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May 14, 2009

Board of Commissioners  
Housing Authority of the City of Marion  
601 S. Adams St.  
Marion, IN 46953-2042

We have reviewed the audit report prepared by Pamela J. Simpson, CPA, Independent Public Accountant, for the period July 1, 2004 to June 30, 2005. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountants' opinion, the financial statements included in the report present fairly the financial condition of the Housing Authority of the City of Marion, as of June 30, 2005, and the results of its operations for the period then ended, on the basis of accounting described in the report.

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

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STATE BOARD OF ACCOUNTS

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

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

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**TWELVE MONTHS ENDED JUNE 30, 2005**

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

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# PAMELA J. SIMPSON, C.P.A.

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(217) 872-1908

## Independent Auditor's Report

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

I have audited the accompanying basic financial statements of the Housing Authority of the City of Marion, as of and for the year ended June 30, 2005, as listed in the table of contents. These basic 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 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 basic financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Housing Authority of the City of Marion, as of June 30, 2005 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 February 23, 2006, on my consideration of the Authority's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulation, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of my audit.

The Management's Discussion and Analysis on pages 3 through 14 are not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. 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 performed for the purpose of forming an opinion 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 basic financial statements of the Authority. 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 basic financial statements and, in my opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Decatur, Illinois  
February 23, 2006

  
Certified Public Accountant

**HOUSING AUTHORITY OF THE CITY OF MARION, INDIANA  
MANAGEMENT DISCUSSION AND ANALYSIS  
FISCAL YEAR ENDED JUNE 30, 2005**



**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, and 24 Affordable Housing units. 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 Low Rent and Section 8 and Capital Fund Program (CFP) grants. The Authority holds the honor of being designated as a High Performing agency by the Department of Housing and Urban Development (HUD).

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, 2005. 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](mailto: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, 2005 by \$11,493,048 (net assets). This was an increase from \$11,366,964 as of June 30, 2004.
- The Authority's cash balance as of June 30, 2005 was \$651,454, representing a decrease of \$66,319, or 10%, from June 30, 2004. However, Unrestricted investments as of June 30, 2005, were \$1,442,172, a 43% increase from June 30, 2004 investment balance of \$1,014,315.
- The Authority had received HUD grant revenues of \$2,644,180 for operations and \$158,200 of capital grants for the fiscal year ended June 30, 2005. This represents a net decrease of \$10,399, or less than 1% (0.37%) from fiscal year ended June 30, 2004.
- Total tenant revenue increased from \$882,537 in 2004 to \$895,594 in 2005.
- Total Operating Expenses decreased by \$359,836 in 2005 from 2004.
- Excess of Operating Revenue over Expenses improved by \$78,990 from 2004 to 2005.

# HOUSING AUTHORITY OF THE CITY OF MARION, INDIANA

## MANAGEMENT DISCUSSION AND ANALYSIS

### FISCAL YEAR ENDED JUNE 30, 2005

#### Overview of the Financial Statements

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

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

Readers of the Authority’s financial statements would question whether the Authority is more financially stable as a result of the year’s activities as compared to previous years. It is the opinion of the Authority’s management that significant improvements, both in the financial and operational areas, have been achieved in fiscal year 2005.

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). The loss of major employers has carried over into 2005, as it may take years for the local economy to rebuild.

**HOUSING AUTHORITY OF THE CITY OF MARION, INDIANA  
MANAGEMENT DISCUSSION AND ANALYSIS  
FISCAL YEAR ENDED JUNE 30, 2005**

**Statement of Net Assets**

**Total Assets** for FYE 2005 were \$13,348,312 and at FYE 2004 were \$13,468,233. This represents a net decrease of \$119,921. Areas representing this difference are:

**Cash** – The cash position of the Authority decreased during FYE 2005. Cash at June 30, 2005, was \$651,454 and at June 30, 2004 was \$717,773.

**Other Current Assets and Capital Assets** – The Authority's current assets at June 30, 2005 totaled \$3,107,301 (\$2,749,574 net of receivables due from Interprogram funds) and were \$2,988,705 (\$2,594,997 net of interprogram funds) at June 30, 2004.

**Capital Assets**, net of accumulated depreciation, were \$10,101,205 as of June 30, 2005 and \$10,387,946 as of June 30, 2004. The net capital assets decreased in value by \$286,741. This is primarily due to a \$488,901 accumulation of depreciation in 2005. There was minimal disposal of capital assets and leasehold improvements primarily funded through the Capital Fund Grant increased by \$177,640.

**Non-Current Assets** – The Authority's non-current assets (excluding capital assets) at June 30, 2005 were \$139,806 and \$91,582 as of June 30, 2004. In 2001, the Authority loaned \$116,000 to Springhill of Marion, L.P. to assist in the development of the 36-unit tax credit project. Principle and interest is scheduled for annual payments over an aggressive 6.5-year period. The total amount due on the note as of June 30, 2005 was \$60,732, with \$23,219 considered current (payable each December).

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. 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 \$2,292.52. The Authority will assist its employees in additional education that will be beneficial to their position or promotion within the agency. The Authority currently has only one employee using this opportunity to complete their Bachelor's Degree. There are strict stipulations in grades received as well as pay back structure should the employee leave the Authority within three years after receipt of their degree or certification.

**Total Liabilities** for FYE 2005 were @1,855,925 (\$1,498,198 net of payable due to Interprogram funds) and at FYE 2004 were \$2,101,269 (\$1,707,561 net of Interprogram funds). This represents a net decrease of \$245,344. Areas representing this difference are:

**Current Liabilities** – The Authority's current liabilities as of June 30, 2005 totaled \$384,345, net of Interfund payments due, and were \$385,949, net of Interfunds, as of June 30, 2004. 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 a bond indenture for the Section 8 New Construction site, accounts payable to HUD and other programs, and tenant security deposits.

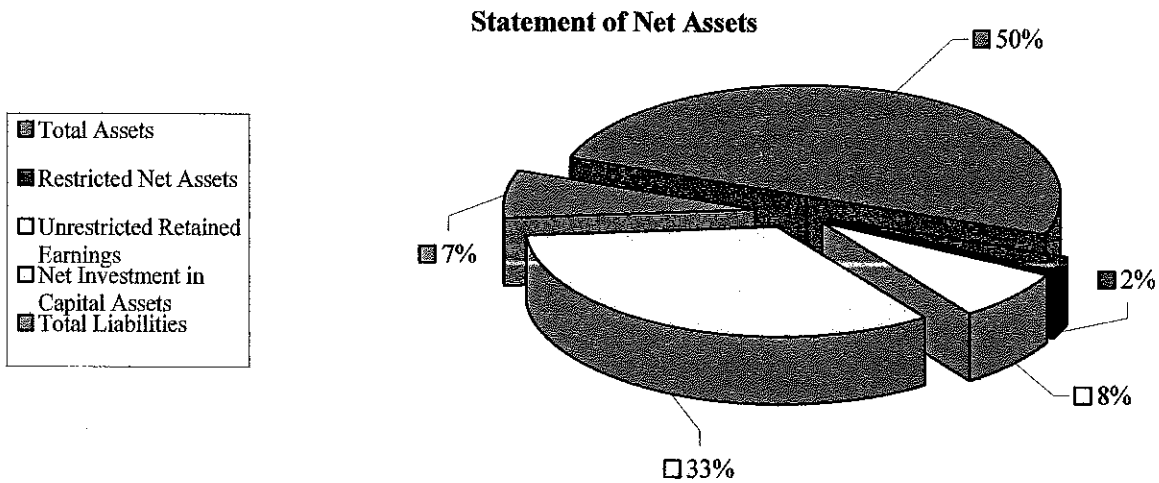
**HOUSING AUTHORITY OF THE CITY OF MARION, INDIANA  
MANAGEMENT DISCUSSION AND ANALYSIS  
FISCAL YEAR ENDED JUNE 30, 2005**

**Long-term Liabilities** – The Authority’s long-term liabilities as of June 30, 2005 totaled \$1,113,853. As of June 30, 2004, long-term liabilities were \$1,321,612. The Authority’s long-term liabilities decreased by \$207,759 during FYE 2005. Long-term debt of the Authority consists of a bond indenture with JP Morgan Trust for the Section 8 New Construction property, a mortgage on an affordable housing project and the non-current portion of accrued compensated absences. Principle payments are made on the Bond Fund annually each October. The affordable housing development known as Thomas Jefferson Homes is mortgaged with a local financial institution with monthly principal and interest payments.

**Capital/Net Assets** – As capital assets are depreciated, they will be expensed through Net Investment in Capital Assets. The Unrestricted Retained Earnings balance represents what the Authority has available for obligations if revenue from operations is not sufficient. The Authority has \$2,031,405 available as unrestricted funds as of June 30, 2005 for obligations beyond what operations can provide.

	2005	2004	Net Change
Cash	651,454	717,773	(66,319)
Other Current Assets	2,098,120	1,877,224	220,896
Interfunds	357,727	393,708	(35,981)
Capital Assets, net of depreciation	10,101,205	10,387,946	(286,741)
Non-Current Assets	139,806	91,582	48,224
<b>Total Assets</b>	<b>13,348,312</b>	<b>13,468,233</b>	<b>(119,921)</b>
Current Liabilities	384,345	385,949	(1,604)
Interfunds	357,727	393,708	(35,981)
Long-Term Liabilities	1,113,853	1,321,612	(207,759)
<b>Total Liabilities</b>	<b>1,855,925</b>	<b>2,101,269</b>	<b>(245,344)</b>
Net Investment in Capital Assets	8,901,037	9,061,735	(160,698)
Restricted Net Assets	559,945	538,887	21,058
Unrestricted Retained Earnings	2,031,405	1,766,342	265,063
<b>Total Net Assets</b>	<b>11,492,387</b>	<b>11,366,964</b>	<b>125,423</b>
<b>Total Liabilities and Net Assets</b>	<b>13,348,312</b>	<b>13,468,233</b>	<b>(119,921)</b>

**HOUSING AUTHORITY OF THE CITY OF MARION, INDIANA  
MANAGEMENT DISCUSSION AND ANALYSIS  
FISCAL YEAR ENDED JUNE 30, 2005**

