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May 29, 2014

Board of Directors
Mount Vernon Housing Authority
1500 Jefferson Drive
Mount Vernon, IN 47620

We have reviewed the audit report prepared by Pamela J. Simpson, CPA, Independent Public Accountant, for the period January 1, 2011 to December 31, 2011. 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 Mount Vernon Housing Authority, as of December 31, 2011 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 CITY OF MT. VERNON
MT. VERNON, INDIANA**

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

TWELVE MONTHS ENDED DECEMBER 31, 2011

**HOUSING AUTHORITY CITY OF MT. VERNON
MT. VERNON, INDIANA**

TABLE OF CONTENTS

Auditor's Report 1

Management's Discussion and Analysis 3

FINANCIAL STATEMENTS

Statement of Net Assets as of December 31, 2011 10

Statement of Revenues, Expenditures and Changes in Net Assets - Proprietary Funds
Twelve Months Ended December 31, 2011 11

Statement of Cash Flows - Twelve Months Ended December 31, 2011 12

Notes to Financial Statements 14

SUPPLEMENTAL DATA

Schedule of Expenditure of Federal Awards 25

PHA's Statement and Certification of Actual Modernization Cost -
Phase IN36S037501-09 26

Auditor's Report on Compliance and on Internal Control Over Financial Reporting
Based on an Audit of Financial Statements Performed in Accordance With
Government Auditing Standards 27

Auditor's Report on Compliance With Requirements Applicable to Each Major
Program and Internal Control Over Compliance in Accordance With
OMB Circular A-133 29

Status of Prior Audit Findings 31

Schedule of Findings and Questioned Costs - Summary 32

Current Findings, Recommendations and Replies 33

Schedule of Adjusting Journal Entries 34

Financial Data Schedule - Electronic Submission 35



Independent Auditor's Report

Board of Directors
Housing Authority City of Mt. Vernon
Mt. Vernon, Indiana

I have audited the accompanying financial statements of Housing Authority City of Mt. Vernon, as of and for the year ended December 31, 2011, 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 City of Mt. Vernon, as of December 31, 2011 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 10, 2012, on my consideration of the Housing Authority City of Mt. Vernon'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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 9 and be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I have applied certain limited procedures on the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial systems. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

My audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Housing Authority City of Mt. Vernon's basic financial statements. The 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 also not a required part of the basic financial statements of the Housing Authority City of Mt. Vernon. The accompanying financial data schedule and other additional statements and schedules listed as supplemental data in the table of contents has been subjected to the auditing procedures and certain other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory and statistical sections are presented for the purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and accordingly, I do not express an opinion or provide any assurance on it.



Certified Public Accountant

Decatur, Illinois
July 10, 2012

**HOUSING AUTHORITY OF THE CITY OF MT. VERNON
MT. VERNON, INDIANA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
December 31, 2011**

This section of the Housing Authority of the City of Mt. Vernon, Indiana (Authority) annual financial report presents our management's discussion and analysis of the Authority's financial performance during the fiscal year ended on December 31, 2011. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities and to identify any significant changes in financial position. Please read and consider the information presented in conjunction with the financial statements as a whole.

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

FINANCIAL HIGHLIGHTS

- The term "net assets" refers to the difference between assets and liabilities. The Authority's total net assets as of December 31, 2011 were \$1,877,619. The net assets decreased by \$133,323, a decrease of 6.6% from the prior year.
- Revenues for the Authority were \$1,402,938 for the year ended December 31, 2011. This was a decrease of \$18,488 or 1.2% from the prior year.
- Expenses for the Authority were \$1,544,570 for the year ended December 31, 2011. This was an increase of \$42,860 or 2.9% over the prior year.
- Rental revenue for the Authority was \$276,411 for the year ended December 31, 2011, an increase of \$367 or 0.1% over the prior year. HUD operating grants for the Authority was \$1,038,860 for the year ended December 31, 2011, a decrease of \$7,029 or 0.7% from the prior year. HUD capital grants for the Authority was \$79,901 for the year ended December 31, 2011, a decrease of \$9,911 or 11.0% from the prior year.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

**HOUSING AUTHORITY OF THE CITY OF MT. VERNON
MT. VERNON, INDIANA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
December 31, 2011**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Required Financial Statements

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

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

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

Notes to the Financial Statements

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

Supplemental Information

This report also contains the Financial Data Schedule (FDS) as referenced in the section of *Supplemental Data*. HUD has established *Uniform Financial Reporting Standards* that require Housing Authority's to submit financial information electronically to HUD using the FDS format. This financial information was electronically transmitted to the Real Estate Assessment Center (REAC) for the year ended December 31, 2011 and is required to be included in the audit reporting package.

FINANCIAL ANALYSIS

Net assets may serve, over time, as a useful indicator of a government's financial position. As stated in the table on the following page, assets exceeded liabilities by \$1,887,619 at the close of the year ended December 31, 2011 down from \$2,010,942 in fiscal year 2010. The decrease in net assets of \$133,323 was due to the reasons noted below.

- Current assets include cash, investments, receivables, and prepaid expenses. Of the \$34,304 decrease in this category, cash and investments decreased \$28,778, receivables decreased \$7,171, prepaid expenses increased \$44, and materials inventory increased \$1,601.
- Restricted assets consist of cash and investments and decreased \$38,139 from FY 2010.

**HOUSING AUTHORITY OF THE CITY OF MT. VERNON
MT. VERNON, INDIANA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
December 31, 2011**

FINANCIAL ANALYSIS (CONTINUED)

- Capital assets decreased \$85,280 because current year depreciation expense exceeded capital asset additions. Change in capital assets is explained in section titled "Capital Assets" of this analysis.
- Current liabilities decreased \$24,663 or 35.0% mainly due to a \$14,439 decrease in accounts payable which is amounts owed to vendors and contractors for services rendered or goods purchased in the current fiscal year, but paid in the following fiscal year. The Authority also had an \$8,536 decrease in accrued payments in lieu of taxes.
- Noncurrent liabilities increased \$263 due to an increase in noncurrent portion of accrued compensated absences.

The unrestricted net assets were \$142,554 as of December 31, 2011. This amount may be used to meet the Authority's ongoing obligations. The Authority has sufficient funds to meet requirements for cash outlays, excluding housing assistance, for three months. The restricted net assets resulting from excess Housing Choice Voucher HAP funding were \$60,015 as of December 31, 2011. This amount may only be used for housing assistance payments. At the end of the current fiscal year, the Authority is able to report positive balances in all categories of net assets. The same situation held true for the prior fiscal year.

