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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, 2009 to June 30, 2010. 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, 2010 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, 2010

HOUSING AUTHORITY OF THE CITY OF MARION
MARION, INDIANA

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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, 2010, 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.

Except as described in the following paragraph, 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.

The Housing Authority did not maintain an updated, accurate depreciation schedule and as a result did not provide for depreciation expense in the current year financial statements. I am unable to determine the effect on the financial statements if the expense had been recorded in accordance with Note 1 to the financial statements.

In my opinion, except for the adjustments as might have been determined if detailed depreciation schedules were available, 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, 2010 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 March 11, 2011, 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.

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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.

Pamela J. Simpson

Certified Public Accountant

Decatur, Illinois
March 11, 2011

HOUSING AUTHORITY OF THE CITY OF MARION, INDIANA
MANAGEMENT DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2010

mha
marion housing authority

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, 2010. 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, 2010 by $11,293,668 (net assets). This was an increase of $627,597 from $10,666,071 as of June 30, 2009. This is an increase of 5%.
- The Authority's cash balance as of June 30, 2010 was $464,163, representing a decrease of $97,134, or 17%, from June 30, 2009. However, unrestricted investments as of June 30, 2010, were $882,216, a 1% increase from June 30, 2009 unrestricted investment balance of $871,526.
- Total fixed assets, net of accumulated depreciation, increased by 3% from $12,656,510 as of June 30, 2009 to $13,107,951 as of June 30, 2010. Fixed assets increased by $451,441. Related debt decreased to $3,202,492 as of June 30, 2010 from $3,492,310 as of June 30, 2009 (decrease of 8%).

- The Authority had received HUD grant revenues of $2,894,811 for operations and $448,191 of capital grants for the fiscal year ended June 30, 2010. This represents a net increase of $758,637, or 29% from fiscal year ended June 30, 2009.
- Total tenant revenue increased from $1,905,079 in 2009 to $1,915,452 in 2010.
- Total revenue increased from $4,771,507 in 2009 to $5,464,126 in 2010, or by 14% overall.
- Total Expenses decreased from $5,855,548 to $4,837,706, which is a decrease of $1,017,842, or 17%, from 2009 to 2010.
- Excess Operating Revenue over Operating Expenses increased by $1,710,461, or 157% from 2009 to 2010.

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 need to be made, both in the financial and operational areas, especially in fiscal year 2010.

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.

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 2010 were $15,473,985, FYE 2009 was $15,108,221. This represents a net increase of $365,764, or 2% from 2009 to 2010. Areas representing this difference are:

Cash – The cash position of the Authority decreased by $97,134, or 17% during FYE 2010. Cash held on hand at June 30, 2010 was $464,163 and at June 30, 2009 was $561,297 (net of overdraft).

Other Current Assets – The Authority's other current assets at June 30, 2010, totaled $1,799,579 and was $1,788,122 at June 30, 2009. The increase related to an offsetting increase in accounts receivable.

Capital Assets, net of accumulated depreciation, were $13,107,951 as of June 30, 2010, and $12,656,510 as of June 30, 2009. The net capital assets increased in value by $451,441. This is primarily due to increase in CFP money.

Non-Current Assets – The Authority's non-current assets at June 30, 2010 were $102,292.

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.

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.

HOUSING AUTHORITY OF THE CITY OF MARION, INDIANA
MANAGEMENT DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2010

Total Liabilities for FYE 2010 were $4,180,317 and at FYE 2009 were $4,442,150. This represents a decrease of $261,833. Areas related to this increase are:

Current Liabilities – The Authority's current liabilities as of June 30, 2010 totaled $1,257,641 and were $1,214,365, as of June 30, 2009. 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.

Long-term Liabilities – The Authority's long-term liabilities as of June 30, 2010, totaled $2,922,676. As of June 30, 2009, long-term liabilities were $3,227,785. The Authority's long-term liabilities decreased by $305,109. 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 FSS escrow. 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.