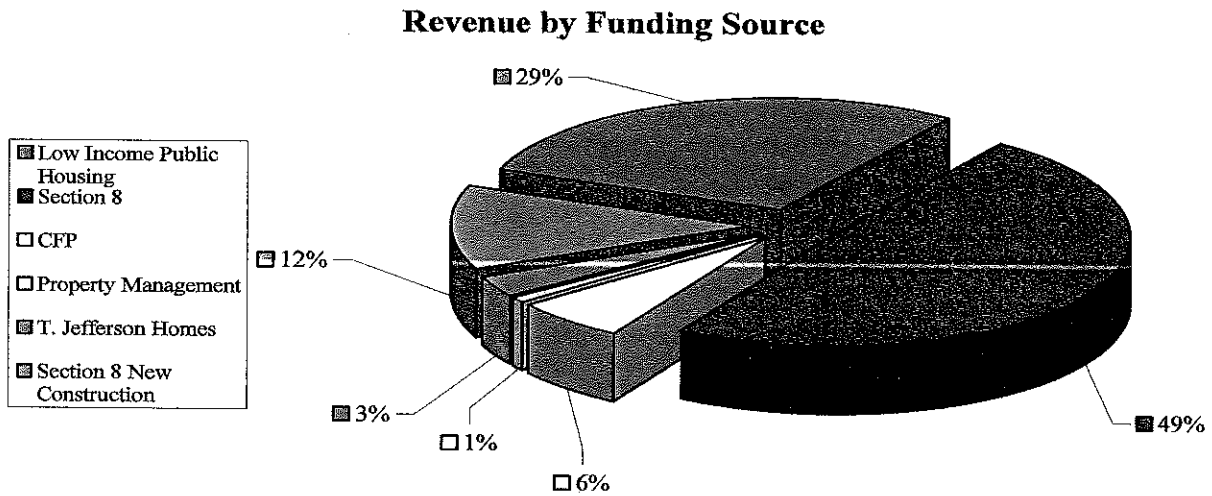


**Statement of Activities**

The Authority administers the following programs and the revenues generated from these programs during FYE 2004 were as follows:

<b>Low Income Public Housing</b>		\$ 1,115,550
<b>Section 8</b>		
Vouchers	\$ 1,888,577	
New Construction	466,418	
<b>Total Section 8</b>		2,354,995
<b>Capital Grants</b>		231,924
<b>Business Activities, State, Local</b>		
Property Management	\$ 36,659	
T. Jefferson Homes	117,689	
<b>Total Non-HUD Activities</b>		154,348
<b>Total Revenues</b>		\$ 3,856,817

**HOUSING AUTHORITY OF THE CITY OF MARION, INDIANA  
MANAGEMENT DISCUSSION AND ANALYSIS  
FISCAL YEAR ENDED JUNE 30, 2005**



In FYE 2004 and FYE 2005, total revenues were \$4,137,663 and \$3,856,817 respectively. The decrease of \$280,846 in the Authority's revenues was due to a combination of factors. Tenant revenue reflected an increase of \$13,057 over FYE 2004. HUD Operating grants increased by \$99,015, however, the Authority utilized \$109,414 less of the Capital Fund grant for capital expenditures during FYE 2005. The Authority also received a grant from the Federal Home Loan Bank (FHLB) for owner-occupied rehab and down payment assistance during FYE 2004 through the not-for-profit, but did not have this grant during 2005. These additional grant funds reflect a \$286,755 decrease in revenues for FYE 2005.

Administrative salaries were below normal for FYE 2005. There were two primary reasons for this. The Authority was without a permanent Executive Director from July 2004 until February 2005. The Occupancy Director was filling the position of Interim Executive Director, which saved the Authority a second executive salary. The Capital Funds Coordinator also resigned during FYE 2005. Rather than refill that position, a re-organization was done to better suit the overall needs of the Authority.

Maintenance contract costs increased by \$36,017 from FYE 2004, mainly due to the use of contracted labor in lieu of full-time employment staffing, for painting, and for seasonal labor.

The insurance premiums (commercial, property, liability) for the Authority experienced a 9% increase from FYE 2004 to FYE 2005. No major claims led to this increase, but rather a common practice in the insurance industry, especially since September 11, 2001. The Authority paid out \$141,770 for insurance during FYE 2005.

Prior period adjustments for 2004 are due to a recapture of over billing from the Authority's utility company (electric) for one of the elderly Hi-rise buildings. This recapture was in excess of \$50,000, with \$33,880 being attributable to prior fiscal years. The Housing Choice Voucher program also received a prior year settlement from HUD that was approximately \$88,000.

**HOUSING AUTHORITY OF THE CITY OF MARION, INDIANA  
MANAGEMENT DISCUSSION AND ANALYSIS  
FISCAL YEAR ENDED JUNE 30, 2005**

The following table illustrates the changes in the income statement.

	2005	2004	Net Change
Tenant Rental Revenue	\$ 895,594	\$ 882,537	\$ 13,057
Public Housing Subsidy	502,867	475,532	27,335
Section 8 Subsidy	1,866,350	1,792,787	73,563
Other HUD funding	274,963	276,846	(1,883)
Other Grants	15,789	302,544	(286,755)
Other Revenue	143,054	139,803	3,251
<b>Total Operating Revenue</b>	<b>\$ 3,698,617</b>	<b>\$ 3,870,049</b>	<b>\$ (171,432)</b>
Operating Expenses			
Administrative	584,953	632,602	(47,649)
Tenant Services	67,561	96,515	(28,954)
Utilities	225,001	262,230	(37,229)
Maintenance			
Labor	275,141	289,515	(14,374)
Materials	104,760	97,686	7,074
Contract Costs	133,820	90,503	43,317
Extraordinary Maintenance	35,341	61,600	(26,259)
Housing Assistance Payments	1,638,281	1,649,708	(11,427)
Other Operating Expenses			
Insurance Premiums	141,770	130,677	11,093
Payments in Lieu of Taxes	57,369	51,166	6,203
Bad Debt Expense	9,706	12,196	(2,490)
Interest Expense	89,864	98,064	(8,200)
Grant Expenditures	-	284,930	(284,930)
Other General Expense	1,135	5,129	(3,994)
Depreciation	488,901	478,831	10,070
<b>Total Operating Expenses</b>	<b>\$ 3,853,603</b>	<b>\$ 4,241,352</b>	<b>\$ (387,749)</b>
Operating Income (Loss)	\$ (154,986)	\$ (371,303)	\$ 216,317
Capital Grants Received	158,200	267,614	(109,414)
Prior Period Adjustments	122,870	61,802	61,068
<b>Change in Net Assets</b>	<b>\$ 126,084</b>	<b>\$ (41,887)</b>	<b>\$ 167,971</b>

**Overview of Budgets**

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

**HOUSING AUTHORITY OF THE CITY OF MARION, INDIANA  
MANAGEMENT DISCUSSION AND ANALYSIS  
FISCAL YEAR ENDED JUNE 30, 2005**

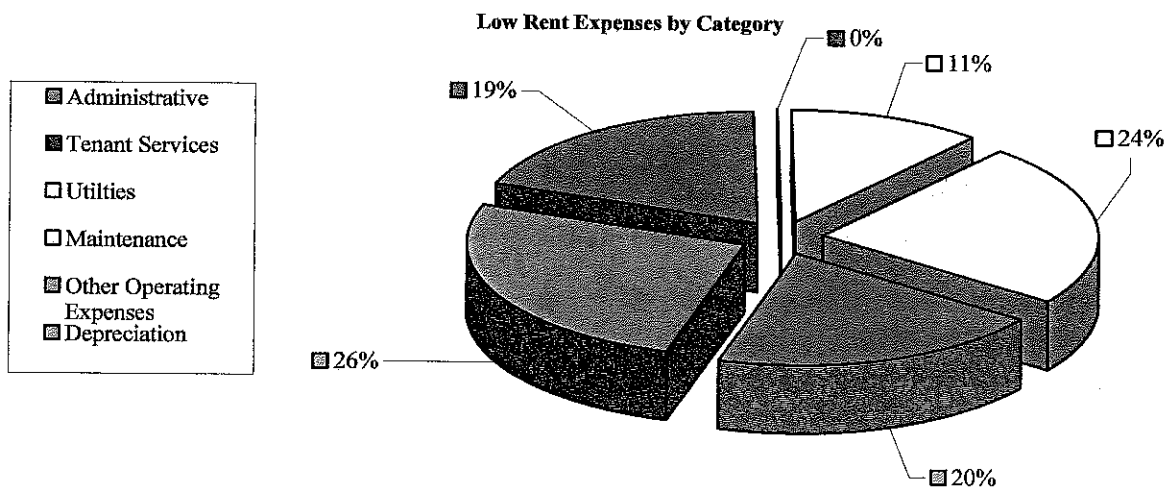
***Low Income Public Housing Budgetary Highlights***

The Authority's management is pleased with the operating results for the fiscal year ending June 30, 2005. Operating revenues were 0.93% higher than budget and Operating Expenses were 6.47% below budget.

**Comparison of Budget vs. Actual – Low Income Public Housing**

	Budget	Actual	Change	Variance
Tenant Rental Revenue	\$ 539,140	\$ 536,233	\$ (2,907)	-0.54%
Governmental Operating	509,399	502,867	(6,532)	-1.28%
Other Revenue	41,100	76,450	35,350	86.01%
<b>Total Operating Revenue</b>	<b>\$ 1,089,639</b>	<b>\$ 1,115,550</b>	<b>\$ 25,911</b>	<b>2.38%</b>
<b>Operating Expenses:</b>				
Administrative	279,980	269,441	(10,539)	-3.76%
Tenant Services	7,000	17,128	10,128	144.69%
Utilities	164,400	152,281	(12,119)	-7.37%
Maintenance	343,460	344,624	1,164	0.34%
Other Operating Expenses	288,260	245,383	(42,877)	-14.87%
<b>Total Operating Expenses</b>	<b>\$ 1,083,100</b>	<b>\$ 1,028,857</b>	<b>\$ (54,243)</b>	<b>-5.01%</b>
Depreciation	377,912	377,911	(1)	0.00%
<b>Operating Income (Loss)</b>	<b>\$ (371,373)</b>	<b>\$ (291,218)</b>	<b>\$ 80,155</b>	<b>-21.58%</b>

The chart below shows the expense breakdown for Low Rent operations. Other Operating Expenses is the largest category. Items included in this category are insurance premiums (19%), payments in lieu of taxes (8%), bad debt expense (3%), and other general expenses (70%). Other general expenses are high for FYE 2004 due to the FHLB grant expenditures of \$284,633.



**HOUSING AUTHORITY OF THE CITY OF MARION, INDIANA  
MANAGEMENT DISCUSSION AND ANALYSIS  
FISCAL YEAR ENDED JUNE 30, 2005**

***Section 8 Program Budgets***

The Section 8 operating budget is determined by estimating the total dollars required (Annual Contributions Required) to administer the program for a fiscal year. Annual Contributions consist of estimates made by the Authority for Housing Assistance Payments (HAP), audit cost, hard-to-house fees, and administrative fees. Generally, earned administrative fees provide governance of the program's operating expenses. A balanced budget is achieved when earned administrative fees equal the total operating expenses.

