manages a Family Self-Sufficiency (FSS) program under Section 8 and receives Capital Fund Program (CFP) grants.

As management of the Housing Authority of Marion, Indiana, we offer the readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal year ended June 30, 2008. We encourage readers to consider the information presented here in conjunction with the Authority's financial statements.

Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Authority's Executive Director or the Chief Financial Officer at (765) 664-5194 or mha@marionha.com.

Financial Highlights

In addition to the following highlights, more descriptive explanation of the following items is provided later in this report.

- The assets of the Authority exceeded its liabilities as of June 30, 2008 by \$11,659,873 (net assets). This was an increase of \$515,465 from \$11,144,408 as of June 30, 2007. This is an increase of 5%.
- The Authority's cash balance as of June 30, 2008 was \$1,244,545, representing an increase of \$299,676, or 32%, from June 30, 2007. However, unrestricted investments as of June 30, 2008, were \$974,961, a 4% decrease from June 30, 2007 unrestricted investment balance of \$1,015,420.
- Total fixed assets, net of accumulated depreciation, increased by 11% from \$10,722,266 as of June 30, 2007 to \$11,881,551 as of June 30, 2008. Fixed assets increased by \$1,777,192, but the depreciation increased by \$617,907, causing the net 11% increase. Related current and long-term debt increased from \$2,146,064 as of June 30, 2007 to \$3,060,184 as of June 30, 2008 (increase of 43%).

**HOUSING AUTHORITY OF THE CITY OF MARION, INDIANA
MANAGEMENT DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2008**

- The Authority had received HUD grant revenues of \$2,707,946 for operations and \$495,921 of capital grants for the fiscal year ended June 30, 2008. This represents a net increase of \$614,102, or 24% from fiscal year ended June 30, 2007.
- Total tenant revenue increased from \$1,452,024 in 2007 to \$1,729,528 in 2008, or by 19%.
- Total revenue increased from \$4,215,390 in 2007 to \$5,577,297 in 2008, or by 32% overall.
- Total Operating Expenses increased from \$4,381,500 to \$5,145,084, which is an increase of \$763,584, or 17%, from 2007 to 2008. From 2006 to 2007, the net increase was \$174,763, or 48%.
- Excess Operating Revenue over Operating Expenses increased by \$598,323, or 360% from 2007 to 2008. From 2006 to 2007, this difference was an increase of \$60,331, or by 27%.

Overview of the Financial Statements

The financial statements included in this annual report are those of a special-purpose government engaged in a business-type activity. The following statements are included:

- *Statement of Net Assets* – reports the Authority’s current financial resources (short-term spendable resources) with capital assets and long-term debt obligations.
- *Statement of Revenues, Expenses, and Changes in Fund Net Assets* – reports the Authority’s operating and non-operating revenues, by major source along with operating and non-operating expenses and capital contributions.
- *Statement of Cash Flows* – reports the Authority’s cash flows from operating, investing, capital and non-capital activities.
- *Comparison of budget vs. actual* – reports the Authority’s actual operating revenues and expenses versus the budgeted amounts.

Readers of the Authority’s financial statements would question whether the Authority is more financially stable as a result of the year’s activities as compared to previous years. It is the opinion of the Authority’s management that significant improvements, both in the financial and operational areas, have been achieved in fiscal year 2008.

The attached analysis of entity wide net assets, revenues, and expenses are provided to assist with the determination that the Authority has operated efficiently. This analysis includes all assets and liabilities using the accrual basis of accounting, which is a Generally Accepted Accounting Principle (GAAP) used by most private sector companies. Accrual of the current year’s revenues and expenses are taken into account regardless of when cash is received or paid. This analysis also reflects the Authority’s net assets and changes in them. The Authority’s net assets are the differences between what the Authority owns (assets) and what the Authority owes (liabilities) as one way to measure the Authority’s financial health. Net assets is further classified as being invested in capital assets, net of related debt, restricted net assets, and unrestricted net assets. Unrestricted net assets are available for obligations where operations cannot provide.

**HOUSING AUTHORITY OF THE CITY OF MARION, INDIANA
MANAGEMENT DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2008**

Over time, changes in the Authority's net assets are an indicator of whether its financial health is improving or deteriorating. Readers need to consider other non-financial factors, such as changes in family/tenant composition, fluctuations in the local economy, HUD mandated program administrative changes, and the physical condition of the Authority's capital assets to assess the overall health of the Authority.

The Marion, Indiana and Grant County economy suffered greatly in 2004 with the closure of several manufacturing firms. Many of the Authority's clients lost employment and household income, which will eventually result in a decrease in tenant revenue and an increase in Housing Assistance Payments (HAP). While the local economy is gradually recovering and some large employers are investing in the community, thus offering more jobs, the rebuilding period from such devastation requires more time than the three years that have passed since 2004.

Statement of Net Assets

Total Assets for FYE 2008 were \$15,613,664, FYE 2007 was \$13,714,217. This represents a net increase of \$1,899,447, or 14% from 2007 to 2008. Areas representing this difference are:

Cash – The cash position of the Authority increased by \$299,676, or 32% during FYE 2008. Cash held on hand at June 30, 2008 was \$1,244,545 and at June 30, 2007 was \$944,869.

Other Current Assets and Capital Assets – The Authority's current assets at June 30, 2008, totaled \$2,385,276 and were \$1,807,532 at June 30, 2007. The increase related to an offsetting decrease in invested funds and a positive cash flow realized from operations.

Capital Assets, net of accumulated depreciation, were \$11,881,551 as of June 30, 2008, and \$10,722,266 as of June 30, 2007. The net capital assets increased in value by \$1,159,285. This is primarily due a purchase of 2 market-rate units and commercial property and the transfer of capital fund assets to Public Housing. Accumulated depreciation decreased the net value of assets by \$617,907 during 2008.

Non-Current Assets – The Authority's non-current assets at June 30, 2008 were \$102,292 and were \$239,550 as of June 30, 2007. In 2001, the Authority loaned \$116,000 to Springhill of Marion, L.P. to assist in the development of the 36-unit tax credit project. Principle and interest is scheduled for annual payments over a seven-year period.

A receivable in the amount of \$100,000 from the Authority's previous component unit, (a not-for-profit agency), Affordable Housing Corporation is included as a non-current asset under the Low Rent Public Housing program. The Authority is working with HUD and legal counsel in order to recapture these funds.

**HOUSING AUTHORITY OF THE CITY OF MARION, INDIANA
MANAGEMENT DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2008**

Also included in the non-current assets are education loans to employees totaling \$2,292. The Authority will assist its employees in additional education that will be beneficial to their position or promotion within the agency. The Authority currently has only one employee using this opportunity to complete their Bachelor's Degree. There are strict stipulations in grades received as well as pay back structure should the employee leave the Authority within three years after receipt of their degree or certification.

