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May 14, 2009

Board of Commissioners
Housing Authority of the
City of Mount Vernon
1500 Jefferson St.
Mount Vernon, IN 47620-1282

We have reviewed the audit report prepared by Pamela J. Simpson, CPA, Independent Public Accountant, for the period January 1, 2006 to December 31, 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 Mount Vernon, as of December 31, 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.

We call your attention to the findings in the report. Page 33 contains the status of four prior audit findings. Page 34 contains one current audit finding. The corrective action plan is on page 35.

STATE BOARD OF ACCOUNTS

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

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

TWELVE MONTHS ENDED DECEMBER 31, 2006

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

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PAMELA J. SIMPSON, C.P.A.

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Independent Auditor's Report

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

I have audited the accompanying basic financial statements of Housing Authority City of Mt. Vernon, as of and for the year ended December 31, 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 Housing Authority City of Mt Vernon, as of December 31, 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 June 26, 2007, on my consideration of the Authority's internal control over financial reporting and my 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 9 are not a required part of the basic financial statements but is supplementary information required by the accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, I did not audit the information and express no opinion on it.

My audit was performed for the purpose of forming an opinion on the financial statements of the Housing Authority City of Mt. Vernon, 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 City of Mt. Vernon. 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
June 26, 2007


Certified Public Accountant

**MT. VERNON HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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DECEMBER 31, 2006

As management of the Mt Vernon Housing Authority ("Authority"), we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the year ended December 31, 2006. We encourage readers to consider the information presented here in conjunction with the Authority's financial statements.

FINANCIAL HIGHLIGHTS

- The assets of the Authority exceeded its liabilities at the close of the most recent fiscal year by \$2,103,846.
- The Authority's cash and investment balance at December 31, 2006 was \$349,699 representing a decrease of \$13,535 from December 31, 2005.
- Department of Housing and Urban Development operating grants amounting to \$879,505 were reported as revenues, an increase of \$6,238 from the prior year.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

The *statement of net assets* presents information on all of the Authority's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

The *statement of revenues, expenses and changes in net assets* presents information showing how the Authority's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods (e.g., earned but unused vacation leave).

FINANCIAL ANALYSIS OF THE AUTHORITY

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the Authority, assets exceeded liabilities by \$2,103,846 at the close of the most recent fiscal year.

**MT. VERNON HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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DECEMBER 31, 2006

Condensed Comparative Financial Statements

Analysis of Entity Wide Net Assets (Statement of Net Assets)

Total Assets for FYE 2005 was \$2,164,876 and at FYE 2006 the amount was \$2,150,390. This represents a net decrease of \$14,486.

Cash decreased by \$13,535 or 4%. Cash decreased because the Authority expended cash drawn from Capital Funds in Fiscal Year 2004 during Fiscal Year 2006.

Other Current Assets increased by \$799 or 8%. Tenants accounts receivable decreased by \$3,356, however, the Housing Authority retained a materials inventory in 2006 of \$3,911.

Capital Assets decreased by \$1,750. The change in Capital Assets will be presented in the section of this analysis entitled Analysis of Capital Assets.

Current Liabilities decreased 2% due to a decrease in deferred revenues offset by an increase in vendor payables.

The table below illustrates our analysis:

	<u>2006</u>	<u>2005</u>	<u>Variiances</u>	<u>Percentage Change</u>
Cash	349,699	363,234	(13,535)	-3.7%
Other Current Assets	10,910	10,111	799	7.9%
Capital Assets	1,789,781	1,791,531	(1,750)	-0.1%
Total Assets	2,150,390	2,164,876	(14,486)	-0.7%
Current Liabilities	46,544	47,487	(943)	-2.0%
Long Term Liabilities	0	0	0	0.0%
Total Liabilities	46,544	47,487	(943)	-2.0%
Net Invested in Capital Assets	1,789,781	1,791,531	(1,750)	-0.1%
Restricted Net Assets	0	0	0	0.0%
Unrestricted Net Assets	314,065	325,858	(11,793)	-3.6%
Total Net Assets	2,103,846	2,117,389	(13,543)	-0.6%

**MT. VERNON HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS**

DECEMBER 31, 2006

Analysis of Entity Wide Revenues (Statement of Activities)

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

<u>Program</u>	<u>Revenues Generated</u>
Low Income Public Housing	\$309,155
Housing Choice Vouchers	\$794,368
Capital Funds Program	\$133,845

Total revenues for Fiscal Year Ending December 31, 2006 were \$1,237,368 as compared to the total revenues for Fiscal Year Ending December 31, 2005 of \$1,095,848. Comparatively, Fiscal Year Ending December 31, 2006 revenues exceeded Fiscal Year Ending December 31, 2005 revenues by \$141,520.

	<u>2006</u>	<u>2005</u>	<u>Variance</u>	<u>Percentage Change</u>
Total Tenant Revenue	218,481	200,786	17,695	9%
HUD Operating Grants	879,505	873,267	6,238	1%
HUD Capital Grants	131,549	4,726	126,823	2684%
Investment Income	5,041	3,189	1,852	58%
Other Revenue	3,713	4,078	(365)	-9%
Gain/Loss on Sale of Assets	(921)	9,802	(10,723)	-109%
Total Revenue	<u>1,237,368</u>	<u>1,095,848</u>	<u>141,520</u>	<u>13%</u>

The Housing Authority drew down more Capital Funds in the current year to complete improvement projects. Interest earned on funds deposited earned a higher rate of interest in 2006.

