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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, 2005 to June 30, 2006. 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, 2006, 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.

STATE BOARD OF ACCOUNTS

No page 8 was sent with report.
Nor pages 12-14.

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

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

TWELVE MONTHS ENDED JUNE 30, 2006

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

TABLE OF CONTENTS

Auditor's Report	1
Management's Discussion and Analysis	3
FINANCIAL STATEMENTS	
Statement of Net Assets at June 30, 2006	16
Statement of Revenue and Expenditures - Proprietary Funds and Changes in Net Assets - Twelve Months Ended June 30, 2006	17
Statement of Cash Flows - Twelve Months Ended June 30, 2006	18
Notes to Financial Statements	20
SUPPLEMENTAL DATA	
Schedule of Expenditure of Federal Awards	34
Individual Program Statements:	
Statement of Net Assets at June 30, 2006	35
Statement of Revenue and Expenditures - Twelve Months Ended June 30, 2006 ...	37
Statement of Changes in Net Assets - Twelve Months Ended June 30, 2006	39
Statement of Cash Flows - Twelve Months Ended June 30, 2006	41
PHA's Statement and Certification of Actual Modernization Cost - Phase IN36P040502-03	45
Auditor's Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards	46
Auditor's Report on Compliance With Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance With OMB Circular A-133	47
Schedule of Findings and Questioned Costs - Summary	49
Status of Prior Audit Findings	50
Current Findings, Recommendations and Replies	51
Schedule of Adjusting Journal Entries	52
Financial Data Schedule - REAC Electronic Submission	54

PAMELA J. SIMPSON, C.P.A.

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Independent Auditor's Report

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

I have audited the accompanying basic financial statements of the Housing Authority of the City of Marion, as of and for the year ended June 30, 2006, 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, 2006 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 December 14, 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 materials respects, in relation to the basic financial statements taken as a whole.

Decatur, Illinois
December 14, 2006


Certified Public Accountant

**HOUSING AUTHORITY OF THE CITY OF MARION, INDIANA
MANAGEMENT DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2006**



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, and purchased 49 market rate units in May of 2006. 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. 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, 2006. 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, 2006 by \$11,266,383 (net assets). This was a decrease of \$226,664 from \$11,493,048 as of June 30, 2005. This is a decrease of 2%.
- The Authority's cash balance as of June 30, 2006 was \$688,931, representing an increase of \$37,477, or 6%, from June 30, 2005. However, Unrestricted investments as of June 30, 2006, were \$1,178,832, a 19% decrease from June 30, 2005 unrestricted investment balance of \$1,442,172.
- Total fixed assets, net of accumulated depreciation increase by 10% from \$10,101,204 as of June 30, 2005 to \$11,097,954 as of June 30, 2006. Related long-term debt increased from \$1,063,349 as of June 30, 2005 to \$2,143,526 as of June 30, 2006.

HOUSING AUTHORITY OF THE CITY OF MARION, INDIANA MANAGEMENT DISCUSSION AND ANALYSIS FISCAL YEAR ENDED JUNE 30, 2006

- The Authority had received HUD grant revenues of \$2,464,687 for operations and \$189,992 of capital grants for the fiscal year ended June 30, 2006. This represents a net decrease of \$147,704, or 5.3% from fiscal year ended June 30, 2005.
- Total tenant revenue increased from \$895,594 in 2005 to \$1,195,916 in 2006, or by 34%.
- Total Operating Expenses increased \$235,821 in 2006 from 2005, or by 14%.
- Excess Operating Revenue over Operating Expenses decreased by \$112,342 2005 to 2006, or by 6%.

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 2006.

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.

**HOUSING AUTHORITY OF THE CITY OF MARION, INDIANA
MANAGEMENT DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2006**

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 has passed since 2004.

Statement of Net Assets

Total Assets for FYE 2006 were \$14,303,889 and at FYE 2005 were \$13,348,311. This represents a net increase of \$955,578, or 8%. Areas representing this difference are:

Cash -- The cash position of the Authority increased slightly by \$37,477, or 6% during FYE 2006. Cash at June 30, 2006, was \$688,931 and at June 30, 2005, was \$651,454.

Other Current Assets and Capital Assets -- The Authority's current assets at June 30, 2006, totaled \$2,847,343 (\$2,567,309 net of Interprogram-related funds) and were \$3,107,301 (\$2,749,574 net of receivables due from Interprogram funds) at June 30, 2005.

Capital Assets, net of accumulated depreciation, were \$11,097,954 as of June 30, 2006, and \$10,101,205 as of June 30, 2005. The net capital assets increased in value by \$996,750. This is primarily due a purchase of 49 market-rate units valued at \$1,150,000. Accumulated depreciation decreased the net value of assets by \$528,503 during 2006.

Non-Current Assets -- The Authority's non-current assets (excluding capital assets) at June 30, 2006 were \$358,581 and \$139,806 as of June 30, 2005. 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, 2006 was \$37,513, with \$16,036 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. 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 2006 were \$3,037,506 (\$2,757,461 net of payable due to Interprogram funds) and at FYE 2005 were \$1,855,264 (\$1,498,198 net of payable due to Interprogram funds). This represents an increase of \$1,182,242. Areas related to this increase are:

**HOUSING AUTHORITY OF THE CITY OF MARION, INDIANA
MANAGEMENT DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2006**

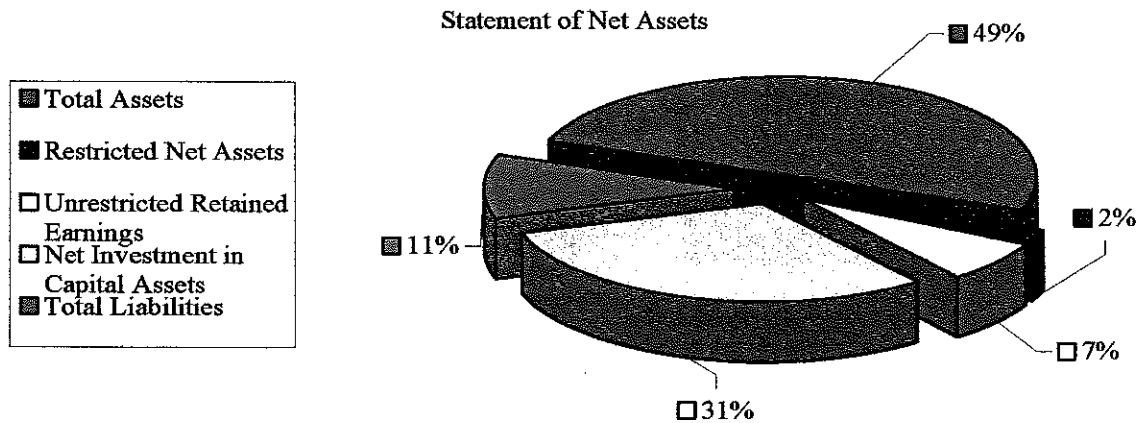
Current Liabilities – The Authority’s current liabilities as of June 30, 2006 totaled \$513,722, net of Interfund payments due, and were \$352,019, net of Interfund payments due, as of June 30, 2005. Current liabilities consists of accounts payable less than 90 days, accrued wages, current portion of 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. Current portion of long-term debt on the financed property and Section 8 New Construction bond increased by \$65,901 as of June 30, 2006.

Long-term Liabilities – The Authority’s long-term liabilities as of June 30, 2006, totaled \$2,243,739. As of June 30, 2005, long-term liabilities were \$1,145,518. The Authority’s long-term liabilities increased by \$1,098,221. Long-term debt of the Authority consists of a bond indenture with JP Morgan Trust for the Section 8 New Construction property, mortgages on an affordable housing project and the newly purchased 49-unit market rate development, and the non-current portion of accrued compensated absences. Principle payments are made on the Bond Fund annually each October. The affordable housing development known as Thomas Jefferson Homes and the market rate development known as Parkville Apartments are mortgaged separately with a local financial institution with monthly principal and interest payments.

Capital/Net Assets – As capital assets are depreciated, they will be expensed through Net Investment in Capital Assets. The Unrestricted Retained Earnings balance represents what the Authority has available for obligations if revenue from operations is not sufficient. The Authority has \$1,919,244 available as unrestricted funds as of June 30, 2006 for obligations beyond what operations can provide.