Total Liabilities for FYE 2008 were \$3,953,791 and at FYE 2007 were \$2,569,809. This represents an increase of \$1,383,982. Areas related to this increase are:

Current Liabilities – The Authority's current liabilities as of June 30, 2008 totaled \$1,421,794 and were \$548,219, as of June 30, 2007. Current liabilities consists of accounts payable less than 90 days, accrued wages, current portion of accrued compensated absences, interest payable and current portion of principle due on financed property and a bond indenture for the Section 8 New Construction site, accounts payable to HUD and other programs, and tenant security deposits. The current portion of long-term debt on financed properties and the Section 8 New Construction bond increased by \$347,183 as of June 30, 2008.

Long-term Liabilities – The Authority's long-term liabilities as of June 30, 2008, totaled \$2,531,997. As of June 30, 2007, long-term liabilities were \$2,021,590. The Authority's long-term liabilities increased by \$510,407. Long-term debt of the Authority consists of a bond indenture with The Bank of New York (formally JP Morgan Trust) for the Section 8 New Construction property, mortgages on an affordable housing project and the May 2005 purchased 49-unit market rate development, and a loan on the 2-unit and commercial space property, and the non-current portion of accrued compensated absences. Principle payments are made on the Bond Fund annually each October. The affordable housing development known as Thomas Jefferson Homes and the market rate development known as Parkville Apartments and the market rate/commercial property known as Campus Corner are mortgaged separately with a local financial institution with monthly principal and interest payments.

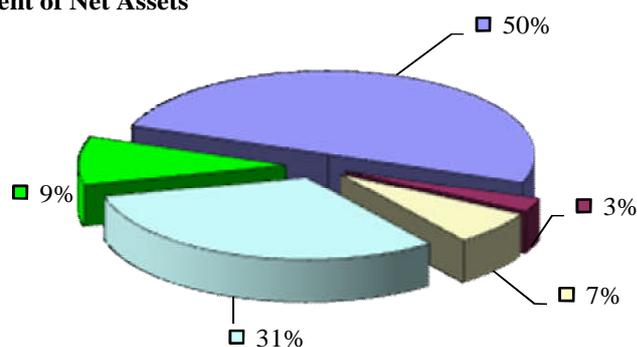
Capital/Net Assets – As capital assets are depreciated, they will be expensed through Net Investment in Capital Assets. The Unrestricted Retained Earnings balance represents what the Authority has available for obligations if revenue from operations is not sufficient. The Authority has \$1,657,077 available as unrestricted funds as of June 30, 2008. This is a decrease from \$1,832,140 as of June 30, 2007, or 10%.

**HOUSING AUTHORITY OF THE CITY OF MARION, INDIANA
MANAGEMENT DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2008**

	2008	2007	Net Change
Cash	1,244,545	944,869	299,676
Other Current Assets	2,385,276	1,807,532	577,744
Interfunds	-	-	-
Capital Assets, net of depreciation	11,881,551	10,722,266	1,159,285
Non-Current Assets	102,292	239,550	(137,258)
Total Assets	15,613,664	13,714,217	1,899,447
Current Liabilities	1,421,794	548,219	873,575
Interfunds	-	-	-
Long-Term Liabilities	2,531,997	2,021,590	510,407
Total Liabilities	3,953,791	2,569,809	1,383,982
Net Investment in Capital Assets	8,821,367	8,576,202	245,165
Restricted Net Assets	1,181,429	736,066	445,363
Unrestricted Retained Earnings	1,657,077	1,832,140	(175,063)
Total Net Assets	11,659,873	11,144,408	515,465
Total Liabilities and Net Assets	15,613,664	13,714,217	1,899,447

Statement of Net Assets

■ Total Assets
■ Restricted Net Assets
□ Unrestricted Retained Earnings
□ Net Investment in Capital Assets
■ Total Liabilities

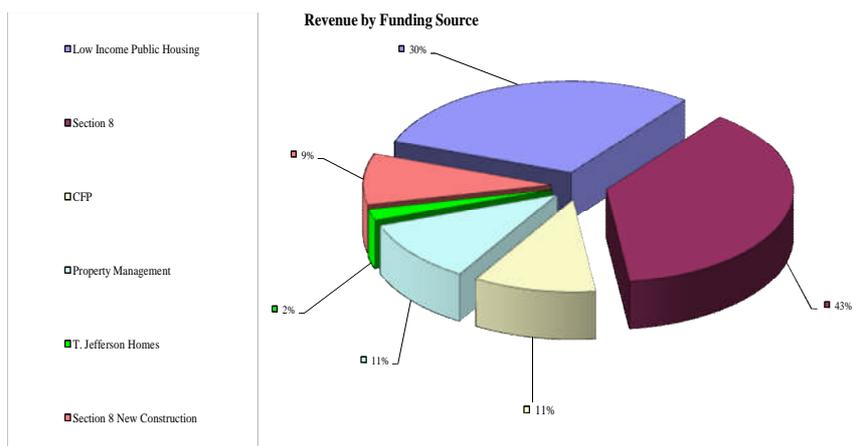


**HOUSING AUTHORITY OF THE CITY OF MARION, INDIANA
MANAGEMENT DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2008**

Statement of Activities

The Authority administers the following programs and the revenues generated from these programs during FYE 2008 were as follows:

Low Income Public Housing		\$ 1,664,420
Section 8		
Vouchers	\$ 2,097,693	
New Construction	503,220	
Total Section 8	2,600,913	
Capital Grants		593,970
Business Activities, State, Local		
Property Management/Market units	\$ 607,157	
T. Jefferson Homes	110,287	
Total Non-HUD Activities	717,444	
Component Unit		550
Total Revenues	\$ 5,577,297	



**HOUSING AUTHORITY OF THE CITY OF MARION, INDIANA
MANAGEMENT DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2008**

In FYE 2008 and FYE 2007, total revenues were \$5,577,297 and \$4,215,390, respectively. The increase of \$1,361,907 in the Authority's revenues was due to a combination of factors. Tenant revenue reflected an increase of \$277,504 over FYE 2007. HUD Operating grants increased by \$306,774 and HUD Capital Grants increased by \$307,328 from FYE 2007 to FYE 2008.

Administrative salaries reflected a slight increase of \$108,596 from FYE 2007 to FYE 2008. Due to the implementation of Asset-Based Management, the agency reorganized several positions as positions became available.

