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May 14, 2009

Board of Commissioners
The Housing Authority of the
City of Muncie
402 E. 2nd St.
Muncie, IN 47302

We have reviewed the audit report prepared by Velma Butler & Company, LTD, Independent Public Accountants, for the period April 1, 2007 to March 31, 2008. 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 Muncie, as of March 31, 2008, 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 and 34 contain two current audit findings.

STATE BOARD OF ACCOUNTS

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

**INDEPENDENT AUDITORS' REPORT,
FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION,
INCLUDING SINGLE AUDIT REPORTS
FOR THE YEAR ENDED
MARCH 31, 2008**

THE HOUSING AUTHORITY OF THE CITY OF MUNCIE, INDIANA

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INDEPENDENT AUDITORS' REPORT



INDEPENDENT AUDITORS' REPORT

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

U.S. Department of Housing and Urban Development
Indianapolis Office
Public Housing Division
151 North Delaware
Indianapolis, Indiana 46204-2526

We have audited the accompanying financial statements of the governmental and the business-type activities of the Housing Authority of the City of Muncie, Indiana (the Authority), as of and for the year ended March 31, 2008, which collectively comprise the Authority's basic financial statements as listed in the table contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our 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 we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

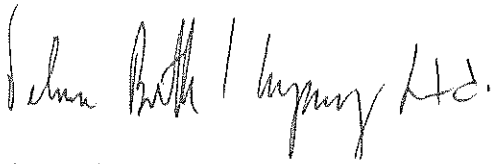
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental and business-type activities of the Housing Authority of the City of Muncie, Indiana, as of March 31, 2008, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 10, 2008, on our consideration of the Authority's internal control structure over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

In accordance with the U. S. Office of Management and Budget's (OMB) Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, we have also issued our report dated September 10, 2008, on compliance with requirements applicable to each major program and internal controls over compliance. That report is an integral part of an audit performed on the expenditure of federal awards and should be considered in assessing the results of our engagement.

The management's discussion and analysis on pages 3 – 8, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Housing Authority of Muncie, Indiana basic financial statements. The introductory section, combining and individual non-major fund financial statements, and statistical section are presented for purposes of additional analysis and are not required part of the basic financial statements. The financial data schedules are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by 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 Housing Authority. The combining and individual non-major fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.



Velma Butler & Company, Ltd.
Chicago, Illinois

September 10, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS



Muncie Housing Authority

409 East First Street
Muncie, Indiana 47302
<http://www.muncieha.com>

September 10, 2008

To the Board of Commissioners of the
Housing Authority of the City of Muncie, Indiana
Muncie, Indiana

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Housing Authority of the City of Muncie, Indiana's (the "Authority") annual financial report presents management's discussion and analysis of the Authority's financial performance during the fiscal year that ended on March 31, 2008, with selective comparison to the financial performance for the fiscal year ended March 31, 2007. Please read it in conjunction with the Authority's financial statements, which follow this section.

We are pleased to submit the financial statements of the Housing Authority of the City of Muncie, Indiana for the year ended March 31, 2008. The accuracy of the data presented in the financial statements, as well as its completeness and fairness of presentation, is the responsibility of management. All necessary disclosures to enable the reader to gain an understanding of the Authority's financial affairs have been included in the footnotes accompanying the general-purpose financial statements. The purpose of the financial statements is to provide complete and accurate financial information, which complies with reporting requirements of the U.S. Department of Housing and Urban Development ("HUD") and the Governmental Accounting Standards Board.

FINANCIAL HIGHLIGHTS

- Net assets increased by \$1,439 thousand from \$23,230 thousand at March 31, 2007 to \$24,669 thousand at March 31, 2008. The net asset increase was \$1,953 thousand less than what was earned during fiscal year 2007. The decrease occurred because of a decrease in revenues from the Hope VI program.
- Revenues decreased by \$1,300 thousand or 12% to \$9,650 thousand from \$10,951, primarily because of decreases in HUD capital grants.
- Expenses increased by \$652 thousand during the year, from \$7,559 thousand during 2007 to \$8,211 thousand during 2008. The increase occurred because of increased administrative expenses charges under the Hope VI program.
- Total assets increased \$1,824, at March 31, 2008, to \$25,725 thousand from \$23,895 thousand at March 31, 2007.
- Fixed assets decreased by \$636 thousand from \$19,225 thousand at March 31, 2007, to \$18,589 thousand at March 31, 2008. The decrease resulted from depreciation and less capital expenditures than in 2007.
- Total liabilities increased by \$385 thousand, from \$665 thousand at March 31, 2007, to \$1,050 thousand, at March 31, 2008.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Authority's basic financial statements are presented as an enterprise fund. Operations include two separate and distinct housing activities and various client service activities. The enterprise funds include the low rent housing program and the housing choice voucher program. The Low Rent Housing program is funded by income-based rents received from residents and operating subsidies from HUD.

Under the housing choice voucher program, the Authority enters into housing assistance payment contracts with eligible landlords. HUD pays housing assistance payments, which includes tenant rents and a management fee to the Authority for operating the program.

Client services are supported by a congregate housing grant, which allows the authority to provide the delivery and coordination of supportive services and other activities to help residents attain economic self-sufficiency and elderly residents with disabilities to continue to live independently.

The financial statements are presented in three sections: management's discussion and analysis (this section), the basic financial statements and supplementary information.

The management discussion and analysis section includes information on the past and future accomplishments of the Authority. It focuses on analysis of the financial statements and the improvements on the Authority's management.

The financial section provides both long-term and short-term information about the Authority's overall financial status. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of other supplementary information that further explains and supports the information in the financial statements.

The Authority's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") as applied to government units. *Enterprise Funds* are used to account for the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. All assets and liabilities associated with the operation of these funds are included on the balance sheet.

The bottom of the Statement of Revenues, Expenses and Changes in Net Assets reports the Authority's net assets and how they have changed from the previous year. Net assets are the difference between the Authority's assets and liabilities, which is one way to measure the Authority's financial health or position.