	2006	2005	Net Change
Cash	688,931	651,454	37,477
Other Current Assets	1,878,378	2,098,120	(219,742)
Interfunds	280,045	357,727	(77,682)
Capital Assets, net of depreciation	11,097,954	10,101,204	996,750
Non-Current Assets	358,581	139,806	218,775
Total Assets	14,303,889	13,348,311	955,578
Current Liabilites	513,722	352,019	161,703
Interfunds	280,045	357,727	(77,682)
Long-Term Liabilities	2,243,739	1,145,518	1,098,221
Total Liabilities	3,037,506	1,855,264	1,182,242
Net Investment in Capital Assets	8,751,708	8,901,037	(149,329)
Restricted Net Assets	595,431	559,945	35,486
Unrestricted Retained Earnings	1,919,244	2,032,066	(112,822)
Total Net Assets	11,266,383	11,493,048	(226,665)
Total Liabilities and Net Assets	14,303,889	13,348,312	955,577

**HOUSING AUTHORITY OF THE CITY OF MARION, INDIANA
MANAGEMENT DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2006**



Statement of Activities

The Authority administers the following programs and the revenues generated from these programs during FYE 2006 were as follows:

Low Income Public Housing		\$ 1,148,333
Section 8		
Vouchers	\$ 1,867,877	
New Construction	483,537	
Total Section 8		2,351,414
Capital Grants		283,580
Business Activities, State, Local		
Property Management	\$ 77,911	
T. Jefferson Homes	119,058	
Total Non-HUD Activities		196,969
Total Revenues		\$ 3,980,296

HOUSING AUTHORITY OF THE CITY OF MARION, INDIANA
MANAGEMENT DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2006

The insurance premiums (commercial, property, liability) for the Authority experienced an 11% increase from FYE 2005 to FYE 2006 (There was 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 \$157,126 for \$141,770 for insurance during FYE 2006 and FYE 2005, respectively.

The following table illustrates the changes in the income statement.

	2006	2005	Net Change
Tenant Rental Revenue	\$ 1,195,916	\$ 895,594	\$ 300,322
Public Housing Subsidy	509,990	502,867	7,123
Section 8 Subsidy	1,861,109	1,866,350	(5,241)
Other HUD funding	93,588	274,963	(181,375)
Other Grants	-	15,789	(15,789)
Other Revenue	129,701	143,054	(13,353)
Total Operating Revenue	\$ 3,790,304	\$ 3,698,617	\$ 91,687
Operating Expenses			
Administrative	710,690	584,953	125,737
Tenant Services	83,273	67,561	15,712
Utilities	246,946	225,001	21,945
Maintenance			
Labor	371,239	275,141	96,098
Materials	109,543	104,760	4,783
Contract Costs	70,792	133,820	(63,028)
Extraordinary Maintenance	23,362	35,341	(11,979)
Protective Services	13,806	-	13,806
Housing Assistance Payments	1,727,293	1,638,281	89,012
Other Operating Expenses			
Insurance Premiums	157,126	141,770	15,356
Payments in Lieu of Taxes	61,012	57,369	3,643
Bad Debt Expense	12,433	9,706	2,727
Interest Expense	86,964	89,864	(2,900)
Grant Expenditures	-	-	-
Casualty Losses - Non-Capitalized	676		
Other General Expense	3,078	1,135	1,943
Depreciation	528,504	488,901	39,603
Total Operating Expenses	\$ 4,206,737	\$ 3,853,603	\$ 353,134
Operating Income (Loss)	\$ (416,433)	\$ (154,986)	\$ (261,447)
Capital Grants Received	189,992	158,200	31,792
Prior Period Adjustments	(223)	122,870	(123,093)
Change in Net Assets	\$ (226,664)	\$ 126,084	\$ (352,748)

**HOUSING AUTHORITY OF THE CITY OF MARION, INDIANA
MANAGEMENT DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2006**

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.

Low Income Public Housing Budgetary Highlights

The Authority's management is pleased with the operating results for the fiscal year ending June 30, 2006. Operating revenues were 7.75% higher than budget and Operating Expenses were 0.41% higher than budget.

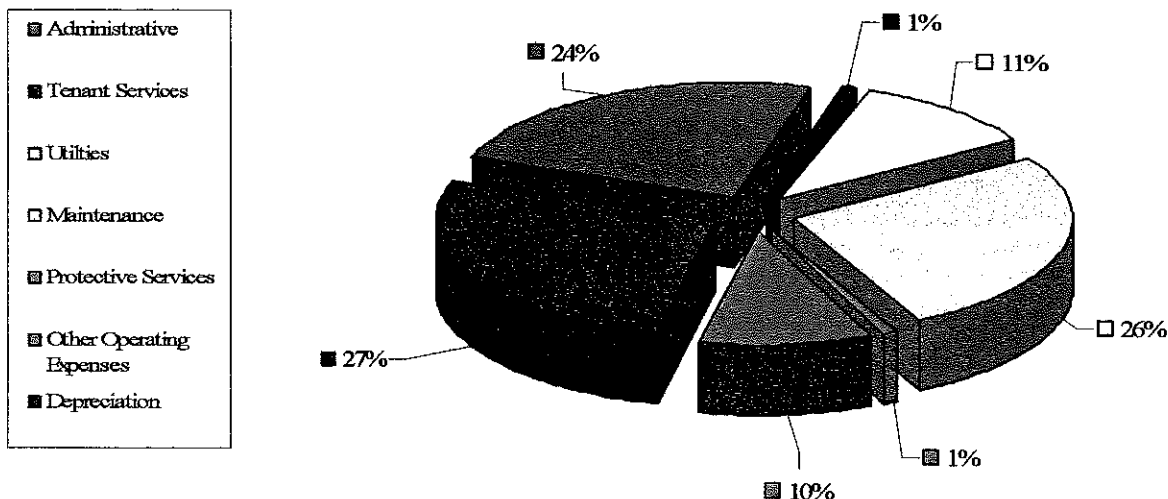
Comparison of Budget vs. Actual – Low Income Public Housing

	Budget	Actual	Change	Variance
Tenant Rental Revenue	\$ 516,000	\$ 593,330	\$ 77,330	14.99%
Governmental Operating	506,763	509,990	3,227	0.64%
Other Revenue	43,000	45,013	2,013	4.68%
Total Operating Revenue	<u>\$ 1,065,763</u>	<u>\$ 1,148,333</u>	<u>\$ 82,570</u>	<u>7.75%</u>
Operating Expenses:				
Administrative	360,752	359,879	(873)	-0.24%
Tenant Services	7,000	9,959	2,959	42.27%
Utilities	212,000	165,818	(46,182)	-21.78%
Maintenance	389,894	395,994	6,100	1.56%
Protective Services	-	12,425	12,425	100.00%
Other Operating Expenses	121,500	151,559	30,059	24.74%
Total Operating Expenses	<u>\$ 1,091,146</u>	<u>\$ 1,095,634</u>	<u>\$ 4,488</u>	<u>0.41%</u>
Depreciation	347,000	407,118	60,118	17.33%
Operating Income (Loss)	<u>\$ (372,383)</u>	<u>\$ (354,419)</u>	<u>\$ 17,964</u>	<u>-4.82%</u>