Utility expenses for FYE 2008 increased by 24% overall. The largest portion of the increase was for electricity. In 2006, the City of Marion instituted a substantial rate increase for water and sewer expenses.

Maintenance labor increased in FYE 2008 by \$70,594, or 28%, over FYE 2007. The Authority continues to contract out work related to painting and seasonal labor in lieu of full-time employment staffing. The PHA also continued Protective Services positions to the part-time staff. The Authority has allotted 40 hours per week for protective services by sworn in officers of the Marion Police Department.

The insurance premiums (commercial, property, liability) for the Authority experienced a 19% increase from FYE 2007 to FYE 2008.

The table on the following page illustrates the changes in the income statement.

**HOUSING AUTHORITY OF THE CITY OF MARION, INDIANA
MANAGEMENT DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2008**

	2008	2007	Net Change
Tenant Rental Revenue	\$ 1,729,528	\$ 1,452,024	\$ 277,504
Operating Subsidy	2,707,946	2,401,172	306,774
Capital Grants	495,921	188,593	307,328
Interest Income	168,234	106,538	61,696
Other Revenue	475,668	67,063	408,605
Total Operating Revenue	\$ 5,577,297	\$ 4,215,390	\$ 1,361,907
Operating Expenses			
Administrative	1,373,115	776,497	596,618
Tenant Services	33,244	63,813	(30,569)
Utilities	322,387	260,904	61,483
Maintenance			
Labor	323,956	253,362	70,594
Materials	113,752	78,083	35,669
Contract Costs	71,198	52,239	18,959
Extraordinary Maintenance	128,822	106,525	22,297
Protective Services	16,249	17,681	(1,432)
Housing Assistance Payments	1,513,492	1,560,865	(47,373)
Other Operating Expenses			
Insurance Premiums	151,305	127,491	23,814
Payments in Lieu of Taxes	183,969	94,758	89,211
Bad Debt Expense	(1,682)	16,869	(18,551)
Interest Expense	149,229	128,964	20,265
Compensated Absences	101,202	74,887	26,315
Extraordinary Maintenance	2,372	168,606	(166,234)
Casualty Losses - Non-Capitalized	-	10,342	(10,342)
Other General Expense	44,567	10,495	34,072
Depreciation	617,907	579,119	38,788
Total Operating Expenses	\$ 5,145,084	\$ 4,381,500	\$ 763,584
Operating Income (Loss)	\$ 432,213	\$ (166,110)	\$ 598,323
Capital Grants Received	-	-	-
Prior Period Adjustments	83,252	44,135	39,117
Change in Net Assets	\$ 515,465	\$ (121,975)	\$ 637,440

Overview of Budgets

The Authority adopts a consolidated annual operating budget for all programs. Salaries and operating expenses are allocated in accordance with a Cost Allocation Plan approximately based upon the number of units per program. The budget for Low Income Public Housing is adopted on the basis of accounting prescribed by the U.S. Department of Housing and Urban Development (HUD), which differs in some respects from the Generally Accepted Accounting Principles (GAAP). Program budgets for the Section 8 program are also approved by HUD.

**HOUSING AUTHORITY OF THE CITY OF MARION, INDIANA
MANAGEMENT DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2008**

ANALYSIS OF CAPITAL ASSET ACTIVITY

	2008	2007	Net Change	Percent Variance
Land	580,003	444,882	135,121	30%
Buildings	11,834,831	10,752,810	1,082,021	10%
Equipment and Furniture	454,280	1,149,851	(695,571)	-61%
Construction in Process	949,354	0	949,354	100%
Leasehold Improvements	6,268,808	5,962,541	306,267	5%
Total Fixed Assets	20,087,276	18,310,084	1,777,192	10%
Accumulated Depreciation	8,205,725	7,587,818	617,907	8%
Net Fixed Assets	11,881,551	10,722,266	1,159,285	11%

OUTSTANDING DEBT, AT YEAR END

	<u>2008</u>	<u>Added/(Retired)</u>	<u>2007</u>
Notes Payable – Short Term	\$ 562,291	\$ 347,183	\$ 215,108
Notes Payable – Long Term	<u>2,497,893</u>	<u>566,937</u>	<u>1,930,956</u>
Total	<u>\$ 3,060,184</u>	<u>\$ 914,120</u>	<u>\$ 2,146,064</u>

**HOUSING AUTHORITY OF THE CITY OF MARION
MARION, INDIANA**

**STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
AS OF JUNE 30, 2008**

ASSETS

CURRENT ASSETS

Cash	\$ 1,208,173
Accounts receivable (interfund eliminated)	286,408
Accrued interest receivable	2,814
Notes receivable	318,382
Investments	974,961
Inventory	15,719
Deferred charges	<u>83,221</u>

Total Current Assets \$ 2,889,678

CAPITAL ASSETS

Land, buildings and equipment	\$ 20,087,276
Less: Accumulated depreciation	<u>-8,205,725</u>

Total Capital Assets \$ 11,881,551

OTHER ASSETS

Notes receivable	\$ 102,292
Restricted cash	36,372
Restricted investments	<u>703,771</u>

Total Other Assets \$ 842,435

Net Assets \$ 15,613,664

LIABILITIES

CURRENT LIABILITIES

Accounts payable (interfund eliminated)	\$ 324,853
Notes payable	562,291
Accrued liabilities	439,631
Deferred revenue	<u>95,019</u>

Total Current Liabilities \$ 1,421,794

NONCURRENT LIABILITIES

Notes payable	\$ 2,497,893
Trust and deposit liabilities	<u>34,104</u>

Total Noncurrent Liabilities \$ 2,531,997

NET ASSETS

Invested in capital assets	\$ 8,821,367
Restricted	1,181,429
Unrestricted	<u>1,657,077</u>

Total Net Assets \$ 11,659,873

**HOUSING AUTHORITY OF THE CITY OF MARION
MARION, INDIANA**

**STATEMENT OF REVENUE AND EXPENDITURES - PROPRIETARY FUNDS
AND CHANGES IN NET ASSETS
TWELVE MONTHS ENDED JUNE 30, 2008**

Operating Income

Tenant revenue	\$ 1,674,832
Tenant revenue - other	<u>54,696</u>
Total Tenant Income	\$ 1,729,528
HUD grants - operating	2,707,946
Other revenue	<u>475,668</u>
Total Operating Income	<u>\$ 4,913,142</u>

Operating Expenses

Administrative	\$ 1,373,115
Tenant services	33,244
Utilities	322,387
Ordinary maintenance and operation	637,728
General expense	479,361
Protective services	16,249
Extraordinary maintenance	2,372
Housing assistance payments	1,513,492
Depreciation	<u>617,907</u>
Total Operating Expenses	<u>\$ 4,995,855</u>
Net Operating Income (Loss)	<u>\$ -82,713</u>