	2010	2009	Net Change
Cash (net of overdraft)	464,163	561,297	(97,134)
Other Current Assets	1,799,579	1,788,122	11,457
Interfunds	-	-	-
Capital Assets, net of depreciation	13,107,951	12,656,510	451,441
Non-Current Assets	102,292	102,292	-
Total Assets	15,473,985	15,108,221	365,764
Current Liabilites	1,257,641	1,214,365	43,276
Interfunds	-	-	-
Long-Term Liabilities	2,922,676	3,227,785	(305,109)
Total Liabilities	4,180,317	4,442,150	(261,833)
Net Investment in Capital Assets	9,430,856	8,695,097	735,759
Restricted Net Assets	822,780	905,475	(82,695)
Unrestricted Retained Earnings	1,040,032	1,065,499	(25,467)
Total Net Assets	11,293,668	10,666,071	627,597
Total Liabilities and Net Assets	15,473,985	15,108,221	365,764

HOUSING AUTHORITY OF THE CITY OF MARION, INDIANA
MANAGEMENT DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2010

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 (Amps & COCC)			$	1,691,072
Section 8				
Vouchers	$	1,964,516		
Veterans Affairs Supportive Housing	$	85,803		
New Construction		445,599		
Total Section 8				2,495,918
Formula Capital Fund Stimulus Grant				331,769
Business Activities, State, Local				
Property Management/Market units	$	748,573		
T. Jefferson Homes		114,502		
Total Non-HUD Activities				863,075
Component Unit				82,292
Total Revenues			$	5,464,126

In FYE 2010 and FYE 2009, total revenues were $5,464,126 and $4,771,507, respectively. The increase of $692,619 in the Authority's revenues was due to a combination of factors. HUD Operating grants increased by $476,592 and HUD Capital Grants increased by $282,045 from FYE 2009 to FYE 2010.

Administrative expenses reflected a decrease of $303,329 from FYE 2009 to FYE 2010.

Utility expenses for FYE 2010 increased by 22% overall. The largest portion of the increase was for water. In 2006, the City of Marion instituted a substantial rate increase for water and sewer expenses.

Maintenance labor decreased in FYE 2010 by $11,624, or 3%, over FYE 2009. 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 and liability) for the Authority experienced a 13% decrease from FYE 2009 to FYE 2010.

HOUSING AUTHORITY OF THE CITY OF MARION, INDIANA
MANAGEMENT DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2010

The table below illustrates the changes in the income statement.

	2010	2009	Net Change
Tenant Rental Revenue	$ 1,915,452	$ 1,905,079	$ 10,373
Operating Subsidy	2,894,811	2,418,219	476,592
Capital Grants	448,191	166,146	282,045
Interest Income	11,042	46,726	(35,684)
Other Revenue	194,630	235,337	(40,707)
Total Operating Revenue	$ 5,464,126	$ 4,771,507	$ 692,619
Operating Expenses			
Administrative	1,222,370	1,525,699	(303,329)
Tenant Services	6,504	6,912	(408)
Utilities	414,698	338,007	76,691
Maintenance			
Labor	369,713	381,337	(11,624)
Materials	188,549	197,780	(9,231)
Contract Costs	201,387	220,584	(19,197)
Employee Benefits	161,203	169,160	(7,957)
Protective Services	18,447	18,039	408
Housing Assistance Payments	1,653,425	1,859,661	(206,236)
Other Operating Expenses			
Insurance Premiums	145,609	168,225	(22,616)
Payments in Lieu of Taxes	146,320	150,868	(4,548)
Bad Debt Expense	17,970	17,810	160
Interest Expense	168,687	191,108	(22,421)
Compensated Absences	85,742	-	85,742
Extraordinary Maintenance	-	10,466	(10,466)
Casualty Losses - Non-Capitalized	-	-	-
Other General Expense	37,082	19,725	17,357
Depreciation	-	580,167	(580,167)
Total Operating Expenses	$ 4,837,706	$ 5,855,548	$ (1,017,842)
Operating Income (Loss)	$ 626,420	$ (1,084,041)	$ 1,710,461
Capital Grants Received	-	-	-
Prior Period Adjustments	1,177	90,239	(89,062)
Change in Net Assets	$ 627,597	$ (993,802)	$ 1,621,399

HOUSING AUTHORITY OF THE CITY OF MARION, INDIANA
MANAGEMENT DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2010

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.