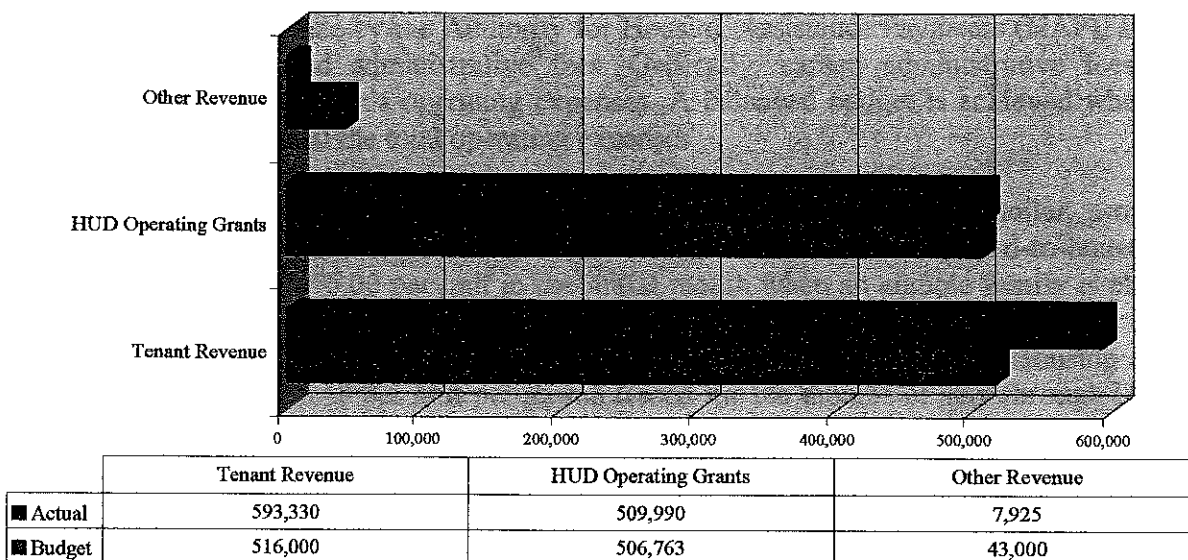
HOUSING AUTHORITY OF THE CITY OF MARION, INDIANA MANAGEMENT DISCUSSION AND ANALYSIS FISCAL YEAR ENDED JUNE 30, 2006

The chart below shows the expense breakdown for Low Rent operations. Non-cash expense of Depreciation is the largest category. Items included in Other Operating Expenses are insurance premiums (68%), payments in lieu of taxes (25%), bad debt expense (6%), and other general expenses (1%).

Low Rent Expenses by Category



Low Rent Housing Income



**HOUSING AUTHORITY OF THE CITY OF MARION, INDIANA
MANAGEMENT DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2006**

ANALYSIS OF CAPITAL ASSET ACTIVITY

	2006	2005	Net Change	Percent Variance
Land	444,882	444,882	0	0.0%
Buildings	10,752,810	9,472,919	1,279,891	13.5%
Equipment and Furniture	1,041,854	851,863	189,991	22.3%
Leasehold Improvements	5,871,052	5,815,682	55,370	1.0%
Total Fixed Assets	18,110,598	16,585,346	1,525,252	9.2%
Accumulated Depreciation	7,012,644	6,484,141	528,503	8.2%
Net Fixed Assets	11,097,954	10,101,205	996,749	9.9%

OUTSTANDING DEBT, AT YEAR END

	2005	Retired	2006
Notes Payable – Short Term	\$ 136,819	\$ 11,005	\$ 202,720
Notes Payable – Long Term	<u>1,063,349</u>	<u>-137,049</u>	<u>2,143,526</u>
Total	\$ <u>1,200,168</u>	\$ <u>-126,044</u>	\$ <u>2,344,246</u>

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

**STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
AS OF JUNE 30, 2006**

ASSETS

CURRENT ASSETS

Cash	\$ 688,931
Accounts receivable (interfund eliminated)	65,357
Accrued interest receivable	14,978
Investments	1,178,832
Restricted investments	595,431
Inventory	20,176
Deferred charges	<u>3,604</u>

Total Current Assets \$ 2,567,307

CAPITAL ASSETS

Land, buildings and equipment	\$ 18,110,598
Less: Accumulated depreciation	<u>-7,012,644</u>

Total Capital Assets \$ 11,097,954

OTHER ASSETS

Notes receivable	\$ <u>358,581</u>
------------------	-------------------

Total Other Assets \$ 358,581

Net Assets \$ 14,023,844

LIABILITIES

CURRENT LIABILITIES

Accounts payable (interfund eliminated)	\$ 140,281
Notes payable	202,720
Accrued liabilities	165,373
Deferred revenue	<u>5,348</u>

Total Current Liabilities \$ 513,722

NONCURRENT LIABILITIES

Accrued compensated absences	\$ 61,197
Trust and deposit liabilities	39,016
Notes payable	<u>2,143,526</u>

Total Noncurrent Liabilities \$ 2,243,739

NET ASSETS

Invested in capital assets	\$ 8,751,708
Restricted	595,431
Unrestricted	<u>1,919,244</u>

Total Net Assets \$ 11,266,383

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, 2006**

Operating Income

Tenant revenue	\$ 1,158,410
Other tenant revenue	<u>37,506</u>
Total Tenant Income	\$ 1,195,916
HUD grants - operating	2,464,687
Other revenue	<u>51,172</u>
Total Operating Income	<u>\$ 3,711,775</u>

Operating Expenses

Administration	\$ 710,690
Tenant services	83,273
Utilities	246,946
Ordinary maintenance and operation	551,574
General expense	233,649
Protective services	13,806
Extraordinary maintenance	23,362
Housing assistance payments	1,727,293
Depreciation	<u>528,504</u>
Total Operating Expenses	<u>\$ 4,119,097</u>
Net Operating Income (Loss)	<u>\$ -407,322</u>

Nonoperating Income (Expense)

HUD grants - capital	\$ 189,992
Interest expense	-86,964
Interest income	78,529
Casualty losses	<u>-676</u>
Total Nonoperating Income (Expense)	<u>\$ 180,881</u>
Changes in net assets	\$ -226,441
Net assets, beginning of year	11,493,047
Prior period adjustments	<u>-223</u>
Net assets, end of year	<u>\$ 11,266,383</u>

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

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

**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
TWELVE MONTHS ENDED JUNE 30, 2006**

Operating Activities

Operating grants	\$ 2,471,397
Dwelling rental	1,208,731
Other revenue	51,172
Housing assistance payments	-1,727,293
Payments to employees	-717,486
Payments to suppliers and contractors	<u>-1,023,793</u>

Net Cash Provided (Used) by Operating Activities \$ 262,728

Investing Activities

Investments (purchased) redeemed	\$ 227,854
Interest income	<u>78,529</u>

Net Cash Provided (Used) by Investing Activities \$ 306,383

Capital and Related Financing Activities

HUD grants - capital	\$ 189,992
Additions/deletions to fixed assets	-1,525,253
Mortgage receivable	-254,811
Interest expense	-86,964
Retirement of debt	1,146,078
Casualty losses	<u>-676</u>

Net Cash Provided (Used) by
Capital and Related Financing Activities \$ -531,634

Net Change in Cash \$ 37,477

Cash Balance at June 30, 2005 651,454

Cash Balance at June 30, 2006 \$ 688,931

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

**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
TWELVE MONTHS ENDED JUNE 30, 2006**

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

Net operating income (loss)	\$ -407,322
Adjustment to Reconcile Operating Income (Loss) to Net Cash Flows from Operating Activities:	
Depreciation	528,504
Adjustments to net assets	-223
(Increase) decrease in accounts receivable	104,628
(Increase) decrease in deferred charges	-1,594
(Increase) decrease in inventory	3,793
(Increase) decrease in other assets	-1,221
Increase (decrease) in accounts payable	-62,741
Increase (decrease) in accrued liabilities	102,573
Increase (decrease) in deferred revenues	1,906
Increase (decrease) in other liabilities	<u>-5,575</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 262,728</u>

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

**NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED JUNE 30, 2006**

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, 2006
(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, 2006
(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, 2006, 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, 2006
(CONTINUED)**

Note 1 - Summary of Significant Accounting Policies

(j) Income Tax -

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

(k) Annual Contributions/Subsidies and Other Grants

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

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

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

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

Note 2 - Cash and Investments

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

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

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

**NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED JUNE 30, 2006
(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	\$ 328,492	\$ 377,734
Section 8 Voucher	119,299	120,548
New Construction-Hilltop Towers	160,366	160,366
State & Local-Thomas Jefferson Homes	42,738	66,310
Property Management	<u>38,036</u>	<u>141,317</u>
Total	<u>\$ 688,931</u>	<u>\$ 866,275</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, 2006
(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	4.10-4.85%	\$ 748,371	\$ 748,371
Section 8-Voucher	2.50-4.55%	106,244	106,244
New Construction-Hilltop Towers	4.55-4.70%	221,217	221,217
State and Local-Thomas Jefferson Homes	3.75-4.00%	<u>103,000</u>	<u>103,000</u>
Total Unrestricted		<u>\$ 1,178,832</u>	<u>\$ 1,178,832</u>
New Construction - Hilltop Towers (restricted)		<u>\$ 595,431</u>	<u>\$ 595,431</u>

Note 3 - Compensated Absences

Annual Leave

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

After completing:

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

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

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

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.