Nonoperating Income (Expense)

HUD grants - capital	\$ 495,921
Interest expense	-149,229
Interest income	<u>168,234</u>
Total Nonoperating Income (Expense)	<u>\$ 514,926</u>
Changes in net assets	\$ 432,213
Net assets, beginning of year	11,144,408
Prior period adjustments	<u>83,252</u>
Net assets, end of year	<u>\$ 11,659,873</u>

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

**HOUSING AUTHORITY OF THE CITY OF MARION
MARION, INDIANA**

**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
TWELVE MONTHS ENDED JUNE 30, 2008**

Operating Activities

Operating grants	\$ 2,596,607
Tenant revenue	1,760,310
Other revenue	475,668
Housing assistance payments	-1,513,492
Payments to employees	-948,482
Payments to suppliers and contractors	<u>-1,719,504</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 651,107</u>

Investing Activities

Investments (purchased) redeemed	\$ -29,538
Interest income	<u>196,113</u>
Net Cash Provided (Used) by Investing Activities	<u>\$ 166,575</u>

Capital and Related Financing Activities

HUD grants - capital	\$ 495,921
Additions (deletions) to fixed assets	-1,777,192
Interest expense	-150,855
Retirement of debt	<u>914,120</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>\$ -518,006</u>

Net Change in Cash	\$ 299,676
Cash Balance at June 30, 2007	<u>944,869</u>
Cash Balance at June 30, 2008	<u>\$ 1,244,545</u>

**HOUSING AUTHORITY OF THE CITY OF MARION
MARION, INDIANA**

**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
TWELVE MONTHS ENDED JUNE 30, 2008**

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

Net operating income (loss)	\$ -82,713
Adjustment to Reconcile Operating Income (Loss) to Net Cash Flows from Operating Activities:	
Depreciation	617,907
Adjustments to net assets	83,252
(Increase) decrease in accounts receivable	-214,192
(Increase) decrease in deferred charges	-65,714
(Increase) decrease in other assets	-158,921
Increase (decrease) in accounts payable	180,981
Increase (decrease) in accrued liabilities	212,960
Increase (decrease) in deferred revenues	59,431
Increase (decrease) in other liabilities	<u>18,116</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 651,107</u>

**HOUSING AUTHORITY OF THE CITY OF MARION
MARION, INDIANA**

**NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED JUNE 30, 2008**

Note 1 - Summary of Significant Accounting Policies

(a) Organization and Reporting Entity -

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

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

In evaluating the Authority as a reporting entity, management has addressed its relationship with the City of Marion and concluded that the City does not maintain an oversight responsibility for the Authority's operations. An independent Board of Commissioners, appointed by the City, is responsible for the activities of the Authority. The Authority recruits and employs its executive staff and has substantial legal authority to control its affairs without requiring approval of the City government. Debt incurred by the Authority is not an obligation of the City; the City does not review or approve the Authority's budget, is not entitled to any surplus funds generated by the Authority's operations and is not responsible for any deficits incurred by the Authority. Consequently, in accordance with evaluating the criteria set forth in Section 2100 and 2600 of the Governmental Accounting Standards Board Codification, management has concluded that the Housing Authority of the City of Marion is a separate reporting entity. All funds and programs of the Housing Authority are included in these statements. The Housing Authority has one component unit in the current year.

(b) Component Units

The financial statements of the Housing Authority of the City of Marion previously included a component unit, the Affordable Housing Corporation of Marion, Indiana. The Affordable Housing Corporation of Marion, Indiana (AHC) is a not-for-profit corporation established July 24, 1995 by the Housing Authority of the City of Marion to provide residential dwelling accommodations for low and moderate income persons and families. In accordance with GASB #14, the Marion Housing Authority has concluded that the AHC is not closely related and there is no financial dependency between the two agencies, therefore those statements have not been included in the current year report.

**HOUSING AUTHORITY OF THE CITY OF MARION
MARION, INDIANA**

**NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED JUNE 30, 2008
(CONTINUED)**

Note 1 - Summary of Significant Accounting Policies

© Method of Accounting -

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

The Housing Authority applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. The funds apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict or contradict GASB pronouncements, in which case, GASB prevails.

(d) Funds -

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

- * Low Rent Public Housing (Amps & COCC)
- * Section 8 Choice Vouchers
- * Capital Fund Program
- * State and Local
- * New Construction
- * Business Activities
- * Component Unit

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

Proprietary Fund Types:

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

(e) Cash and Cash Equivalents -

For purposes of the statement of cash flows, the Housing Authority considers all highly liquid investments to be cash equivalents. The term "highly liquid" refers to investments with a maturity of 1 month or less when purchased to be cash equivalents.

**HOUSING AUTHORITY OF THE CITY OF MARION
MARION, INDIANA**

**NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED JUNE 30, 2008
(CONTINUED)**

Note 1 - Summary of Significant Accounting Policies

(f) Accounts Receivable -

The tenants accounts receivable discloses the gross amount due from the tenants at June 30, 2008, and does not take into consideration prepaid amounts. The Housing Authority provides for an allowance for doubtful accounts, based on the estimated collections of current accounts receivables. The Housing Authority periodically writes off uncollectible accounts receivable to the allowance account based on a review of the current status of existing receivables and the determination that the receivable will not be collected.

(g) Inventories and Materials -

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

(h) Investments -

Investments are stated at cost which approximates market.

(i) Fixed Assets -

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

If the initial cost of a piece of equipment and/or other personal property is one thousand (\$1,000) or more and the anticipated life or useful life of said equipment or property is more than one (1) year, the same shall be capitalized and recorded as non-expendable equipment and charged as a capital expenditure.

Land, buildings and equipment contains the following:

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

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

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

**HOUSING AUTHORITY OF THE CITY OF MARION
MARION, INDIANA**

**NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED JUNE 30, 2008
(CONTINUED)**

Note 1 - Summary of Significant Accounting Policies

(j) Income Tax -

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

(k) Annual Contributions/Subsidies and Other Grants

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

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

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

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

Note 2 - Cash and Investments

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

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

Custodial Credit Risk

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

**HOUSING AUTHORITY OF THE CITY OF MARION
MARION, INDIANA**

**NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED JUNE 30, 2008
(CONTINUED)**

Note 2 - Cash and Investments (Continued)

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

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

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

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

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

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

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

Category 3 - Deposits which are not collateralized or insured.