ANALYSIS OF CAPITAL ASSET ACTIVITY

	2010	2009	Net Change	Percent Variance
Land	468,631	444,881	23,750	5%
Buildings	17,044,416	15,518,496	1,525,920	10%
Equipment and Furniture	486,667	456,880	29,787	7%
Construction in Process	1,250,939	1,116,864	134,075	12%
Leasehold Improvements	2,559,947	3,822,038	(1,262,091)	-33%
Total Fixed Assets	**21,810,600**	**21,359,159**	**451,441**	**4%**
Accumulated Depreciation	8,702,649	8,702,649	0	0%
Net Fixed Assets	**13,107,951**	**12,656,510**	**451,441**	**4%**

OUTSTANDING DEBT, AT YEAR END

	2010	Added/(Retired)	2009
Notes Payable – Short Term	$ 302,386	$ 12,106	$ 290,280
Notes Payable – Long Term	2,900,106	(301,924)	3,202,030
Total	$ 3,202,492	$ (289,818)	$ 3,492,310

HOUSING AUTHORITY OF THE CITY OF MARION
MARION, INDIANA

STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
AS OF JUNE 30, 2010

ASSETS	
CURRENT ASSETS	
Cash	$ 231,941
Accounts receivable (interfund eliminated)	353,419
Investments	882,216
Inventory	15,719
Deferred charges	18,477
Total Current Assets	$ 1,501,772
RESTRICTED ASSETS	
Restricted cash	$ 266,118
Restricted deposits and debt service funds	529,748
Total Restricted Assets	$ 795,866
CAPITAL ASSETS	
Land, buildings and equipment	$ 21,810,600
Less: Accumulated depreciation	-8,702,649
Total Capital Assets	$ 13,107,951
OTHER ASSETS	
Notes receivable	$ 102,292
Total Other Assets	$ 102,292
Net Assets	$ 15,507,881
LIABILITIES	
CURRENT LIABILITIES	
Cash overdraft	$ 33,896
Accounts payable (interfund eliminated)	309,042
Notes payable	302,386
Accrued liabilities	467,507
Deferred revenue	178,706
Total Current Liabilities	$ 1,291,537
NONCURRENT LIABILITIES	
Notes payable	$ 2,900,106
Trust and deposit liabilities	22,570
Total Noncurrent Liabilities	$ 2,922,676
NET ASSETS	
Invested in capital assets	$ 9,430,856
Restricted	822,780
Unrestricted	1,040,032
Total Net Assets	$ 11,293,668

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

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, 2010

Operating Income	
Tenant revenue	$ 1,805,329
Tenant revenue - other	110,123
Total Tenant Income	$ 1,915,452
HUD grants - operating	2,894,811
Other revenue	194,630
Total Operating Income	$ 5,004,893
Operating Expenses	
Administrative	$ 1,222,370
Tenant services	6,504
Utilities	414,698
Ordinary maintenance and operation	920,852
General expense	432,723
Protective services	18,447
Housing assistance payments	1,653,425
Total Operating Expenses	$ 4,669,019
Net Operating Income (Loss)	$ 335,874
Nonoperating Income (Expense)	
HUD grants - capital	$ 448,191
Interest expense	-168,687
Interest income	11,042
Total Nonoperating Income (Expense)	$ 290,546
Changes in net assets	$ 626,420
Net assets, beginning of year	10,666,071
Prior period adjustments	1,177
Net assets, end of year	$ 11,293,668

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, 2010

Operating Activities	
Operating grants	$ 2,891,200
Tenant revenue	1,900,950
Other revenue	194,630
Housing assistance payments	-1,653,425
Payments to employees	-1,118,720
Payments to suppliers and contractors	-2,018,569
Net Cash Provided (Used) by Operating Activities	$ 196,066
Investing Activities	
Investments (purchased) redeemed	$ 157,753
Interest income	11,042
Net Cash Provided (Used) by Investing Activities	$ 168,795
Capital and Related Financing Activities	
HUD grants - capital	$ 448,191
Additions (deletions) to fixed assets	-451,441
Interest expense	-168,927
Retirement of debt	-289,818
Net Cash Provided (Used) by Capital and Related Financing Activities	$ -461,995
Net Change in Cash	$ -97,134
Cash Balance at June 30, 2009	561,297
Cash Balance at June 30, 2010 (net of overdraft)	$ 464,163

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, 2010

Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities	
Net operating income (loss)	$ 335,874
Adjustment to Reconcile Operating Income (Loss) to Net Cash Flows from Operating Activities:	
Adjustments to net assets	1,177
(Increase) decrease in accounts receivable	-158,076
(Increase) decrease in deferred charges	-11,134
Increase (decrease) in accounts payable	40,065
Increase (decrease) in accrued liabilities	-37,433
Increase (decrease) in deferred revenues	28,778
Increase (decrease) in other liabilities	-3,185
Net Cash Provided (Used) by Operating Activities	$ 196,066

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

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

**NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED JUNE 30, 2010**

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 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 as 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 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.