HAP and audit costs are reimbursed by HUD to the Authority dollar for dollar, provided the Authority remains within its baseline units of vouchers issued by HUD. Hard-to-house fees are earned with a rate of \$75.00 per unit in the initial month when an eligible family is placed in a unit. Administrative fees are earned at the prescribed HUD formula for every voucher leased as of the 1<sup>st</sup> day of each month. The administrative fee available to the Marion Housing Authority for FYE 2005 was \$38.48 per unit per month leased for the months of July through December. In January the Authority began receiving an established monthly fee.

***Section 8 Program Budgetary Highlights***

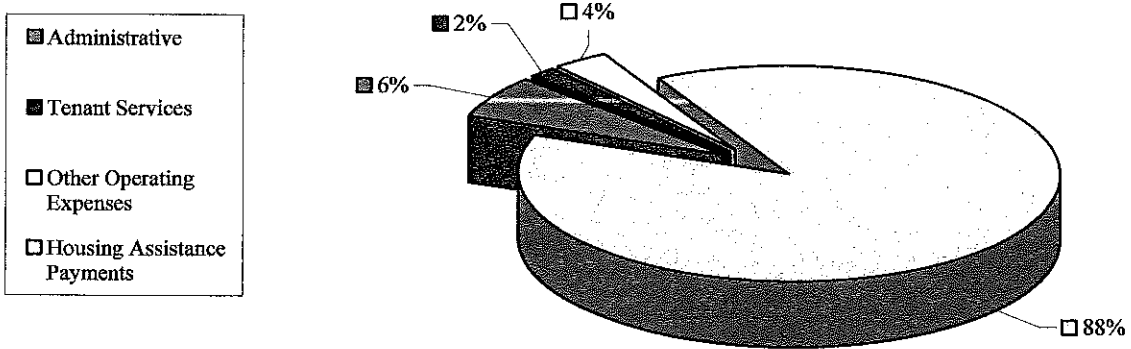
The Authority's management is very pleased with the operating results for the fiscal year ending June 30, 2005 for the Section 8 Program. Due to aggressive monitoring and leasing of vouchers, the Authority was able to obtain additional subsidy and assist more families during the year. The Authority did have a brief period of over-leasing vouchers, which led to HUD disallowing HAP and administrative fees. HUD requires that funds due from over-leasing are to be taken from the Authority's administrative reserves.

	Budget	Actual	Change	Variance
Governmental Operating	1,812,847	1,866,350	53,503	2.95%
Other Revenue	4,800	22,227	17,427	363.06%
Total Operating Revenue	<u>\$ 1,817,647</u>	<u>\$ 1,888,577</u>	<u>\$ 70,930</u>	<u>3.90%</u>
Operating Expenses:				
Administrative	137,480	113,856	(23,624)	-17.18%
Tenant Services	-	30,060	30,060	
Housing Assistance Payments	1,599,564	1,638,281	38,717	2.42%
Other Operating Expenses	65,381	63,703	(1,678)	-2.57%
Total Operating Expenses	<u>\$ 1,802,425</u>	<u>\$ 1,845,900</u>	<u>\$ 43,475</u>	<u>2.41%</u>
Depreciation	4,000	4,000		0.00%
Operating Income (Loss)	<u>\$ 11,222</u>	<u>\$ 38,677</u>	<u>\$ 27,455</u>	<u>244.65%</u>

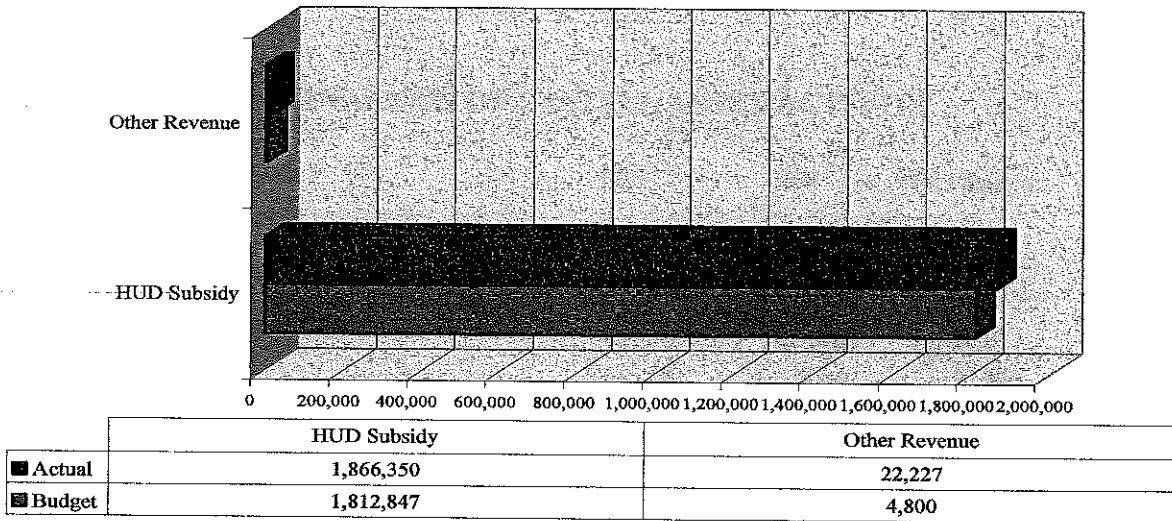
The following chart demonstrates how funds are spent in the Section 8 program. HAP is the largest program expense, constituting 88% of all expenditures. Administrative expenses make up 8.8% of the total program expenditures.

# HOUSING AUTHORITY OF THE CITY OF MARION, INDIANA MANAGEMENT DISCUSSION AND ANALYSIS FISCAL YEAR ENDED JUNE 30, 2005

## Section 8 Operating Expenses by Category



## Low Rent Housing Income



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

**STATEMENT OF NET ASSETS - PROPRIETARY FUND  
AS OF JUNE 30, 2005**

**ASSETS**

**CURRENT ASSETS**

Cash	\$ 651,454
Accounts receivable (interfund eliminated)	56,267
Accrued interest receivable	13,757
Investments	1,442,172
Restricted investments	559,945
Inventory	23,969
Deferred charges	<u>2,010</u>

Total Current Assets \$ 2,749,574

**CAPITAL ASSETS**

Land, buildings and equipment	\$ 16,585,345
Less: Accumulated depreciation	<u>-6,484,141</u>

Total Capital Assets \$ 10,101,204

**OTHER ASSETS**

Notes receivable	<u>\$ 139,806</u>
------------------	-------------------

Total Other Assets \$ 139,806

Net Assets \$ 12,990,584

**LIABILITIES**

**CURRENT LIABILITIES**

Accounts payable (interfund eliminated)	\$ 125,340
Notes payable	136,819
Accrued liabilities	86,419
Deferred revenue	<u>3,441</u>

Total Current Liabilities \$ 352,019

**NONCURRENT LIABILITIES**

Accrued compensated absences	\$ 37,578
Trust and deposit liabilities	44,591
Notes payable	<u>1,063,349</u>

Total Noncurrent Liabilities \$ 1,145,518

**NET ASSETS**

Invested in capital assets	\$ 8,901,036
Restricted	559,945
Unrestricted	<u>2,032,066</u>

Total Net Assets \$ 11,493,047

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 FUND  
AND CHANGES IN NET ASSETS  
TWELVE MONTHS ENDED JUNE 30, 2005**

Operating Income

Dwelling rental	\$ 891,839
Other tenant income	<u>3,755</u>
Total Tenant Income	\$ 895,594
HUD grants - operating	2,644,180
Other grants	15,789
Other income	<u>91,500</u>
Total Operating Income	<u>\$ 3,647,063</u>

Operating Expenses

Administration	\$ 584,954
Tenant services	67,561
Utilities	225,001
Ordinary maintenance and operation	513,721
General expense	209,980
Extraordinary maintenance	35,341
Depreciation	488,901
Housing assistance payments	<u>1,638,281</u>
Total Operating Expenses	<u>\$ 3,763,740</u>
Net Operating Income (Loss)	<u>\$ -116,677</u>

Nonoperating Income (Expense)

HUD grants - capital	\$ 158,200
Interest income	51,554
Interest expense	<u>-89,864</u>
Total Nonoperating Income (Expense)	<u>\$ 119,890</u>
Changes in net assets	\$ 3,213
Net assets, beginning of year	11,366,964
Prior period adjustments	<u>122,870</u>
Net assets, end of year	<u>\$ 11,493,047</u>

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

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

**STATEMENT OF CASH FLOWS - PROPRIETARY FUND  
TWELVE MONTHS ENDED JUNE 30, 2005**

Operating Activities

Operating grants	\$ 2,579,055
Dwelling rental	878,946
Other revenue	411,699
Housing assistance payments	-1,649,708
Payments to employees	-579,412
Payments to suppliers and contractors	<u>-1,460,646</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 179,934</u>

Investing Activities

(Additions) deletions to fixed assets	\$ -317,159
Investments (purchased) redeemed	230,195
Interest income	<u>51,434</u>
Net Cash Provided (Used) by Investing Activities	<u>\$ -35,530</u>

Financing Activities

HUD grants - capital	\$ 267,614
Interest expense	-98,064
Retirement of debt	<u>-119,226</u>
Net Cash Provided (Used) by Financing Activities	<u>\$ 50,324</u>

Net Change in Cash	\$ 194,728
Cash Balance at June 30, 2004	<u>523,045</u>
Cash Balance at June 30, 2005	<u>\$ 717,773</u>

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

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

**STATEMENT OF CASH FLOWS - PROPRIETARY FUND  
TWELVE MONTHS ENDED JUNE 30, 2005**

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

Net operating income (loss)	\$ -324,376
Adjustment to Reconcile Operating Income (Loss) to Net Cash Flows from Operating Activities:	
Depreciation	478,831
Adjustments to equity	61,803
(Increase) decrease in accounts receivable	-105,495
(Increase) decrease in deferred charges	15
(Increase) decrease in inventory	5,200
(Increase) decrease in other assets	-57,197
Increase (decrease) in accounts payable	14,936
Increase (decrease) in accrued liabilities	37,230
Increase (decrease) in deferred revenues	1,099
Increase (decrease) in other liabilities	<u>67,888</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 179,934</u>

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

**NOTES TO FINANCIAL STATEMENTS  
TWELVE MONTHS ENDED JUNE 30, 2005**

Note 1 - Summary of Significant Accounting Policies

(a) Organization and Reporting Entity -

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

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

In evaluating the Authority as a reporting entity, management has addressed its relationship with the City of Marion and concluded that the City does not maintain an oversight responsibility for the Authority's operations. An independent Board of Commissioners, appointed by the City, is responsible for the activities of the Authority. The Authority recruits and employs its executive staff and has substantial legal authority to control its affairs without requiring approval of the City government. Debt incurred by the Authority is not an obligation of the City; the City does not review or approve the Authority's budget, is not entitled to any surplus funds generated by the Authority's operations and is not responsible for any deficits incurred by the Authority. Consequently, in accordance with evaluating the criteria set forth in Section 2100 and 2600 of the Governmental Accounting Standards Board Codification, management has concluded that the Housing Authority of the City of Marion is a separate reporting entity. All funds and programs of the Housing Authority are included in these statements. The Housing Authority has no component units in the current year.