CONDENSED STATEMENTS OF NET ASSETS

	<u>FY 2011</u>	<u>FY 2010</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Current assets	\$ 192,243	\$ 226,547	\$ (34,304)	-15.1%
Restricted assets	60,015	98,154	(38,139)	-38.9%
Capital assets	<u>1,675,050</u>	<u>1,760,330</u>	<u>(85,280)</u>	-4.8%
Total Assets	<u>1,927,308</u>	<u>2,085,031</u>	<u>(157,723)</u>	-7.6%
Current liabilities	45,758	70,421	(24,663)	-35.0%
Noncurrent liabilities	<u>3,931</u>	<u>3,668</u>	263	7.2%
Total Liabilities	<u>49,689</u>	<u>74,089</u>	<u>(24,400)</u>	-32.9%
Net Assets				
Invested in capital assets, net of related debt	1,675,050	1,760,330	(85,280)	-4.8%
Restricted	60,015	98,154	(38,139)	-38.9%
Unrestricted	<u>142,554</u>	<u>152,458</u>	<u>(9,904)</u>	-6.5%
Total Net Assets	<u>\$ 1,877,619</u>	<u>\$ 2,010,942</u>	<u>\$ (133,323)</u>	-6.6%

The largest portion of the Authority's net assets reflects its investment in capital assets (e.g. land, buildings and equipment) less accumulated depreciation. The Authority uses these capital assets to provide service and consequently these assets are not available to liquidate liabilities or other spending.

**HOUSING AUTHORITY OF THE CITY OF MT. VERNON
MT. VERNON, INDIANA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
December 31, 2011**

FINANCIAL ANALYSIS (CONTINUED)

The 2009 approved capital grant (501-09) totals \$86,311 and was 100.0% expended as of December 31, 2011. The following is a summary of individual grant line items, budget amount, percent expended as of 12/31/11, and development account:

<u>Line No.</u>	<u>Amount</u>	<u>Percent</u>	<u>Development Account</u>
1406	\$ 7,000	100.0%	Operations
1460	\$ 61,000	100.0%	Dwelling Structures
1475	\$ 18,311	100.0%	Non-Dwelling Equipment

The 2010 approved capital grant (501-10) totals \$86,020 and was 66.9% expended as of December 31, 2011. The following is a summary of individual grant line items, budget amount, percent expended as of 12/31/11, and development account:

<u>Line No.</u>	<u>Amount</u>	<u>Percent</u>	<u>Development Account</u>
1430	\$ 5,000	27.9%	Fees & Costs
1450	\$ 40,000	51.4%	Site Improvements
1460	\$ 41,020	86.8%	Dwelling Structures

The 2011 approved capital grant (501-11) totals \$71,021 and was 11.3% expended as of December 31, 2011. The following is a summary of individual grant line items, budget amount, percent expended as of 12/31/11, and development account:

<u>Line No.</u>	<u>Amount</u>	<u>Percent</u>	<u>Development Account</u>
1406	\$ 8,000	100.0%	Operations
1460	\$ 63,021	0.0%	Dwelling Structures

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

As can be seen in the table on the following page, total revenues decreased \$18,013 due to the reasons noted below.

- Rental revenue increased \$367 or 0.1% from FY 2010.
- Of the \$7,029 decrease in HUD operating grants, operating subsidy received from HUD decreased \$18,288, housing choice voucher program assistance received from HUD increased \$3,259, and capital fund grants used for operating expenditures increased \$8,000.
- Other income increased \$8,642 or 53.9% mainly due to an increase in other tenant charges besides rent.
- Interest income decreased \$52 or 2.3% from FY 2010.
- The Authority had a \$8,005 loss on disposal of equipment in FY 2011 and a \$2,500 gain on disposal of equipment in FY 2010.

**HOUSING AUTHORITY OF THE CITY OF MT. VERNON
MT. VERNON, INDIANA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
December 31, 2011**

FINANCIAL ANALYSIS (CONTINUED)

**CONDENSED STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS**

	<u>FY 2011</u>	<u>FY 2010</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Revenues				
Operating - non-operating - capital contributions:				
Rental income	\$ 276,411	\$ 276,044	\$ 367	0.1%
HUD operating grants	1,038,860	1,045,889	(7,029)	-0.7%
Other income	13,543	4,901	8,642	176.3%
Interest income	2,228	2,280	(52)	-2.3%
Gain (loss) on sale of fixed assets	(8,005)	2,500	(10,505)	-420.2%
HUD capital fund grants	79,901	89,812	(9,911)	-11.0%
Total Revenues	<u>1,402,938</u>	<u>1,421,426</u>	<u>(18,488)</u>	-1.3%
Expenses				
Administration	189,015	186,926	2,089	1.1%
Tenant services	1,206	1,222	(16)	-1.3%
Utilities	114,919	109,970	4,949	4.5%
Ordinary maintenance & operation	149,297	126,418	22,879	18.1%
General expense	38,375	51,760	(13,385)	-25.9%
Depreciation	170,075	168,005	2,070	1.2%
Housing assistance payments	881,683	857,409	24,274	2.8%
Total Expenses	<u>1,544,570</u>	<u>1,501,710</u>	<u>42,860</u>	2.9%
Excess (deficiency) before prior period adjustments	(141,632)	(80,284)	(61,348)	
Prior period adjustments	8,309	-	8,309	
Change in net assets	<u>(133,323)</u>	<u>(80,284)</u>	<u>(53,039)</u>	
Beginning net assets	2,010,942	2,091,226	(80,284)	
Ending net assets	<u>\$ 1,877,619</u>	<u>\$ 2,010,942</u>	<u>\$ (133,323)</u>	

**HOUSING AUTHORITY OF THE CITY OF MT. VERNON
MT. VERNON, INDIANA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
December 31, 2011**

FINANCIAL ANALYSIS (CONTINUED)

- HUD capital grant revenue decreased \$9,911 from FY 2010. The Authority is allocated capital fund grants each year as determined by HUD and the amount remains relatively consistent from year to year. HUD capital grant revenues during the year will depend upon timing of projects as outlined in the HUD approved capital grant budget.

Total expenses increased \$42,860 due to the reasons noted below.

- Administration increased \$2,089 or 1.1% from FY 2010 primarily due to a \$3,202 increase in travel expenses.
- Tenant services decreased \$16 or 1.3% from FY 2010.
- Utilities increased \$4,949 or 4.5% mostly due to an increase in electricity of \$3,448 or 3.6% and an increase in gas of \$1,091 or 15.6%.
- Ordinary maintenance and operation increased \$22,879 or 18.1% due to an \$8,332 increase in maintenance materials, \$6,973 increase in maintenance labor and benefits, and a \$7,574 increase in contracted maintenance services.
- General expense decreased \$13,385 or 25.9% mainly due to a decrease in expense for bad debts.
- The Authority had a \$2,070 or 1.2% increase in depreciation which is the write-off of capital assets over their estimated useful life.
- Housing assistance payments increased \$24,274 or 2.8% due to a 1.3% increase in average housing assistance payment per voucher issued and a 1.4% increase in number of vouchers issued and outstanding during the current fiscal year.