HOUSING AUTHORITY OF THE CITY OF MARION
MARION, INDIANA

NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED JUNE 30, 2010
(CONTINUED)

Note 1 - Summary of Significant Accounting Policies

(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. Now, Marion Development Investment Corporation (MDIC) serves as the only component unit.

Marion Development and Investment Corporation was organized by the Marion Housing Authority as a not-for-profit corporation. It was organized as a separate entity to acquire, hold and maintain residential property to generate income to provide support for the purposes of the Housing Authority for the City of Marion (to provide residential housing for low and moderate income families). Marion Development and Investment Corporation has not received their legal not-for-profit status (as determined by the Internal Revenue Service).

(c) 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) 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.

HOUSING AUTHORITY OF THE CITY OF MARION
MARION, INDIANA

NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED JUNE 30, 2010
(CONTINUED)

Note 1 - Summary of Significant Accounting Policies

(e) 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)
* Housing Choice Vouchers
* Capital Fund Program
* State and Local
* New Construction
* American Recovery and Reinvestment Act - Formula Capital Stimulus Grant
* Business Activities
* Component Unit
* Veterans Affairs Supportive Housing
* Central Office Cost Center (COCC)

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.

(f) 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.

(g) Interprogram Receivables and Payables

During the course of operations, numerous transactions occur within individual programs that may result in amounts owed between these programs. These receivables and payables are classified as "due from other programs" or "due to other programs" on the combing statement of net assets and have been eliminated in the basic financial statements.

(h) Accounts Receivable -
The tenants accounts receivable discloses the gross amount due from the tenants at June 30, 2010, 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 OF THE CITY OF MARION
MARION, INDIANA

NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED JUNE 30, 2010
(CONTINUED)

Note 1 - Summary of Significant Accounting Policies

(i) Inventories and Materials -

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

(j) Investments -

Investments are stated at cost which approximates market.

(k) 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, 2010
(CONTINUED)

Note 1 - Summary of Significant Accounting Policies

(l) 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.

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."

(m)Income Tax -

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

(n)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.

(o) 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.

(p)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.

HOUSING AUTHORITY OF THE CITY OF MARION
MARION, INDIANA

NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED JUNE 30, 2010
(CONTINUED)

Note 1 - Summary of Significant Accounting Policies

(q) 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.

(r) Rental income is recognized as rents become due.

(s) 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.

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 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, 2010
(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 loses 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.

Fund	Book Balance	Bank Balance
Low Rent (Amps) and COCC	$ 57,616	$ 175,730
Voucher	206,376	207,693
New Construction-Hilltop Towers	-5,881	30,781
State & Local-Thomas Jefferson Homes	49,662	50,491
Business Activities	93,071	92,640
Component Unit	3,577	3,286
Veterans Affairs Supportive Housing	59,742	60,417
Total	$ 464,163	$ 621,038

HOUSING AUTHORITY OF THE CITY OF MARION
MARION, INDIANA

NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED JUNE 30, 2010
(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.

Fund	Rate	Book Balance	Market Value
Low Rent (Amps) and COCC	various	$ 848,578	$ 848,578
New Construction-Hilltop Towers	1.80%	33,638	33,638
Total Unrestricted		$ 882,216	$ 882,216
New Construction - Hilltop Towers (restricted)		$ 529,748	$ 529,748

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, 2010
(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, 2010
(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, 2010, actual contributions by the Housing Authority and plan participants were consistent with prior year. Total pension plan contributions were $58,318 related to $1,019,262 of salary and wage expense.

Note 5 - Accounts Receivable

Accounts receivable consists of the following accounts:

Tenants accounts receivable (net)	$ 61,069
Accounts receivable - HUD	35,977
Other	256,373
Subtotal	$ 353,419
Interfund	1,377,621
Total	$ 1,731,040

HOUSING AUTHORITY OF THE CITY OF MARION
MARION, INDIANA

NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED JUNE 30, 2010
(CONTINUED)

Note 6 - Investments

At June 30, 2010 investments consist of the following:

Low Rent	Rate	Cost	Fair Value
Certificate of deposit	various	$ 848,578	$ 848,578
New Construction - Hilltop Towers			
Certificate of deposit	1.80%	$ 33,638	$ 33,638
Total		$ 882,216	$ 882,216