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

<u>Fund</u>	<u>Book Balance</u>	<u>Bank Balance</u>
Low Rent (Amps & COCC)	\$ 564,091	\$ 593,005
Section 8 Voucher	36,372	122,693
New Construction-Hilltop Towers	91,862	91,722
State & Local-Thomas Jefferson Homes	108,317	106,076
Business Activities	411,156	413,227
Component Unit	<u>32,747</u>	<u>32,804</u>
Total	<u>\$ 1,244,545</u>	<u>\$ 1,359,527</u>

**HOUSING AUTHORITY OF THE CITY OF MARION
MARION, INDIANA**

**NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED JUNE 30, 2008
(CONTINUED)**

Note 2 - Cash and Investments (Continued)

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

Category 1 - Investments that are insured, registered or collateralized with securities held by the Housing Authority or by its agent in the Housing Authority's name.

Category 2 - Investments which are uninsured and unregistered held by the counter-party's trust department or agent in the Housing Authority's name.

Category 3 - Uninsured or unregistered investments held by the counter-party, its trust or its agent, but not in the Housing Authority's name.

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

<u>Fund</u>	<u>Rate</u>	<u>Book Balance</u>	<u>Market Value</u>
Low Rent (Amps & COCC)	1.83-5.10%	\$ 862,048	\$ 862,048
Section 8-Voucher	2.37%	80,997	80,997
New Construction-Hilltop Towers	2.00%	<u>31,916</u>	<u>31,916</u>
Total Unrestricted		<u>\$ 974,961</u>	<u>\$ 974,961</u>
New Construction - Hilltop Towers (restricted)		<u>\$ 703,771</u>	<u>\$ 703,771</u>

Note 3 - Compensated Absences

Annual Leave

Employees meeting certain service requirements will not be required to use annual leave in excess of one (1) year's accrual. These employees may "sell" their accrued leave back to the PHA for monetary compensation according to the following schedule:

After completing:

5 years of service, employee may sell 1 week of accrued leave (40 hours)

10 years of service, employee may sell 2 weeks of accrued leave (80 hours)

15 years of service, employee may sell 3 weeks of accrued leave (120 hours)

**HOUSING AUTHORITY OF THE CITY OF MARION
MARION, INDIANA**

**NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED JUNE 30, 2008
(CONTINUED)**

Note 3 - Compensated Absences (Continued)

Annual Leave (Continued)

Employees are limited to these transactions to two (2) times per fiscal year and during specific time frames.

May 1 through May 15 to receive payment by June 15

November 1 through November 15 to receive payment by December 15

Employees will be paid for unused annual leave upon resignation, retirement or in case of death to the employee's beneficiary.

Annual leave will not be granted in increments of less than 1 hour.

Part-time, temporary and/or seasonal employees shall not earn annual leave.

Sick Leave

Sick leave credits shall accrue for regular and probationary full-time employees. Sick leave is earned at the rate of nine (9) days per year (earned at 2.769 hours per pay period) of active employment. Sick leave shall not accrue for any pay period during which an employee is on injury leave, or in a non-pay status over fifty percent (50%) of the standard number of working hours for his/her type of job.

Sick leave may be accumulated to a maximum and not to exceed 60 working days (480 hours).

Any accrued time over 480 hours may be sold back to the PHA for monetary compensation at a maximum of 5 working days, or 40 hours, per fiscal year.

Employees are limited to these transactions to two (2) times per fiscal year and during specific time frames.

May 1 through May 15 to receive payment by June 15

November 1 through November 15 to receive payment by December 15

If an employee has no accumulated sick leave, annual leave must be used.

Accrued unused sick leave hours are not compensated at separation of employment from the PHA unless the individual is a regular full-time employee who has had continuous service with the PHA for five (5) or more years, is leaving in good standing and payment is approved by the Executive Director.

**HOUSING AUTHORITY OF THE CITY OF MARION
MARION, INDIANA**

**NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED JUNE 30, 2008
(CONTINUED)**

Note 3 - Compensated Absences (Continued)

Vacation

Employees are granted vacation benefits in varying amounts as follows:

1st year: 6.5 working days vacation (2 hours accrued per pay period).

2nd through 5th year of continuous service: 13 working days vacation per year (4 hours accrued per pay period).

6th through 10th year of continuous service: 16.25 working days vacation per year (5 hours accrued per pay period).

11th through 15th year of continuous service: 20.3125 working days vacation per year (6.25 hours accrued per pay period).

16th year of continuous service or more: 22.75 working days vacation per year (7 hours accrued per pay period).

The beginning date for calculating each year's authorized vacation is the employee's anniversary date. No employee shall be eligible for vacation until after six (6) months of continuous employment. Vacation earned in a given fiscal year must be used in the following fiscal year or it will be forfeited. All employees who retire or whose employment is terminated shall be entitled to payment for accumulated vacation time not to exceed one (1) year.

Note 4 - Defined Contribution Plan

The PHA participates in a defined contribution plan. The Housing Authority and the participants are required to contribute 7% and 5% of annual covered payroll, respectively. For the fiscal year ended June 30, 2008, actual contributions by the Housing Authority and plan participants were consistent with prior year.

Note 5 - Accounts Receivable

Accounts receivable consists of the following accounts:

Tenants accounts receivable	\$ 28,483
Allowance for doubtful accounts	-1,961
Accounts receivable - HUD	159,468
Other	<u>100,418</u>
Subtotal	\$ 286,408
Interfund	<u>1,368,651</u>
Total	<u>\$ 1,655,059</u>

**HOUSING AUTHORITY OF THE CITY OF MARION
MARION, INDIANA**

**NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED JUNE 30, 2008
(CONTINUED)**

Note 6 - Investments

At June 30, 2008 investments consist of the following:

<u>Low Rent</u>	<u>Rate</u>	<u>Cost</u>	<u>Fair Value</u>
Certificate of deposit	1.83-5.10%	\$ 862,048	\$ 862,048
 <u>Voucher</u>			
Certificates of deposit	2.37%	\$ 80,997	\$ 80,997
 <u>New Construction - Hilltop Towers</u>			
Certificate of deposit	2.00%	\$ 31,916	\$ 31,916
Total		<u>\$ 974,961</u>	<u>\$ 974,961</u>

Note 7 - Deferred Charges

This classification includes the following accounts:

Prepaid insurance	\$ 4,700
Other	<u>78,521</u>
Total	<u>\$ 83,221</u>

Note 8 - Fixed Assets

Balance as of June 30, 2008	\$ 11,881,551
Balance as of June 30, 2007	<u>10,722,266</u>
Net Increase (Decrease)	<u>\$ 1,159,285</u>

Reconciliation

Property betterments and additions	\$ 1,777,192
Current year depreciation expense	<u>-617,907</u>
Net Increase (Decrease)	<u>\$ 1,159,285</u> *