**MT. VERNON HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS**

DECEMBER 31, 2006

Analysis of Entity Wide Expenditures

Total Expenditures for Fiscal Year Ending December 31, 2006 were \$1,246,161 as compared to \$1,101,355 of total expenditures for Fiscal Year Ending December 31, 2005. Comparatively, Fiscal Year Ending December 31, 2006 expenditures exceeded Fiscal Year Ending December 31, 2005 expenditures by \$144,806. Changes by major expense category will be presented below.

Administrative expenditures decreased by \$4,101 or 2% due largely to the monitoring of sundry and miscellaneous expenses.

Tenant Services expenditures decreased by \$825 or 32%.

Utilities increased by \$1,670 or 2%. Water and electricity costs increased because of an increase in rates.

Maintenance expenditures increased by \$28,980 or 32%. The major cause for this increase is the Authority paid more maintenance salaries in the fiscal year.

General Expenses increased \$1,987 or 6% due to increases in insurance premiums and PILOT expense.

Housing Assistance Payments increased by \$111,402 or 19% due to the Housing Authority subsidizing more units.

The table below illustrates our analysis:

	<u>2006</u>	<u>2005</u>	<u>Variance</u>	<u>Percentage Change</u>
Administrative	180,704	184,805	(4,101)	-2%
Tenant Services	1,765	2,590	(825)	-32%
Utilities	77,897	76,227	1,670	2%
Maintenance	118,716	89,736	28,980	32%
General Expense	36,780	34,793	1,987	6%
Extraordinary Maintenance	0	0	0	0%
Housing Assistance Payments	696,906	585,504	111,402	19%
Depreciation Expense	133,393	127,700	5,693	5%
Total Expenses	<u>1,246,161</u>	<u>1,101,355</u>	<u>144,806</u>	<u>13%</u>

**MT. VERNON HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS**

DECEMBER 31, 2006

Low Rent - Budgetary Analysis

The Authority is required by contractual agreements to adopt annual, appropriated operating budgets for funds receiving federal expenditure awards. All budgets are prepared on a basis prescribed by HUD which is materially consistent with generally accepted accounting principles. All annual appropriations lapse at year-end.

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>	<u>Percentage Change</u>
Tenant Revenue	203,380	218,481	(15,101)	-7%
HUD Operating Grants	89,550	85,575	3,975	5%
HUD Capital Grants	0	0	0	0%
Investment Income	1,600	2,307	(707)	-31%
Other Revenue	5,300	3,713	1,587	43%
Gain/Loss on Sale of Assets	0	(921)	921	0%
Total Revenue	<u>299,830</u>	<u>309,155</u>	<u>(9,325)</u>	<u>-3%</u>
Administrative	91,410	76,894	14,516	19%
Tenant Services	2,000	1,765	235	13%
Utilities	73,080	77,897	(4,817)	-6%
Maintenance	136,880	115,771	21,109	18%
General Expense	35,030	34,670	360	1%
Extraordinary Maintenance	0	0	0	0%
Housing Assistance Payments	0	0	0	0%
Depreciation Expenses	0	132,161	(132,161)	-100%
Total Expenses	<u>338,400</u>	<u>439,158</u>	<u>(100,758)</u>	<u>-23%</u>
Net Income (Loss)	<u>(38,570)</u>	<u>(130,003)</u>	<u>91,433</u>	

**MT. VERNON HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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DECEMBER 31, 2006

ANALYSIS OF CAPITAL ASSET ACTIVITY

Furniture, Equipment & Machinery – Administration increased by a net amount \$4,694 or 5.4%. The major increases related to improvements completed with Capital Funds.

Accumulated Depreciation increased by \$130,733 or 6.4%. This is the amount of current year depreciation expense combined with dispositions for the year.

	2006	2005	Variance	Percentage Change
Land	322,428	322,428	0	0.0%
Buildings	1,600,442	1,600,442	0	0.0%
Furniture, Equipment, & Machinery - Dwelling	52,928	52,928	0	0.0%
Furniture, Equipment, & Machinery - Administrative	91,266	86,572	4,694	5.4%
Leasehold Improvements	1,758,303	1,758,304	(1)	0.0%
Construction in Process	125,830	1,540	124,290	8070.8%
Total Fixed Assets	3,951,197	3,822,214	128,983	3.4%
Accumulated Depreciation	2,161,416	2,030,683	130,733	6.4%
Net Fixed Assets	1,789,781	1,791,531	(1,750)	-0.1%

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

Although the level of federal funding is sometime difficult to predict, the Housing Authority will look at numerous options in order continue to assist the maximum number of households. They shall include restricting or denying portability moves, lowering payment standards, increasing minimum rents, or reviewing occupancy standards.

REQUESTS FOR INFORMATION

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

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

**STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
AS OF DECEMBER 31, 2006**

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 349,699
Accounts receivable (interfund eliminated)	3,745
Accrued interest receivable	386
Inventory	3,911
Deferred charges	<u>2,868</u>
 Total Current Assets	 <u>\$ 360,609</u>

CAPITAL ASSETS

Land, buildings and equipment	\$ 3,951,197
Less: Accumulated depreciation	<u>-2,161,416</u>
 Net Capital Assets	 <u>\$ 1,789,781</u>

Total Assets	<u>\$ 2,150,390</u>
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LIABILITIES

CURRENT LIABILITIES

Accounts payable (interfund eliminated)	\$ 32,485
Accrued liabilities	14,058
Deferred revenue	<u>1</u>
 Total Current Liabilities	 <u>\$ 46,544</u>

NET ASSETS

Invested in capital assets	\$ 1,789,781
Unrestricted	<u>314,065</u>
 Total Net Assets	 <u><u>\$ 2,103,846</u></u>