Note 7 - Deferred Charges

This classification includes the following accounts:

Prepaid insurance	$ 10,313
Other	8,164
Total	$ 18,477

Note 8 - Fixed Assets

Balance as of June 30, 2010	$ 13,107,951
Balance as of June 30, 2009	12,656,510
Net Increase (Decrease)	$ 451,441

Reconciliation

Property betterments and additions	$ 451,441
Net Increase (Decrease)	$ 451,441

HOUSING AUTHORITY OF THE CITY OF MARION
MARION, INDIANA

NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED JUNE 30, 2010
(CONTINUED)

Note 8 - Fixed Assets (Continued)

	0701/2009 Balance	Additions/ Transfers	Deletions/ Transfers	06/30/2010 Balance
Land	$ 444,881	$ 23,750	$ 0	$ 468,631
Buildings	15,518,496	1,525,920	0	17,044,416
Equipment and furniture	456,880	29,787	0	486,667
Leasehold improvements	3,822,038	0	1,262,091	2,559,947
Construction in progress	1,116,864	134,075	0	1,250,939
Total Assets	$ 21,359,159	$ 1,713,532	$ 1,262,091	$ 21,810,600
Accumulated depreciation	-8,702,649	0	0	-8,702,649
Total Net Assets	$ 12,656,510	$ 1,713,532	$ 1,262,091	$ 13,107,951

Note: No current depreciation expense recognized.

Note 9 - Accounts Payable

This classification includes the following accounts:

Vendors and contractors	$ 51,484
Tenants security deposits	120,901
Accounts payable - other	136,657
Subtotal	$ 309,042
Interfund	1,377,621
Total	$ 1,686,663

Note 10 - Notes Payable- HUD

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, 2010
(CONTINUED)

Note 11 - Accrued Liabilities

Accrued liabilities consists of the following:

Current Portion:	
Accrued payroll and payroll taxes	$ 25,422
Accrued compensated absences	109,174
Accrued interest payable	15,593
Payment in lieu of taxes	317,318
Total	$ 467,507

Note 12 - Trust and Deposit Liabilities

This classification consists of the following:

FSS escrow accounts	$ 22,570

Note 13 - Summary of Long Term Liabilities

A summary of long term liabilities as of June 30, 2010:

	07/01/09 Balance	Increase	Decrease	06/30/10 Balance
Notes payable	$ 3,202,030	$ 0	$ 301,924	$ 2,900,106
FSS escrow	25,755	0	3,185	22,570
Total	$ 3,227,785	$ 0	$ 305,109	$ 2,922,676

Note 14 - Deferred Revenue

This classification consists of the following accounts:

Tenants prepaid rent	$ 18,294
Other	160,412
Total	$ 178,706

HOUSING AUTHORITY OF THE CITY OF MARION
MARION, INDIANA

NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED JUNE 30, 2010
(CONTINUED)

Note 15 - Long Term Debt

Program	Rate	Due Date	Current Portion	Long-Term Portion	Total
MDIC	variable	variable	$ 879	$ 60,930	$ 61,809
Business Activities	variable	variable	108,829	2,620,076	2,728,905
Thomas Jefferson Homes	8.23%	12/11/19	17,678	219,100	236,778
Hilltop Towers	6.90%	10/01/10	175,000	0	175,000
Total			$ 302,386	$ 2,900,106	$ 3,202,492

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

Due Fiscal Year Ending	Principal	Interest
2011	$ 302,386	$ 162,115
2012	131,950	154,733
2013	135,831	146,906
2014	140,002	138,606
2015	144,480	129,806
Thereafter	2,347,843	

Note 16 - 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 determined by HUD on a monthly basis (effective January 1, 2010).