(b) Component Units

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

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

**NOTES TO FINANCIAL STATEMENTS  
TWELVE MONTHS ENDED JUNE 30, 2005  
(CONTINUED)**

Note 1 - Summary of Significant Accounting Policies

(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) 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
- \* Section 8 Choice Vouchers
- \* Capital Fund Program
- \* State and Local
- \* New Construction
- \* Business Activities

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

*Proprietary Fund Types:*

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

(e) Cash and Cash Equivalents -

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

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

**NOTES TO FINANCIAL STATEMENTS  
TWELVE MONTHS ENDED JUNE 30, 2005  
(CONTINUED)**

Note 1 - Summary of Significant Accounting Policies

(f) Accounts Receivable -

The tenants accounts receivable discloses the gross amount due from the tenants at June 30, 2005, and does not take into consideration prepaid amounts. The Housing Authority provides for an allowance for doubtful accounts, based on the estimated collections of current accounts receivables. The Housing Authority periodically writes off uncollectible accounts receivable to the allowance account based on a review of the current status of existing receivables and the determination that the receivable will not be collected.

(g) Inventories and Materials -

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

(h) Investments -

Investments are stated at cost which approximates market.

(i) Fixed Assets -

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

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

Land, buildings and equipment contains the following:

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

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

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

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

**NOTES TO FINANCIAL STATEMENTS  
TWELVE MONTHS ENDED JUNE 30, 2005  
(CONTINUED)**

Note 1 - Summary of Significant Accounting Policies

(j) Income Tax -

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

(k) Annual Contributions/Subsidies and Other Grants

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

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

(l) The Housing Authority adopts a budget annually. The budget is submitted to the Department of Housing and Urban Development for approval. Subsequent budget revisions may also be required to be submitted to HUD for approval.

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

Note 2 - Cash and Investments

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

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

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

**NOTES TO FINANCIAL STATEMENTS  
TWELVE MONTHS ENDED JUNE 30, 2005  
(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>Fund</u>	<u>Book Balance</u>	<u>Bank Balance</u>
Low Rent	\$ 230,290	\$ 242,849
Section 8 Voucher	164,720	166,390
New Construction-Hilltop Towers	101,560	101,560
State & Local-Thomas Jefferson Homes	43,894	43,894
Property Management	<u>110,990</u>	<u>110,990</u>
Total	<u>\$ 651,454</u>	<u>\$ 665,683</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.

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

**NOTES TO FINANCIAL STATEMENTS  
TWELVE MONTHS ENDED JUNE 30, 2005  
(CONTINUED)**

Note 2 - Cash and Investments (Continued)

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

<u>Fund</u>	<u>Rate</u>	<u>Book Balance</u>	<u>Market Value</u>
Low Rent	1.16-5.92%	\$ 673,897	\$ 673,897
Section 8-Voucher	1.56-3.16%	217,322	217,322
New Construction-Hilltop Towers	2.79%	289,604	289,604
State and Local-Thomas Jefferson Homes	1.70-3.80%	201,349	203,435
Business Activities	3.55%	<u>60,000</u>	<u>60,000</u>
Total Unrestricted		<u>\$ 1,442,172</u>	<u>\$ 1,442,258</u>
New Construction - Hilltop Towers (restricted)		<u>\$ 559,945</u>	<u>\$ 559,945</u>

Note 3 - Compensated Absences

Sick Leave

All full time employees of Housing Authority of the City of Marion shall be entitled to sick leave at the accumulation rate of 2.769 hours per pay period. Part time employees earn sick time on a pro-rated basis. Sick leave may be accumulated up to sixty (60) days. Sick leave will be granted for actual sickness, maternity/paternity leave as qualified in this policy, temporary physical disability, medical appointments, and quarantine. At no time will employees be paid accumulated sick leave days.

Vacation

Employees are granted vacation benefits in varying amounts as follows:

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

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

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

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

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

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

**NOTES TO FINANCIAL STATEMENTS  
TWELVE MONTHS ENDED JUNE 30, 2005  
(CONTINUED)**

Note 3 - Compensated Absences (Continued)

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, 2005, actual contributions by the Housing Authority and plan participants were \$59,440.

Note 5 - Accounts Receivable

Accounts receivable consists of the following accounts:

	<u>Low Rent</u>	<u>Capital Funds</u>	<u>Business Activities</u>	
Tenants accounts receivable	\$ 7,906	\$ 0	\$ 0	
Allowance for doubtful accounts	-4,843	0	0	
Accounts receivable - HUD	0	28,108	0	
Other	<u>23,809</u>	<u>0</u>	<u>0</u>	
Subtotal	\$ 26,872	\$ 28,108	\$ 0	
Interfund	<u>357,727</u>	<u>0</u>	<u>0</u>	
Total	<u>\$ 384,599</u>	<u>\$ 28,108</u>	<u>\$ 0</u>	
		<u>New Const. Hilltop Towers</u>	<u>State and Local T. J. Homes</u>	<u>Total</u>
Tenants accounts receivable	\$ 2,595	\$ 1,092	\$ 11,593	
Allowance for doubtful accounts	-1,977	-423	-7,243	
HUD	0	0	28,108	
Other	<u>0</u>	<u>0</u>	<u>23,809</u>	
Subtotal	\$ 618	\$ 669	\$ 56,267	
Interfund	<u>0</u>	<u>0</u>	<u>357,727</u>	
Total	<u>\$ 618</u>	<u>\$ 669</u>	<u>\$ 413,994</u>	

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

**NOTES TO FINANCIAL STATEMENTS  
TWELVE MONTHS ENDED JUNE 30, 2005  
(CONTINUED)**

Note 6 - Investments

At June 30, 2005 investments consist of the following:

<u>Low Rent</u>	<u>Rate</u>	<u>Cost</u>	<u>Fair Value</u>
Certificate of deposit	2.99-3.63%	\$ 673,897	\$ 673,897
<u>Voucher</u>			
Savings	1.56%	\$ 30,639	\$ 30,639
Certificates of deposit	3.14-3.16%	<u>186,683</u>	<u>186,683</u>
Total		<u>\$ 217,322</u>	<u>\$ 217,322</u>
<u>New Construction - Hilltop Towers</u>			
Certificate of deposit	2.79-3.7%	\$ 289,604	\$ 289,604
<u>State and Local - Thomas Jefferson Homes</u>			
Certificate of deposit	1.9-2.3%	\$ 201,349	\$ 201,349
<u>Business Activities</u>			
Certificate of deposit	3.34%	\$ 60,000	\$ 60,000
Total		<u>\$ 1,442,172</u>	<u>\$ 1,442,172</u>

Note 7 - Deferred Charges

This classification includes the following accounts:

	<u>Voucher</u>
Prepaid insurance	<u>\$ 2,010</u>

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

**NOTES TO FINANCIAL STATEMENTS  
TWELVE MONTHS ENDED JUNE 30, 2005  
(CONTINUED)**

Note 8 - Fixed Assets

	<u>Low Rent</u>	<u>Capital Funds</u>	<u>Voucher</u>
Balance as of June 30, 2005	\$ 6,597,478	\$ 425,814	\$ 23,537
Balance as of June 30, 2004	<u>6,764,506</u>	<u>449,552</u>	<u>15,667</u>
Net Increase (Decrease)	<u>\$ -167,028</u>	<u>\$ -23,738</u>	<u>\$ 7,870</u>
	<u>New Const. Hilltop Towers</u>	<u>State and Local T. J. Homes</u>	<u>Total</u>
Balance as of June 30, 2005	\$ 1,123,997	\$ 1,930,379	\$ 10,101,205
Balance as of June 30, 2004	<u>1,191,596</u>	<u>1,966,626</u>	<u>10,387,947</u>
Net Increase (Decrease)	<u>\$ -67,599</u>	<u>\$ -36,247</u>	<u>\$ -286,742</u>
	<u>Low Rent</u>	<u>Capital Funds</u>	<u>Voucher</u>
Property betterments and additions	\$ 27,701	\$ 158,200	\$ 11,870
Current year depreciation expense	-377,911	0	-4,000
Transfer	181,938	-181,938	0
Depreciable basis adjustment	<u>1,244</u>	<u>0</u>	<u>0</u>
Net Increase (Decrease)	<u>\$ -167,028</u>	<u>\$ -23,738</u>	<u>\$ 7,870</u>
	<u>New Const. Hilltop Towers</u>	<u>State and Local T. J. Homes</u>	<u>Total</u>
Property betterments and additions	\$ 0	\$ 3,144	\$ 200,915
Current year depreciation expense	-67,599	-39,391	-488,901
Transfer	0	0	0
Depreciable basis adjustment	<u>0</u>	<u>0</u>	<u>1,244</u>
Net Increase (Decrease)	<u>\$ -67,599</u>	<u>\$ -36,247</u>	<u>\$ -286,742</u>

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

**NOTES TO FINANCIAL STATEMENTS  
TWELVE MONTHS ENDED JUNE 30, 2005  
(CONTINUED)**

<u>Note 8 - Fixed Assets (Continued)</u>	<u>Beginning Balance</u>	<u>Additions/ Transfers</u>	<u>Deletions/ Transfers</u>	<u>Ending Balance</u>
Land	\$ 444,882	\$ 0	\$ 0	\$ 444,882
Buildings	9,471,476	1,443	0	9,472,919
Equipment and furniture	828,786	23,077	0	851,863
Leasehold improvements	<u>5,638,042</u>	<u>177,640</u>	<u>0</u>	<u>5,815,682</u>
 Total Assets	 \$ 16,383,186	 \$ 202,160	 \$ 0	 \$ 16,585,346
 Accumulated depreciation	 <u>-5,995,240</u>	 <u>-488,901</u>	 <u>0</u>	 <u>-6,484,141</u>
 Total Net Assets	 <u>\$ 10,387,946</u>	 <u>\$ -286,741</u>	 <u>\$ 0</u>	 <u>\$ 10,101,205</u>