**HOUSING AUTHORITY OF THE CITY OF MARION
MARION, INDIANA**

**NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED JUNE 30, 2008
(CONTINUED)**

Note 8 - Fixed Assets (Continued)

	0701/2007 <u>Balance</u>	Additions/ <u>Transfers</u>	Deletions/ <u>Transfers</u>	06/30/2008 <u>Balance</u>
Land	\$ 444,882	\$ 135,121	\$ 0	\$ 580,003
Buildings	10,752,810	1,124,579	42,558	11,834,831
Equipment and furniture	1,149,851	2,015	697,586	454,280
Leasehold improvements	5,962,541	306,267	0	6,268,808
Construction in progress	<u>0</u>	<u>949,354</u>	<u>0</u>	<u>949,354</u>
Total Assets	\$ 18,310,084	\$ 2,517,336	\$ 740,144	\$ 20,087,276
Accumulated depreciation	<u>-7,587,818</u>	<u>0</u>	<u>617,907</u>	<u>* -8,205,725</u>
Total Net Assets	<u>\$ 10,722,266</u>	<u>\$ 2,517,336</u>	<u>\$ 1,358,051</u>	<u>\$ 11,881,551</u>

Note 9 - Accounts Payable

This classification includes the following accounts:

Vendors and contractors	\$ 43,322
Tenants security deposits	130,034
Payroll withholding	3,297
Accounts payable - other	<u>148,200</u>
Subtotal	\$ 324,853
Interfund	<u>1,368,651</u>
Total	<u>\$ 1,693,504</u>

**HOUSING AUTHORITY OF THE CITY OF MARION
MARION, INDIANA**

**NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED JUNE 30, 2008
(CONTINUED)**

Note 10 - Accrued Liabilities

Accrued liabilities consists of the following:

Current Portion:

Accrued payroll	\$ 28,096
Accrued compensated absences	110,986
Accrued interest payable	13,324
Payment in lieu of taxes	<u>287,225</u>
 Total	 <u>\$ 439,631</u>

Note 11 - Deferred Revenue

This classification consists of the following accounts:

Tenants prepaid rent	\$ 19,398
Other	<u>75,621</u>
 Total	 <u>\$ 95,019</u>

Note 12 - Notes Payable

The detail of the Housing Authority's long term debt at year end is set forth below:

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

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

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

**HOUSING AUTHORITY OF THE CITY OF MARION
MARION, INDIANA**

**NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED JUNE 30, 2008
(CONTINUED)**

Note 13 - Long Term Debt

<u>Program</u>	<u>Rate</u>	<u>Due Date</u>	<u>Current Portion</u>	<u>Long-Term Portion</u>	<u>Total</u>
Business Activities	varies	varies	\$ 398,222	\$ 1,904,385	\$ 2,302,607
Thomas Jefferson Homes	8.59%	12/01/19	14,069	253,508	267,577
Hilltop Towers	6.90%	10/01/10	<u>150,000</u>	<u>340,000</u>	<u>490,000</u>
Total			<u>\$ 562,291</u>	<u>\$ 2,497,893</u>	<u>\$ 3,060,184</u>

Debt service requirements for the long term debt for the next five years are as follows:

<u>Due Fiscal Year Ending</u>	<u>Interest</u>	<u>Principal</u>
2009	\$ 145,262	\$ 562,291
2010	129,260	264,044
2011	112,089	279,485
2012	100,287	110,249
2013	93,879	116,357
Thereafter		1,727,758

Note 14 - Administrative Fee

The PHA receives an "Administrative Fee" as part of the annual contribution from HUD to cover the costs (including overhead) of administering the HAP Program. The fee is a variable rate designated by HUD.

Note 15 - Allocation of Costs

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

**HOUSING AUTHORITY OF THE CITY OF MARION
MARION, INDIANA**

**NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED JUNE 30, 2008
(CONTINUED)**

Note 16 - Long Term Lease/Restricted Investments

Pursuant to the bond agreement dated, October 1, 1977, the Housing Corporation of Marion leased the entire Hilltop Towers project to the Housing Authority of the City of Marion for a term equal to the bonds (33 years). Under the lease the Housing Authority is responsible for operating the project and for collecting all project revenues. The lease calls for annual rental payments consisting primarily of principal, interest and trustee's fees and expenses. The lease also requires additional rent deposits for insurance and tax escrow fund, debt service reserve funds (whenever the balance in said account shall be less than the debt service reserve fund requirement), operating fund, extraordinary maintenance and replacement fund and surplus fund. These rental payments are paid directly to the trustee of the bonds (Chase Manhattan Trust Company).

A corporate warranty deed was signed on October 12, 1977 which conveyed title to the real estate where Hilltop Towers now stands from the Housing Corporation of Marion to the Housing Authority. The title to this property is subject and subordinate to the Indenture of Mortgage and Trust dated October 1, 1977 from the Housing Corporation to Chase Manhattan Trust Company, (the trustee), and to the lease agreement mentioned above.

Future minimum lease payments on the capital lease at June 30, 2008 are as follows:

2009	178,635
2010	182,768
2011	181,038
Thereafter	0

Note 17 - Contingencies

Federal Grants

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

Note 18 - Prior Period Adjustments

Prior period adjustments posted directly to surplus are detailed below:

Adjustment to interfund	\$ 39,475
Adjustment to cash	57,238
Adjustment to accrued interest receivable	-21,901
Adjustment to receivables	<u>8,440</u>
Total	<u>\$ 83,252</u>

**HOUSING AUTHORITY OF THE CITY OF MARION
MARION, INDIANA**

**NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED JUNE 30, 2008
(CONTINUED)**

Note 19 - Risk Management

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

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

Note 20 - Economic Dependency

The Housing Authority received most of its revenue (57%) from the United States Department of Housing and Urban Development. This funding is subject to federal government appropriations and potential funding reductions.

Note 21 - Legal

The Housing Authority was involved in one legal action which occurred subsequent to the end of the fiscal year.

A former employee filed a complaint with the Indiana Rights Commission on March 16, 2009. The ICRC's investigation is continuing. It is premature to predict the outcome of this matter.