The Public Housing occupancy rate for fiscal year ended December 31, 2011 was 99.7%, up from 98.9% in FY 2010.

The Authority is authorized to assist 203 households with the Housing Choice Voucher Rental Assistance Program. The Section 8 lease-up rate for FY 2011 was 90.2%, up from 88.6% in FY 2010.

**HOUSING AUTHORITY OF THE CITY OF MT. VERNON
MT. VERNON, INDIANA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
December 31, 2011**

CAPITAL ASSETS

The Housing Authority of the City of Mt. Vernon, Indiana's investment in capital assets, net of related debt, as of December 31, 2011 amounts to \$1,675,050 (net of accumulated depreciation). The investment in capital assets includes land, buildings, improvements, equipment and construction in progress.

Capital Assets – The total decrease in the Authority's capital assets for the current fiscal year was 4.4% in terms of net book value. Actual expenditures to purchase or construct capital assets from revenues were \$92,800 for the year. The Authority has various contract commitments with contractors for the implementation of the HUD capital grants as outlined by the HUD approved Capital Grant Budget. Depreciation charges for the year totaled \$170,075. Additional information on the Authority's capital assets can be found in the notes to the financial statements of this report.

	Beginning	Additions	Depreciation	Disposals	Ending
Capital assets	\$1,760,330	\$92,800	\$(170,075)	\$(8,005)	\$1,675,050

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The Board of Commissioners and Management of the Housing Authority considered many factors when approving the fiscal year 2012 Public Housing budget. The user charges are based on a tenant's income as established by HUD guidelines and are not adjustable. Operating subsidy is based on occupied units and approved vacancies, utility consumption and rates, approved add-ons, formula income, and transition funding. The amount of funding is also established and approved by HUD. Formula income is based on rental income from the Authority's rent roll records for the period specified by HUD. Operating expenses are expected to increase by the economy's inflation rate.

The Authority is eligible to receive \$890,931 for housing assistance payments in FY 2012 for the Housing Choice Voucher Program. The Authority also has \$60,015 available in HAP Reserves to be used for housing assistance payments. Based on the average housing assistance payment per unit of \$401.13 in FY 2011, the Authority will have sufficient funding and reserves to lease 97.3% of its authorized vouchers in FY 2012. Administrative fees for the Housing Choice Voucher program will be based on actual utilization in FY 2012 and adjusted for pro-ration which is currently at 80.011%.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the Authority's finances for all those with an interest in its finances. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to Terri Austin, Executive Director, Housing Authority of the City of Mt. Vernon, 1500 Jefferson Street, Mt. Vernon, Indiana 47620.

**HOUSING AUTHORITY CITY OF MT. VERNON
MT. VERNON, INDIANA**

**STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
AS OF DECEMBER 31, 2011**

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 109,221
Accounts receivable (interfund eliminated)	9,429
Accrued interest receivable	579
Investments	49,230
Inventory (net)	17,613
Deferred charges	<u>6,171</u>

Total Current Assets \$ 192,243

RESTRICTED ASSETS

Cash - restricted	<u>\$ 60,015</u>
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Total Restricted Assets \$ 60,015

CAPITAL ASSETS

Land, buildings and equipment	\$ 4,546,130
Less: Accumulated depreciation	<u>-2,871,080</u>

Net Capital Assets \$ 1,675,050

Total Assets \$ 1,927,308

LIABILITIES

CURRENT LIABILITIES

Accounts payable (interfund eliminated)	\$ 25,453
Accrued liabilities	<u>20,305</u>

Total Current Liabilities \$ 45,758

NONCURRENT LIABILITIES

Accrued compensated absences	<u>\$ 3,931</u>
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Total Noncurrent Liabilities \$ 3,931

NET ASSETS

Invested in capital assets	\$ 1,675,050
Restricted	60,015
Unrestricted	<u>142,554</u>

Total Net Assets \$ 1,877,619

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

**HOUSING AUTHORITY CITY OF MT. VERNON
MT. VERNON, INDIANA**

**STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN NET ASSETS -
PROPRIETARY FUNDS
DECEMBER 31, 2011**

Operating Income

Tenant rental revenue	\$ 276,411
Tenant revenue - other	<u>5,928</u>
Total Rental Income	\$ 282,339
HUD grants - operating	1,038,860
Fraud recovery	752
Other revenue	6,863
Gain (loss) on sale of capital assets	<u>-8,005</u>
Total Operating Income	<u>\$ 1,320,809</u>

Operating Expenses

Administration	\$ 189,015
Tenant services	1,206
Utilities	114,919
Ordinary maintenance and operation	149,297
General expense	38,375
Housing assistance payments	881,683
Depreciation expense	<u>170,075</u>
Total Operating Expenses	<u>\$ 1,544,570</u>
Net Operating Income (Loss)	\$ -223,761

Nonoperating Income (Expense)

Interest income	2,228
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Capital Contributions

Capital fund grants	<u>79,901</u>
Changes in net assets	\$ -141,632
Net assets, beginning of year	2,010,942
Prior period adjustments	<u>8,309</u>
Net assets, end of year	<u>\$ 1,877,619</u>

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

**HOUSING AUTHORITY CITY OF MT. VERNON
MT. VERNON, INDIANA**

**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
TWELVE MONTHS ENDED DECEMBER 31, 2011**

Operating Activities

Operating grants	\$ 1,046,539
Tenant revenue	282,116
Other revenue	-390
Housing assistance payments	-881,683
Payments to employees	-175,233
Payments to suppliers and contractors	<u>-335,405</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ -64,056</u>

Investing Activities

Investments (purchased) redeemed	\$ -850
Interest income	<u>2,033</u>
Net Cash Provided (Used) by Investing Activities	<u>\$ 1,183</u>

Capital and Related Financing Activities

Additions (deletions) to fixed assets	\$ -84,795
Capital fund grants	<u>79,901</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>\$ -4,894</u>

Net Change in Cash	\$ -67,767
Cash Balance at December 31, 2010	<u>237,003</u>
Cash Balance at December 31, 2011	<u><u>\$ 169,236</u></u>

**HOUSING AUTHORITY CITY OF MT. VERNON
MT. VERNON, INDIANA**

**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
TWELVE MONTHS ENDED DECEMBER 31, 2011**

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

Net operating income (loss)	\$ -223,761
Adjustment to Reconcile Operating Income (Loss) to Net Cash Flows from Operating Activities:	
Depreciation	170,075
Adjustment to net assets	8,309
(Increase) decrease in accounts receivable	7,366
(Increase) decrease in deferred charges	-44
(Increase) decrease in inventories	-1,601
Increase (decrease) in accounts payable	-15,019
Increase (decrease) in accrued liabilities	<u>-9,381</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ -64,056</u>

**HOUSING AUTHORITY CITY OF MT. VERNON
MT. VERNON, INDIANA**

**NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED DECEMBER 31, 2011**

Note 1 - Summary of Significant Accounting Policies

(a) Organization -

The Housing Authority City of Mt. Vernon was established by the City of Mt. Vernon 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 Mt. Vernon and concluded that the City does not maintain an oversight responsibility for the Authority's operations. An independent Board of Commissioners, appointed by the Mayor, 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.