Note 9 - Notes Receivable

The detail of the Housing Authority's notes receivable at year end is set forth below:

Project

Other	\$ 137,513
Employee loan	<u>2,293</u>
	<u>\$ 139,806</u>

Note 10 - Accounts Payable

This classification includes the following accounts:

	<u>Low Rent</u>	<u>Capital Funds</u>	<u>Voucher</u>
Vendors and contractors	\$ 5,003	\$ 0	\$ 5,063
Tenants security deposits	53,851	0	0
Payroll withholding	292	0	0
Accounts payable - other	<u>1,339</u>	<u>0</u>	<u>0</u>
 Subtotal	 \$ 60,485	 \$ 0	 \$ 5,063
 Interfund	 <u>0</u>	 <u>28,108</u>	 <u>108,898</u>
 Total	 <u>\$ 60,485</u>	 <u>\$ 28,108</u>	 <u>\$ 113,961</u>

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

**NOTES TO FINANCIAL STATEMENTS  
TWELVE MONTHS ENDED JUNE 30, 2005  
(CONTINUED)**

Note 10 - Accounts Payable (Continued)

	<u>Business Activities</u>	<u>New Const. Hilltop Towers</u>	<u>State and Local T. J. Homes</u>	<u>Total</u>
Vendors and contractors	\$ 0	\$ 0	\$ 0	\$ 10,066
Tenants security deposits	15,841	21,279	9,361	100,332
Payroll withholding	0	0	0	292
Accounts payable - other	<u>13,311</u>	<u>0</u>	<u>0</u>	<u>14,650</u>
Subtotal	\$ 29,152	\$ 21,279	\$ 9,361	\$ 125,340
Interfund	<u>83,841</u>	<u>104,248</u>	<u>32,632</u>	<u>357,727</u>
Total	<u>\$ 112,993</u>	<u>\$ 125,527</u>	<u>\$ 41,993</u>	<u>\$ 483,067</u>

Note 11 - Accrued Liabilities

Accrued liabilities consists of the following:

	<u>Low Rent</u>	<u>Voucher</u>	<u>Business Activities</u>
<u>Current Portion:</u>			
Accrued payroll	\$ 6,225	\$ 1,647	\$ 293
Accrued compensated absences	2,756	751	78
Accrued interest payable	0	0	0
Payment in lieu of taxes	<u>39,124</u>	<u>0</u>	<u>0</u>
Current Portion Total	\$ 48,105	\$ 2,398	\$ 371
<u>Noncurrent Portion:</u>			
Accrued compensated absences	<u>24,808</u>	<u>6,756</u>	<u>704</u>
Total	<u>\$ 72,913</u>	<u>\$ 9,154</u>	<u>\$ 1,075</u>
	<u>New Const. Hilltop Towers</u>	<u>State and Local T. J. Homes</u>	<u>Total</u>
<u>Current Portion:</u>			
Accrued payroll	\$ 979	\$ 292	\$ 9,436
Accrued compensated absences	519	71	4,175
Accrued interest payable	15,439	0	15,439
Payment in lieu of taxes	<u>18,245</u>	<u>0</u>	<u>57,369</u>
Total Short Term	\$ 35,182	\$ 363	\$ 86,419
<u>Noncurrent Portion:</u>			
Accrued compensated absences	<u>4,673</u>	<u>637</u>	<u>37,578</u>
Total	<u>\$ 39,855</u>	<u>\$ 1,000</u>	<u>\$ 123,997</u>

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

**NOTES TO FINANCIAL STATEMENTS  
TWELVE MONTHS ENDED JUNE 30, 2005  
(CONTINUED)**

Note 12 - Deferred Revenue

This classification consists of the following accounts:

	<u>Low Rent</u>	<u>New Const. Hilltop Towers</u>	<u>State and Local T. J. Homes</u>	<u>Total</u>
Tenants prepaid rent	\$ 1,990	\$ 595	\$ 856	\$ 3,441

Note 13 - Notes Payable

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

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

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

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

Note 14 - Long Term Debt

<u>Project</u>	<u>Rate</u>	<u>Due Date</u>	<u>Current Portion</u>	<u>Long-Term Portion</u>	<u>Total</u>
Thomas Jefferson Homes	8.23%	12/01/19	\$ 11,819	\$ 293,349	\$ 305,168
Hilltop Towers	6.90%	10/01/10	<u>125,000</u>	<u>770,000</u>	<u>895,000</u>
Total			<u>\$ 136,819</u>	<u>\$ 1,063,349</u>	<u>\$ 1,200,168</u>

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

<u>Due Fiscal Year Ending</u>	<u>Hilltop</u>	<u>T. J. Homes</u>	<u>Total</u>
2006	\$ 125,000	\$ 11,819	\$ 136,819
2007	135,000	12,742	147,742
2008	145,000	13,831	158,831
2009	150,000	15,013	165,013
2010	165,000	16,297	181,297
Thereafter	175,000	235,466	410,466

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

**NOTES TO FINANCIAL STATEMENTS  
TWELVE MONTHS ENDED JUNE 30, 2005  
(CONTINUED)**

Note 15 - 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 \$41.01 per unit month leased for July to December and a variable rate monthly from January to June.

Note 16 - 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 17 - 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, 2005 are as follows:

2006	\$ 180,723
2007	182,443
2008	183,743
2009	183,813
2010	178,635
Thereafter	363,806

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

**NOTES TO FINANCIAL STATEMENTS  
TWELVE MONTHS ENDED JUNE 30, 2005  
(CONTINUED)**

Note 18 - 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 19 - Prior Period Adjustments

Prior period adjustments posted directly to surplus are detailed below:

Refund of utilities overbilled	\$ 33,880
HUD adjustment to prior year settlement	88,084
Adjustment of FSS escrow balance	<u>906</u>
Total	<u>\$ 122,870</u>

Note 20 - 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 21 - Economic Dependency

The Housing Authority received most of its revenue (73%) 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 OF THE CITY OF MARION  
MARION, INDIANA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE TWELVE MONTHS ENDED JUNE 30, 2005**

<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*	14.850	C-2001	FYE 06/30/05	\$ 502,867	\$ 502,867	\$ 502,867
Lower Income Housing Assistance Program - New Construction	14.182	IN041NC	FYE 06/30/05	\$ 201,239	\$ 201,239	\$ 201,239
Housing Choice Voucher Program*	14.871	IN041VO	FYE 06/30/05	\$ 1,854,617	\$ 1,866,350	\$ 1,845,900
Public Housing - Capital Fund	14.872	C-2001	FYE 06/30/05	\$ 915,312	\$ 231,924	\$ 231,924
Total Housing Assistance				\$ 3,474,035	\$ 2,802,380	\$ 2,781,930

\*Denotes major program.

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

**STATEMENT OF NET ASSETS  
AT JUNE 30, 2005**

<u>ASSETS</u>	<u>Low Rent</u>	<u>Capital Funds</u>	<u>Voucher</u>
<b>CURRENT ASSETS</b>			
Cash	\$ 230,290	\$ 0	\$ 164,720
Accounts receivable	384,599	28,108	0
Accrued interest receivable	3,807	0	1,965
Investments	673,897	0	217,322
Inventory	21,731	0	0
Deferred charges	<u>0</u>	<u>0</u>	<u>2,010</u>
Total Current Assets	<u>\$ 1,314,324</u>	<u>\$ 28,108</u>	<u>\$ 386,017</u>
<b>CAPITAL ASSETS</b>			
Land, buildings and equipment	\$ 11,290,033	\$ 425,814	\$ 36,526
Less: Accumulated depreciation	<u>-4,692,555</u>	<u>0</u>	<u>-12,989</u>
Total Capital Assets	<u>\$ 6,597,478</u>	<u>\$ 425,814</u>	<u>\$ 23,537</u>
<b>OTHER ASSETS</b>			
Notes receivable	<u>\$ 139,806</u>	<u>\$ 0</u>	<u>\$ 0</u>
Total Other Assets	<u>\$ 139,806</u>	<u>\$ 0</u>	<u>\$ 0</u>
Net Assets	<u>\$ 8,051,608</u>	<u>\$ 453,922</u>	<u>\$ 409,554</u>
<b><u>LIABILITIES</u></b>			
<b>CURRENT LIABILITIES</b>			
Accounts payable	\$ 60,485	\$ 28,108	\$ 113,961
Accrued liabilities	48,105	0	2,398
Deferred revenue	<u>1,990</u>	<u>0</u>	<u>0</u>
Total Current Liabilities	<u>\$ 110,580</u>	<u>\$ 28,108</u>	<u>\$ 116,359</u>
<b>NONCURRENT LIABILITIES</b>			
Accrued compensated absences	\$ 24,808	\$ 0	\$ 6,756
Trust and deposit liabilities	<u>12,926</u>	<u>0</u>	<u>31,665</u>
Total Noncurrent Liabilities	<u>\$ 37,734</u>	<u>\$ 0</u>	<u>\$ 38,421</u>
<b><u>NET ASSETS</u></b>			
Invested in capital assets	\$ 6,597,478	\$ 425,814	\$ 23,537
Unrestricted	<u>1,305,816</u>	<u>0</u>	<u>231,237</u>
Total Net Assets	<u>\$ 7,903,294</u>	<u>\$ 425,814</u>	<u>\$ 254,774</u>

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

**STATEMENT OF NET ASSETS  
AT JUNE 30, 2005**

<u><b>ASSETS</b></u>	<u>Business Activities</u>	<u>New Const. Hilltop Towers</u>	<u>State and Local T. J. Homes</u>
<b>CURRENT ASSETS</b>			
Cash	\$ 110,990	\$ 101,560	\$ 43,894
Accounts receivable	0	618	669
Accrued interest receivable	60	4,876	3,049
Investments	60,000	289,604	201,349
Restricted investments	0	559,945	0
Inventory	0	2,238	0
Deferred charges	0	0	0
	<u>0</u>	<u>0</u>	<u>0</u>
Total Current Assets	<u>\$ 171,050</u>	<u>\$ 958,841</u>	<u>\$ 248,961</u>
<b>CAPITAL ASSETS</b>			
Land, buildings and equipment	\$ 0	\$ 2,691,304	\$ 2,141,669
Less: Accumulated depreciation	<u>0</u>	<u>-1,567,307</u>	<u>-211,290</u>
Total Capital Assets	<u>\$ 0</u>	<u>\$ 1,123,997</u>	<u>\$ 1,930,379</u>
Net Assets	<u>\$ 171,050</u>	<u>\$ 2,082,838</u>	<u>\$ 2,179,340</u>
 <u><b>LIABILITIES</b></u>			
<b>CURRENT LIABILITIES</b>			
Accounts payable	\$ 112,993	\$ 125,527	\$ 41,993
Accrued liabilities	371	35,182	363
Notes payable	0	125,000	11,819
Deferred revenue	0	595	856
	<u>0</u>	<u>595</u>	<u>856</u>
Total Current Liabilities	<u>\$ 113,364</u>	<u>\$ 286,304</u>	<u>\$ 55,031</u>
<b>LONG TERM LIABILITIES</b>			
Accrued compensated absences	\$ 704	\$ 4,673	\$ 637
Notes payable	<u>0</u>	<u>770,000</u>	<u>293,349</u>
Total Long Term Liabilities	<u>\$ 704</u>	<u>\$ 774,673</u>	<u>\$ 293,986</u>
 <u><b>NET ASSETS</b></u>			
Invested in capital assets	\$ 0	\$ 228,997	\$ 1,625,211
Restricted	0	559,945	0
Unrestricted	<u>56,982</u>	<u>232,919</u>	<u>205,112</u>
Total Net Assets	<u>\$ 56,982</u>	<u>\$ 1,021,861</u>	<u>\$ 1,830,323</u>