SUPPLEMENTAL DATA

**HOUSING AUTHORITY OF THE CITY OF MARION
MARION, INDIANA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE TWELVE MONTHS ENDED JUNE 30, 2008**

<u>Federal Grantor/Program</u>	<u>Federal CFDA Number</u>	<u>Contract Number</u>	<u>Grant Period</u>	<u>Program Amount</u>	<u>Receipts or Revenue Recognized</u>	<u>Disbursements/ Expenditures</u>
<u>U.S. Department of HUD</u>						
Direct Programs:						
Public and Indian Housing*	14.850a	C-2001	FYE 06/30/08	\$ <u>527,291</u>	\$ <u>527,291</u>	\$ <u>527,291</u>
Housing Choice Voucher Program*	14.871	IN041VO	FYE 06/30/08	\$ <u>2,082,606</u>	\$ <u>2,082,606</u>	\$ <u>2,082,606</u>
Public Housing - Capital Fund*	14.872	C-2001	FYE 06/30/08	\$ <u>1,819,925</u>	\$ <u>593,970</u>	\$ <u>593,970</u>
New Construction	14.182	C-2001	FYE 06/30/08	\$ <u>0</u>	\$ <u>0</u>	\$ <u>0</u>
Total Assistance				\$ <u>4,429,822</u>	\$ <u>3,203,867</u>	\$ <u>3,203,867</u>

*Denotes major program.

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS (SEFA)
TWELVE MONTHS ENDED JUNE 30, 2008**

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

PAMELA J. SIMPSON, C.P.A.

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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 Marion
Marion, Indiana

I have audited the financial statements of Housing Authority of the City of Marion as of and for the year ended June 30, 2008, and have issued my report thereon dated July 15, 2009. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Housing Authority of the City of Marion'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 Marion's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Housing Authority of the City of Marion's internal control over financial reporting.

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Housing Authority of the City of Marion'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 Housing Authority of the City of Marion's financial statements that is more than inconsequential will not be prevented or detected by the Housing Authority of the City of Marion's internal control. I consider deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting. (2008-1, 2008-2 and 2008-3)

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

My consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, I consider items 2008-1, 2008-2, and 2008-3 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Housing Authority of the City of Marion's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulation, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2008-4.

I noted certain matters that we reported to management of Housing Authority of the City of Marion, in a separate letter dated July 15, 2009.

Housing Authority of the City of Marion's response to the findings identified in my audit is described in the accompanying schedule of findings and questioned costs. I did not audit Housing Authority of the City of Marion's response and, accordingly, I express no opinion on it.

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

Decatur, Illinois
July 15, 2009


Certified Public Accountant

PAMELA J. SIMPSON, C.P.A.

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Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133

Board of Commissioners
Housing Authority of the City of Marion
Marion, Indiana

Compliance

I have audited the compliance of Housing Authority of the City of Marion with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. Housing Authority of the City of Marion'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 Housing Authority of the City of Marion's management. My responsibility is to express an opinion on Housing Authority of the City of Marion's compliance based on my audit.

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

As described in item 2008-1 in the accompanying schedule of findings and questioned costs, Housing Authority of the City of Marion, did not comply with requirements regarding asset management that are applicable to its Low Income Public Housing and Capital Fund Programs. Compliance with such requirements is necessary, in my opinion, for Housing Authority of the City of Marion to comply with the requirements applicable to that program

In my opinion, except for the noncompliance described in the preceding paragraph, Housing Authority of the City of Marion 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, 2008. The results of my auditing procedures also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2008-2, 2008-3 and 2008-4.

Internal Control Over Compliance

The management of Housing Authority of the City of Marion is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing my audit, I considered Housing Authority of the City of Marion's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on the internal control over compliance in accordance with OMB circular A-133. Accordingly I do not express an opinion on the effectiveness of Housing Authority of the City of Marion's internal control over compliance.

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

A *control deficiency* is an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. I consider the deficiencies in internal control over compliance as described in the accompany schedule of findings and questioned costs, I consider items 2008-1 to be a significant deficiency.

A *material weakness* is a significant deficiency or a combination of significant deficiencies that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs, I consider items 2008-1 to be a material weakness.

Housing Authority of the City of Marion's response to the findings identified in my audit is described in the accompanying schedule of findings and questioned costs. I did not audit Housing Authority of the City of Marion's response and accordingly, I express no opinion on it.

In addition, I noticed other matters involving the internal control and its operation that I have reported to management of Housing Authority of the City of Marion in a separate letter dated July 15, 2009.

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

Decatur, Illinois
July 15, 2009



Certified Public Accountant

**HOUSING AUTHORITY OF THE CITY OF MARION
MARION, INDIANA**

STATUS OF PRIOR AUDIT FINDINGS

The prior audit report for the period ended June 30, 2007 contained no findings.

**HOUSING AUTHORITY OF THE CITY OF MARION
MARION, INDIANA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
CURRENT FINDINGS AND RECOMMENDATIONS**

Section II - Financial Statement Findings

There were four financial statement findings discussed with Frederick Hunt, Executive Director, and Rick Dickey, Director of Finance during the course of the audit and at an exit conference held July 15, 2009.

Finding 2008-1: Incomplete Asset Management Conversion

Condition and Criteria: Asset based management (mandated by HUD 24CFR990) requires a separate financial statement for each Asset Management Project Grouping (AMP) designation. Additionally, Capital Fund Program(CFP) projects are to be allocated to the related AMP. The separate Central Office Cost Center (COCC)is also required to maintain a separate set of financial statements. The conversion to asset management procedures completed by the Housing Authority did not include the reconciliation of the depreciation schedules (which includes the related assets cost, accumulated depreciation or depreciation expense) to each of the AMPS or the COCC. The allocation of uncompleted CFP projects was also not completed in the general ledgers.

Effect: The general ledgers maintained by the Housing Authority do not reflect a complete conversion to asset management as required by HUD.

Cause: The asset management conversion was not completed timely and there was a lack of internal controls implemented to assure that the conversion was properly supported and documented.

Auditor's Recommendation: The Housing Authority must review all requirements for a complete conversion and determine that the assignment of assets, liabilities and equity is fully supported and accurate. Depreciation schedules need to be developed to accurately and properly reflect the assets and related depreciation in each of the groupings as well as the COCC. Capital fund projects in process should be properly allocated to each of the related AMPS. The general ledger needs to be updated to accurately report under the Asset Management reporting requirements. Management should thoroughly review and implement the new Operating Fund Rule 24CFR990.

Grantee Response: The Chief Fiscal officer of the agency during the fiscal year was assigned the task of completing the asset management conversion, however, it was later determined that the individual did not fully understand the requirements. Additionally we did not implement adequate internal controls over the process.

As a result, the general ledger did not reflect a complete conversion. A new fiscal director was subsequently hired and the agency is diligently working to complete the conversion and to adjust the general ledgers and subsidiary ledgers accordingly.