The Authority is governed by a Board of Commissioners appointed by the office of the Mayor, and has governance responsibilities over all activities related to all housing activities within the City. The Board of Commissioners has decision making authority and the power to designate management. The members do not serve at the discretion of the Mayor, i.e. they can only be removed for cause. The Authority's Board elects its own chairperson.

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 City of Mt. Vernon is a separate reporting entity. All funds and programs of the Housing Authority are included in these statements. The Housing Authority has no component units.

(b) 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.

**HOUSING AUTHORITY CITY OF MT. VERNON
MT. VERNON, INDIANA**

**NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED DECEMBER 31, 2011
(CONTINUED)**

Note 1 - Summary of Significant Accounting Policies

(c) Financial Statement Presentation

Although a formal policy has not been adopted, in financial statement preparation the Authority distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with the Authority's principal ongoing operations. Principal operating revenues are tenant rents and HUD grants. Operating expenses include administration, maintenance, insurance, depreciation, utilities, housing assistance payments and other general expenses. All revenues and expenses not meeting these definitions are reported as non-operating revenues and expenses.

(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
- * Housing Choice Vouchers
- * Capital Fund Program

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 practice of the Housing Authority is to consider all highly liquid investments to be cash equivalents. The term "highly liquid" refers to investments with a maturity of one (1) month or less when purchased to be cash equivalents.

(f) Accounts Receivable -

The tenants accounts receivable discloses the gross amount due from the tenants at December 31, 2011, 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.

**HOUSING AUTHORITY CITY OF MT. VERNON
MT. VERNON, INDIANA**

**NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED DECEMBER 31, 2011
(CONTINUED)**

Note 1 - Summary of Significant Accounting Policies

(g) Inventories and Materials -

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

(h) 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 dollars (\$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	5 - 10	years
Transportation equipment	5	years
Leasehold improvements	15	years

(i) Net Assets -

GASB Statement 34 requires the classification of net assets into three components as defined below:

- 1) Invested in capital assets, net of related debt - this component of net assets consists of capital assets, net of accumulated depreciation, costs to be recovered from future revenues and unamortized debt expense reduced by outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.

**HOUSING AUTHORITY CITY OF MT. VERNON
MT. VERNON, INDIANA**

**NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED DECEMBER 31, 2011
(CONTINUED)**

Note 1 - Summary of Significant Accounting Policies

(i) Net Assets - (Continued)

- 2) Restricted - this component of net assets consist of constraints placed on net assets use through external constraints imposed by creditors, contributors or laws and regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- 3) Unrestricted - this component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

(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 of Commissioners.
- (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.
- (n) Leasing activities (as lessor) - the Authority is the lessor of dwelling units mainly to low income and/or elderly and disables residents. The rents under the lease are determined generally by the resident's income as adjusted by eligible deductions regulated by HUD, although the resident may elect for a flat rent option. Leases may be cancelled by the lessee at any time. The Authority may cancel the lease only for cause.
- (o) Rental income is recognized as rents become due.
- (p) At any time during the year and at year end, there are construction projects in process. These projects include modernizing rental units. The projects are funded by HUD and funds are requested periodically as costs are incurred.

**HOUSING AUTHORITY CITY OF MT. VERNON
MT. VERNON, INDIANA**

**NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED DECEMBER 31, 2011
(CONTINUED)**

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 \$250,000 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 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.

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.

**HOUSING AUTHORITY CITY OF MT. VERNON
MT. VERNON, INDIANA**

**NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED DECEMBER 31, 2011
(CONTINUED)**

Note 2 - Cash and Investments (Continued)

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>Program</u>	<u>Book Balance</u>	<u>Bank Balance</u>
Low Rent	\$ 104,530	\$ 51,466
Voucher	<u>64,706</u>	<u>133,070</u>
Total	<u>\$ 169,236</u>	<u>\$ 184,536</u>

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>Program</u>	<u>Book Balance</u>	<u>Market Value</u>
Low Rent	<u>\$ 49,230</u>	<u>\$ 49,230</u>

**HOUSING AUTHORITY CITY OF MT. VERNON
MT. VERNON, INDIANA**

**NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED DECEMBER 31, 2011
(CONTINUED)**

Note 3 - Compensated Absences

Annual leave will be computed on the basis of an employee's regular wage or salary for a comparable work period. Terminating employees who comply with the advance notice requirement when resigning will be paid for unused annual leave which has been posted to the account. The Housing Authority City of Mt. Vernon requires all employees to take their annual/vacation leave each year as earned for the purpose of rest and relaxation; with no carryover of days.

Employees shall begin accruing sick leave at the rate of one (1) day per month, after they have satisfactorily completed probation period. Sick leave may be accumulated not to exceed thirty (30) days. In no event shall an employee be paid for sick leave not taken.