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

**STATEMENT OF REVENUE AND EXPENDITURES  
TWELVE MONTHS ENDED JUNE 30, 2005**

<u>Operating Income</u>	<u>Low Rent</u>	<u>Capital Funds</u>	<u>Voucher</u>
Dwelling rental	\$ 536,233	\$ 0	\$ 0
Total Rental Income	\$ 536,233	\$ 0	\$ 0
HUD grants - operating	502,867	73,724	1,866,350
Other grants	15,789	0	0
Other income	<u>30,608</u>	<u>0</u>	<u>17,456</u>
Total Operating Income	\$ 1,085,497	\$ 73,724	\$ 1,883,806
 <u>Operating Expenses</u>			
Administration	\$ 323,111	\$ 45,979	\$ 169,194
Tenant services	17,128	0	30,060
Utilities	152,281	0	0
Ordinary maintenance and operation	394,666	27,745	0
General expense	138,619	0	8,365
Nonroutine maintenance	3,052	0	0
Depreciation	377,911	0	4,000
Housing assistance payments	<u>0</u>	<u>0</u>	<u>1,638,281</u>
Total Operating Expenses	\$ 1,406,768	\$ 73,724	\$ 1,849,900
Net Operating Income (Loss)	\$ -321,271	\$ 0	\$ 33,906
 <u>Nonoperating Income (Expense)</u>			
HUD grants - capital	\$ 0	\$ 158,200	\$ 0
Interest income	<u>30,053</u>	<u>0</u>	<u>4,771</u>
Total Nonoperating Income (Expense)	\$ 30,053	\$ 158,200	\$ 4,771
Changes in Net Assets	<u>\$ -291,218</u>	<u>\$ 158,200</u>	<u>\$ 38,677</u>

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

**STATEMENT OF REVENUE AND EXPENDITURES  
TWELVE MONTHS ENDED JUNE 30, 2005**

<u>Operating Income</u>	<u>Business Activities</u>	<u>New Const. Hilltop Towers</u>	<u>State and Local T. J. Homes</u>
Dwelling rental	\$ 0	\$ 246,063	\$ 109,543
Other tenant income	<u>0</u>	<u>3,755</u>	<u>0</u>
Total Tenant Income	\$ 0	\$ 249,818	\$ 109,676
HUD grants - operating	0	201,239	0
Other income	<u>36,599</u>	<u>3,637</u>	<u>3,200</u>
Total Operating Income	\$ 36,599	\$ 454,694	\$ 112,743
 <u>Operating Expenses</u>			
Administration	\$ 4,923	\$ 31,039	\$ 10,708
Tenant services	0	20,373	0
Utilities	0	71,023	1,697
Ordinary maintenance and operation	13,440	60,829	17,041
General expense	0	52,780	10,216
Nonroutine maintenance	0	26,274	6,015
Depreciation	<u>0</u>	<u>67,599</u>	<u>39,391</u>
Total Operating Expenses	\$ 18,363	\$ 329,917	\$ 85,068
Net Operating Income (Loss)	\$ 18,236	\$ 124,777	\$ 27,675
 <u>Nonoperating Income (Expense)</u>			
Interest expense	\$ 0	\$ -64,400	\$ -25,464
Interest income (restricted)	0	6,325	4,946
Interest income	<u>60</u>	<u>5,399</u>	<u>0</u>
Total Nonoperating Income (Expense)	\$ 60	\$ -52,676	\$ -20,518
Changes in Net Assets	<u>\$ 18,296</u>	<u>\$ 72,101</u>	<u>\$ 7,157</u>

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

**CHANGES IN NET ASSETS  
TWELVE MONTHS ENDED JUNE 30, 2005**

<u>Invested in Capital Assets</u>	<u>Low Rent</u>	<u>Capital Funds</u>	<u>Voucher</u>
Balance at June 30, 2004	\$ 6,764,506	\$ 449,552	\$ 15,667
Current year net income (loss)	-348,967	158,201	7,870
Close out Capital Funds	<u>181,939</u>	<u>-181,939</u>	<u>0</u>
Balance at June 30, 2005	<u>\$ 6,597,478</u>	<u>\$ 425,814</u>	<u>\$ 23,537</u>
 <u>Unrestricted</u>			
Balance at June 30, 2004	\$ 1,214,187	\$ 0	\$ 111,440
Current year net income (loss)	57,749	0	30,807
Prior period adjustments	<u>33,880</u>	<u>0</u>	<u>88,990</u>
Balance at June 30, 2005	<u>\$ 1,305,816</u>	<u>\$ 0</u>	<u>\$ 231,237</u>
Total Net Assets	<u>\$ 7,903,294</u>	<u>\$ 425,814</u>	<u>\$ 254,774</u>

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

**CHANGES IN NET ASSETS  
TWELVE MONTHS ENDED JUNE 30, 2005**

<u>Invested in Capital Assets</u>	<u>Business Activities</u>	<u>New Const. Hilltop Towers</u>	<u>State and Local T. J. Homes</u>
Balance at June 30, 2004	\$ 0	\$ 181,596	\$ 1,650,414
Current year net income (loss)	<u>0</u>	<u>47,401</u>	<u>-25,203</u>
Balance at June 30, 2005	<u>\$ 0</u>	<u>\$ 228,997</u>	<u>\$ 1,625,211</u>
 <u>Restricted</u>			
Balance at June 30, 2004	\$ 0	\$ 538,887	\$ 0
Current year net income (loss)	<u>0</u>	<u>21,058</u>	<u>0</u>
Balance at June 30, 2005	<u>\$ 0</u>	<u>\$ 559,945</u>	<u>\$ 0</u>
 <u>Unrestricted</u>			
Balance at June 30, 2004	\$ 38,686	\$ 229,277	\$ 172,752
Current year net income (loss)	<u>18,296</u>	<u>3,642</u>	<u>32,360</u>
Balance at June 30, 2005	<u>\$ 56,982</u>	<u>\$ 232,919</u>	<u>\$ 205,112</u>
Total Net Assets	<u>\$ 56,982</u>	<u>\$ 1,021,861</u>	<u>\$ 1,830,323</u>

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

**STATEMENT OF CASH FLOWS  
TWELVE MONTHS ENDED JUNE 30, 2005**

<u>Operating Activities</u>	<u>Low Rent</u>	<u>Capital Funds</u>	<u>Voucher</u>
Operating grants	\$ 518,656	\$ 73,724	\$ 1,953,956
Dwelling rental	522,561	0	0
Other revenue	30,608	0	17,456
Housing assistance payments	0	0	-1,638,281
Payments to employees	-372,678	-73,724	-106,413
Payments to suppliers and contractors	<u>-422,233</u>	<u>0</u>	<u>-68,134</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 276,914</u>	<u>\$ 0</u>	<u>\$ 158,584</u>
 <u>Investing Activities</u>			
(Additions) deletions to fixed assets	\$ -28,945	\$ -158,200	\$ -11,870
Investments (purchased) redeemed	-166,304	0	-86,949
Interest income	<u>30,053</u>	<u>0</u>	<u>2,806</u>
Net Cash Provided (Used) by Investing Activities	<u>\$ -165,196</u>	<u>\$ -158,200</u>	<u>\$ -96,013</u>
 <u>Financing Activities</u>			
HUD grants - capital	\$ 0	\$ 158,200	\$ 0
Mortgage receivable	<u>-71,443</u>	<u>0</u>	<u>0</u>
Net Cash Provided (Used) by Investing Activities	<u>\$ -71,443</u>	<u>\$ 158,200</u>	<u>\$ 0</u>
Net Change in Cash	\$ 40,275	\$ 0	\$ 62,571
Cash Balance at June 30, 2004	<u>190,015</u>	<u>0</u>	<u>102,149</u>
Cash Balance at June 30, 2005	<u>\$ 230,290</u>	<u>\$ 0</u>	<u>\$ 164,720</u>

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

**STATEMENT OF CASH FLOWS  
TWELVE MONTHS ENDED JUNE 30, 2005**

Reconciliation of Operating Income (Loss) to Net Cash

<u>Provided (Used) by Operating Activities</u>	<u>Low Rent</u>	<u>Capital Funds</u>	<u>Voucher</u>
Net operating income (loss)	\$ -321,271	\$ 0	\$ 33,906
Adjustment to Reconcile Operating Income (Loss) to Net Cash Flows from Operating Activities:			
Depreciation	377,911	0	4,000
Adjustments to net assets	33,881	0	88,990
(Increase) decrease in accounts receivable	166,824	28,241	10,066
(Increase) decrease in deferred charges	11,271	0	1,764
(Increase) decrease in inventory	-410	0	0
(Increase) decrease in other assets	44,391	0	0
Increase (decrease) in accounts payable	1,621	-28,241	49,663
Increase (decrease) in accrued liabilities	-38,588	0	-5,006
Increase (decrease) in deferred revenues	277	0	0
Increase (decrease) in other liabilities	1,007	0	-24,799
Net Cash Provided (Used) by Operating Activities	<u>\$ 276,914</u>	<u>\$ 0</u>	<u>\$ 158,584</u>