Note 17 - 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, 2010
(CONTINUED)

Note 18 - 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, 2010 are as follows:

2011	$ 181,038
Thereafter	0

Note 19 - 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 20 - Prior Period Adjustments

Prior period adjustments posted directly to surplus are detailed below:

Adjustment of property taxes	$ 2,298
Adjustment of payroll and expenses	-6,468
Audit adjustments backed out	-117
Adjustment of vendor payable	6,321
Adjustment of interfunds	-857
Total	$ 1,177

HOUSING AUTHORITY OF THE CITY OF MARION
MARION, INDIANA

NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED JUNE 30, 2010
(CONTINUED)

Note 21 Contracts/Commitments

As of June 30, 2010, the Housing Authority had entered into the following pending construction projects in progress:

	Funds Approved	Funds Expended To Date
CFP 502-07	$ 427,517	$ 265,067
CFP 501-08	465,133	248,107
CFP 501-09	471,340	5,000
Stimulus Grant 501-09	588,766	340,341
Total	$ 1,952,756	$ 858,515

Note 22 - 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 23 - Economic Dependency

The Housing Authority received most of its revenue (61%) from the United States Department of Housing and Urban Development. This funding is subject to federal government appropriations and potential funding reductions.

Note 24 - Legal Proceedings

A former employee filed a complaint with the Indiana Rights Commission on March 16, 2009. The ICRC's investigation resulted in a "Notice of Administrative Dismissal" on May 18, 2010.

SUPPLEMENTAL DATA

HOUSING AUTHORITY OF THE CITY OF MARION
MARION, INDIANA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE TWELVE MONTHS ENDED JUNE 30, 2010

Federal Grantor/Program	Federal CFDA Number	Contract Number	Grant Period	Program Amount	Receipts or Revenue Recognized	Disbursements/ Expenditures
U.S. Department of HUD						
Direct Programs:						
Public and Indian Housing*	14.850a	C-2001	FYE 06/30/10	$ 786,748	$ 786,748	$ 786,748
Housing Choice Voucher Program*	14.871	IN041VO	FYE 06/30/10	$ 1,937,431	$ 1,937,431	$ 1,937,431
Public Housing - Capital Funds	14.872	C-2001	FYE 06/30/10	$ 1,363,990	$ 201,271	$ 201,271
Veterans Affairs Supportive Housing	14.VASH	C-2001	FYE 06/30/10	$ 85,785	$ 85,785	$ 85,785
Formula Capital Fund Stimulus Grant*	14.885	C-2001	FYE 06/30/10	$ 588,766	$ 331,767	$ 331,767
Total Assistance				$ 4,762,720	$ 3,343,002	$ 3,343,002

*Denotes major program.

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, 2010, and have issued my report thereon dated March 11, 2011. 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 Housing Authority of the City of Marion's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, I identified certain deficiencies in internal control over financial reporting that I consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. I consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses (2010-1 and 2010-2).

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A *significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. I consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies (2010-3, 2010-4 and 2010-5).

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, 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 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 item 2010-1.

I noted certain matters that I reported to management of Housing Authority of the City of Marion in a separate letter dated March 11, 2011.

Housing Authority of the City of Marion's response to the findings identified in my audit are 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 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.

Pamela J. Simpson

Decatur, Illinois
March 11, 2011

Certified Public Accountant

Pamela J. Simpson
Certified Public Accountant

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 Marion
Marion, Indiana

Compliance

I have audited Housing Authority of the City of Marion'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 Marion's major federal programs for the year ended June 30, 2010. 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 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 Marion's compliance with those requirements.

In my opinion, Housing Authority of the City of Marion 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 June 30, 2010. The results of my auditing procedures disclosed no instances of noncompliance with those requirements.

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Internal Control Over Compliance

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 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 Marion'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. However, I identified certain deficiencies in internal control over compliance that I consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as items (2010-1). A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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.

Pamela J. Simpson

Certified Public Accountant

Decatur, Illinois
March 11, 2011

HOUSING AUTHORITY OF THE CITY OF MARION
MARION, INDIANA

STATUS OF PRIOR AUDIT FINDINGS

The prior audit report for the period ended June 30, 2009 contained three findings.

Section II - Financial Statement Findings

Finding 2009-1: Incomplete Asset Management Conversion

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. The Housing Authority completed the Asset Management allocations at the end of the current fiscal year. This finding is considered closed.

Finding 2009-2: SAS 12 - Internal Control Lacking

The Authority is required to have internal controls over their financial statements. Several accounts lacked adequate support.

This finding continues, see Finding 2010-2.

Finding 2009-3 Cash Disbursements/Procurement

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 and others lacked proper documentation. Additionally it was noted that payment of some bills was completed electronically, which lacked all required approvals for payment. This finding continues, see Finding 2010-3.