Additionally, the Authority is required to undergo an annual single audit in conformity with the provisions of the Single Audit Amendments of 1996 and the United States Office of Management and Budget's ("OMB") "Audits of State and Local Governments" as provided in OMB Circular A-133. Information related to this single audit, including a schedule of expenditures of federal assistance, the independent auditor's reports on internal controls and compliance with applicable laws and regulations, and a schedule of findings and questioned costs will be issued with this report.

FINANCIAL ANALYSIS OF THE AUTHORITY

Net Assets

Net assets represent the difference between total assets and total liabilities. As shown in Table 1, the Authority's total net assets at March 31, 2008 were approximately \$24.7 million, a 6 percent increase from the March 31, 2007 balance of \$23.2 million. Predictably, total assets also increased by 8 percent to approximately \$25.7 million, due primarily to increases in cash and long term notes receivable.

Current assets decreased by 78 percent, or approximately \$680 thousand. This increase was due principally due to an increase in cash and cash equivalents and accounts receivable.

Non-current assets increased by 5 percent or approximately \$1.1 million principally due to the expenditures under the HOPE VI revitalization plan and the Capital grant program.

The decrease in net assets from the previous year occurred because less was spent on the construction of capital assets. As construction progresses and the HOPE VI program is completed, the Authority will continue to experience a net decrease in its investment in capital assets in future periods.

Total liabilities increased by \$385 thousand or about 58 percent from \$665 thousand at March 31 2007, to \$1,050 thousand at March 31, 2008. The increase occurred in deferred interest income.

Table 1
Muncie Housing Authority Net Assets
(in thousand dollars)

	<u>2008</u>	<u>2007</u>	<u>Change</u>	<u>Total Percentage Change</u>
Current Assets	\$ 1,551	\$ 871	\$ 680	78.07 %
Non-current Assets	24,168	23,024	1,144	4.97 %
Total Assets	<u>25,719</u>	<u>23,895</u>	<u>\$ 1,824</u>	7.63 %
Total Current Liabilities	334	356	\$ (22)	-6.18 %
Total Non Current Liabilities	716	309	407	131.72 %
Total Liabilities	<u>1,050</u>	<u>665</u>	<u>385</u>	57.89 %
Invested in Capital Assets, Net	18,589	19,225	(636)	-3.31 %
Unrestricted	5,228	4,005	1,223	30.54 %
Restricted Net Assets	852		852	
Total Net Assets	<u>24,669</u>	<u>23,230</u>	<u>1,439</u>	6.19 %
Total Liabilities and Net Assets	<u>\$ 25,719</u>	<u>\$ 23,895</u>	<u>\$ 1,824</u>	7.63 %

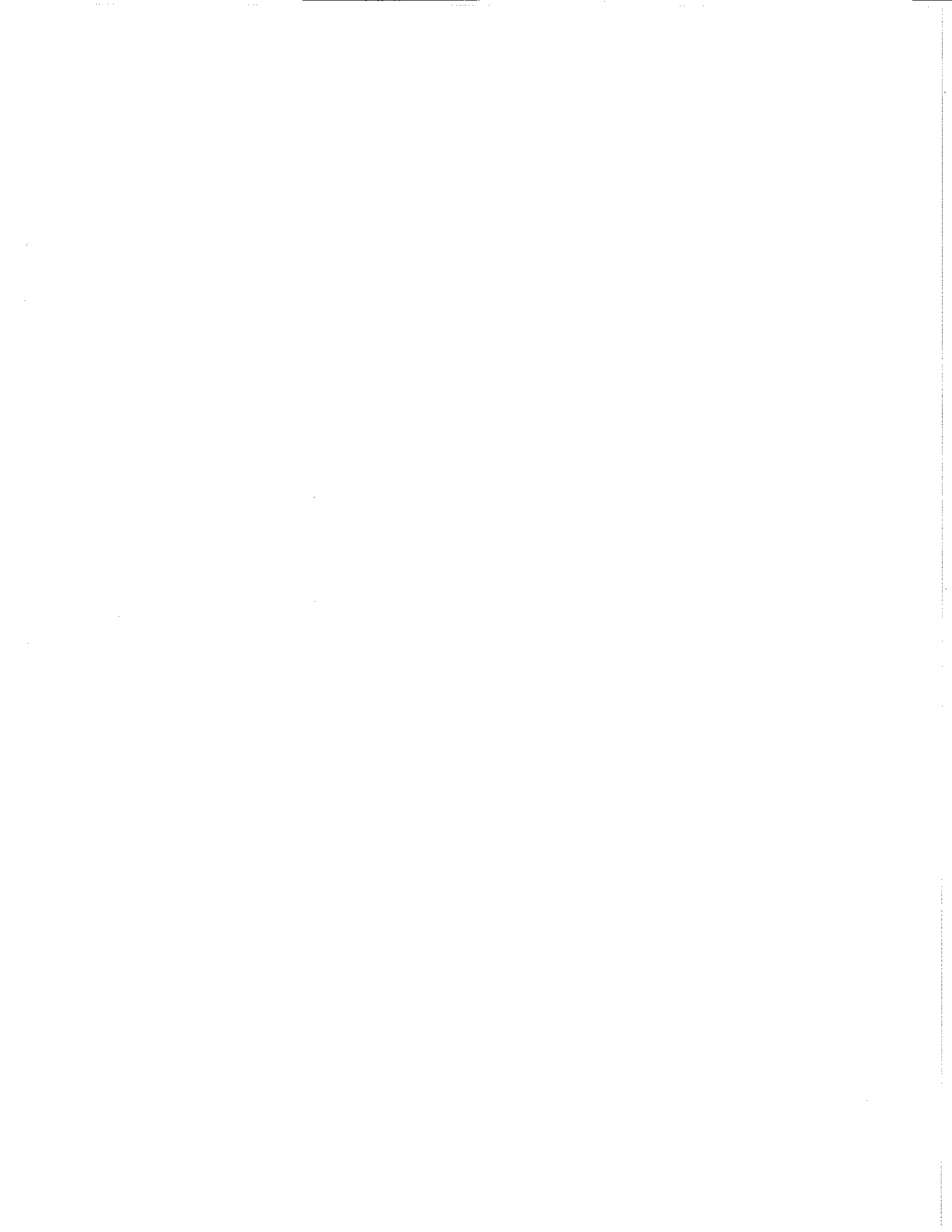
Change in Net Assets

Overall net assets increased by approximately \$1.4 million or 6 percent at March 31, 2008, reflecting a positive operating result for the year. Revenues were \$9.7 million and expenses were \$8.2.