Note 4 - Accounts Receivable

Accounts receivable consists of the following accounts:

Accounts receivable - HUD	\$	9,105
Accounts receivable - miscellaneous		101
Accounts receivable - tenants		323
Allowance for doubtful accounts - tenants		-100
Fraud recovery		16,690
Allowance for doubtful accounts - fraud		<u>-16,690</u>
 Total	 \$	 <u>9,429</u>

Note 5 - Investments

At December 31, 2011 investments consist of the following:

	<u>Rate</u>	<u>Cost</u>	<u>Fair Value</u>
Certificates of deposit	1.75%	<u>\$ 49,230</u>	<u>\$ 49,230</u>

Note 6 - Deferred Charges

This classification includes the following accounts:

Prepaid insurance	\$	4,171
Prepaid employee benefits		<u>2,000</u>
 Total	 \$	 <u>6,171</u>

**HOUSING AUTHORITY CITY OF MT. VERNON
MT. VERNON, INDIANA**

**NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED DECEMBER 31, 2011
(CONTINUED)**

Note 7 - Fixed Assets

Balance as of December 31, 2011	\$ 1,675,050
Balance as of December 31, 2010	<u>1,760,330</u>
Net Increase (Decrease)	<u>\$ -85,280</u>

Reconciliation

Additions	\$ 84,795
Current year depreciation expense	<u>-170,075</u> *
Net Increase (Decrease)	<u>\$ -85,280</u>

Analysis

	<u>01/01/2011 Balance</u>	<u>Additions/ Transfers</u>	<u>Deletions/ Transfers</u>	<u>12/31/2011 Balance</u>
Land	\$ 322,428	\$ 0	\$ 0	\$ 322,428
Buildings	3,878,819	65,346	0	3,944,165
Equipment	224,551	32,427	34,992	221,986
Leasehold improvements	18,721	0	18,721	0
Construction in progress	<u>38,650</u>	<u>79,901</u>	<u>61,000</u>	<u>57,551</u>
Total	\$ 4,483,169	\$ 177,674	\$ 114,713	\$ 4,546,130
Accumulated depreciation	<u>-2,722,839</u>	<u>-170,075</u> *	<u>-21,834</u>	<u>-2,871,080</u>
Total	<u>\$ 1,760,330</u>	<u>\$ 7,599</u>	<u>\$ 92,879</u>	<u>\$ 1,675,050</u>

*Current year depreciation expense recognized.

Note 8 - Accounts Payable

This classification includes the following accounts:

Vendors and contractors	\$ 4,067
Tenants security deposits	9,420
Accrued liabilities - other	<u>11,966</u>
Total	<u>\$ 25,453</u>

**HOUSING AUTHORITY CITY OF MT. VERNON
MT. VERNON, INDIANA**

**NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED DECEMBER 31, 2011
(CONTINUED)**

Note 9 - Accrued Liabilities

Accrued liabilities consists of the following:

Current Portion:

Accrued compensated absences	\$ 3,931
Accrued wages and taxes payable	8,293
Payment in lieu of taxes	<u>8,081</u>
Total Current Portion	\$ 20,305

Noncurrent Portion:

Accrued compensated absences	<u>3,931</u>
Total	<u>\$ 24,236</u>

Note 10 - Summary of Long Term Liabilities

A summary of long term liabilities as of December 31, 2011:

	01/01/2011			12/31/2011
	<u>Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u>
Accrued compensated absence	<u>\$ 3,668</u>	<u>\$ 0</u>	<u>\$ 263</u>	<u>\$ 3,931</u>

Note 11 - 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 based on a variable rate determined by HUD annually.

Note 12 - 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.

Note 13 - 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.

**HOUSING AUTHORITY CITY OF MT. VERNON
MT. VERNON, INDIANA**

**NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED DECEMBER 31, 2011
(CONTINUED)**

Note 14 - Prior Period Adjustments

Prior period adjustments posted directly to surplus are detailed below:

Change to PILOT accrual from 10% to 5%	\$ <u>8,309</u>
--	-----------------

Note 15 - Contracts/Commitments

As of December 31, 2011, the Housing Authority had entered into the following pending construction projects in progress:

	<u>Funds Approved</u>	<u>Funds Expended To Date</u>
CFP 501-10	\$ 86,020	\$ 57,551
CFP 501-11	<u>71,021</u>	<u>8,000</u>
Total	<u>\$ 157,041</u>	<u>\$ 65,551</u>

Note 16 - Risk Management

The Housing Authority carries commercial insurance coverage to cover exposure to 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 coverages in the current or past three years.

Note 17 - Economic Dependency

The Housing Authority received most of its revenue (80%) from the United States Department of Housing and Urban Development. This funding is subject to federal government appropriations and potential funding reductions.

SUPPLEMENTAL DATA

**HOUSING AUTHORITY CITY OF MT. VERNON
MT. VERNON, INDIANA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2011**

<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-2006	FYE 12/31/11	\$ 94,223	\$ 94,223	\$ 94,223
Public Housing - Capital Funds	14.872	C-2006	FYE 12/31/11	\$ 243,352	\$ 87,901	\$ 87,901
Housing Choice Voucher Program*	14.871	C-2006V	FYE 12/31/11	\$ 936,637	\$ 936,637	\$ 936,637
Total Housing Assistance				<u>\$ 1,274,212</u>	<u>\$ 1,118,761</u>	<u>\$ 1,118,761</u>

*Denotes major program.

**HOUSING AUTHORITY CITY OF MT. VERNON
MT. VERNON, INDIANA**

**PHA's STATEMENT AND CERTIFICATION OF ACTUAL MODERNIZATION COST
PHASE IN36P037501-09**

1. The Actual Modernization Costs of Phase IN36P037501-09 are as follows:

Funds approved	\$ 86,311
Funds expended	<u>86,311</u>
Excess of Funds Approved	<u><u>\$ 0</u></u>
Funds advanced	
Project notes, non-HUD	\$ 86,311
Funds expended	<u>86,311</u>
Excess of Funds Advanced	<u><u>\$ 0</u></u>

2. The distribution of costs by project, as shown on the final Statement of Modernization Cost, dated June 27, 2012, accompanying the Actual Modernization Cost Certificate submitted to HUD for approval, is in agreement with the PHA's records.
3. All modernization costs have been paid and all related liabilities have been discharged through payment.



**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 Mt. Vernon
Mt. Vernon, Indiana

I have audited the financial statements of Housing Authority of the City of Mt. Vernon as of and for the year ended December 31, 2011, and have issued my report thereon dated July 10, 2012. 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 Mt. Vernon'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 Housing Authority of the City of Mt. Vernon's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of Housing Authority of the City of Mt. Vernon's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Housing Authority of the City of Mt. Vernon's financial statements are free of material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

I noted certain matters that I reported to management of Housing Authority of the City of Mt. Vernon in a separate letter dated July 10, 2012.

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



Certified Public Accountant

Decatur, Illinois
July 10, 2012



**Independent Auditor's 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 Mt. Vernon
Mt. Vernon, Indiana

Compliance

I have audited Housing Authority of the City of Mt. Vernon's compliance 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 Housing Authority of the City of Mt. Vernon's major federal programs for the year ended December 31, 2011. Housing Authority of the City of Mt. Vernon'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 Mt. Vernon's management. My responsibility is to express an opinion on Housing Authority of the City of Mt. Vernon'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. 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 Mt. Vernon's compliance with those requirement 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 Mt. Vernon's compliance with those requirements.

In my opinion, Housing Authority of the City of Mt. Vernon complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011. The results of my auditing procedures disclosed no instances of noncompliance with those requirements.