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

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

**STATEMENT OF REVENUE AND EXPENDITURES - PROPRIETARY FUNDS
AND CHANGES IN NET ASSETS
DECEMBER 31, 2006**

Operating Income

Tenant rental revenue	\$ 218,439
Tenant revenue - other	<u>42</u>
Total Rental Income	\$ 218,481
HUD grants - operating	879,505
Other income	3,713
Gain/loss on sale of fixed assets	<u>-921</u>
Total Operating Income	<u>\$ 1,100,778</u>

Operating Expenses

Administration	\$ 180,704
Tenant services	1,765
Utilities	77,897
Ordinary maintenance and operation	118,716
General expense	36,780
Housing assistance payments	696,906
Depreciation expense	<u>133,393</u>
Total Operating Expenses	<u>\$ 1,246,161</u>
Net Operating Income (Loss)	<u>\$ -145,383</u>

Nonoperating Income (Expense)

HUD grants - capital	\$ 131,549
Interest income	<u>5,041</u>
Total Nonoperating Income (Expense)	<u>\$ 136,590</u>
Changes in net assets	\$ -8,793
Net assets, beginning of year	2,117,389
Prior period adjustments	<u>-4,750</u>
Net assets, end of year	<u>\$ 2,103,846</u>

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

**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
TWELVE MONTHS ENDED DECEMBER 31, 2006**

Operating Activities

Operating grants	\$ 879,505
Tenant revenue	219,853
Other revenue	2,792
Housing assistance payments	-696,906
Payments to employees	-151,107
Payments to suppliers and contractors	<u>-272,171</u>

Net Cash Provided (Used) by Operating Activities \$ -18,034

Investing Activities

Interest income	<u>\$ 5,041</u>
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Net Cash Provided (Used) by Investing Activities \$ 5,041

Capital and Related Financing Activities

HUD grants - capital	\$ 131,549
Additions to fixed assets	<u>-131,643</u>

Net Cash Provided (Used)
by Capital and Related Financing Activities \$ -94

Net Change in Cash \$ -13,087

Cash Balance at December 31, 2005 362,786

Cash Balance at December 31, 2006 \$ 349,699

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

**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
TWELVE MONTHS ENDED DECEMBER 31, 2006**

Reconciliation of Operating Income (Loss) to Net Cash

Provided (Used) by Operating Activities

Net operating income (loss)	\$ -145,383
Adjustment to Reconcile Operating Income (Loss) to Net Cash Flows from Operating Activities:	
Depreciation	133,393
Adjustments to net assets	-4,750
(Increase) decrease in accounts receivable	-3,762
(Increase) decrease in deferred charges	-679
(Increase) decrease in inventories	-3,911
(Increase) decrease in interest receivable	-118
Increase (decrease) in accounts payable	13,590
Increase (decrease) in accrued liabilities	1,817
Increase (decrease) in deferred revenues	<u>-8,231</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ -18,034</u>

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

**NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED DECEMBER 31, 2006**

Note 1 - Summary of Significant Accounting Policies

(a) Organization -

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

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

In evaluating the Authority as a reporting entity, management has addressed its relationship with the City of Mt. Vernon and concluded that the City does not maintain an oversight responsibility for the Authority's operations. An independent Board of Commissioners, appointed by the 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 City of Mt. Vernon is a separate reporting entity. All funds and programs of the Housing Authority are included in these statements. The Housing Authority has no component units.

(b) Method of Accounting -

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

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

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

**NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED DECEMBER 31, 2006
(CONTINUED)**

Note 1 - Summary of Significant Accounting Policies

(c) 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

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.

(d) Cash and Cash Equivalents -

For purposes of the statement of cash flows, the Housing Authority considers all highly liquid investments to be cash equivalents. Highly liquid is defined as those investments that have a maturity date of less than one month at the date of purchase.

(e) Accounts Receivable -

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

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

**NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED DECEMBER 31, 2006
(CONTINUED)**

Note 1 - Summary of Significant Accounting Policies

(g) Fixed Assets -

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

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

Land, buildings and equipment contains the following:

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

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

Buildings	40 years
Equipment	5 - 10 years
Transportation equipment	5 years
Leasehold improvements	15 years

(h) Income Tax -

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

(i) 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.

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

**NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED DECEMBER 31, 2006
(CONTINUED)**

Note 1 - Summary of Significant Accounting Policies

- (j) The Housing Authority adopts a budget annually. The budget is submitted to the Board of Commissioners for approval. Subsequent budget revisions may also be required to be submitted to the Board of Commissioners.
- (k) The preparation of financial statements in conformity with generally accepted accounting principles require the Housing Authority to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Note 2 - Cash and Investments

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

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

Custodial Credit Risk

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

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

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

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

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

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

**NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED DECEMBER 31, 2006
(CONTINUED)**

Note 2 - Cash and Investments

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>Book Balance</u>	<u>Bank Balance</u>
Low Rent	\$ 74,081	\$ 85,107
Voucher	<u>275,618</u>	<u>282,935</u>
Total	<u>\$ 349,699</u>	<u>\$ 368,042</u>

Note 3 - Compensated Absences

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

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

Note 4 - Defined Contribution Plan

The Authority has established a pension plan with voluntary enrollment for all regular full-time employees. After the probationary period is completed the employee may participate with the minimum of \$10.00 per pay period. The Authority participates for each employee that enrolls an amount set at annual budget hearing minimum of \$5.00 per pay period. Investment of the pension plan is up to each employee.