As shown in Table 2, the Authority's total operating revenues, which included HUD Operating and Capital Grants, tenant rents, interest and other income decreased by \$1.3 million or 12 percent, while total operating expenses increased by \$646 thousand or 9 percent, from approximately \$10.9 million in 2007, to \$9.7 million at March 31, 2008.

Table 2
Changes in Muncie Housing Authority's Net Assets
(in thousand dollars)

	<u>2008</u>	<u>2007</u>	<u>Change</u>	<u>Total Percent Change</u>
Revenues	\$ 9,650	\$ 10,951	\$ (1,301)	(11.88)
Operating Expenses	7,052	6,400	652	10.19
Depreciation	1,159	1,159	0	-
Total Operating Expenses	8,211	7,559	652	8.63
Change in Net Assets	1,439	3,392	(1,953)	(57.58)
Total Net Assets, Beginning	23,229	19,685	3,544	18.00
Prior Period Adjustments		152	(152)	
Total Net Assets, Ending	<u>\$ 24,668</u>	<u>\$ 23,229</u>	<u>\$ 1,439</u>	6.19



The decrease in revenue was mainly in the Hope VI program. Revenue under the Hope VI program decreased by \$2,027 thousand, mainly because the program is approaching completion. As previously stated, operating expenses increased by approximately 9 percent, changes are shown below in Table 3:

Table 3
Muncie Housing Authority's Operating Expense
(in thousand dollars)

	<u>2008</u>	<u>2007</u>	<u>Change</u>	<u>Total Percent</u>
Administrative Expenses	\$ 2,176	\$ 1,275	\$ 901	70.67 %
Tenant Services	25	76	(51)	(67.11) %
Utilities Expenses	313	306	7	2.29 %
Ordinary Maintenance	552	607	(55)	(9.06) %
General Expenses	174	188	(14)	(7.45) %
Extra Ordinary Maintenance	12	9	3	33.33 %
Housing Assistance Payments	3,800	3,939	(139)	(3.53) %
Depreciation Expense	1,159	1,159	0	- %
Total Operating Expenses	\$ <u>8,211</u>	\$ <u>7,559</u>	\$ <u>652</u>	8.63 %

Increase occurred in administrative expenses. Seven hundred and seventy-one thousand dollars in administrative expenses under the Hope VI program was written-off and \$281 under the Capital Grant program was written-off.

Other categories of expenses decreased. The Authority made real efforts to reduce costs because of reduced subsidy amounts.

Housing assistance payments decreased because housing units were under lease.

BUDGETARY CONTROL

Budgetary control is exercised over programs through internal control methods that ensure compliance with legal provisions incorporated in annual program budgets approved by HUD and the Board of Commissioners. The activities of the Authority's enterprise fund are included in the annual budgeting process. Capital project budgets contained in the Authority's Low Rent Housing program are adopted for the length of the capital projects then annualized to strength cost monitoring and completion of timetables.

CAPITAL ASSETS

Capital assets decreased by \$636,302 from \$19,225,404 to \$18,589,102, as shown in the table below:

	<u>March 31, 2007</u>	<u>Additions and Deletions</u>	<u>March 31, 2008</u>
Land and Structures	\$ 26,461,494	\$	\$ 26,461,494
Equipment and Furniture	512,471		512,471
Construction in Progress	7,034,749	522,635	7,557,384
Less Accumulated			
Depreciation	(14,783,310)	(1,158,937)	(15,942,247)
Total Fixed Assets	\$ <u>19,225,404</u>	\$ <u>(636,302)</u>	\$ <u>18,589,102</u>

The decreases were attributable to less expenditures in the capital grant and HOPE VI revitalization programs and current year's depreciation.

MAJOR INITIATIVES

For the Year: The Authority's highlights of major initiatives and discretionary policies for the year were as follows:

- The Board of Commissioners and the staff have constantly pursued the goal to always improve the public housing management (PHAS) score.
- The Authority conducted the admissions process in a manner in which all persons interested in admission to public housing were treated fairly and consistently.
- The Authority did not discriminate at any stage of the admissions process because of race, color, national origin, religion, creed, sex, age or disability.
- The Authority followed the nondiscrimination requirements of Federal, State and Local Law.
- The Authority's Admission and Occupancy Policy and Dwelling Lease have been revised to be in compliance with Quality Housing and Work Responsibility Act of 1998 and have updated or created other necessary policies.

It was the Authority's goal to acquire or build additional units and/or developments. The Muncie Housing Authority shall continue to focus its efforts on the revitalization of older and more used housing units and seek out ways to construct new affordable housing.

The resident satisfaction survey revealed that the residents feel an increased sense of security in and around their unit. The Authority's commissioners and staff will continue to seek out ways to provide better security to the residents.

The Housing Authority of the City of Muncie, in keeping with its mission and that of the U.S. Department of Housing and Urban Development, will provide safe, decent, sanitary housing in good repair to the citizens of Muncie, Indiana.

Future Initiatives. The Authority will continue to provide a choice in housing recognizing that less multi-family buildings are available. During the fiscal year, the Authority has aggressively administered the HOPE VI grant for the revitalization of Munsyana Homes. The Authority has now completed Phase I, Phase II, Phase III and is almost complete with Phase IV of the HOPE VI Millennium Project rental units. We are now preparing the close out documents for the Home ownership Phase. We are concentrating our efforts to the building of the community center at Heeking Park and the possibility of a grocery store both, which are HOPE VI non-dwelling components.

The Authority will continue to work on the steps necessary to revitalize the Parkview Apartments development. We will be preparing future documents for Demolition/Disposition and also researching funding possibilities for this revitalization effort to include the possibility of applying for a HOPE VI grant in 2008 if available. The Authority aims to be more competitive in the housing market and to work towards increasing its capacity as a developer of affordable housing.