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

**STATEMENT OF CASH FLOWS  
TWELVE MONTHS ENDED JUNE 30, 2005**

<u>Operating Activities</u>	<u>Business Activities</u>	<u>New Const. Hilltop Towers</u>	<u>State and Local T. J. Homes</u>
Operating grants	\$ 0	\$ 201,239	\$ 0
Dwelling rental	0	228,713	110,398
Other revenue	36,599	3,637	3,200
Housing assistance payments	0	0	0
Payments to employees	-12,335	-33,006	-12,000
Payments to suppliers and contractors	<u>23,209</u>	<u>-297,769</u>	<u>-23,065</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 47,473</u>	<u>\$ 102,814</u>	<u>\$ 78,533</u>
 <u>Investing Activities</u>			
(Additions) deletions to fixed assets	\$ 0	\$ 0	\$ -3,144
Investments (purchased) redeemed	-60,000	-85,663	-50,000
Interest income	<u>60</u>	<u>11,724</u>	<u>4,946</u>
Net Cash Provided (Used) by Investing Activities	<u>\$ -59,940</u>	<u>\$ -73,939</u>	<u>\$ -48,198</u>
 <u>Financing Activities</u>			
Interest expense	\$ 0	\$ -64,400	\$ -25,464
Retirement of debt	<u>0</u>	<u>-115,000</u>	<u>-11,044</u>
Net Cash Provided (Used) by Financing Activities	<u>\$ 0</u>	<u>\$ -179,400</u>	<u>\$ -36,508</u>
Net Change in Cash	\$ -12,467	\$ -150,525	\$ -6,173
Cash Balance at June 30, 2004	<u>123,457</u>	<u>252,085</u>	<u>50,067</u>
Cash Balance at June 30, 2005	<u>\$ 110,990</u>	<u>\$ 101,560</u>	<u>\$ 43,894</u>

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

**STATEMENT OF CASH FLOWS  
TWELVE MONTHS ENDED JUNE 30, 2005**

<u>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities</u>	<u>Business Activities</u>	<u>New Const. Hilltop Towers</u>	<u>State and Local T. J. Homes</u>
Net operating income (loss)	\$ 18,236	\$ 124,777	\$ 27,675
Adjustment to Reconcile Operating Income (Loss) to Net Cash Flows from Operating Activities:			
Depreciation	0	67,599	39,391
(Increase) decrease in accounts receivable	15,579	-33	-356
(Increase) decrease in deferred charges	0	2,205	741
(Increase) decrease in inventory	0	-1,192	0
(Increase) decrease in other assets	0	12,536	-2,383
Increase (decrease) in accounts payable	13,621	-103,369	13,112
Increase (decrease) in accrued liabilities	37	223	266
Increase (decrease) in deferred revenues	<u>0</u>	<u>68</u>	<u>87</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 47,473</u>	<u>\$ 102,814</u>	<u>\$ 78,533</u>

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

**PHA's STATEMENT AND CERTIFICATION OF ACTUAL MODERNIZATION COST  
PHASE IN36P041501-03**

1. The Actual Modernization Costs of Phase IN36P041501-03 are as follows:

Funds approved	\$ 388,196
Funds expended	<u>388,196</u>
Excess of Funds Approved	<u>\$ 0</u>
Funds advanced	\$ 388,196
Funds expended	<u>388,196</u>
Excess of Funds Advanced	<u>\$ 0</u>

2. The distribution of costs by project, as shown on the final Statement of Modernization Cost, dated February 3, 2006, 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.

# PAMELA J. SIMPSON, C.P.A.

433 WEST PERSHING ROAD

DECATUR, ILLINOIS 62526

(217) 872-1908

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

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

### Compliance

I have audited the compliance of Housing Authority of the City of Marion with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. Housing Authority of the City of Marion's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Housing Authority of the City of Marion's management. My responsibility is to express an opinion on Housing Authority of the City of Marion's compliance based on my audit.

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

In my opinion, the Housing Authority of the City of Marion complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

### Internal Control Over Compliance

The management of Housing Authority of the City of Marion is responsible for establishing and maintaining effective internal control over compliance with 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 requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

# PAMELA J. SIMPSON, C.P.A.

433 WEST PERSHING ROAD

DECATUR, ILLINOIS 62526

(217) 872-1908

## Report on Compliance and on Internal Control Over Financial Reporting 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, 2005, and have issued my report thereon dated February 23, 2006. I conducted my audit in accordance with auditing standards generally accepted in the United States of America applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Compliance

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 grants, 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 that are required to be reported under *Government Auditing Standards*.

### 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 in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operation that I consider to be material weaknesses.

This report is intended solely for the information of management, the Board of Commissioners and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.



Certified Public Accountant

Decatur, Illinois  
February 23, 2006

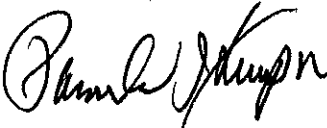
My consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over compliance and its operation that I consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

I have audited the financial statements of the Housing Authority of the City of Marion of and for the year ended June 30, 2005, and have issued my report hereon dated February 23, 2006. My audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. 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 material respects, in relation to the financial statements taken as a whole.

This report is intended solely for the information of management, the Board of Commissioners and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Decatur, Illinois  
February 23, 2006

  
Certified Public Accountant

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - SUMMARY  
FOR THE YEAR ENDED JUNE 30, 2005**

**Summary of Auditor's Results**

Low Risk Auditee X    yes    \_\_\_\_\_    no

*Financial Statements*

Type of auditor's report:            Unqualified

\* Material weakness(es) identified?            \_\_\_\_\_    yes    X    no

\* Reportable condition(s) identified that are not  
considered to be material weaknesses?            \_\_\_\_\_    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

\* Reportable condition(s) identified that are not  
considered to be material weaknesses?            \_\_\_\_\_    yes    X    none reported

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

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

**Major Programs:** (Threshold \$300,000)

**CFDA Number(s)**

Public and Indian Housing	14.850
Lower Income Housing Assistance - New Construction	14.182
Housing Choice Voucher Program	14.871

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

**STATUS OF PRIOR AUDIT FINDINGS**

The prior audit report for the period ended June 30, 2004 contained no findings.

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

**CURRENT FINDINGS AND RECOMMENDATIONS**

There were no findings discussed with Fred Hunt, Executive Director, and Jonda Manwell, Controller, during the course of the audit or at an exit conference held February 23, 2006.

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

**SCHEDULE OF ADJUSTING JOURNAL ENTRIES  
JUNE 30, 2005**

<u>Low Rent</u>	<u>Audit Account Number</u>	<u>Debit</u>	<u>Credit</u>	<u>Posting Account Number</u>
(1)				
Tenant services - contract	4200	\$ 15,789.00		4200
Step Ahead Grant, Inc.	----		\$ 15,789.00	----
(To record Step Ahead Grant on income statement)				
<u>Voucher</u>				
(1)				
HUD grants	----	\$ 88,084.00		n/a
Retained earnings	----		\$ 88,084.00	n/a
(To adjust for 06/30/04 YES amount received)				
(2)				
Accounts receivable - HUD	----	\$ 1,384.00		n/a
HUD grants	----		\$ 1,384.00	n/a
(To adjust for 06/30/05 YES)				
(3)				
Property betterments & additions	7520		\$ 2,600.00	n/a
Contra	7590	\$ 2,600.00		n/a
Land, structures and equipment	1400		2,600.00	1400
Sundry	4190	2,600.00		4190
(To reclassify furniture that is below the capitalization limit)				
<u>New Construction</u>				
(1)				
Accounts payable - JP Morgan	2118	\$ 661.25		2118
Interest expense	4500		\$ 661.25	4500
(To correct journal entry 3322 posted 12/04 for interest accrual)				

PHA: IN041 FYED: 06/30/2005

Line Item No.	Account Description	Business Activities	N/C S/R Section 8 Programs	Low Rent Public Housing	Housing Choice Vouchers	Public Housing Capital Fund Program	State/Local	Total
111	Cash - Unrestricted	\$110,990	\$101,560	\$230,290	\$164,720	\$0	\$43,894	\$651,454
100	Total Cash	\$110,990	\$101,560	\$230,290	\$164,720	\$0	\$43,894	\$651,454
122	Accounts Receivable - HUD Other Projects	\$0	\$0	\$0	\$0	\$28,108	\$0	\$28,108
125	Accounts Receivable - Miscellaneous	\$0	\$0	\$590	\$0	\$0	\$0	\$590
126	Accounts Receivable - Tenants - Dwelling Rents	\$0	\$2,595	\$7,906	\$0	\$0	\$1,092	\$11,593
126.1	Allowance for Doubtful Accounts - Dwelling Rents	\$0	\$-1,977	\$-4,843	\$0	\$0	\$-423	\$-7,243
126.2	Allowance for Doubtful Accounts - Other	\$0	\$0	\$0	\$0	\$0	\$0	\$0
127	Notes, Loans, & Mortgages Receivable - Current	\$0	\$0	\$23,219	\$0	\$0	\$0	\$23,219
128.1	Allowance for Doubtful Accounts - Fraud	\$0	\$0	\$0	\$0	\$0	\$0	\$0
129	Accrued Interest Receivable	\$60	\$4,876	\$3,807	\$1,965	\$0	\$3,049	\$13,757
120	Total Receivables, net of allowances for doubtful accounts	\$60	\$5,494	\$30,679	\$1,965	\$28,108	\$3,718	\$70,024
131	Investments - Unrestricted	\$60,000	\$289,604	\$673,897	\$217,322	\$0	\$201,349	\$1,442,172
132	Investments Restricted	\$0	\$559,945	\$0	\$0	\$0	\$0	\$559,945
142	Prepaid Expenses and Other Assets	\$0	\$0	\$0	\$2,010	\$0	\$0	\$2,010
143	Inventories	\$0	\$2,238	\$21,731	\$0	\$0	\$0	\$23,969
143.1	Allowance for Obsolete Inventories	\$0	\$0	\$0	\$0	\$0	\$0	\$0
144	Interprogram Due From	\$0	\$0	\$357,727	\$0	\$0	\$0	\$357,727
150	Total Current Assets	\$171,050	\$958,841	\$1,314,324	\$386,017	\$28,108	\$248,961	\$3,107,301
161	Land	\$0	\$105,072	\$266,583	\$0	\$0	\$73,227	\$444,882
162	Buildings	\$0	\$2,432,311	\$5,477,306	\$0	\$0	\$1,563,302	\$9,472,919
163	Furniture, Equipment & Machinery - Dwellings	\$0	\$0	\$1,000	\$0	\$425,813	\$0	\$426,813
164	Furniture, Equipment & Machinery - Administration	\$0	\$72,822	\$315,701	\$36,526	\$0	\$0	\$425,049
165	Leasehold Improvements	\$0	\$91,099	\$5,229,443	\$0	\$0	\$505,140	\$5,815,682
166	Accumulated Depreciation	\$0	\$-1,567,307	\$-4,692,555	\$-12,989	\$0	\$-211,290	\$-6,484,141
160	Total Fixed Assets, Net of Accumulated Depreciation	\$0	\$1,123,997	\$6,597,478	\$23,537	\$425,813	\$1,930,379	\$10,101,204
171	Notes, Loans, & Mortgages Receivable - Non Current	\$0	\$0	\$139,806	\$0	\$0	\$0	\$139,806
180	Total Non-Current Assets	\$0	\$1,123,997	\$6,737,284	\$23,537	\$425,813	\$1,930,379	\$10,241,010
190	Total Assets	\$171,050	\$2,082,838	\$8,051,608	\$409,554	\$453,921	\$2,179,340	\$13,348,311