Internal Control Over Compliance

Management of Housing Authority of the City of Mt. Vernon 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 Mt. Vernon's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing my 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, I do not express an opinion on the effectiveness of Housing Authority of the City of Mt. Vernon's internal control over compliance.

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.

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

This report is intended solely for the information and use of management, Board of Commissioners, others within the entity, Housing and Urban Development, 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.



Certified Public Accountant

Decatur, Illinois
July 10, 2012

**HOUSING AUTHORITY CITY OF MT. VERNON
MT. VERNON, INDIANA**

STATUS OF PRIOR AUDIT FINDINGS

The prior audit report for the period ended December 31, 2010 contained no findings.

**HOUSING AUTHORITY CITY OF MT. VERNON
MT. VERNON, INDIANA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - SUMMARY
FOR THE YEAR ENDED DECEMBER 31, 2011**

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report: Unqualified

* Material weakness(es) identified? _____ yes X no

* Significant deficiency (ies) identified? _____ yes X none reported

Noncompliance material to financial statements noted? _____ yes X no

Federal Awards

Internal control over major programs:

* Material weakness(es) identified? _____ yes X no

* Significant deficiency (ies) identified? _____ yes X none reported

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

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? _____ yes X no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.871	Housing Choice Voucher Program

Dollar threshold used to distinguish between type A and type B programs: \$ 300,000

Auditee qualified as low-risk auditee? X yes _____ no

**HOUSING AUTHORITY CITY OF MT. VERNON
MT. VERNON, INDIANA**

CURRENT FINDINGS AND RECOMMENDATIONS

Section II - Financial Statement Audit Findings

There were no financial statement audit findings discussed with Terri Austin, Executive Director and the administrative staff, during the course of the audit or at an exit conference held July 10, 2012.

Section III - Federal Award Audit Findings

There were no federal award audit findings discussed with Terri Austin, Executive Director and the administrative staff, during the course of the audit or at an exit conference held July 10, 2012.

**HOUSING AUTHORITY CITY OF MT. VERNON
MT. VERNON, INDIANA**

**SCHEDULE OF ADJUSTING JOURNAL ENTRIES
DECEMBER 31, 2011**

<u>Low Rent</u>	<u>Audit</u> <u>Account Number</u>	<u>Debit</u>	<u>Credit</u>	<u>Posting</u> <u>Account Number</u>
(1)				
Gain or loss on disposal	6120	\$ 3,672.84		2802.01
Furniture and equipment	1475.01		\$ 3,672.84	1475.01
(To correct trade in value of 2007 Chevy Equinox to book value at trade)				
 <u>Voucher</u>				
(1)				
A/R - HUD admin fee	1125.01	\$ 871.00		1125.01
Admin fee earned	3600		\$ 871.00	2806.01
(To correct compensated absence expense to actual earned during year)				
(2)				
Gain or loss on disposal	6120	\$ 3,672.85		2802.01
Automotive equipment	1475.07		\$ 3,672.85	1475.07
(To correct trade in value of 2007 Chevy Equinox to book value at trade)				

Mount Vernon Housing Authority (IN037)

MOUNT VERNON, IN

Entity Wide Balance Sheet Summary

Submission Type: Audited/A-133

Fiscal Year End: 12/31/2011

	Project Total	14.871 Housing Choice Vouchers	Subtotal	ELIM	Total
111 Cash - Unrestricted	\$95,110	\$4,691	\$99,801		\$99,801
112 Cash - Restricted - Modernization and Development					
113 Cash - Other Restricted		\$60,015	\$60,015		\$60,015
114 Cash - Tenant Security Deposits	\$9,420		\$9,420		\$9,420
115 Cash - Restricted for Payment of Current Liabilities					
100 Total Cash	\$104,530	\$64,706	\$169,236	\$0	\$169,236
121 Accounts Receivable - PHA Projects					
122 Accounts Receivable - HUD Other Projects	\$8,000	\$1,105	\$9,105		\$9,105
124 Accounts Receivable - Other Government					
125 Accounts Receivable - Miscellaneous	\$101		\$101		\$101
126 Accounts Receivable - Tenants	\$323		\$323		\$323
126.1 Allowance for Doubtful Accounts - Tenants	-\$100		-\$100		-\$100
126.2 Allowance for Doubtful Accounts - Other	\$0	\$0	\$0		\$0
127 Notes, Loans, & Mortgages Receivable - Current					
128 Fraud Recovery		\$16,690	\$16,690		\$16,690
128.1 Allowance for Doubtful Accounts - Fraud		-\$16,690	-\$16,690		-\$16,690
129 Accrued Interest Receivable	\$579		\$579		\$579
120 Total Receivables, Net of Allowances for Doubtful Accounts	\$8,903	\$1,105	\$10,008	\$0	\$10,008
131 Investments - Unrestricted	\$49,230		\$49,230		\$49,230
132 Investments - Restricted					
135 Investments - Restricted for Payment of Current Liability					
142 Prepaid Expenses and Other Assets	\$5,691	\$480	\$6,171		\$6,171
143 Inventories	\$17,613		\$17,613		\$17,613
143.1 Allowance for Obsolete Inventories	\$0		\$0		\$0
144 Inter Program Due From					
145 Assets Held for Sale					
150 Total Current Assets	\$185,967	\$66,291	\$252,258	\$0	\$252,258
161 Land	\$322,428		\$322,428		\$322,428
162 Buildings	\$3,944,165		\$3,944,165		\$3,944,165
163 Furniture, Equipment & Machinery - Dwellings	\$60,644		\$60,644		\$60,644
164 Furniture, Equipment & Machinery - Administration	\$148,852	\$12,490	\$161,342		\$161,342
165 Leasehold Improvements					
166 Accumulated Depreciation	-\$2,865,457	-\$5,623	-\$2,871,080		-\$2,871,080
167 Construction in Progress	\$57,551		\$57,551		\$57,551
168 Infrastructure					
160 Total Capital Assets, Net of Accumulated Depreciation	\$1,668,183	\$6,867	\$1,675,050	\$0	\$1,675,050
171 Notes, Loans and Mortgages Receivable - Non-Current					
172 Notes, Loans, & Mortgages Receivable - Non Current - Past Due					
173 Grants Receivable - Non Current					
174 Other Assets					
176 Investments in Joint Ventures					
180 Total Non-Current Assets	\$1,668,183	\$6,867	\$1,675,050	\$0	\$1,675,050
190 Total Assets	\$1,854,150	\$73,158	\$1,927,308	\$0	\$1,927,308

Mount Vernon Housing Authority (IN037)