The Authority is also starting the process of creating another entity to further its development needs. The Authority will continue to encourage its residents to become self-sufficient and thus contribute to the community to the best of their abilities.

The Authority's Strategic Goal includes the following:

- Expanding the supply of assisted housing.
- Improving the quality of assisted housing.
- Increasing assisted housing choices.
- Providing an improved living environment.
- Promoting self-sufficiency and asset development of assisted households.

- Ensuring equal opportunity and affirmatively further fair housing.
- Promote opportunities for homeownership.

It will be the Authority's continual mission to promote affordable, safe, decent, sanitary housing in good repair, economic growth opportunity and a suitable living environment free from discrimination.

Sincerely,

A handwritten signature in black ink, appearing to be the initials 'JEM' with a stylized flourish.

Executive Director

FINANCIAL STATEMENTS

HOUSING AUTHORITY OF THE CITY OF MUNCIE, INDIANA
STATEMENT OF NET ASSETS - ENTERPRISE FUNDS
MARCH 31, 2008, (WITH COMPARATIVE TOTALS FOR 2007)

EXHIBIT A

	LOW RENT	SECTION 8	CONGREGATE HOUSING	2008 TOTAL	2007 TOTAL
ASSETS					
<u>CURRENT ASSETS</u>					
Cash and Cash Equivalents	\$ 30,183	\$ 1,204,955	\$ 22,701	\$ 1,257,839	\$ 119,968
Investments	179,732			179,732	686,958
Accounts Receivable	83,407			83,407	33,122
Prepaid Expenses	12,636			12,636	14,129
Material Inventories	17,753			17,753	16,893
Total Current Assets	323,711	1,204,955	22,701	1,551,367	871,070
<u>NON CURRENT ASSETS</u>					
Capital Assets					
Land, Structures and Equipment, net	18,576,468	12,634		18,589,102	19,225,404
Notes Receivable - Long Term	4,862,442			4,862,442	3,485,932
Accrued Interest Receivable	716,360			716,360	309,461
Undistributed Debits					3,276
Total Non-Current Assets	24,155,270	12,634	0	24,167,904	23,024,073
TOTAL ASSETS	\$ 24,478,981	\$ 1,217,589	\$ 22,701	\$ 25,719,271	\$ 23,895,143
LIABILITIES AND NET ASSETS					
<u>CURRENT LIABILITIES</u>					
Accounts Payable	\$ 119,381	\$	\$	\$ 119,381	\$ 140,585
Accrued Liabilities	60,411	18,005		78,416	76,670
Trust Deposits		113,571		113,571	92,203
Deferred Revenues			22,701	22,701	46,371
Total Current Liabilities	179,792	131,576	22,701	334,069	355,829
<u>NONCURRENT LIABILITIES</u>					
Deferred Interest Income	716,360			716,360	309,461
Total Noncurrent Liabilities	716,360	0	0	716,360	309,461
Total Liabilities	896,152	131,576	22,701	1,050,429	665,290
<u>NET ASSETS</u>					
Unrestricted Net Assets	5,006,361	228,362		5,234,723	4,004,449
Restricted Net Assets		845,017		845,017	
Investment in Fixed Assets	18,576,468	12,634		18,589,102	19,225,404
Total Net Assets	23,582,829	1,086,013	0	24,668,842	23,229,853
TOTAL LIABILITIES AND NET ASSETS	\$ 24,478,981	\$ 1,217,589	\$ 22,701	\$ 25,719,271	\$ 23,895,143

See accompanying notes to the financial statements.

HOUSING AUTHORITY OF THE CITY OF MUNCIE, INDIANA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS - ENTERPRISE FUNDS
FOR THE YEAR ENDED MARCH 31, 2008, (WITH COMPARATIVE TOTALS FOR 2007)

EXHIBIT B

	LOW RENT	SECTION 8	CONGREGATE HOUSING	2008 TOTAL	2007 TOTAL
OPERATING REVENUES					
Tenant Charges	\$ 397,577	\$	\$	\$ 397,577	\$ 370,730
HUD Operating Grants	2,451,723	4,829,242	23,670	7,304,635	5,629,440
Other Income	20,710	15,783		36,493	33,597
TOTAL REVENUES	<u>2,870,010</u>	<u>4,845,025</u>	<u>23,670</u>	<u>7,738,705</u>	<u>6,033,767</u>
OPERATING EXPENSES					
Administrative Expenses	1,840,983	335,077		2,176,060	1,274,824
Tenant Services	1,150		23,670	24,820	75,731
Utilities Expenses	312,882			312,882	306,069
Ordinary Maintenance	552,359			552,359	607,328
General Expenses	163,082	10,741		173,823	188,483
Extra Ordinary Maintenance	12,365			12,365	8,611
Housing Assistance Payments		3,800,033		3,800,033	3,938,970
Depreciation Expense	1,155,003	3,934		1,158,937	1,158,937
TOTAL OPERATING EXPENSES	<u>4,037,824</u>	<u>4,149,785</u>	<u>23,670</u>	<u>8,211,279</u>	<u>7,558,952</u>
OPERATING INCOME (LOSS)	<u>(1,167,814)</u>	<u>695,240</u>	<u>-</u>	<u>(472,574)</u>	<u>(1,525,185)</u>
NON-OPERATING REVENUES AND (EXPENSES)					
Interest Income	9,108	3,311		12,419	12,287
HUD Capital Grants	1,899,143			1,899,143	4,904,692
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>1,908,251</u>	<u>3,311</u>	<u>-</u>	<u>1,911,562</u>	<u>4,916,979</u>
CHANGES IN NET ASSETS	<u>740,437</u>	<u>698,551</u>	<u>-</u>	<u>1,438,988</u>	<u>3,391,794</u>
NET ASSETS AT BEGINNING OF YEAR	<u>22,842,392</u>	<u>387,462</u>		<u>23,229,854</u>	<u>19,685,601</u>
PRIOR PERIOD ADJUSTMENTS				-	152,459
NET ASSETS AT END OF YEAR	<u>\$ 23,582,829</u>	<u>\$ 1,086,013</u>	<u>\$ -</u>	<u>\$ 24,668,842</u>	<u>\$ 23,229,854</u>

See accompanying notes to the financial statements.