HOUSING AUTHORITY OF THE CITY OF MARION
MARION, INDIANA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - SUMMARY
FOR THE YEAR ENDED JUNE 30, 2010

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report:	Qualified			
* Material weakness(es) identified?	X	yes		no
* Significant deficiency (ies) identified?	X	yes		none reported
Noncompliance material to financial statements noted	X	yes		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 Circular A-133?	X	yes		no

Major Programs: (Threshold $300,000)	CFDA Number(s)
Public and Indian Housing	14.850
Housing Choice Voucher Program	14.871
Formula Capital Fund Stimulus Grant	14.885

Auditee qualified as low-risk auditee?		yes	X	no

**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 five financial statement findings discussed with Steve Sapp, Executive Director and Leah Howard, Director of Finance during the course of the audit and at a conference held February 25, 2011.

Finding 2010-1: Incomplete Depreciation Schedules

Condition and Criteria: Asset based management (mandated by HUD 24CFR990) requires a separate financial statement and supporting subsidiary records for each Asset Management Project Grouping (AMP) designation. 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. As a result of the lack of complete, detailed schedules, depreciation expense was not recorded.

Questioned Costs: None

Effect: The depreciation schedules maintained by the Housing Authority do not reflect or reconcile to the asset control accounts on the books of the Amps or the COCC. Additionally a complete physical count of all assets had not been performed to determine that all equipment and other assets were properly accounted for on the schedule and in the ledgers. Because the agency had not reconciled the schedules, no depreciation expense was recorded or recognized during the year.

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

Auditor's Recommendation: The Housing Authority must take physical counts of all assets reflected in the general ledger accounts and reconcile the physical counts to the detailed depreciation schedule in order to properly record deprecation, disposals and acquisitions in the proper set of financial statements.

Grantee Response: The Housing Authority worked diligently during the fiscal year to correct errors that had been made in the prior fiscal year and to complete the allocation of assets and liabilities properly to the AMPS and the COCC. A reconciliation of fixed asset (general ledger vs detailed depreciation schedule) was completed during the prior fiscal year, however due to time constraints and changes in personnel in the accounting department the allocation of assets on the depreciation schedule by Amp and Central Office Cost Center was not complete at the end of the year. The finance department and management with the assistance of an outside consultant continue to work on this project and are working to complete it prior to the end of the next fiscal period.

HOUSING AUTHORITY OF THE CITY OF MARION
MARION, INDIANA

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

Finding 2010-2: SAS 12 - Internal Control Lacking (repeat from prior year)

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

- Tenant's accounts receivable
- Tenant security deposits
- Prepaid insurance
- Accrued payroll
- Interfund payable and receivable accounts
- Vendor and contractor accounts payable
- FSS Escrow liabilities

Questioned Costs: None

Effect: There was inadequate support or documentation for several general ledger account balances requiring an excessive number of journal entries to be posted after the end of the fiscal year.

Cause: An adequate internal control system had not yet been developed and the system previously in place was outdated due to changed in software and personnel.

Auditor's Recommendation: The Authority should develop and 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, software and personnel in place.

Grantee Response: A former CFO was to have documented the procedures in place by developing a formal, written guidebook. The guidebook did not properly reflect the procedures, systems or personnel involved. As a result, there were not any policies in place that required monthly reconciliations of the general ledger accounts to subsidiary ledgers or other supporting documentation. All internal control policies/procedures are currently being reviewed and revised by the new Executive Director and the new Director of Finance. 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 proper procedures as required. Reconciliations of accounts will be performed monthly.

HOUSING AUTHORITY OF THE CITY OF MARION
MARION, INDIANA

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

Finding 2010-3 Cash Disbursements/Procurement (repeat from prior year)

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 and several payments examined did not match the amount of the invoices being paid

Effect: Not all expenditures were adequately supported, therefore it could not be determined if they were allowable or were properly procured and approved. Two payments were examined that were reimbursements to the former Executive Director for legal fees incurred personally. While notations of the approval of payment of legal fees were noted in the Board Minutes, the dollar amounts were not detailed and adequate, complete supporting invoices were not attached to the payment vouchers as required by policy.

Questioned Costs: Undeterminable

Cause: The internal control system 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.

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.

Finding 2010-4 Improper Use of Agency Credit Card and Charge Accounts

Condition and Criteria: The Housing Authority did not have a policy in place until late in the fiscal year that prohibited employees from using the Housing Authority credit cards or charge accounts for personal purchases. In some instances the personal charges were not properly reimbursed or paid for by the individual, however, in other instances the charges were paid by the employee.