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

**NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED JUNE 30, 2006
(CONTINUED)**

Note 3 - Compensated Absences (Continued)

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.

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.

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

**NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED JUNE 30, 2006
(CONTINUED)**

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, 2006, actual contributions by the Housing Authority and plan participants were \$73,147.

Note 5 - Accounts Receivable

Accounts receivable consists of the following accounts:

Tenants accounts receivable	\$ 18,911
Allowance for doubtful accounts	-11,058
Accounts receivable - HUD	21,398
Other	<u>70</u>
Subtotal	\$ 29,321
Interfund	<u>280,045</u>
Total	<u>\$ 309,366</u>

Note 6 - Investments

At June 30, 2006 investments consist of the following:

<u>Low Rent</u>	<u>Rate</u>	<u>Cost</u>	<u>Fair Value</u>
Certificate of deposit	4.10-4.85%	<u>\$ 748,371</u>	<u>\$ 748,371</u>
<u>Voucher</u>			
Savings	2.50%	\$ 31,244	\$ 31,244
Certificates of deposit	4.55%	<u>75,000</u>	<u>75,000</u>
Total		<u>\$ 106,244</u>	<u>\$ 106,244</u>
<u>New Construction - Hilltop Towers</u>			
Certificate of deposit	4.55-4.70%	<u>\$ 221,217</u>	<u>\$ 221,217</u>
<u>State and Local - Thomas Jefferson Homes</u>			
Certificate of deposit	3.75-4.00%	<u>\$ 103,000</u>	<u>\$ 103,000</u>
Total		<u>\$ 1,178,832</u>	<u>\$ 1,178,832</u>

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

**NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED JUNE 30, 2006
(CONTINUED)**

Note 7 - Deferred Charges

This classification includes the following accounts:

Prepaid insurance	\$ 3,479
Other	<u>125</u>
Total	<u>\$ 3,604</u>

Note 8 - Fixed Assets

Balance as of June 30, 2006	\$ 11,097,954
Balance as of June 30, 2005	<u>10,101,205</u>
Net Increase (Decrease)	<u>\$ 996,749</u>

Reconciliation

Property betterments and additions	\$ 1,525,253
Current year depreciation expense	-528,504
Depreciable basis adjustment	<u>0</u>
Net Increase (Decrease)	<u>\$ 996,749</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	9,472,919	1,279,891	0	10,752,810
Equipment and furniture	851,862	468,022	278,030	1,041,854
Leasehold improvements	<u>5,815,682</u>	<u>55,370</u>	<u>0</u>	<u>5,871,052</u>
Total Assets	\$ 16,585,345	\$ 1,803,283	\$ 278,030	\$ 18,110,598
Accumulated depreciation	<u>-6,484,140</u>	<u>0</u>	<u>528,504</u>	<u>-7,012,644</u>
Total Net Assets	<u>\$ 10,101,205</u>	<u>\$ 1,803,283</u>	<u>\$ 806,534</u>	<u>\$ 11,097,954</u>

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

**NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED JUNE 30, 2006
(CONTINUED)**

Note 9 - Notes Receivable

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

Project

Other	\$ 392,324
Employee loan	<u>2,293</u>
	<u>\$ 394,617</u>

Note 10 - Accounts Payable

This classification includes the following accounts:

Vendors and contractors	\$ 10,887
Tenants security deposits	114,743
Payroll withholding	180
Accounts payable - other	<u>14,471</u>
Subtotal	\$ 140,281
Interfund	<u>280,045</u>
Total	<u>\$ 420,326</u>

Note 11 - Accrued Liabilities

Accrued liabilities consists of the following:

Current Portion:

Accrued payroll	\$ 15,804
Accrued compensated absences	6,799
Accrued interest payable	12,621
Payment in lieu of taxes	<u>130,149</u>
Current Portion Total	\$ 165,373

Noncurrent Portion:

Accrued compensated absences	<u>61,197</u>
Total	<u>\$ 226,570</u>

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

**NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED JUNE 30, 2006
(CONTINUED)**

Note 12 - Deferred Revenue

This classification consists of the following accounts:

Tenants prepaid rent	\$ <u>5,348</u>
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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>
Business Activities	3.99%	12/31/06	\$ 54,876	\$ 1,228,035	\$ 1,282,911
Thomas Jefferson Homes	8.23%	12/01/19	12,844	280,491	293,335
Hilltop Towers	6.90%	10/01/10	<u>135,000</u>	<u>635,000</u>	<u>770,000</u>
Total			<u>\$ 202,720</u>	<u>\$ 2,143,526</u>	<u>\$ 2,346,246</u>

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

<u>Due Fiscal Year Ending</u>	<u>Total</u>
2007	\$ 202,720
2008	215,541
2009	223,525
2010	241,685
2011	255,031
Thereafter	1,207,744

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

**NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED JUNE 30, 2006
(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 a variable rate designated by HUD.

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, 2006 are as follows:

2007	\$ 183,473
2008	183,813
2009	178,635
2010	182,768
2011	181,038
Thereafter	0

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

**NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED JUNE 30, 2006
(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:

Adjustment to dwelling rental	\$	-885
Adjustment to bonds payable		662
Total	\$	-223

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 (67%) 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, 2006**

<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 06/30/06	\$ 509,990	\$ 509,990	\$ 509,990
Housing Choice Voucher Program*	14.871	IN041VO	FYE 06/30/06	\$ 1,861,109	\$ 1,861,109	\$ 1,861,109
Public Housing - Capital Fund	14.872	C-2001	FYE 06/30/06	\$ 992,498	\$ 283,580	\$ 283,580
Total Assistance				\$ 3,363,597	\$ 2,654,679	\$ 2,654,679

*Denotes major program.

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS (SEFA)
TWELVE MONTHS ENDED JUNE 30, 2006**

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

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

**STATEMENT OF NET ASSETS
AT JUNE 30, 2006**

<u>ASSETS</u>	<u>Low Rent</u>	<u>Capital Funds</u>	<u>Voucher</u>
CURRENT ASSETS			
Cash	\$ 328,492	\$ 0	\$ 119,299
Accounts receivable	268,579	21,398	0
Accrued interest receivable	11,046	0	795
Investments	748,371	0	106,244
Inventory	18,486	0	0
Deferred charges	125	0	3,479
	<u>1,375,099</u>	<u>21,398</u>	<u>229,817</u>
Total Current Assets	\$ 1,375,099	\$ 21,398	\$ 229,817
CAPITAL ASSETS			
Land, buildings and equipment	\$ 11,601,089	\$ 342,205	\$ 36,526
Less: Accumulated depreciation	<u>-5,099,673</u>	<u>0</u>	<u>-19,352</u>
Total Capital Assets	\$ 6,501,416	\$ 342,205	\$ 17,174
OTHER ASSETS			
Notes receivable	\$ 139,806	\$ 0	\$ 0
Total Other Assets	\$ 139,806	\$ 0	\$ 0
Net Assets	\$ 8,016,321	\$ 363,603	\$ 246,991
<u>LIABILITIES</u>			
CURRENT LIABILITIES			
Accounts payable	\$ 65,547	\$ 21,398	\$ 67,049
Accrued liabilities	91,776	0	4,204
Deferred revenue	<u>78</u>	<u>0</u>	<u>0</u>
Total Current Liabilities	\$ 157,401	\$ 21,398	\$ 71,253
NONCURRENT LIABILITIES			
Accrued compensated absences	\$ 40,875	\$ 0	\$ 10,865
Trust and deposit liabilities	<u>0</u>	<u>0</u>	<u>39,016</u>
Total Noncurrent Liabilities	\$ 40,875	\$ 0	\$ 49,881
<u>NET ASSETS</u>			
Invested in capital assets	\$ 6,501,416	\$ 342,205	\$ 17,174
Unrestricted	<u>1,316,629</u>	<u>0</u>	<u>108,683</u>
Total Net Assets	<u>\$ 7,818,045</u>	<u>\$ 342,205</u>	<u>\$ 125,857</u>