HOUSING AUTHORITY OF THE CITY OF MUNCIE, INDIANA
 STATEMENTS OF CASH FLOWS - ENTERPRISE FUNDS
 FOR THE YEAR ENDED MARCH 31, 2008, (WITH COMPARATIVE TOTALS FOR 2007)

EXHIBIT C

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Tenants and Others	\$ 7,738,705	\$ 6,033,767
Payments to Employees	(1,552,498)	(1,262,348)
Payments to Vendors and Suppliers	(6,944,589)	(6,708,706)
Net Cash Provided by Operating Activities	<u>(758,382)</u>	<u>(1,937,287)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Sale/(Purchase) of Investments	507,226	49,452
Interest on Investments	12,419	12,287
Net Cash (Used for) Investing Activities	<u>519,645</u>	<u>61,739</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Capital Grants	1,899,143	4,904,692
Investment in Fixed Assets	(522,630)	(3,215,748)
Net Cash (Used for) Financing Activities	<u>1,376,513</u>	<u>1,688,944</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	<u>1,137,871</u>	<u>(186,607)</u>
CASH AND CASH EQUIVALENTS AT APRIL 1, 2007	119,968	306,575
CASH AND CASH EQUIVALENTS AT MARCH 31, 2008	<u>\$ 1,257,839</u>	<u>\$ 119,968</u>
Reconciliation of Operating Loss to Net Cash		
Used by Operating Activities		
Operating Loss	\$ (472,574)	\$ (1,525,185)
Adjustments To Reconcile:		
Depreciation	1,158,937	1,158,937
Changes in Assets and Liabilities		
(Increase)/Decrease in Accounts Receivable	(50,285)	54,941
(Increase)/Decrease in Prepaid Expenses	1,493	31,673
(Increase)/Decrease in Material Inventories	(860)	2,961
(Increase)/Decrease in Note Receivables	(1,376,510)	(1,536,482)
(Increase)/Decrease in Accrued Interest Receivables	(406,899)	(131,155)
(Increase)/Decrease in Deferred Debits	3,276	(1,224)
Increase/(Decrease) in Accounts Payable	(21,204)	(127,592)
Increase/(Decrease) in Accrued Liabilities	1,746	4,139
Increase/(Decrease) in Trust Deposits	21,368	21,359
Increase/(Decrease) in Deferred Revenues	(23,670)	(6,487)
Increase/(Decrease) in Deferred Interest Income	406,899	131,155
Increase/(Decrease) in Undistributed Credits		(14,330)
Net Cash Provided by (Used for) Operating Activities	<u>\$ (758,283)</u>	<u>\$ (1,937,290)</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES		
None		

See accompanying notes to the financial statements.

NOTES TO FINANCIAL STATEMENTS

**HOUSING AUTHORITY OF THE CITY OF MUNCIE, INDIANA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2008**

Note 1 – Organization and Program Description

The Housing Authority of the City of Muncie, Indiana (the Authority) is a municipal corporation created and organized under the Housing Authority Act of the State of Indiana to engage in the acquisition, development, leasing and administration of a low-rent housing program and other federally assisted programs.

The governing body of the Authority is its Board of Commissioners (Board) composed of five members appointed by the Mayor of the City of Muncie (City). The Board appoints an Executive Director to administer the affairs of the Authority. The Authority is not considered a component unit of the City.

The United States Department of Housing and Urban Development (HUD) has direct responsibility for administering housing programs under the United States Housing Act of 1937, as amended. HUD is authorized to enter into contracts with local housing authorities and to provide funds to assist the Public Housing Authorities (PHAs) in financing the acquisition, construction, and/or leasing of housing units; to make housing assistance payments; and to make annual contributions (subsidies) to PHAs for the purpose of maintaining the low rent character of the local housing program.

As required by accounting principles generally accepted in the United States of America, the accompanying financial statements present the various program activities of the Authority. The Authority's assets, liabilities and results of operations are segregated into public housing and grant programs as follows:

Low Rent Housing - The low rent-housing program is the primary operating fund of the Authority. It provides subsidized housing to low-income residents. The Authority is the owner of approximately 361 public housing units located throughout the City. The Authority receives revenue from dwelling rental income and an operating subsidy provided by HUD. "Capital Fund Grants," provided by HUD, are used to improve the physical condition, management and operation of existing public housing developments. The low rent program is reported as an enterprise fund.

Housing Choice Voucher Program - The Authority participates in the housing choice voucher program. This program is designed to provide privately owned decent, safe and sanitary housing to low-income families. The Authority provides assistance to low-income persons seeking decent, safe and sanitary housing by subsidizing rents between such persons and owners of existing private housing. Under the programs, the Authority enters into housing assistance payment contracts with eligible landlords. To fund the program, the Authority enters into annual contribution contracts with HUD for the receipt of rental subsidies. The housing choice voucher program is also reported as an enterprise fund.

Congregate Housing Program - This program assist the elderly with housekeeping, transportation and personal needs. HUD provides grants for this program. This program is also reported as a special revenue fund.

Hope VI Revitalization Program - The purpose of the program is to implement public housing transformation by changing the shape of public housing, lessening the isolation of low-income families, forging partnerships and establishing strong self-sufficiency programs for residents.

Accounting Principles - The Authority applies all Government Accounting Standards Board (GASB) pronouncements as well as the Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

A. Reporting Entity

The financial statements of the Authority have been prepared in accordance with accounting principles generally accepted in the United States of America, as applicable to governmental units.

**HOUSING AUTHORITY OF THE CITY OF MUNCIE, INDIANA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2008 continued . . .**

Note 1 - Organization and Program Description (continued)

These principles define the reporting entity of the primary government, as well as its component units. Component units are separate legal organizations for which the elected officials of the primary government are financially accountable. Financial accountability is defined as appointment of a voting majority of the component unit's board, and either (a) the ability to impose will by the primary government, or (b) the possibility that the component unit provides a financial benefit or impose a financial burden on the primary government. There are no component units of the Authority. The accompanying financial data present the financial statement of the Authority.