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

**NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED DECEMBER 31, 2006
(CONTINUED)**

Note 5 - Accounts Receivable

Accounts receivable consists of the following accounts:

Tenants accounts receivable	\$ 3,644
Accounts receivable - other	<u>101</u>
Subtotal	\$ 3,745
Interfund	<u>139,541</u>
Total	<u>\$ 143,286</u>

Note 6 - Deferred Charges

This classification includes the following accounts:

Prepaid insurance	<u>\$ 2,868</u>
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Note 7 - Fixed Assets

Balance as of December 31, 2006	\$ 1,789,781
Balance as of December 31, 2005	<u>1,791,531</u>
Net Increase (Decrease)	<u>\$ -1,750</u>

Reconciliation

Additions	\$ 132,566
Dispositions	-921
Adjustment to fixed assets basis	-2
Current year depreciation expense	<u>-133,393</u>
Net Increase (Decrease)	<u>\$ -1,750</u>

Analysis

	01/01/2006 <u>Balance</u>	Additions/ <u>Transfers</u>	Deletions/ <u>Transfers</u>	12/31/2006 <u>Balance</u>
Land	\$ 322,428	\$ 0	\$ 0	\$ 322,428
Buildings	1,600,442	0	0	1,600,442
Equipment	139,500	8,276	3,582	144,194
Leasehold improvements	1,758,304	0	1	1,758,303
Construction in progress	<u>1,540</u>	<u>124,290</u>	<u>0</u>	<u>125,830</u>
Total	\$ 3,822,214	\$ 132,566	\$ 3,583	\$ 3,951,197
Accumulated depreciation	<u>-2,030,683</u>	<u>2,661</u>	<u>133,394</u>	<u>-2,161,416</u>
Total	<u>\$ 1,791,531</u>	<u>\$ 135,227</u>	<u>\$ 136,977</u>	<u>\$ 1,789,781</u>

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

**NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED DECEMBER 31, 2006
(CONTINUED)**

Note 8 - Accounts Payable

This classification includes the following accounts:

Vendors and contractors	\$ 17,400
Tenants security deposits	10,281
Payroll taxes payable	<u>4,804</u>
Subtotal	\$ 32,485
Interfund	<u>139,541</u>
Total	<u>\$ 172,026</u>

Note 9 - Accrued Liabilities

Accrued liabilities consists of the following:

Payment in lieu of taxes	<u>\$ 14,058</u>
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Note 10 - Deferred Revenue

This classification consists of the following accounts:

Prepaid rent	<u>\$ 1</u>
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Note 11 - Administrative Fee

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

Note 12 - Allocation of Costs

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

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

**NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED DECEMBER 31, 2006
(CONTINUED)**

Note 13 - Contingencies

Federal Grants

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

Note 14 - Adjustments Posted Directly to Surplus

Adjustments posted directly to surplus:

Payroll tax liability restated	\$ -4,216
HUD settlement FY '04	-1,811
Voided checks	<u>1,277</u>
Total	<u>\$ -4,750</u>

Note 15 - Risk Management

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

For insured programs there has been no significant reduction in insurance coverages in the current or past three years.

Note 16 - Economic Dependency

The Housing Authority received most of its revenue (82%) from the United States Department of Housing and Urban Development. This funding is subject to federal government appropriations and potential funding reductions.

SUPPLEMENTAL DATA

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

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 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-2005	FYE 12/31/06	\$ 85,575	\$ 85,575	\$ 85,575
Public Housing - Capital Funds	14.872	C-2005	FYE 12/31/06	\$ 194,502	\$ 133,845	\$ 133,845
Housing Choice Voucher Program*	14.871	C-2005V	FYE 12/31/06	\$ 791,634	\$ 791,634	\$ 791,634
Total Housing Assistance				\$ 1,071,711	\$ 1,011,054	\$ 1,011,054

*Denotes major program.

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS (SEFA)
TWELVE MONTHS ENDED DECEMBER 31, 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 CITY OF MT. VERNON
MT. VERNON, INDIANA**

**STATEMENT OF NET ASSETS
DECEMBER 31, 2006**

<u>ASSETS</u>	<u>Low Rent</u>	<u>Capital Funds</u>	<u>Voucher</u>
CURRENT ASSETS			
Cash and cash equivalents	\$ 74,081	\$ 0	\$ 275,618
Accounts receivable	137,186	6,100	0
Accrued interest receivable	0	0	386
Inventory	3,911	0	0
Deferred charges	<u>2,230</u>	<u>0</u>	<u>638</u>
Total Current Assets	<u>\$ 217,408</u>	<u>\$ 6,100</u>	<u>\$ 276,642</u>
CAPITAL ASSETS			
Land, buildings and equipment	\$ 3,807,660	\$ 136,275	7,262
Less: Accumulated depreciation	<u>-2,154,166</u>	<u>-1,379</u>	<u>-5,871</u>
Net Capital Assets	<u>\$ 1,653,494</u>	<u>\$ 134,896</u>	<u>\$ 1,391</u>
Total Assets	<u>\$ 1,870,902</u>	<u>\$ 140,996</u>	<u>\$ 278,033</u>
 <u>LIABILITIES</u>			
CURRENT LIABILITIES			
Accounts payable	\$ 32,485	\$ 6,100	\$ 133,441
Accrued liabilities	14,058	0	0
Deferred revenue	<u>1</u>	<u>0</u>	<u>0</u>
Total Current Liabilities	<u>\$ 46,544</u>	<u>\$ 6,100</u>	<u>\$ 133,441</u>
 <u>NET ASSETS</u>			
Invested in capital assets	\$ 1,653,494	\$ 134,896	\$ 1,391
Unrestricted	<u>170,864</u>	<u>0</u>	<u>143,201</u>
Total Net Assets	<u>\$ 1,824,358</u>	<u>\$ 134,896</u>	<u>\$ 144,592</u>