Questioned Costs: Undeterminable

Effect: When employees used agency credit cards and charge accounts for personal use, there was no mechanism in place to assure that the charges were properly reimbursed. When not properly reimbursed, the personal expenditures became unallowed costs. In all instances where the credit cards or charge accounts (whether reimbursed or not) are used for personal purchases, the employee improperly avoids paying sales and/or use taxes.

HOUSING AUTHORITY OF THE CITY OF MARION
MARION, INDIANA

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

Finding 2010-4 Improper Use of Agency Credit Card and Charge Accounts (continued)

Cause: There was no internal control policy in place to prohibit these transactions.

Auditor's Recommendation: All employees of the Housing Authority should be made aware of the new policy that was adopted during the fiscal year. The policy must be enforced.

Grantee Response: The current management will strictly enforce this policy in the future.

Finding 2010-5 - Lack of Accounting for Expendable Inventory Items

Condition and Criteria: At the end of the fiscal year, the Housing Authority did not take a physical count of the maintenance materials inventory on hand. The dollar amount of the expendable inventory recorded has not been adjusted for more than two year.

Effect: The value of the current assets (inventory) reported at year end could not be verified or determined.

Cause*:* The Housing Authority did perform the physical counts of the materials and supplies to properly record the asset (inventory) and related expense by site or by project.

Auditor's Recommendation: The agency should correctly verify the inventory on a periodic (no less than annual) basis. The physical counts should be properly documented (number of items on hand, unit purchase price and total value on hand). This total of this listing should then be used as a basis for recording the asset in the financial statements. All documentation should be retained for audit.

Grantee Response: The Executive Director and Director of Finance shall assign the task of physically counting and recording items of expendable inventory at the end of the fiscal year. The detailed schedule of items will be used as a basis for adjusting the inventory amounts on the general ledger at year end.

Section III - Federal Award Findings

There were no federal award findings discussed with Steve Sapp, Executive Director and Leah Howard, Director of Finance during the course of the audit or at a conference held February 25, 2011.

PAMELA J. SIMPSON
Certified Public Accountant

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, 2010, 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 with personnel changes. Procedures need to be reviewed, updated, documented and followed by all staff.

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2. During the audit, it was noted that several accounts were not properly reconciled to supporting data or subsidiary ledgers. Variances, when discovered should be investigated and corrected regardless of the materiality.

3. There were no depreciation schedules maintained during the year for any of the programs. Depreciations schedules should be updated monthly for all acquisitions and disposals and reconciled to the general ledger again at year end.

4. The current management of the Housing Authority will be developing new procedures to follow in the future. Current policies and procedures should be reviewed in detail for adequacy and applicability. During the review of current formal and informal procedures, the Executive Director, Director of Finance and other members of 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
   - bank transfers
   - method and frequency of physical inventories (expendable and non-expendable equipment)
   - supporting documentation required to generate accounts payable checks
   - review and write off of old outstanding checks

   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 Section 8 participant files, many instances were noted where the files did not contain proper documentation of a fully executed §214 Declaration 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 as required by your own Administrative Plan and HUD regulations..

6. Payment in Lieu of Taxes (PILOT) has not been paid in the proper amounts for two to three years. Every effort should be made to become current with those payments or to ask the City of forgiveness/abatement of the liability. Additionally real estate taxes have been paid late with severe penalties and late fees.

7. While reviewing Capital Fund Contracts, I could not locate the required documentation of Preconstruction meetings. Management should be sure that all parties involved with contracting and procurement are aware of all documentation requirements.

8. It was noted that the Housing Authority does not have an adequate system in place for monitoring fraud recovery receivables. The current system should be reviewed and updated.

9. While reviewing the recent reorganization and changes in staff, I became aware that some assignments have eliminated adequate segregation of duties (for example one person has the ability to solicit contracts, procure goods and services and generate the payment for the same). When assigning staff to responsibilities and maintaining an adequate system of internal controls management should keep in mind the requirement to maintain complete and adequate segregation of duties. One person should not have the ability to control one transaction in its entirety..

10. My review of several disbursements revealed that the supporting documentation did not match the payments generated. Sound internal controls would require the documentation and payments to match in every instance. The checks and the supporting data should be reviewed, reconciled and approved prior to the release of the payment.

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.

Pamela J. Simpson

Decatur, Illinois
March 11, 2011

Certified Public Accountant