The reporting entity for the Authority includes all the funds of the Authority as the primary government.

B. Measurement Focus, Basis of Accounting and Basis of Presentation

The accounts of the Authority are organized and operated on the basis of fund accounts. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements.

Enterprise Funds are accounted for on the flow of economic resources measurement focus and use the full accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. All assets and liabilities associated with the operation of these funds are included on the balance sheet.

C. Fund Accounting

The accounts of the Authority are organized and operated on the basis of funds and account groups. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements.

Account groups are reporting devices to account for certain assets and liabilities of the governmental funds not recorded directly in those funds.

The Authority maintains the following fund types and account groups:

Proprietary Funds - The Authority's proprietary funds are *Enterprise Funds* used to account for those operations that are financed and operated in a manner similar to private business or where the Authority has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

Enterprise Funds are used to account for the activities of the low rent and housing choice voucher programs. Under the low rent-housing program, the fund owns and operates several housing units throughout the City of Muncie, Indiana. Financing for the acquisition and rehabilitation of these properties was obtained through several HUD grants and long-term debt issues. Their operations and maintenance are funded principally through tenant rentals and federal housing assistance programs. Under the housing choice voucher program, the funds and monitors payment to privately owned housing units. Operations are funded through housing assistance payments from HUD.

Budgets - Budgets are adopted for applicable special revenue and enterprise funds on a basis consistent with accounting principles generally accepted in the United States of America. The Authority is not legally required to adopt budgets for such funds. However, the Authority has contractual requirements to adopt budgets for applicable HUD programs. All annual appropriations lapse at fiscal year-end.

**HOUSING AUTHORITY OF THE CITY OF MUNCIE, INDIANA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2008 continued . . .**

Note 1 - Organization and Program Description (continued)

Multi year appropriations for capital projects (all capital projects are currently accounted for in proprietary funds) and special revenue funds are adopted for the length of the project and/or program and are annualized for accounting purposes. Additional information on the Authority's budgetary requirements and controls is disclosed in Note 2.

Management's Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Investments - Investments are stated at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Federal statutes authorize investment of excess federal funds in instruments guaranteed by the federal government. The Authority has adopted this policy for all invested funds, whether or not they are federal funds.

Accounts Receivable - Include amounts due from HUD for current year program operating and housing assistance subsidies earned but not received at year-end and tenant accounts receivables. These receivable may also contain un-reimbursed capital costs.

Inventories - Inventories are stated at the lower of cost or market.

Prepaid Expenditures - Payments made to vendors for services that will benefit periods beyond March 31, 2008, are recorded as prepaid items.

Fixed Assets - The Authority capitalizes fixed assets with a cost of more than \$500 and a useful life of one year or more. Proprietary fund types focus on capital maintenance. Accordingly, land, structures and equipment are recorded in the enterprise fund, which acquires such assets.

Fixed assets are stated at cost. The cost of maintenance and repairs is charged to operations as incurred and improvements are capitalized. Fixed assets are depreciated over their useful lives using the straight-line method of depreciation as follows:

Building	40 years
Office Furniture and Equipment	5 years
Automobiles	5 years

Notes Receivables - Notes receivables primarily consist of amounts due from developers of mixed income properties. All note receivable balances are reviewed to determine whether they are collectible. Allowance account estimates are established for receivable amounts when collection is questionable.

Compensated Absences - Vested or accumulated vacation and leave have been recorded in the financial statements.

Non-current Liabilities - The Authority's non-current liabilities represent deferred interest income associated with certain notes receivable for new construction.

Net Assets - The difference between assets and liabilities is net assets. Net assets are subdivided into two categories: investment in fixed assets and unrestricted net assets. Each component of net assets is reported separately on the statement of net assets.

HOUSING AUTHORITY OF THE CITY OF MUNCIE, INDIANA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2008 continued . . .

Note 1 - Organization and Program Description (continued)

Investment in fixed assets represents the balance of land, structures, and equipment less accumulated depreciation.

The unrestricted component of net assets represents the portion remaining after the "investment in fixed assets" amounts have been determined. The Authority's positive value of unrestricted net assets may be used to meet ongoing obligations.

Financial Information for 2007

The financial statements include certain prior-year summarized comparative information in total but not by net assets class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Authority's financial statements for the year ended March 31, 2007, from which the summarized information was derived.

Concentration of Risk

During the year ended March 31, 2008, the Authority received approximately 95 percent of its funding from HUD.

Totals - Memorandum Only Columns - Total columns on the financial statements are captioned memorandum and are present only to facilitate financial analysis. Data in these columns do not present financial position, results of operations or cash flows in conformity with accounting principles generally accepted in the United States of America. Neither are such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of these data.

Note 2 - Budget Information

The Authority is required by contractual agreements to adopt annual operating budgets for all its special revenue and enterprise funds receiving federal expenditure awards. The Chief Financial Officer on a HUD basis prepares all budgets, which is materially consistent with accounting principles generally accepted in the United States of America. All annual appropriations lapse at fiscal year-end. Operating budgets are not prepared for capital projects, which are included in the low rent housing enterprise fund. Budgets are submitted by the Authority's Executive Director, and approved by resolutions of the Board of Commissioners.

Enterprise Funds - Low rent housing enterprise fund operating budgets are prepared for the upcoming year by the end of the current fiscal year and are approved by the Authority's Board of Commissioners and HUD. Appropriations for capital projects are authorized at the fund and expenditure level, and effective budgetary control is achieved through period budgeting and reporting requirements.

Housing choice voucher program operating budgets is prepared for the upcoming fiscal year 90 days before the end of the current fiscal year and are approved by HUD. The Authority's Board of Commissioner approves operating expenditure budgets. Budgetary control is at the fund level (excess/deficiency) of revenues over expenditures.

Budgets for the congregate housing programs are approved for the length of the individual program or grant. Appropriations are authorized at the fund and expenditure category level, and effective budgetary control is at the fund level and achieved through the programs' or grants' periodic budgeting and reporting requirements.