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

**STATEMENT OF REVENUE AND EXPENDITURES
TWELVE MONTHS ENDED DECEMBER 31, 2006**

<u>Operating Income</u>	<u>Low Rent</u>	<u>Capital Funds</u>	<u>Voucher</u>
Tenant rental revenue	\$ 218,439	\$ 0	\$ 0
Tenant revenue - other	<u>42</u>	<u>0</u>	<u>0</u>
Total Rental Income	\$ 218,481	\$ 0	\$ 0
HUD grants - operating	85,575	2,296	791,634
Other income	3,713	0	0
Gain/loss on sale of fixed assets	<u>-921</u>	<u>0</u>	<u>0</u>
Total Operating Income	\$ 306,848	\$ 2,296	\$ 791,634
 <u>Operating Expenses</u>			
Administration	\$ 76,894	\$ 2,296	\$ 101,514
Tenant services	1,765	0	0
Utilities	77,897	0	0
Ordinary maintenance and operation	115,771	0	2,945
General expense	34,670	0	2,110
Housing assistance payments	0	0	696,906
Depreciation expense	<u>132,161</u>	<u>1,073</u>	<u>159</u>
Total Operating Expenses	\$ 439,158	\$ 3,369	\$ 803,634
Net Operating Income (Loss)	\$ -132,310	\$ -1,073	\$ -12,000
 <u>Nonoperating Income (Loss)</u>			
HUD grants - capital	\$ 0	\$ 131,549	\$ 0
Interest income	<u>2,307</u>	<u>0</u>	<u>2,734</u>
Total Nonoperating Income (Loss)	\$ 2,307	\$ 131,549	\$ 2,734
Changes in Net Assets	<u>\$ -130,003</u>	<u>\$ 130,476</u>	<u>\$ -9,266</u>

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

**STATEMENT OF CHANGES IN NET ASSETS
TWELVE MONTHS ENDED DECEMBER 31, 2006**

<u>Invested in Capital Assets</u>	<u>Low Rent</u>	<u>Capital Funds</u>	<u>Voucher</u>
Balance at Balance at December 31, 2005	\$ 1,786,578	\$ 4,420	\$ 533
Current year net income (loss)	<u>-133,084</u>	<u>130,476</u>	<u>858</u>
Balance at Balance at December 31, 2006	<u>\$ 1,653,494</u>	<u>\$ 134,896</u>	<u>\$ 1,391</u>
 <u>Unrestricted Net Assets</u>			
Balance at Balance at December 31, 2005	\$ 170,722	\$ 0	\$ 155,136
Current year net income (loss)	3,081	0	-10,124
Prior year adjustments	<u>-2,939</u>	<u>0</u>	<u>-1,811</u>
Balance at Balance at December 31, 2006	<u>\$ 170,864</u>	<u>\$ 0</u>	<u>\$ 143,201</u>
Total Net Assets	<u>\$ 1,824,358</u>	<u>\$ 134,896</u>	<u>\$ 144,592</u>

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

**STATEMENT OF CASH FLOWS
TWELVE MONTHS ENDED DECEMBER 31, 2006**

<u>Operating Activities</u>	<u>Low Rent</u>	<u>Capital Funds</u>	<u>Voucher</u>
Operating grants	\$ 85,575	\$ 2,296	\$ 791,634
Tenant revenue	219,853	0	0
Other revenue	2,792	0	0
Housing assistance payments	0	0	-696,906
Payments to employees	-92,847	0	-58,260
Payments to suppliers and contractors	<u>-226,828</u>	<u>-2,296</u>	<u>-43,047</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ -11,455</u>	<u>\$ 0</u>	<u>\$ -6,579</u>
 <u>Investing Activities</u>			
Interest income	<u>\$ 2,307</u>	<u>\$ 0</u>	<u>\$ 2,734</u>
Net Cash Provided (Used) by Investing Activities	<u>\$ 2,307</u>	<u>\$ 0</u>	<u>\$ 2,734</u>
 <u>Capital and Related Financing Activities</u>			
HUD grants - capital	\$ 0	\$ 131,549	\$ 0
Additions to fixed assets	<u>923</u>	<u>-131,549</u>	<u>-1,017</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>\$ 923</u>	<u>\$ 0</u>	<u>\$ -1,017</u>
Net Change in Cash	\$ -8,225	\$ 0	\$ -4,862
Cash Balance at December 31, 2005	<u>82,306</u>	<u>0</u>	<u>280,480</u>
Cash Balance at December 31, 2006	<u>\$ 74,081</u>	<u>\$ 0</u>	<u>\$ 275,618</u>

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

**STATEMENT OF CASH FLOWS
TWELVE MONTHS ENDED DECEMBER 31, 2006**

<u>Reconciliation of Operating Income (Loss) to Net Cash</u> <u>Provided (Used) by Operating Activities</u>	<u>Low Rent</u>	<u>Capital Funds</u>	<u>Voucher</u>
Net operating income (loss)	\$ -132,310	\$ -1,073	\$ -12,000
Adjustment to Reconcile Operating Income (Loss) to Net Cash Flows from Operating Activities:			
Depreciation	132,161	1,073	159
Adjustments to net assets	-2,939	0	-1,811
(Increase) decrease in accounts receivable	-4,473	158	553
(Increase) decrease in deferred charges	-41	0	-638
(Increase) decrease in inventories	-3,911	0	0
(Increase) decrease in interest receivable	0	0	-118
Increase (decrease) in accounts payable	-339	6,100	7,829
Increase (decrease) in accrued liabilities	1,817	0	0
Increase (decrease) in deferred revenues	<u>-1,420</u>	<u>-6,258</u>	<u>-553</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ -11,455</u>	<u>\$ 0</u>	<u>\$ -6,579</u>

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

**PHA's STATEMENT AND CERTIFICATION OF ACTUAL MODERNIZATION COST
PHASE IN36P037501-04**

1. The Actual Modernization Costs of Phase IN36P037501-04 are as follows:

Funds approved	\$ 99,434
Funds expended	<u>99,434</u>
Excess of Funds Approved	<u>\$ 0</u>
Funds advanced	
Grants	\$ 99,434
Funds expended	<u>99,434</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 July 17, 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 City of Mt. Vernon
Mt. Vernon, Indiana

I have audited the financial statements of the Housing Authority City of Mt. Vernon as of and for the year ended December 31, 2006, and have issued my report thereon dated June 26, 2007. 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.