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

**STATEMENT OF NET ASSETS
AT JUNE 30, 2006**

<u>ASSETS</u>	<u>Business Activities</u>	<u>New Const. Hilltop Towers</u>	<u>State and Local T. J. Homes</u>
CURRENT ASSETS			
Cash	\$ 38,036	\$ 160,366	\$ 42,738
Accounts receivable	822	17,578	989
Accrued interest receivable	0	1,185	1,952
Investments	0	221,217	103,000
Restricted investments	0	595,431	0
Inventory	0	1,690	0
Deferred charges	0	0	0
	<u>0</u>	<u>0</u>	<u>0</u>
Total Current Assets	<u>\$ 38,858</u>	<u>\$ 997,467</u>	<u>\$ 148,679</u>
CAPITAL ASSETS			
Land, buildings and equipment	\$ 1,297,664	\$ 2,691,304	\$ 2,141,810
Less: Accumulated depreciation	<u>-8,327</u>	<u>-1,634,611</u>	<u>-250,681</u>
Total Capital Assets	<u>\$ 1,289,337</u>	<u>\$ 1,056,693</u>	<u>\$ 1,891,129</u>
OTHER ASSETS			
Notes receivable	<u>\$ 156,240</u>	<u>\$ 0</u>	<u>\$ 98,571</u>
Net Assets	<u>\$ 1,484,435</u>	<u>\$ 2,054,160</u>	<u>\$ 2,138,379</u>
<u>LIABILITIES</u>			
CURRENT LIABILITIES			
Accounts payable	\$ 103,578	\$ 139,302	\$ 23,452
Accrued liabilities	18,040	50,915	438
Notes payable	54,876	135,000	12,844
Deferred revenue	<u>3,624</u>	<u>596</u>	<u>1,050</u>
Total Current Liabilities	<u>\$ 180,118</u>	<u>\$ 325,813</u>	<u>\$ 37,784</u>
LONG TERM LIABILITIES			
Accrued compensated absences	\$ 1,217	\$ 7,158	\$ 1,082
Notes payable	<u>1,228,035</u>	<u>635,000</u>	<u>280,491</u>
Total Long Term Liabilities	<u>\$ 1,229,252</u>	<u>\$ 642,158</u>	<u>\$ 281,573</u>
<u>NET ASSETS</u>			
Invested in capital assets	\$ 6,426	\$ 286,693	\$ 1,597,794
Restricted	0	595,431	0
Unrestricted	<u>68,639</u>	<u>204,065</u>	<u>221,228</u>
Total Net Assets	<u>\$ 75,065</u>	<u>\$ 1,086,189</u>	<u>\$ 1,819,022</u>

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

**STATEMENT OF REVENUE AND EXPENDITURES
TWELVE MONTHS ENDED JUNE 30, 2006**

<u>Operating Income</u>	<u>Low Rent</u>	<u>Capital Funds</u>	<u>Voucher</u>
Tenant revenue	\$ 567,126	\$ 0	\$ 0
Tenant revenue - other	<u>26,204</u>	<u>0</u>	<u>0</u>
Total Tenant Revenue	\$ 593,330	\$ 0	\$ 0
HUD grants - operating	509,990	93,588	1,861,109
Other income	<u>7,925</u>	<u>0</u>	<u>76</u>
Total Operating Income	<u>\$ 1,111,245</u>	<u>\$ 93,588</u>	<u>\$ 1,861,185</u>
 <u>Operating Expenses</u>			
Administration	\$ 359,879	\$ 50,085	\$ 204,883
Tenant services	9,959	0	48,325
Utilities	165,818	0	0
Ordinary maintenance and operation	395,994	42,356	1,116
General expense	150,437	1,147	8,814
Protective services	12,425	0	0
Extraordinary maintenance	1,122	0	0
Housing assistance payments	0	0	1,727,293
Depreciation	<u>407,118</u>	<u>0</u>	<u>6,363</u>
Total Operating Expenses	<u>\$ 1,502,752</u>	<u>\$ 93,588</u>	<u>\$ 1,996,794</u>
Net Operating Income (Loss)	<u>\$ -391,507</u>	<u>\$ 0</u>	<u>\$ -135,609</u>
 <u>Nonoperating Income (Expense)</u>			
HUD grants - capital	\$ 0	\$ 189,992	\$ 0
Interest income	<u>37,088</u>	<u>0</u>	<u>6,692</u>
Total Nonoperating Income (Expense)	<u>\$ 37,088</u>	<u>\$ 189,992</u>	<u>\$ 6,692</u>
Changes in Net Assets	<u>\$ -354,419</u>	<u>\$ 189,992</u>	<u>\$ -128,917</u>

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

**STATEMENT OF REVENUE AND EXPENDITURES
TWELVE MONTHS ENDED JUNE 30, 2006**

<u>Operating Income</u>	<u>Business Activities</u>	<u>New Const. Hilltop Towers</u>	<u>State and Local T. J. Homes</u>
Dwelling rental	\$ 34,931	\$ 448,767	\$ 107,586
Other tenant income	<u>930</u>	<u>2,042</u>	<u>8,330</u>
Total Tenant Income	\$ 35,861	\$ 450,809	\$ 115,916
Other income	<u>38,802</u>	<u>4,369</u>	<u>0</u>
Total Operating Income	<u>\$ 74,663</u>	<u>\$ 455,178</u>	<u>\$ 115,916</u>
 <u>Operating Expenses</u>			
Administration	\$ 16,039	\$ 66,374	\$ 13,430
Tenant services	0	24,989	0
Utilities	981	77,795	2,352
Ordinary maintenance and operation	21,333	58,828	31,947
General expense	8,356	53,446	11,449
Protective services	0	1,381	0
Extraordinary maintenance	2,220	12,906	7,114
Depreciation	<u>8,327</u>	<u>67,305</u>	<u>39,391</u>
Total Operating Expenses	<u>\$ 57,256</u>	<u>\$ 363,024</u>	<u>\$ 105,683</u>
Net Operating Income (Loss)	<u>\$ 17,407</u>	<u>\$ 92,154</u>	<u>\$ 10,233</u>
 <u>Nonoperating Income (Expense)</u>			
Interest expense	\$ -7,002	\$ -55,286	\$ -24,676
Interest income (restricted)	0	18,183	0
Interest income	3,248	10,176	3,142
Casualty losses	<u>0</u>	<u>-676</u>	<u>0</u>
Total Nonoperating Income (Expense)	<u>\$ -3,754</u>	<u>\$ -27,603</u>	<u>\$ -21,534</u>
Changes in Net Assets	<u><u>\$ 13,653</u></u>	<u><u>\$ 64,551</u></u>	<u><u>\$ -11,301</u></u>

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

**CHANGES IN NET ASSETS
TWELVE MONTHS ENDED JUNE 30, 2006**

<u>Invested in Capital Assets</u>	<u>Low Rent</u>	<u>Capital Funds</u>	<u>Voucher</u>
Balance at June 30, 2005	\$ 6,597,478	\$ 425,8134	\$ 23,537
Current year net income (loss)	-365,232	189,992	-6,363
Prior year adjustment	-4,430	0	0
Close out Capital Funds	<u>273,600</u>	<u>-273,600</u>	<u>0</u>
Balance at June 30, 2006	<u>\$ 6,501,416</u>	<u>\$ 342,205</u>	<u>\$ 17,174</u>
 <u>Unrestricted</u>			
Balance at June 30, 2005	\$ 1,305,816	\$ 0	\$ 231,237
Current year net income (loss)	<u>10,813</u>	<u>0</u>	<u>-122,554</u>
Balance at June 30, 2006	<u>\$ 1,316,629</u>	<u>\$ 0</u>	<u>\$ 108,683</u>
Total Net Assets	<u>\$ 7,818,045</u>	<u>\$ 342,205</u>	<u>\$ 125,857</u>