HOUSING AUTHORITY OF THE CITY OF MUNCIE, INDIANA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2008 continued . . .

Note 3 - Cash and Cash Equivalents

Cash and cash equivalents consist of amounts maintained in commercial checking and saving accounts and are readily available. HUD regulations require authorities to maintain funds in accounts that are fully collateralized by United States government securities. Cash amounts in excess of the \$100,000 insured by the government were collateralized by government securities and held in the pledging financial institutions' trust departments in the Authority's name. At March 31, 2008, cash totaled \$1,257,840. Of the cash on hand, \$958,558 is restricted for payment of current liabilities and for future housing assistance payments.

Note 4 - Accounts Receivable

Accounts receivable totaled \$83,407, at March 31, 2008, and consisted of the following:

HUD	\$ 51,759
Tenants, net allowance	31,548
Accounts Receivable - Other	100
Total	<u>\$ 83,407</u>

Ninety days after tenants move out, their delinquent accounts are sent to the Board of Commissioners for write-off approval. The amount written-off is the tenants' past due rent, move-out charges and/or sewage fees deemed uncollectible. Amounts written-off during fiscal year 2008 totaled \$15,982.

Note 5 - Investments

At March 31, 2008, investments with maturities greater than three months totaled \$179,732. Investments consisted of saving accounts and certificates of deposits and are recorded at market value. As shown below, \$45,506 is restricted for payment of tenant security deposits.

	<u>Category 2</u>	
	Market Value	Book Value
Certificates of Deposits	\$ 169,286	\$ 169,286
Savings Accounts	<u>10,446</u>	<u>10,446</u>
Total	179,732	179,732
Less: Restricted for Current Liabilities	<u>(45,506)</u>	<u>(45,506)</u>
Unrestricted	<u>\$ 134,226</u>	<u>\$ 134,226</u>

Category 2 - Investments were collateralized by government securities and held in the pledging financial institutions' trust department in the Authority's name.

Note 6 - Prepaid Expenses

Prepaid expenses totaled \$12,636 at March 31, 2008, which consisted of prepaid insurance.

Note 7 - Material Inventories

Material inventories totaled \$17,753 at March 31, 2008. Material inventories are stated at the lower of cost or market.

HOUSING AUTHORITY OF THE CITY OF MUNCIE, INDIANA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2008 continued . . .

Note 8 - Land, Structures and Equipment

The changes in land, structures and equipment during the year were as follows:

	<u>March 31, 2007</u>	<u>Additions and Deletions</u>	<u>March 31, 2008</u>
Low Rent Housing			
Land and Structures	\$ 26,461,494	\$	26,461,494
Equipment	480,901		480,901
Construction in Progress	7,034,749	522,635	7,557,384
Less Accumulated Depreciation	<u>(14,768,309)</u>	<u>(1,155,002)</u>	<u>(15,923,311)</u>
Total Low Rent	19,208,835	(632,367)	18,576,468
Housing Choice Voucher			
Equipment	31,570		31,570
Less Accumulated Depreciation	<u>(15,002)</u>	<u>(3,934)</u>	<u>(18,936)</u>
Total Housing Choice Voucher	16,568	(3,934)	12,634
Total Fixed Assets	<u>\$ 19,225,403</u>	<u>\$ (636,301)</u>	<u>\$ 18,589,102</u>

Changes in land, structures and equipment during the audit period consisted of total capital improvement costs.

Fixed assets are recorded at cost. Depreciation is recorded over the useful lives of the assets using the straight-line method of depreciation. Depreciation expenses for 2008 totaled \$1,158,936.

The Authority spent \$726,081 on capital improvements, and invested \$2,525,148 of Hope VI funds into the development and loans for the Millennium Place II, III and IV.

Note 9 – Notes Receivable

Mixed Income Financing Construction Loans

The Authority loaned funds to developers in conjunction with a mixed income financing arrangements to build new properties. The developer agrees to designate a specific number of units for public housing throughout the Muncie, Indiana area.

Notes receivable and accrued interest receivable totaled \$4,862,442 and \$716,360, respectively, and are summarized as follows:

- At March 31, 2008, the Authority had loaned Millennium Place I, L.P. (an Indiana limited partnership) \$1,100,000 for 20 years at five and one-half (5.5%) percent per annum due March 13, 2023. This loan was secured by a second priority mortgage lien on the real property. Interest shall be due and payable annually subject to available cash flow. All unpaid interest and unpaid principal shall be due and payable on the maturity date. Deferred interest income totaled \$344,371.
- At March 31, 2008, the Authority had loaned Millennium Place II, L.P. (an Indiana limited partnership) \$1,070,061. The loan matures in 20 years. Interest is charged at six (6.0%) percent per annum and is due at maturity on March 13, 2023. This loan was secured by a second priority mortgage lien on the real property. Interest shall be due and payable annually subject to available cash flow. All unpaid interest and unpaid principal shall be due and payable on the maturity date. Deferred interest income totaled \$210,893.

**HOUSING AUTHORITY OF THE CITY OF MUNCIE, INDIANA
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED MARCH 31, 2008 continued . . .**

Note 9 – Notes Receivable (continued)

- At March 31, 2008, the Authority had provided Millennium Place III, L.P. (an Indiana limited partnership) two loans in the amount of \$800,000 and \$655,236. The loans mature in 40 years. Interest is charged at 5 (5.0%) percent and one (1.0%) percent per annum and both are due at maturity on January 5, 2046. The loans were secured by a second priority mortgage lien on the real property.

Interest shall be due and payable annually subject to available cash flow. All unpaid interest and unpaid principal shall be due and payable on the maturity date. Deferred interest income totaled \$95,917.

- At December 6, 2006, the Authority had loaned Millennium Place IV, L.P. (an Indiana limited partnership) \$1,200,000. The loan matures in 40 years. Interest is charged at six (5.0%) percent per annum and is due at maturity on December 6, 2046. This loan was secured by a second priority mortgage lien on the real property. Interest shall be due and payable annually subject to available cash flow. All unpaid interest and unpaid principal shall be due and payable on the maturity date. Deferred interest income totaled \$65,178.