**HOUSING AUTHORITY OF THE CITY OF MARION
MARION, INDIANA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
CURRENT FINDINGS AND RECOMMENDATIONS**

Section II - Financial Statement Findings (continued)

Finding 2008-2: Incomplete Journal Entries

Condition and Criteria: The HUD guidebook 7511, Chapter 3 as well as sound internal controls require that all journal entries be fully supported, and properly approved (through initials or signatures). In reviewing the journal entries posted during the fiscal year ended 2008, it was noted that little if any documentation was maintained for many of the journal entries posted. Hard copies of the journal entries generally were not printed and there was little or no evidence of anyone but the preparer reviewing (or approving) the entries prior to being posted.

Effect: There was inadequate support or documentation for many general ledger account balances.

Cause: The internal control system previously in place was ignored.

Auditor's Recommendation: The Authority should standardize the internal controls over journal vouchers. They should be signed by the preparer and reviewed before posting. The journal vouchers should be numbered and filed with supporting documentation.

Grantee Response: The system of internal controls is being reviewed by the management and the current accounting staff. The controls will be revised to make sure that each journal entry is supported and fully documented. The revised controls will designate who may prepare and who approves all journal entries and the prescribed method of documenting the approval.

Finding 2008-3: SAS 12 - Internal Control Lacking

Condition and Criteria: The Authority is required to have internal controls over their financial statements. The following account balances lacked adequate support:

- Cash
- Tenant's accounts receivable
- Tenant security deposits
- Prepaid insurance
- Accrued absences
- Accrued payroll
- Interfund payable and receivable accounts

Effect: There was inadequate support or documentation for many general ledger account balances.

Cause: The internal control system previously in place was ignored.

Auditor's Recommendation: The Authority should standardize the internal controls over financial statement preparation. The standardized procedures should be documented in a written manual and reviewed with all personnel. The standardized controls should encompass all aspects of financial statement preparation and reflect the current systems in place.

**HOUSING AUTHORITY OF THE CITY OF MARION
MARION, INDIANA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
CURRENT FINDINGS AND RECOMMENDATIONS**

:Section II - Financial Statement Findings (continued)

Finding 2008-3: SAS 12 - Internal Control Lacking

Grantee Response: The former CFO was to have documented the procedures in place by developing a formal, written guidebook. The guidebook prepared by that employee did not reflect the policies and procedures that had been in place. As a result, the policy requiring monthly reconciliations of the general ledger accounts was not followed. All internal control policies are currently being reviewed and revised by management and the new CFO. A new, formal written internal control document will be developed and reviewed by all members of management. Staff will receive copies of the manual and instructed on any changes in procedures as required. Reconciliations of accounts are being performed monthly.

Finding 2008-4 Cash Disbursements/Procurement

Condition and Criteria: Sound, adequate internal controls as well as HUD rules and regulations require adequate accounting and record keeping for all expenditures. While testing the purchasing and disbursement system in place, it was noted that a purchase order system was not used as described in the procurement policy. Most purchases lacked purchase orders. Some paid invoices could not be located (two invoices for insurance coverage) and others lacked proper documentation (two of five credit card policies were not properly supported). Additionally it was noted that payment of some bills was completed electronically, which lacked all required approvals for payment.

Effect: Not all expenditures were adequately supported, therefore it could not be determined if they were allowable, were properly procured and approved.

Cause: The internal control system previously in place was ignored.

Auditor's Recommendation: Disbursements should not be made unless complete, approved documentation as required by the procurement policy has been presented. Debit card transactions should be prohibited.

Grantee Response: The Housing Authority has gone through a series of personnel changes. The current director of finance has implemented new procedures for documenting and filing approved expenditures. The new procedures have been reviewed with all related personnel and will be included in a written procedural manual that is being developed.

Section III - Federal Award Findings

There were no federal award findings discussed with Frederick Hunt, Executive Director, during the course of the audit and at an exit conference held July 15, 2009.

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Board of Commissioners
Housing Authority of the City of Marion
Marion, Indiana

In planning and performing my audit of the financial statements of Housing Authority of the City of Marion as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United State of America, I considered the Housing Authorities internal control over financial reporting (internal control) as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Housing Authority of the City of Marion's internal control. Accordingly, I do not express an opinion on the effectiveness of Housing Authority of the City of Marion's internal control.

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

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

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

1. The Housing Authority's system of internal controls should be formally documented in a written internal control document (manual). Discussions with Housing Authority management indicated that the Housing Authority had a system of internal control in place, however, many of procedures became outdated when a new accounting software system was implemented and there were several personnel changes. Procedures need to be reviewed and documented.
2. During the audit, it was noted that several accounts were not properly reconciled to supporting data or subsidiary ledgers. For example, six separate bank account reconciliations listed 'reconciling' items as a part of the reconciliations. Many of those 'reconciling items' could not be identified or traced to subsequent corrections. Similar variances were noted in the reconciliations of tenants' accounts receivable. While the variances noted were not significant, the lack of properly documented reconciliations indicates a lack of following prescribed internal controls. Variances, when discovered should be investigated and corrected regardless of the materiality.

3. The detailed depreciation schedule for the Parkville project did not reconcile to the fixed asset control accounts on the general ledger. Again, the variances noted were not material, however, the lack of reconciliation indicates that internal control procedures were not adhered to.
4. Management of the Housing Authority indicated that the new director of finance has been instructed to review of all current policies and procedures for adequacy and applicability. During the review of current formal and informal procedures, the director of finance and management should consider adopting or revising the following policies:
 - credit card usage and documentation
 - personal use of company assets (automobiles, cell phones, etc.)
 - performance of quality assurance reviews of public housing tenant files and Section 8 participant files
 - contracting, purchasing and receiving
 - review and approval of non-cash transactions (adjusting journal entries) recorded in the general ledger

Management of the Housing Authority is responsible for over seeing the development and implementation of the revised internal control policies and procedures in all areas of operations of the agency.

5. During the examination of Public Housing files, three instances were noted where the files did not contain proper documentation or calculations required by the Admission and Continued Occupancy Policy. Periodic quality control reviews of the files should be completed to determine that all files contain the proper documentation.
6. During the examination of Section 8 participant files , four instances were noted where the files did not contain proper documentation or calculations required by the Section 8 Administrative Plan Periodic quality control reviews of the files should be completed to determine that all files contain the proper documentation.
7. During the examination of insurance coverage in place, the Housing Authority was unable to locate all of its insurance policies. Replacement copies should be obtained from the insurance carrier.

This communication is intended solely for the information and used of management, the Board of Commissioners, and others within the housing authority, and is not intended to be and should not be used by anyone other than these specified parties. Please feel free to contact me if you have any questions.

Decatur, Illinois
July 15, 2009


Certified Public Accountant