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

**CHANGES IN NET ASSETS
TWELVE MONTHS ENDED JUNE 30, 2006**

<u>Invested in Capital Assets</u>	Business Activities	New Const. Hilltop Towers	State and Local T. J. Homes
Balance at June 30, 2005	\$ 0	\$ 228,997	\$ 1,625,211
Current year net income (loss)	1,996	57,696	-27,417
Prior year adjustment	<u>4,430</u>	<u>0</u>	<u>0</u>
Balance at June 30, 2006	<u>\$ 6,426</u>	<u>\$ 286,693</u>	<u>\$ 1,597,794</u>
 <u>Restricted</u>			
Balance at June 30, 2005	\$ 0	\$ 559,945	\$ 0
Current year net income (loss)	<u>0</u>	<u>35,486</u>	<u>0</u>
Balance at June 30, 2006	<u>\$ 0</u>	<u>\$ 595,431</u>	<u>\$ 0</u>
 <u>Unrestricted</u>			
Balance at June 30, 2005	\$ 56,982	\$ 232,919	\$ 205,112
Current year net income (loss)	11,657	-28,631	16,116
Prior period adjustment	<u>0</u>	<u>-223</u>	<u>0</u>
Balance at June 30, 2006	<u>\$ 68,639</u>	<u>\$ 204,065</u>	<u>\$ 221,228</u>
Total Net Assets	<u>\$ 75,065</u>	<u>\$ 1,086,189</u>	<u>\$ 1,819,022</u>

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

**STATEMENT OF CASH FLOWS
TWELVE MONTHS ENDED JUNE 30, 2006**

<u>Operating Activities</u>	<u>Low Rent</u>	<u>Capital Funds</u>	<u>Voucher</u>
Operating grants	\$ 509,990	\$ 100,298	\$ 1,861,109
Rental revenue	591,942	0	0
Other revenue	7,925	0	76
Housing assistance payments	0	0	-1,727,293
Payments to employees	-414,592	-35,985	-159,398
Payments to suppliers and contractors	<u>-522,221</u>	<u>-64,313</u>	<u>-137,685</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 173,044</u>	<u>\$ 0</u>	<u>\$ -163,191</u>
 <u>Investing Activities</u>			
Investments (purchased) redeemed	\$ -74,474	\$ 0	\$ 111,078
Interest income	<u>37,088</u>	<u>0</u>	<u>6,692</u>
Net Cash Provided (Used) by Investing Activities	<u>\$ -37,386</u>	<u>\$ 0</u>	<u>\$ 117,770</u>
 <u>Capital and Related Financing Activities</u>			
HUD grants - capital	\$ 0	\$ 189,992	\$ 0
Additions/deletions to fixed assets	<u>-37,456</u>	<u>-189,992</u>	<u>0</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>\$ -37,456</u>	<u>\$ 0</u>	<u>\$ 0</u>
Net Change in Cash	\$ 98,202	\$ 0	\$ -45,421
Cash Balance at June 30, 2005	<u>230,290</u>	<u>0</u>	<u>164,720</u>
Cash Balance at June 30, 2006	<u><u>\$ 328,492</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 119,299</u></u>

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

**STATEMENT OF CASH FLOWS
TWELVE MONTHS ENDED JUNE 30, 2006**

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)	\$ -391,507	\$ 0	\$ -135,609
Adjustment to Reconcile Operating Income (Loss) to Net Cash Flows from Operating Activities:			
Depreciation	407,118	0	6,363
Adjustments to net assets	-4,430	0	0
(Increase) decrease in accounts receivable	116,020	6,710	0
(Increase) decrease in deferred charges	-125	0	-1,469
(Increase) decrease in inventory	3,245	0	0
(Increase) decrease in other assets	-7,239	0	1,170
Increase (decrease) in accounts payable	5,062	-6,710	-46,912
Increase (decrease) in accrued liabilities	59,738	0	5,915
Increase (decrease) in deferred revenues	-1,912	0	0
Increase (decrease) in other liabilities	-12,926	0	7,351
Net Cash Provided (Used) by Operating Activities	<u>\$ 173,044</u>	<u>\$ 0</u>	<u>\$ -163,191</u>

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

**STATEMENT OF CASH FLOWS
TWELVE MONTHS ENDED JUNE 30, 2006**

<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	\$ 0	\$ 0
Rental revenue	50,387	451,012	115,390
Other revenue	38,802	4,369	0
Housing assistance payments	0	0	0
Payments to employees	-20,358	-69,275	-17,878
Payments to suppliers and contractors	<u>-27,038</u>	<u>-207,598</u>	<u>-64,938</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 41,793</u>	<u>\$ 178,508</u>	<u>\$ 32,574</u>
 <u>Investing Activities</u>			
Investments (purchased) redeemed	\$ 60,000	\$ 32,901	\$ 98,349
Interest income	<u>3,248</u>	<u>28,359</u>	<u>3,142</u>
Net Cash Provided (Used) by Investing Activities	<u>\$ 63,248</u>	<u>\$ 61,260</u>	<u>\$ 101,491</u>
 <u>Capital and Related Financing Activities</u>			
Additions/deletions to fixed assets	\$ -1,297,664	\$ 0	\$ -141
Interest expense	-7,002	-55,286	-24,676
Mortgage receivable	-156,240	0	-98,571
Retirement of debt	1,282,911	-125,000	-11,833
Casualty losses	<u>0</u>	<u>-676</u>	<u>0</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>\$ -177,995</u>	<u>\$ -180,962</u>	<u>\$ -135,221</u>
Net Change in Cash	\$ -72,954	\$ 58,806	\$ -1,156
Cash Balance at June 30, 2005	<u>110,990</u>	<u>101,560</u>	<u>43,894</u>
Cash Balance at June 30, 2006	<u>\$ 38,036</u>	<u>\$ 160,366</u>	<u>\$ 42,738</u>

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

**STATEMENT OF CASH FLOWS
TWELVE MONTHS ENDED JUNE 30, 2006**

<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)	\$ 17,407	\$ 92,154	\$ 10,233
Adjustment to Reconcile Operating Income (Loss) to Net Cash Flows from Operating Activities:			
Depreciation	8,327	67,305	39,391
Adjustment to net assets	4,430	-223	0
(Increase) decrease in accounts receivable	-822	-16,960	-320
(Increase) decrease in deferred charges	0	0	0
(Increase) decrease in inventory	0	548	0
(Increase) decrease in other assets	60	3,691	1,097
Increase (decrease) in accounts payable	-9,415	13,775	-18,541
Increase (decrease) in accrued liabilities	18,182	18,218	520
Increase (decrease) in deferred revenues	<u>3,624</u>	<u>0</u>	<u>194</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 41,793</u>	<u>\$ 178,508</u>	<u>\$ 32,574</u>

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

**PHA's STATEMENT AND CERTIFICATION OF ACTUAL MODERNIZATION COST
PHASE IN36P041502-03**

1. The Actual Modernization Costs of Phase IN36P041502-03 are as follows:

Funds approved	\$ 77,366
Funds expended	<u>77,366</u>
Excess of Funds Approved	<u>\$ 0</u>
Funds advanced	\$ 77,366
Funds expended	<u>77,366</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 August 4, 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 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, 2006, and have issued my report thereon dated December 14, 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.

Decatur, Illinois
December 14, 2006



Certified Public Accountant

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, 2006. 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, 2006.

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.

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, 2006, and have issued my report hereon dated December 14, 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
December 14, 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, 2006**

Summary of Auditor's Results

Low Risk Auditee yes no

Financial Statements

Type of auditor's report: Unqualified

- * Material weakness(es) identified? yes no
- * Reportable condition(s) identified that are not considered to be material weaknesses? yes none reported

Noncompliance material to financial statements noted yes no

Federal Awards

Internal control over major programs:

- * Material weakness(es) identified? yes no
- * Reportable condition(s) identified that are not considered to be material weaknesses? yes 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? yes no

Major Programs: (Threshold \$300,000)

CFDA Number(s)

Public and Indian Housing	14.850
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, 2005 contained no findings.

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

CURRENT FINDINGS AND RECOMMENDATIONS

There were no findings discussed with Ms. Jonda Manwell, Controller, during the course of the audit or at an exit conference held December 14, 2006.