Compliance

As part of obtaining reasonable assurance about whether the Housing Authority City of Mt. Vernon's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and 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 the Housing Authority of Mt. Vernon'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. However, I noted certain matters involving the internal control over financial reporting and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect the Housing Authority of Mt. Vernon's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as item one.

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. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, I did not consider any of the items to be a material weakness.

I also noticed other matters involving the internal control over financial reporting that I have reported to management of the Housing Authority City of Mt. Vernon in a separate letter dated June 27, 2007.

This report is intended solely for the information and use 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
June 26, 2007



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 on Internal Control Over Compliance in Accordance With OMB Circular A-133

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

Compliance

I have audited the compliance of Housing Authority City of Mt. Vernon 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 December 31, 2006. Housing Authority City of Mt. Vernon's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Housing Authority City of Mt. Vernon's management. My responsibility is to express an opinion on Housing Authority City of Mt. Vernon's compliance based on my audit.

I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *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 City of Mt. Vernon's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination of Housing Authority City of Mt. Vernon's compliance with those requirements.

In my opinion, Housing Authority City of Mt. Vernon 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 December 31, 2006. However, the results of my auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item number one.

Internal Control Over Compliance

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

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

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

My consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control over compliance that I consider to be material weaknesses, as defined above. I have audited the financial statements of Housing Authority City of Mt. Vernon as of and for the year ended December 31, 2006, and have issued my report thereon dated June 26, 2007. 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.

In addition, I noticed other matters involving the internal control and its operation that I have reported to management of Housing Authority City of Mt. Vernon in a separate letter dated June 26, 2007.

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

Decatur, Illinois
June 26, 2007


Certified Public Accountant

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

STATUS OF PRIOR AUDIT FINDINGS

The prior audit report for the period ended December 31, 2005 contained four findings. The following is the corrective action/disposition of those findings:

Finding 1: Personnel Files Not Maintained in Accordance with Policy

The personnel policy of the Housing Authority of the City of Mt. Vernon requires that a personnel file be maintained for each employee. The file is to contain (a) job application and resume (b) certificates of training completed (c) performance evaluations and (d) salary rates/increases. It was noted that personnel files were not established for several new employees during the prior year and that the files of existing employees had not been adequately maintained (specifically approved salary rates could not be located, W-4's were missing and there were no performance evaluations). Additionally, an Operating Budget could not be located in the PHA's file, so the approved salary schedule that should have been attached could not be used to verify the correct wage and salary rates.

The Housing Authority did not previously retain all records that would adequately substantiate all payroll actions (retain copies of all budget forms and resolutions approving salary increases). It was noted that corrective action was implemented by the new Executive Director during the first few months of fiscal year 2006. **This finding is considered closed.**

Finding 2: SEMAP Certification and Supporting Documentation Not Retained

The Housing Authority is required to submit a SEMAP Certification electronically every year to the Department of Housing and Urban Development. This certification is used to assess PHA management capabilities and deficiencies and to assign an overall performance rating to the PHA. The Mt. Vernon Housing Authority did submit a SEMAP Certification for fiscal year ended 2006, however the supporting documentation for the submission (i.e. proof of quality control reviews of tenant files). **See current finding #1.**

Finding 3: Complete Budget Not Adopted for the Fiscal Year.

Annually the Housing Authority must develop, adopt and submit a budget for each program being administered. Based on HUD guidelines, Mt. Vernon Housing Authority adopted a complete budget and used it monthly in conjunction with the review of the financial statements. **This finding is considered closed.**

Finding 4: Lack of Physical Inventory

During the prior fiscal year, the Housing Authority did not take an annual physical inventory of depreciable fixed assets or maintenance materials as required by the Department of Housing and Urban Development as well as required for good internal controls. At the close of fiscal year 2006 a complete physical inventory was taken, which was approved by the Board of Commissioners and subsequently reconciled to the general ledger control accounts. **This finding is considered closed.**

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

CURRENT FINDINGS AND RECOMMENDATIONS

Finding 1: SEMAP Certification and Supporting Documentation Not Retained

Condition and Criteria: The Housing Authority is required to submit a SEMAP Certification electronically every year to the Department of Housing and Urban Development. This certification is used to assess PHA management capabilities and deficiencies and to assign an overall performance rating to the PHA. The Mt. Vernon Housing Authority did submit a SEMAP Certification for fiscal year ended 2006, but the supporting data used in the preparation of the certification was not retained.

Effect: The accuracy of the certification submitted by the Mt. Vernon Housing Authority could not be determined.

Cause: The Housing Authority failed to maintain the supporting documentation after the certification was completed.

Auditor's Recommendation: The Mt. Vernon Housing Authority should develop a policy of documentation and record retention for all reports submitted. This documentation should be retained with copies of the reports and made available for audit and review.

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

CORRECTIVE ACTION PLAN

Finding 1: SEMAP Certification and Supporting Documentation Not Retained.

Grantee Response: Reporting requirements have been reviewed by the current administration of the Housing Authority. In the future, all documentation will be retained and made available for review and audit.