MOUNT VERNON, IN

Entity Wide Balance Sheet Summary

Submission Type: Audited/A-133

Fiscal Year End: 12/31/2011

	Project Total	14.871 Housing Choice Vouchers	Subtotal	ELIM	Total
311 Bank Overdraft					
312 Accounts Payable <= 90 Days	\$2,050	\$2,017	\$4,067		\$4,067
313 Accounts Payable >90 Days Past Due					
321 Accrued Wage/Payroll Taxes Payable	\$7,399	\$894	\$8,293		\$8,293
322 Accrued Compensated Absences - Current Portion	\$3,546	\$385	\$3,931		\$3,931
324 Accrued Contingency Liability					
325 Accrued Interest Payable					
331 Accounts Payable - HUD PHA Programs					
332 Account Payable - PHA Projects					
333 Accounts Payable - Other Government	\$8,081		\$8,081		\$8,081
341 Tenant Security Deposits	\$9,420		\$9,420		\$9,420
342 Deferred Revenues					
343 Current Portion of Long-term Debt - Capital Projects/Mortgage Revenue					
344 Current Portion of Long-term Debt - Operating Borrowings					
345 Other Current Liabilities					
346 Accrued Liabilities - Other	\$11,966		\$11,966		\$11,966
347 Inter Program - Due To					
348 Loan Liability - Current					
310 Total Current Liabilities	\$42,462	\$3,296	\$45,758	\$0	\$45,758
351 Long-term Debt, Net of Current - Capital Projects/Mortgage Revenue					
352 Long-term Debt, Net of Current - Operating Borrowings					
353 Non-current Liabilities - Other					
354 Accrued Compensated Absences - Non Current	\$3,546	\$385	\$3,931		\$3,931
355 Loan Liability - Non Current					
356 FASB 5 Liabilities					
357 Accrued Pension and OPEB Liabilities					
350 Total Non-Current Liabilities	\$3,546	\$385	\$3,931	\$0	\$3,931
300 Total Liabilities	\$46,008	\$3,681	\$49,689	\$0	\$49,689
508.1 Invested In Capital Assets, Net of Related Debt	\$1,668,183	\$6,867	\$1,675,050		\$1,675,050
509.2 Fund Balance Reserved					
511.2 Unreserved, Designated Fund Balance					
511.1 Restricted Net Assets		\$60,015	\$60,015		\$60,015
512.1 Unrestricted Net Assets	\$139,959	\$2,595	\$142,554		\$142,554
512.2 Unreserved, Undesignated Fund Balance					
513 Total Equity/Net Assets	\$1,808,142	\$69,477	\$1,877,619	\$0	\$1,877,619
600 Total Liabilities and Equity/Net Assets	\$1,854,150	\$73,158	\$1,927,308	\$0	\$1,927,308

Mount Vernon Housing Authority (IN037)

MOUNT VERNON, IN

Entity Wide Revenue and Expense Summary

Submission Type: Audited/A-133

Fiscal Year End: 12/31/2011

	Project Total	14,871 Housing Choice Vouchers	Subtotal	ELIM	Total
70300 Net Tenant Rental Revenue	\$276,411		\$276,411		\$276,411
70400 Tenant Revenue - Other	\$5,928		\$5,928		\$5,928
70500 Total Tenant Revenue	\$282,339	\$0	\$282,339	\$0	\$282,339
70600 HUD PHA Operating Grants	\$102,223	\$936,637	\$1,038,860		\$1,038,860
70610 Capital Grants	\$79,901		\$79,901		\$79,901
70710 Management Fee					
70720 Asset Management Fee					
70730 Book Keeping Fee					
70740 Front Line Service Fee					
70750 Other Fees					
70700 Total Fee Revenue			\$0	\$0	\$0
70800 Other Government Grants					
71100 Investment Income - Unrestricted	\$1,076	\$583	\$1,659		\$1,659
71200 Mortgage Interest Income					
71300 Proceeds from Disposition of Assets Held for Sale					
71310 Cost of Sale of Assets					
71400 Fraud Recovery		\$752	\$752		\$752
71500 Other Revenue	\$6,470	\$393	\$6,863		\$6,863
71600 Gain or Loss on Sale of Capital Assets	-\$8,005		-\$8,005		-\$8,005
72000 Investment Income - Restricted		\$569	\$569		\$569
70000 Total Revenue	\$464,004	\$938,934	\$1,402,938	\$0	\$1,402,938
91100 Administrative Salaries	\$58,013	\$55,021	\$113,034		\$113,034
91200 Auditing Fees	\$2,410	\$2,410	\$4,820		\$4,820
91300 Management Fee					
91310 Book-keeping Fee					
91400 Advertising and Marketing	\$15	\$117	\$132		\$132
91500 Employee Benefit contributions - Administrative	\$16,245	\$15,257	\$31,502		\$31,502
91600 Office Expenses	\$8,259	\$15,547	\$23,806		\$23,806
91700 Legal Expense					
91800 Travel	\$2,198	\$1,768	\$3,966		\$3,966
91810 Allocated Overhead					
91900 Other	\$6,389	\$5,366	\$11,755		\$11,755
91000 Total Operating - Administrative	\$93,529	\$95,486	\$189,015	\$0	\$189,015
92000 Asset Management Fee					
92100 Tenant Services - Salaries					
92200 Relocation Costs					
92300 Employee Benefit Contributions - Tenant Services					
92400 Tenant Services - Other	\$1,206		\$1,206		\$1,206
92500 Total Tenant Services	\$1,206	\$0	\$1,206	\$0	\$1,206

Mount Vernon Housing Authority (IN037)