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

**SCHEDULE OF ADJUSTING JOURNAL ENTRIES
JUNE 30, 2006**

<u>Low Rent</u>	<u>Audit Account Number</u>	<u>Debit</u>	<u>Credit</u>	<u>Posting Account Number</u>
(1)				
Invested in capital assets	2801	\$ 4,430.00		2801
Mach. & equipment - non dwell	1400.850		\$ 4,430.00	1400.850
(To adjust books for transfer of mower from Low Rent to Parkville)				
(2)				
Prepaid insurance	1211		\$ 8,978.36	1211
Insurance expense	4501	\$ 8,978.36		2806
(To adjust prepaid insurance to actual)				
(3)				
Other sundry	4190	\$ 1,294.00		2806
Contract, training & other	4230	1,863.33		2806
Maintenance materials	4420	2,995.75		2806
Accounts payable - other - vendor	2119		\$ 6,153.08	2119
(To record additional payable per invoices paid in July 2006)				
<u>State and Local - T. J. Homes</u>				
(1)				
Interest receivable	1145		\$ 1,744.87	1145
Interest income	3610	\$ 1,744.87		2806
(To correct receivable for actual amount received)				
(2)				
Insurance expense	4510	\$ 501.67		2806
Prepaid insurance	1211		\$ 501.67	1211
(To adjust prepaid insurance to actual)				
<u>New Construction - Hilltop Towers</u>				
(1)				
Accrued interest receivable	1145		\$ 959.74	1145
Interest income	3610	\$ 959.74		2806
(To adjust interest receivable to actual)				
(2)				
Prepaid insurance	1211		\$ 2,229.99	1211
Insurance expense	4510	\$ 2,229.99		2806
(To adjust prepaid insurance expense to actual)				

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

**SCHEDULE OF ADJUSTING JOURNAL ENTRIES
JUNE 30, 2006**

<u>Property Management</u>	<u>Audit Account Number</u>	<u>Debit</u>	<u>Credit</u>	<u>Posting Account Number</u>
(1)				
Prepaid insurance	1211		\$ 1,075.00	1211
Insurance expense	4510	\$ 1,075.00		2806
(To adjust prepaid insurance to actual)				
(2)				
Security deposits	2114.60	\$ 754.29		2114.60
Dwelling rental	3110		\$ 754.29	2806
(To adjust security deposit to the DSO report)				
<u>Business Activities - Parkville</u>				
(1)				
Collection losses	4570	\$ 250.79		2806
Tenants security deposits	2114	400.00		2114
Prepaid rents	2240	516.94		2240
Dwelling rental	3110	3,006.57		2806
Accounts receivable - tenants	1122		\$ 3,923.51	1122
Allowance for doubtful accounts	1122.100		250.79	1122.100
(To adjust the accounts to actual)				
(2)				
Mach. & equipment - non dwelling	1400.850	\$ 4,430.00		1400.850
Invested in capital assets	2801		\$ 4,430.00	2801
(To adjust books for transfer of mower from Low Rent to Parkville)				
(3)				
Extraordinary maintenance	4610.032	\$ 1,066.00		2806
Accounts payable - other - vendor	2119		\$ 1,066.00	2119
(To record additional vendor payable)				

PHA: IN041 FYED: 06/30/2006

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	\$27,137	\$138,586	\$271,985	\$119,299	\$0	\$33,777	\$590,784
114	Cash - Tenant Security Deposits	\$10,899	\$21,780	\$36,507	\$0	\$0	\$8,961	\$98,147
100	Total Cash	\$38,036	\$160,366	\$328,492	\$119,299	\$0	\$42,738	\$688,931
122	Accounts Receivable - HUD Other Projects	\$0	\$0	\$0	\$0	\$21,398	\$0	\$21,398
125	Accounts Receivable - Miscellaneous	\$70	\$0	\$0	\$0	\$0	\$0	\$70
126	Accounts Receivable - Tenants - Dwelling Rents	\$1,003	\$1,279	\$12,910	\$0	\$0	\$3,719	\$18,911
126.1	Allowance for Doubtful Accounts - Dwelling Rents	\$-251	\$-362	\$-7,715	\$0	\$0	\$-2,730	\$-11,058
126.2	Allowance for Doubtful Accounts - Other	\$0	\$0	\$0	\$0	\$0	\$0	\$0
127	Notes, Loans, & Mortgages Receivable - Current	\$10,000	\$0	\$16,036	\$0	\$0	\$10,000	\$36,036
128.1	Allowance for Doubtful Accounts - Fraud	\$0	\$0	\$0	\$0	\$0	\$0	\$0
129	Accrued Interest Receivable	\$0	\$1,185	\$11,046	\$795	\$0	\$1,952	\$14,978
120	Total Receivables, net of allowances for doubtful accounts	\$10,822	\$2,102	\$32,277	\$795	\$21,398	\$12,941	\$80,335
131	Investments - Unrestricted	\$0	\$221,217	\$748,371	\$106,244	\$0	\$103,000	\$1,178,832
132	Investments Restricted	\$0	\$595,431	\$0	\$0	\$0	\$0	\$595,431
142	Prepaid Expenses and Other Assets	\$0	\$0	\$125	\$3,479	\$0	\$0	\$3,604
143	Inventories	\$0	\$1,690	\$18,485	\$0	\$0	\$0	\$20,176
143.1	Allowance for Obsolete Inventories	\$0	\$0	\$0	\$0	\$0	\$0	\$0
144	Interprogram Due From	\$0	\$16,661	\$263,384	\$0	\$0	\$0	\$280,045
150	Total Current Assets	\$48,858	\$997,467	\$1,391,135	\$229,817	\$21,398	\$158,679	\$2,847,354
161	Land	\$0	\$105,072	\$266,563	\$0	\$0	\$73,227	\$444,862
162	Buildings	\$1,279,750	\$2,432,311	\$5,477,306	\$0	\$0	\$1,563,443	\$10,752,810
163	Furniture, Equipment & Machinery - Dwellings	\$4,430	\$0	\$274,600	\$0	\$342,205	\$0	\$621,235
164	Furniture, Equipment & Machinery - Administration	\$0	\$72,822	\$311,271	\$36,526	\$0	\$0	\$420,619
165	Leasehold Improvements	\$13,484	\$81,099	\$5,271,329	\$0	\$0	\$505,140	\$5,871,052
166	Accumulated Depreciation	\$-8,327	\$-1,634,611	\$-5,099,673	\$-19,352	\$0	\$-250,681	\$-7,012,644
160	Total Fixed Assets, Net of Accumulated Depreciation	\$1,289,337	\$1,056,693	\$6,501,416	\$17,174	\$342,205	\$1,891,129	\$11,097,954
171	Notes, Loans, & Mortgages Receivable - Non Current	\$146,240	\$0	\$123,770	\$0	\$0	\$68,571	\$338,581
180	Total Non-Current Assets	\$1,435,577	\$1,056,693	\$6,625,186	\$17,174	\$342,205	\$1,979,700	\$11,456,535
190	Total Assets	\$1,484,435	\$2,054,160	\$8,016,321	\$246,991	\$363,603	\$2,138,379	\$14,303,889