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

**SCHEDULE OF ADJUSTING JOURNAL ENTRIES
DECEMBER 31, 2006**

<u>Low Rent</u>	<u>Audit Account Number</u>	<u>Debit</u>	<u>Credit</u>	<u>Posting Account Number</u>
(1)				
Other admin & sundry	4190	\$ 810.36		2806.512
Maintenance materials	4420	75.20		2806.512
Contract costs	4430	1,305.57		2806.512
Vendors and contractors	2111		\$ 2,191.13	2111
(To records additional vendor payable)				
(2)				
Federal withholding	2117.01	\$ 1,127.17		2117.01
FICA withholding	2117.02	8.47		2117.02
Medicare withholding	2117.021	3.77		2117.021
State withholding	2117.03		\$ 43.87	2117.03
Unrestricted net assets	2806.512		1,095.54	2806.512
(To adjust withholding accounts to actual)				
(3)				
Due to/from CFP	1290	\$ 1,548.41		1290
Contract costs	4430		\$ 1,548.41	2806.512
(To reclassify check #9215 to be charged to CFP 2004)				
(4)				
Due to/from CFP	1290	\$ 2,824.84		1290
Sundry	4190		\$ 2,824.84	2806.512
(To reclassify check #8946 to charge a portion to CFP 2004)				
<u>Voucher</u>				
(1)				
Fund balance - admin fee	2810.002	\$ 1,811.00		2810.002
Sundry - admin	4190		\$ 1,811.00	2810.002
(To correct posting of JV 3326 to record HUD's settlement of FY04 in August)				
(2)				
Cash	1111.040	\$ 483.00		1111.040
Housing assistance payments	4715.010		\$ 483.00	2810.001
(To adjust cash for check #7430 voided per payment register summary printed 04/03/06)				
(3)				
Cash	1111.040	\$ 2,708.00		1111.040
Housing assistance payments	4715.010		\$ 2,708.00	2810.001
(To adjust cash for check #7965 entered as \$2,708, but cleared bank as \$11,800. Check #8044 also entered as \$2,708 and cleared bank as same. The \$2,708 was a double entry for same landlord/HAP)				

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

**SCHEDULE OF ADJUSTING JOURNAL ENTRIES
DECEMBER 31, 2006**

<u>Capital Funds</u>	<u>Audit Account Number</u>	<u>Debit</u>	<u>Credit</u>	<u>Posting Account Number</u>
(1)				
CFP 501-04	501-004-1400	\$ 1,548.41		1400
Due/to from Public	1295		\$ 1,548.41	1295
Deferred revenue	2290	1,548.41		2290
Hard costs revenue	3401		1,548.41	2802
(To reclassify check #9215 originally charged to Public, should be CFP)				
(2)				
CFP 501-04	501-004-1400	\$ 2,824.84		1400
Due to/from Public	1295		\$ 2,824.84	1295
Deferred revenue	2290	2,824.84		2290
Hard costs revenue	3401		2,824.84	2802
(To reclassify a portion of check #8946, dated 02/24/0-6 to Floors and Walls originally coded to Public)				

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Line Item No.	Account Description	Low Rent Public Housing	Housing Choice Vouchers	Public Housing Capital Fund Program	Total
111	Cash - Unrestricted	\$63,800	\$275,618	\$0	\$339,418
114	Cash - Tenant Security Deposits	\$10,281	\$0	\$0	\$10,281
100	Total Cash	\$74,081	\$275,618	\$0	\$349,699
125	Accounts Receivable - Miscellaneous	\$101	\$0	\$0	\$101
126	Accounts Receivable - Tenants - Dwelling Rents	\$3,644	\$0	\$0	\$3,644
126.1	Allowance for Doubtful Accounts - Dwelling Rents	\$0	\$0	\$0	\$0
126.2	Allowance for Doubtful Accounts - Other	\$0	\$0	\$0	\$0
129	Accrued Interest Receivable	\$0	\$386	\$0	\$386
120	Total Receivables, net of allowances for doubtful accounts	\$3,745	\$386	\$0	\$4,131
142	Prepaid Expenses and Other Assets	\$2,230	\$638	\$0	\$2,868
143	Inventories	\$3,911	\$0	\$0	\$3,911
143.1	Allowance for Obsolete Inventories	\$0	\$0	\$0	\$0
144	Interprogram Due From	\$133,441	\$0	\$6,100	\$139,541
150	Total Current Assets	\$217,408	\$276,642	\$6,100	\$500,150
161	Land	\$322,428	\$0	\$0	\$322,428
162	Buildings	\$1,600,442	\$0	\$0	\$1,600,442
163	Furniture, Equipment & Machinery - Dwellings	\$52,928	\$0	\$0	\$52,928
164	Furniture, Equipment & Machinery - Administration	\$73,559	\$7,262	\$10,445	\$91,266
165	Leasehold Improvements	\$1,758,303	\$0	\$0	\$1,758,303
166	Accumulated Depreciation	\$-2,154,166	\$-5,871	\$-1,379	\$-2,161,416
167	Construction In Progress	\$0	\$0	\$125,830	\$125,830
160	Total Fixed Assets, Net of Accumulated Depreciation	\$1,653,494	\$1,391	\$134,896	\$1,789,781
180	Total Non-Current Assets	\$1,653,494	\$1,391	\$134,896	\$1,789,781
190	Total Assets	\$1,870,902	\$278,033	\$140,996	\$2,289,931