PHA: IN041 FYED: 06/30/2005

Line Item No.	Account Description	Business Activities	N/C S/R Section 8 Programs	Low Rent Public Housing	Housing Choice Vouchers	Public Housing Capital Fund Program	State/Local	Total
312	Accounts Payable <= 90 Days	\$0	\$0	\$5,003	\$5,063	\$0	\$0	\$10,066
321	Accrued Wage/Payroll Taxes Payable	\$293	\$979	\$6,517	\$1,847	\$0	\$292	\$9,728
322	Accrued Compensated Absences - Current Portion	\$78	\$519	\$2,756	\$751	\$0	\$71	\$4,175
325	Accrued Interest Payable	\$0	\$15,439	\$0	\$0	\$0	\$0	\$15,439
333	Accounts Payable - Other Government	\$0	\$18,245	\$39,124	\$0	\$0	\$0	\$57,369
341	Tenant Security Deposits	\$15,841	\$21,279	\$53,851	\$0	\$0	\$9,361	\$100,332
342	Deferred Revenues	\$0	\$595	\$1,990	\$0	\$0	\$856	\$3,441
348	Current Portion of Long-term Debt - Capital Projects/Mortgage Revenue Bonds	\$0	\$125,000	\$0	\$0	\$0	\$11,819	\$136,819
345	Other Current Liabilities	\$13,311	\$0	\$1,339	\$0	\$0	\$0	\$14,650
347	Interprogram Due To	\$83,841	\$104,248	\$0	\$108,898	\$28,108	\$32,632	\$357,727
310	Total Current Liabilities	\$113,384	\$286,304	\$110,580	\$116,359	\$28,108	\$55,031	\$709,746
351	Long-term Debt, Net of Current - Capital Projects/Mortgage Revenue Bonds	\$0	\$770,000	\$0	\$0	\$0	\$293,349	\$1,063,349
354	Accrued Compensated Absences - Non Current	\$704	\$4,673	\$24,808	\$6,756	\$0	\$637	\$37,578
353	Noncurrent Liabilities - Other	\$0	\$0	\$12,926	\$31,665	\$0	\$0	\$44,591
350	Total Noncurrent Liabilities	\$704	\$74,673	\$37,734	\$38,421	\$0	\$293,986	\$1,145,518
300	Total Liabilities	\$114,068	\$1,060,977	\$148,314	\$154,780	\$28,108	\$349,017	\$1,855,264
508	Total Contributed Capital	\$0	\$0	\$0	\$0	\$0	\$0	\$0
508.1	Invested in Capital Assets, Net of Related Debt	\$0	\$228,997	\$6,597,478	\$23,537	\$425,813	\$1,625,211	\$8,901,036
511	Total Reserved Fund Balance	\$0	\$0	\$0	\$0	\$0	\$0	\$0
511.1	Restricted Net Assets	\$0	\$559,945	\$0	\$0	\$0	\$0	\$559,945
512.1	Unrestricted Net Assets	\$56,982	\$32,919	\$1,305,816	\$231,237	\$0	\$205,112	\$2,032,066
513	Total Equity/Net Assets	\$56,982	\$1,021,861	\$7,903,294	\$254,774	\$425,813	\$1,830,323	\$11,493,047
600	Total Liabilities and Equity/Net Assets	\$171,050	\$2,082,838	\$8,051,608	\$409,554	\$453,921	\$2,179,340	\$13,348,311

PHA: IN041 FYED: 06/30/2005

Line Item No.	Account Description	Business Activities	N/C S/R Section 8 Programs	Low Rent Public Housing	Housing Choice Vouchers	Public Housing Capital Fund Program	State/Local	Total
703	Net Tenant Rental Revenue	\$0	\$246,063	\$536,233	\$0	\$0	\$109,543	\$891,839
704	Tenant Revenue - Other	\$0	\$3,755	\$0	\$0	\$0	\$0	\$3,755
705	Total Tenant Revenue	\$0	\$249,818	\$536,233	\$0	\$0	\$109,543	\$895,594
706	HUD PHA Operating Grants	\$0	\$201,239	\$502,867	\$1,866,350	\$73,724	\$0	\$2,644,180
706.1	Capital Grants	\$0	\$0	\$0	\$0	\$158,200	\$0	\$158,200
708	Other Government Grants	\$0	\$0	\$15,789	\$0	\$0	\$0	\$15,789
711	Investment Income - Unrestricted	\$60	\$5,399	\$30,053	\$4,771	\$0	\$4,946	\$45,229
715	Other Revenue	\$36,599	\$3,637	\$30,608	\$17,456	\$0	\$3,200	\$91,500
720	Investment Income - Restricted	\$0	\$6,325	\$0	\$0	\$0	\$0	\$6,325
700	Total Revenue	\$36,659	\$466,418	\$1,115,550	\$1,888,577	\$231,924	\$117,689	\$3,856,817

PFA: IN041 FYED: 06/30/2005

Line Item No.	Account Description	Business Activities	N/C S/R Section 8 Programs	Low Rent Public Housing	Housing Choice Vouchers	Public Housing Capital Fund Program	State/Local	Total
911	Administrative Salaries	\$2,227	\$8,045	\$172,890	\$85,215	\$16,008	\$4,728	\$289,113
912	Auditing Fees	\$0	\$0	\$0	\$1,600	\$4,205	\$150	\$5,955
915	Employee Benefit Contributions - Administrative	\$723	\$3,962	\$53,670	\$27,041	\$5,937	\$1,489	\$92,822
916	Other Operating - Administrative	\$1,973	\$19,032	\$96,551	\$55,338	\$19,829	\$4,341	\$197,064
921	Tenant Services - Salaries	\$0	\$0	\$-763	\$22,577	\$0	\$0	\$21,814
923	Employee Benefit Contributions - Tenant Services	\$0	\$0	\$0	\$7,206	\$0	\$0	\$7,206
924	Tenant Services - Other	\$0	\$20,373	\$17,891	\$277	\$0	\$0	\$38,541
931	Water	\$0	\$10,232	\$21,724	\$0	\$0	\$386	\$32,342
932	Electricity	\$0	\$60,791	\$125,618	\$0	\$0	\$812	\$187,221
933	Gas	\$0	\$0	\$4,939	\$0	\$0	\$499	\$5,438
941	Ordinary Maintenance and Operations - Labor	\$10,145	\$27,168	\$161,200	\$0	\$0	\$7,538	\$206,051
942	Ordinary Maintenance and Operations - Materials and Other	\$0	\$7,598	\$76,156	\$0	\$17,851	\$3,155	\$104,760
943	Ordinary Maintenance and Operations - Contract Costs	\$0	\$12,684	\$107,268	\$0	\$9,894	\$3,974	\$133,820
945	Employee Benefit Contributions - Ordinary Maintenance	\$3,295	\$13,379	\$50,042	\$0	\$0	\$2,374	\$69,090
961	Insurance Premiums	\$0	\$31,441	\$91,323	\$9,047	\$0	\$9,959	\$141,770
962	Other General Expenses	\$0	\$1,135	\$0	\$0	\$0	\$0	\$1,135
963	Payments in Lieu of Taxes	\$0	\$18,245	\$39,124	\$0	\$0	\$0	\$57,369
964	Bad Debt - Tenant Rents	\$0	\$1,959	\$8,172	\$0	\$0	\$574	\$10,705
966	Bad Debt - Other	\$0	\$0	\$0	\$-682	\$0	\$-317	\$-999
967	Interest Expense	\$0	\$64,400	\$0	\$0	\$0	\$25,464	\$89,864
969	Total Operating Expenses	\$18,363	\$300,444	\$1,025,805	\$207,619	\$73,724	\$65,126	\$1,691,081
970	Excess Operating Revenue over Operating Expenses	\$18,296	\$165,974	\$89,745	\$1,680,958	\$158,200	\$52,563	\$2,165,736
971	Extraordinary Maintenance	\$0	\$26,274	\$3,052	\$0	\$0	\$6,015	\$35,341
973	Housing Assistance Payments	\$0	\$0	\$0	\$1,638,281	\$0	\$0	\$1,638,281
974	Depreciation Expense	\$0	\$67,599	\$377,911	\$4,000	\$0	\$39,391	\$488,901
900	Total Expenses	\$18,363	\$394,317	\$1,406,768	\$1,849,900	\$73,724	\$110,532	\$3,653,604
1010	Total Other Financing Sources (Uses)	\$0	\$0	\$0	\$0	\$0	\$0	\$0
1000	Excess (Deficiency) of Operating Revenue Over (Under) Expenses	\$18,296	\$72,101	\$-291,218	\$38,677	\$158,200	\$7,157	\$3,213

Line Item No.	Account Description	Business Activities	N/C S/R Section 8 Programs	Low Rent Public Housing	Housing Choice Vouchers	Public Housing Capital Fund Program	State/Local	Total
1102	Debt Principal Payments - Enterprise Funds	\$0	\$115,000	\$0	\$0	\$0	\$11,044	\$126,044
1103	Beginning Equity	\$38,686	\$949,760	\$7,978,693	\$127,107	\$449,552	\$1,823,166	\$11,366,964
1104	Prior Period Adjustments, Equity Transfers and Correction of Errors	\$0	\$0	\$215,819	\$88,990	\$-181,939	\$0	\$122,870
1113	Maximum Annual Contributions Commitment (Per ACC)	\$0	\$0	\$0	\$1,854,617	\$0	\$0	\$1,854,617
1114	Prorata Maximum Annual Contributions Applicable to a Period of less than Twelve Months	\$0	\$0	\$0	\$0	\$0	\$0	\$0
1115	Contingency Reserve, ACC Program Reserve	\$0	\$0	\$0	\$232,157	\$0	\$0	\$232,157
1116	Total Annual Contributions Available	\$0	\$0	\$0	\$2,086,774	\$0	\$0	\$2,086,774
1120	Unit Months Available	0	1,176	3,240	5,052	0	297	9,765
1121	Number of Unit Months Leased	0	1,175	3,208	5,052	0	288	9,723

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 Date Submission Created: 01/23/2006