PHA: IN041 FYED: 06/30/2006

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	\$2,282	\$0	\$9,040	\$0	\$0	\$0	\$11,322
321	Accrued Wage/Payroll Taxes Payable	\$1,641	\$1,333	\$9,515	\$2,997	\$0	\$318	\$15,804
322	Accrued Compensated Absences - Current Portion	\$135	\$795	\$4,542	\$1,207	\$0	\$120	\$6,799
325	Accrued Interest Payable	\$0	\$12,621	\$0	\$0	\$0	\$0	\$12,621
333	Accounts Payable - Other Government	\$16,264	\$36,166	\$77,719	\$0	\$0	\$0	\$130,149
341	Tenant Security Deposits	\$27,495	\$21,780	\$56,507	\$0	\$0	\$8,961	\$114,743
342	Deferred Revenues	\$5,624	\$596	\$78	\$0	\$0	\$1,050	\$5,348
343	Current Portion of Long-term Debt - Capital Projects/Mortgage Revenue Bonds	\$54,876	\$135,000	\$0	\$0	\$0	\$12,844	\$202,720
345	Other Current Liabilities	\$14,216	\$0	\$0	\$0	\$0	\$0	\$14,216
347	Interprogram Due To	\$59,585	\$117,522	\$0	\$67,049	\$21,398	\$14,491	\$280,045
310	Total Current Liabilities	\$180,118	\$325,813	\$157,401	\$71,253	\$21,398	\$37,784	\$793,767
351	Long-term Debt, Net of Current - Capital Projects/Mortgage Revenue Bonds	\$1,228,035	\$635,000	\$0	\$0	\$0	\$280,491	\$2,143,526
354	Accrued Compensated Absences - Non Current	\$1,217	\$7,158	\$40,875	\$10,865	\$0	\$1,082	\$61,197
353	Noncurrent Liabilities - Other	\$0	\$0	\$0	\$39,016	\$0	\$0	\$39,016
350	Total Noncurrent Liabilities	\$1,229,252	\$642,158	\$40,875	\$49,881	\$0	\$281,573	\$2,243,739
300	Total Liabilities	\$1,409,370	\$967,971	\$198,276	\$121,134	\$21,398	\$319,357	\$3,037,506
508	Total Contributed Capital	\$0	\$0	\$0	\$0	\$0	\$0	\$0
508.1	Invested in Capital Assets, Net of Related Debt	\$6,426	\$286,693	\$6,501,416	\$17,174	\$342,205	\$1,597,794	\$8,751,708
511	Total Reserved Fund Balance	\$0	\$0	\$0	\$0	\$0	\$0	\$0
511.1	Restricted Net Assets	\$0	\$595,431	\$0	\$0	\$0	\$0	\$595,431
512.1	Unrestricted Net Assets	\$68,639	\$204,065	\$1,316,629	\$108,683	\$0	\$221,228	\$1,919,244
513	Total Equity/Net Assets	\$75,065	\$1,086,189	\$7,818,045	\$125,857	\$342,205	\$1,819,022	\$11,266,383
600	Total Liabilities and Equity/Net Assets	\$1,484,435	\$2,054,160	\$8,016,321	\$246,991	\$363,603	\$2,138,379	\$14,303,889

PHA: IN041 FYED: 06/30/2006

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	\$34,931	\$448,767	\$567,126	\$0	\$0	\$107,586	\$1,158,410
704	Tenant Revenue - Other	\$930	\$2,042	\$26,204	\$0	\$0	\$8,330	\$37,506
705	Total Tenant Revenue	\$35,861	\$450,809	\$593,330	\$0	\$0	\$115,916	\$1,195,916
706	HUD PHA Operating Grants	\$0	\$0	\$509,990	\$1,861,109	\$93,588	\$0	\$2,464,687
706.1	Capital Grants	\$0	\$0	\$0	\$0	\$189,992	\$0	\$189,992
711	Investment Income - Unrestricted	\$3,248	\$10,176	\$37,088	\$6,692	\$0	\$3,142	\$60,346
715	Other Revenue	\$38,802	\$4,389	\$7,925	\$76	\$0	\$0	\$51,172
720	Investment Income - Restricted	\$0	\$18,183	\$0	\$0	\$0	\$0	\$18,183
700	Total Revenue	\$77,911	\$483,537	\$1,148,333	\$1,867,877	\$283,580	\$119,058	\$3,980,296

PHA: IN041 FYED: 06/30/2006

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	\$8,814	\$42,229	\$228,048	\$126,357	\$18,183	\$7,324	\$430,955
912	Auditing Fees	\$50	\$300	\$1,331	\$1,200	\$3,430	\$150	\$6,461
915	Employee Benefit Contributions - Administrative	\$2,828	\$14,741	\$77,405	\$35,616	\$9,927	\$2,579	\$143,096
916	Other Operating - Administrative	\$4,347	\$9,104	\$53,095	\$41,710	\$18,545	\$3,377	\$130,178
921	Tenant Services - Salaries	\$0	\$0	\$0	\$38,956	\$0	\$0	\$38,956
923	Employee Benefit Contributions - Tenant Services	\$0	\$0	\$0	\$8,904	\$0	\$0	\$8,904
924	Tenant Services - Other	\$0	\$24,989	\$9,959	\$465	\$0	\$0	\$35,413
931	Water	\$708	\$15,237	\$28,537	\$0	\$0	\$444	\$44,926
932	Electricity	\$273	\$62,558	\$131,564	\$0	\$0	\$950	\$195,345
933	Gas	\$0	\$0	\$5,717	\$0	\$0	\$958	\$6,675
941	Ordinary Maintenance and Operations - Labor	\$13,462	\$30,161	\$207,575	\$0	\$17,802	\$11,074	\$280,074
942	Ordinary Maintenance and Operations - Materials and Other	\$2,495	\$8,295	\$67,870	\$387	\$22,800	\$7,696	\$109,543
943	Ordinary Maintenance and Operations - Contract Costs	\$953	\$8,790	\$49,098	\$729	\$1,754	\$9,468	\$70,792
945	Employee Benefit Contributions - Ordinary Maintenance	\$4,423	\$11,582	\$71,451	\$0	\$0	\$3,709	\$91,165
951	Protective Services - Labor	\$0	\$1,381	\$12,425	\$0	\$0	\$0	\$13,806
961	Insurance Premiums	\$3,609	\$33,059	\$102,335	\$9,264	\$0	\$8,859	\$157,126
962	Other General Expenses	\$0	\$1,931	\$0	\$0	\$1,147	\$0	\$3,078
963	Payments in Lieu of Taxes	\$4,496	\$17,921	\$38,595	\$0	\$0	\$0	\$61,012
964	Bad Debt - Tenant Rents	\$251	\$535	\$9,507	\$450	\$0	\$2,590	\$12,433
967	Interest Expense	\$7,002	\$55,286	\$0	\$0	\$0	\$24,676	\$86,964
969	Total Operating Expenses	\$53,711	\$338,099	\$1,094,512	\$263,138	\$93,588	\$83,854	\$1,926,902
970	Excess Operating Revenue over Operating Expenses	\$24,200	\$145,438	\$53,821	\$1,604,739	\$189,992	\$35,204	\$2,053,394
971	Extraordinary Maintenance	\$2,220	\$12,906	\$1,122	\$0	\$0	\$7,114	\$23,362
972	Casualty Losses - Non-Capitalized	\$0	\$676	\$0	\$0	\$0	\$0	\$676
973	Housing Assistance Payments	\$0	\$0	\$0	\$1,727,293	\$0	\$0	\$1,727,293
974	Depreciation Expense	\$8,327	\$67,305	\$407,118	\$6,363	\$0	\$39,391	\$528,504
900	Total Expenses	\$64,258	\$418,986	\$1,502,752	\$1,996,794	\$93,588	\$130,359	\$4,206,737
1010	Total Other Financing Sources (Uses)	\$0	\$0	\$0	\$0	\$0	\$0	\$0
1000	Excess (Deficiency) of Operating Revenue Over (Under) Expenses	\$13,653	\$64,551	\$-354,419	\$-128,917	\$189,992	\$-11,301	\$-226,441

PHA: IN041 FYED: 06/30/2006

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	\$0	\$0	\$0	\$0	\$0	\$0
1103	Beginning Equity	\$56,982	\$1,021,861	\$7,903,294	\$254,774	\$425,813	\$1,830,323	\$11,493,047
1104	Prior Period Adjustments, Equity Transfers and Correction of Errors	\$4,430	\$-223	\$269,170	\$0	\$-273,600	\$0	\$-223
1113	Maximum Annual Contributions Commitment (Per ACC)	\$0	\$0	\$0	\$1,693,349	\$0	\$0	\$1,693,349
1114	Prorata Maximum Annual Contributions Applicable to a Period of less than Twelve Months	\$0	\$0	\$0	\$1,616,964	\$0	\$0	\$1,616,964
1115	Contingency Reserve, ACC Program Reserve	\$0	\$0	\$0	\$232,157	\$0	\$0	\$232,157
1116	Total Annual Contributions Available	\$0	\$0	\$0	\$3,542,470	\$0	\$0	\$3,542,470
1120	Unit Months Available	98	1,176	3,240	5,052	0	300	9,866
1121	Number of Unit Months Leased	85	1,168	3,201	5,052	0	282	9,788

Report Generated: 12/27/2006 03:32:26
Date Submission Created: 12/15/2006

| Top of Page |