PHA: IN037 FYED: 12/31/2006

Line Item No.	Account Description	Low Rent Public Housing	Housing Choice Vouchers	Public Housing Capital Fund Program	Total
312	Accounts Payable <= 90 Days	\$11,300	\$0	\$6,100	\$17,400
321	Accrued Wage/Payroll Taxes Payable	\$4,804	\$0	\$0	\$4,804
333	Accounts Payable - Other Government	\$14,058	\$0	\$0	\$14,058
341	Tenant Security Deposits	\$10,281	\$0	\$0	\$10,281
342	Deferred Revenues	\$1	\$0	\$0	\$1
347	Interprogram Due To	\$6,100	\$133,441	\$0	\$139,541
310	Total Current Liabilities	\$46,544	\$133,441	\$6,100	\$186,085
350	Total Noncurrent Liabilities	\$0	\$0	\$0	\$0
300	Total Liabilities	\$46,544	\$133,441	\$6,100	\$186,085
508	Total Contributed Capital	\$0	\$0	\$0	\$0
508.1	Invested in Capital Assets, Net of Related Debt	\$1,653,494	\$1,391	\$134,896	\$1,789,781
511	Total Reserved Fund Balance	\$0	\$0	\$0	\$0
511.1	Restricted Net Assets	\$0	\$0	\$0	\$0
512.1	Unrestricted Net Assets	\$170,864	\$143,201	\$0	\$314,065
513	Total Equity/Net Assets	\$1,824,358	\$144,592	\$134,896	\$2,103,846
600	Total Liabilities and Equity/Net Assets	\$1,870,902	\$278,033	\$140,996	\$2,289,931

PHA: IN037 FYED: 12/31/2006

Line Item No.	Account Description	Low Rent Public Housing	Housing Choice Vouchers	Public Housing Capital Fund Program	Total
703	Net Tenant Rental Revenue	\$218,439	\$0	\$0	\$218,439
704	Tenant Revenue - Other	\$42	\$0	\$0	\$42
705	Total Tenant Revenue	\$218,481	\$0	\$0	\$218,481
706	HUD PHA Operating Grants	\$85,575	\$791,634	\$2,296	\$879,505
706.1	Capital Grants	\$0	\$0	\$131,549	\$131,549
711	Investment Income - Unrestricted	\$2,307	\$2,734	\$0	\$5,041
715	Other Revenue	\$3,713	\$0	\$0	\$3,713
716	Gain/Loss on Sale of Fixed Assets	\$-921	\$0	\$0	\$-921
700	Total Revenue	\$309,155	\$794,368	\$133,845	\$1,237,368

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Line Item No.	Account Description	Low Rent Public Housing	Housing Choice Vouchers	Public Housing Capital Fund Program	Total
911	Administrative Salaries	\$39,039	\$58,260	\$0	\$97,299
912	Auditing Fees	\$1,655	\$1,655	\$0	\$3,310
915	Employee Benefit Contributions - Administrative	\$15,563	\$11,621	\$0	\$27,184
916	Other Operating - Administrative	\$20,637	\$29,978	\$2,296	\$52,911
924	Tenant Services - Other	\$1,765	\$0	\$0	\$1,765
931	Water	\$21,558	\$0	\$0	\$21,558
932	Electricity	\$56,339	\$0	\$0	\$56,339
941	Ordinary Maintenance and Operations - Labor	\$53,281	\$0	\$0	\$53,281
942	Ordinary Maintenance and Operations - Materials and Other	\$11,836	\$0	\$0	\$11,836
943	Ordinary Maintenance and Operations - Contract Costs	\$35,031	\$489	\$0	\$35,520
945	Employee Benefit Contributions - Ordinary Maintenance	\$15,623	\$2,456	\$0	\$18,079
961	Insurance Premiums	\$20,611	\$667	\$0	\$21,278
962	Other General Expenses	\$0	\$1,443	\$0	\$1,443
963	Payments in Lieu of Taxes	\$14,059	\$0	\$0	\$14,059
969	Total Operating Expenses	\$306,997	\$106,569	\$2,296	\$415,862
970	Excess Operating Revenue over Operating Expenses	\$2,158	\$687,799	\$131,549	\$821,506
973	Housing Assistance Payments	\$0	\$696,906	\$0	\$696,906
974	Depreciation Expense	\$132,161	\$159	\$1,073	\$133,393
900	Total Expenses	\$439,158	\$803,634	\$3,369	\$1,246,161
1010	Total Other Financing Sources (Uses)	\$0	\$0	\$0	\$0
1000	Excess (Deficiency) of Operating Revenue Over (Under) Expenses	\$-130,003	\$-9,266	\$130,476	\$-8,793

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Line Item No.	Account Description	Low Rent Public Housing	Housing Choice Vouchers	Public Housing Capital Fund ² Program	Total
1102	Debt Principal Payments - Enterprise Funds	\$0	\$0	\$0	\$0
1103	Beginning Equity	\$1,957,300	\$155,669	\$4,420	\$2,117,389
1104	Prior Period Adjustments, Equity Transfers and Correction of Errors	\$-2,939	\$-1,811	\$0	\$-4,750
1113	Maximum Annual Contributions Commitment (Per ACC)	\$0	\$0	\$0	\$0
1114	Prorata Maximum Annual Contributions Applicable to a Period of less than Twelve Months	\$0	\$0	\$0	\$0
1115	Contingency Reserve, ACC Program Reserve	\$0	\$0	\$0	\$0
1116	Total Annual Contributions Available	\$0	\$0	\$0	\$0
1120	Unit Months Available	1,008	2,446	0	3,454
1121	Number of Unit Months Leased	962	1,824	0	2,786
1117	Administrative Fee Equity	\$0	\$31,341	\$0	\$31,341
1118	Housing Assistance Payments Equity	\$0	\$113,251	\$0	\$113,251

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