MOUNT VERNON, IN

Entity Wide Revenue and Expense Summary

Submission Type: Audited/A-133

Fiscal Year End: 12/31/2011

	Project Total	14.871 Housing Choice Vouchers	Subtotal	ELIM	Total
93100 Water	\$7,017		\$7,017		\$7,017
93200 Electricity	\$97,965		\$97,965		\$97,965
93300 Gas	\$8,063		\$8,063		\$8,063
93400 Fuel					
93500 Labor					
93600 Sewer					
93700 Employee Benefit Contributions - Utilities					
93800 Other Utilities Expense	\$1,874		\$1,874		\$1,874
93000 Total Utilities	\$114,919	\$0	\$114,919	\$0	\$114,919
94100 Ordinary Maintenance and Operations - Labor	\$55,502		\$55,502		\$55,502
94200 Ordinary Maintenance and Operations - Materials and Other	\$20,819	\$1,698	\$22,517		\$22,517
94300 Ordinary Maintenance and Operations Contracts	\$56,011	\$92	\$56,103		\$56,103
94500 Employee Benefit Contributions - Ordinary Maintenance	\$15,175		\$15,175		\$15,175
94000 Total Maintenance	\$147,507	\$1,790	\$149,297	\$0	\$149,297
95100 Protective Services - Labor					
95200 Protective Services - Other Contract Costs					
95300 Protective Services - Other					
95500 Employee Benefit Contributions - Protective Services					
95000 Total Protective Services	\$0	\$0	\$0	\$0	\$0
96110 Property Insurance	\$14,946		\$14,946		\$14,946
96120 Liability Insurance	\$3,534	\$80	\$3,614		\$3,614
96130 Workmen's Compensation	\$2,155	\$267	\$2,422		\$2,422
96140 All Other Insurance	\$2,207	\$112	\$2,319		\$2,319
96100 Total insurance Premiums	\$22,842	\$459	\$23,301	\$0	\$23,301
96200 Other General Expenses					
96210 Compensated Absences	\$5,523	\$1,370	\$6,893		\$6,893
96300 Payments in Lieu of Taxes	\$8,081		\$8,081		\$8,081
96400 Bad debt - Tenant Rents	\$100		\$100		\$100
96500 Bad debt - Mortgages					
96600 Bad debt - Other					
96800 Severance Expense					
96000 Total Other General Expenses	\$13,704	\$1,370	\$15,074	\$0	\$15,074
96710 Interest of Mortgage (or Bonds) Payable					
96720 Interest on Notes Payable (Short and Long Term)					
96730 Amortization of Bond Issue Costs					
96700 Total Interest Expense and Amortization Cost	\$0	\$0	\$0	\$0	\$0
96900 Total Operating Expenses	\$393,707	\$99,105	\$492,812	\$0	\$492,812
97000 Excess of Operating Revenue over Operating Expenses	\$70,297	\$839,829	\$910,126	\$0	\$910,126

Mount Vernon Housing Authority (IN037)
MOUNT VERNON, IN
Entity Wide Revenue and Expense Summary

Submission Type: Audited/A-133

Fiscal Year End: 12/31/2011

	Project Total	14.871 Housing Choice Vouchers	Subtotal	ELIM	Total
97100 Extraordinary Maintenance					
97200 Casualty Losses - Non-capitalized					
97300 Housing Assistance Payments		\$881,290	\$881,290		\$881,290
97350 HAP Portability-In		\$393	\$393		\$393
97400 Depreciation Expense	\$167,323	\$2,752	\$170,075		\$170,075
97500 Fraud Losses					
97600 Capital Outlays - Governmental Funds					
97700 Debt Principal Payment - Governmental Funds					
97800 Dwelling Units Rent Expense					
90000 Total Expenses	\$561,030	\$983,540	\$1,544,570	\$0	\$1,544,570
10010 Operating Transfer In	\$8,000		\$8,000	-\$8,000	\$0
10020 Operating transfer Out	-\$8,000		-\$8,000	\$8,000	\$0
10030 Operating Transfers from/to Primary Government					
10040 Operating Transfers from/to Component Unit					
10050 Proceeds from Notes, Loans and Bonds					
10060 Proceeds from Property Sales					
10070 Extraordinary Items, Net Gain/Loss					
10080 Special Items (Net Gain/Loss)					
10091 Inter Project Excess Cash Transfer In					
10092 Inter Project Excess Cash Transfer Out					
10093 Transfers between Program and Project - In					
10094 Transfers between Project and Program - Out					
10100 Total Other financing Sources (Uses)	\$0	\$0	\$0	\$0	\$0
10000 Excess (Deficiency) of Total Revenue Over (Under) Total Expenses	-\$97,026	-\$44,606	-\$141,632	\$0	-\$141,632
11020 Required Annual Debt Principal Payments	\$0	\$0	\$0		\$0
11030 Beginning Equity	\$1,896,859	\$114,083	\$2,010,942		\$2,010,942
11040 Prior Period Adjustments, Equity Transfers and Correction of Errors	\$8,309		\$8,309		\$8,309
11050 Changes in Compensated Absence Balance					
11060 Changes in Contingent Liability Balance					
11070 Changes in Unrecognized Pension Transition Liability					
11080 Changes in Special Term/Severance Benefits Liability					
11090 Changes in Allowance for Doubtful Accounts - Dwelling Rents					
11100 Changes in Allowance for Doubtful Accounts - Other					
11170 Administrative Fee Equity		\$9,462	\$9,462		\$9,462
11180 Housing Assistance Payments Equity		\$60,015	\$60,015		\$60,015
11190 Unit Months Available	996	2436	3432		3432
11210 Number of Unit Months Leased	993	2197	3190		3190
11270 Excess Cash	\$87,393		\$87,393		\$87,393
11610 Land Purchases	\$0		\$0		\$0
11620 Building Purchases	\$59,359		\$59,359		\$59,359
11630 Furniture & Equipment - Dwelling Purchases	\$0		\$0		\$0
11640 Furniture & Equipment - Administrative Purchases	\$0		\$0		\$0
11650 Leasehold Improvements Purchases	\$20,542		\$20,542		\$20,542
11660 Infrastructure Purchases	\$0		\$0		\$0
13510 CFFP Debt Service Payments	\$0		\$0		\$0
13901 Replacement Housing Factor Funds	\$0		\$0		\$0

Board of Commissioners
Housing Authority City of Mt. Vernon
Mt. Vernon, Indiana

In planning and performing my audit of the financial statements of the Housing Authority City of Mt. Vernon as of and for the year ended December 31, 2011, in accordance with auditing standards generally accepted in the United States of America, I considered the Housing Authority's 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 the Housing Authority of the City of Mt. Vernon's internal control. Accordingly, I do not express an opinion on the effectiveness of the Housing Authority City of Mt. Vernon'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. During my review of financials it was noted that PHA had a large interfund payable from Voucher to Low Rent. The PHA needs to pay off all balances that are only "timing" differences of cash transactions at the end of each accounting period and make every effort to resolve and repay prior year's loans. PHA reported the cash transferred in current year even though it had not been made during year.
2. Management should familiarize themselves with all period end reports provided by their automated system and retain all detailed reports in hard copy for audit. During our review of year end tenant accounts receivable balances, it was noted that the different receivable reports (daily report with ending balances vs the summary report with ending balances) did not reconcile to each other. The PHA is encouraged to contact their software vendor for assistance with the reconciling and/or correcting of the reports.

3. During my examination of Section 8 files it was noted that one family is living in a five bedroom unit, but PHA has no rent comparable for the unit. The PHA should adopt a five bedroom payment standard (P/S), instead used gross rent in 2011 - and a calculated amount in 2012. The PHA should adopt a payment standard for a five bedroom unit.

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 10, 2012

Certified Public Accountant