Ground Lease

In March 2005, the Authority entered into a 99-year operating ground lease agreement with a developer to construct fifty-five (55) dwelling units on land owned by the Authority. The ground lease provides that the Authority shall receive \$1 per year for the entire term of the lease.

Note 10 - Accounts Payable

Accounts payable at March 31, 2008, consisted of:

Tenant Security Deposits	\$	45,506
Accounts Payable - Vendors		67,352
Accounts Payable - Other		6523
Total	\$	<u>119,381</u>

Note 11 - Accrued Liabilities

Accrued liabilities at March 31, 2008, consisted of the following:

Accrued Compensated Absences	\$	59,368
Accrued Salaries		19,049
Total	\$	<u>78,417</u>

Note 12 - Trust Deposits

Trust deposits at March 31, 2008, totaling \$113,571 consisted of amount due under the family self-sufficiency program.

Note 13 - Deferred Revenue

Deferred revenue at March 31, 2008, totaling \$22,701 consisted of receipts in excess of expenditures for a grant program.

**HOUSING AUTHORITY OF THE CITY OF MUNCIE, INDIANA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2008 continued . . .**

Note 14 – Deferred Interest Income Receivable

Due to uncertainty created by the length of time preceding payment of interest, and due to provisions of certain notes that interest payment is contingent upon the existence of surplus cash, interest earned on notes receivable has been deferred. For the year ended March 31, 2008, the cumulative amount of such deferred interest receivable was \$716,360.

Note 15 - Employee Benefit Plans

The Authority participates in the Public Employees' Retirement Fund of Indiana (the Plan), which is a qualified defined contribution retirement plan administered by The State of Indiana. The Plan covers all full-time employees. The maximum contribution is 13 percent of the employee's monthly salary. Participants' benefits are fully vested after ten years of participation. Participants who retire at or after age 65 with ten years of credited service are entitled to a monthly benefit at retirement.

Pension expense for the year ended March 31, 2008, totaled \$71,035; the minimum employer required contribution is 5 percent. Employees contribute 3 percent of their wages. Contributions for the year represented 5 percent of payroll. The Authority's total payroll expense was \$1,141,011 for the year ended March 31, 2008. The Authority made all the required contributions to the Plan.

Note 16 – Commitments and Contingencies

Loan Commitments

The Authority has entered into financing agreements with private developers to construct new mixed income properties. The Authority has agreed to provide loans to private developers to assist in the construction of new dwelling units, of which a specific number will be designated as public housing. The total loans outstanding as of March 31, 2008 were \$4,862,442.

Operating Lease Commitments

The Authority has several operating leases for vehicles and office equipment that expire at various dates through 2008. Those leases generally contain renewal options and require the Authority to pay all executor costs such as maintenance and insurance. Total cost for said leases was \$20,717 during 2008. As of March 31, 2008, the Authority is a party of two auto leases and one copier lease through 2009. The future minimum lease payments are estimated at \$22,207, as follows:

<u>Year</u>	<u>Payment</u>
2009	\$ 18,034
2010	4,173
Total	<u>\$ 22,207</u>

Other Contingencies

The Authority receives financial assistance from federal governmental agencies in the form of grants and operating subsidies. Disbursements of funds received under these programs require compliance with terms and conditions specified in the agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Authority. In the opinion of management, any such disallowed claims would not have a material effect on the overall financial position of the Authority at March 31, 2008.

The Authority also has certain contingent liabilities resulting from litigations, claims, and commitments incident to the ordinary course of business. Management expects the final resolution of such contingencies will not have a material adverse affect on the financial position of the Authority at March 31, 2008.

**HOUSING AUTHORITY OF THE CITY OF MUNCIE, INDIANA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2008 continued . . .**

Note 17 - Administrative Fees

The Authority receives an "Administrative Fee" as part of each of the annual contributions from HUD to cover the costs (including overhead) of administering the Housing Choice Voucher Program.

Note 18 - Allocation of Cost

The Authority allocates 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.

SUPPLEMENTAL INFORMATION

HOUSING AUTHORITY OF THE CITY OF MUNCIE, INDIANA
 FINANCIAL DATA SCHEDULE
 FOR THE YEAR ENDED MARCH 31, 2008

Line	Acct. #	Account Descriptions	Low Rent	Capital Fund	Hope VI	Congregate Housing	Section 8 Rental Voucher	Total Authority
Item			14,850	14,872	14,866	14,170	14,871	
Assets								
Current Assets:								
Cash:								
111	111101	General Fund Cash	\$ 14,591	\$	\$	\$ 22,701	\$ 239,336	\$ 276,628
111	111110	Modernization/Development Cash		3,847	11,746			15,593
114	111400	Restricted Cash					965,618	965,618
100		Total Cash	14,591	3,847	11,746	22,701	1,204,955	1,257,839
Accounts Receivable:								
121	112500	Accounts Receivable - HUD			51,759			51,759
126	112200	Accounts Receivable - Tenants	34,550					34,550
126.1	112298	Allowance for Doubtful Accounts - Tenants	(3,002)					(3,002)
	112900	Accounts Receivable --Other	101					101
129	117600	Accrued Interest Receivable	344,372		371,988			716,360
120		Total receivables	376,020	-	423,748	-	-	799,767
131	116200	Investments General and Security Deposits	134,226					134,226
135	116200	Investments - Restricted for Current Liabilities	45,506					45,506
131	116600	Family Self Sufficiency - Voucher						-
		Total Investments	179,732	-	-	-	-	179,732
142	121100	Prepaid Insurance	12,636					12,636
143	126000	Material Inventories	17,753					17,753
		Total Prepays	30,389	-	-	-	-	30,389
150		Total Current Assets	600,732	3,847	435,494	22,701	1,204,955	2,267,728
Non Current Assets:								
161	140002	Land	1,416,742					1,416,742
162	140002	Building	12,750,674					12,750,674
164	147501	Furniture, Equipment and Machinery - Administration	480,893				31,570	512,462
165	140010	Leasehold Improvements	12,294,087					12,294,087
166	140005	Accumulated Depreciation	(15,923,311)				(18,936)	(15,942,247)
167	140009	Construction In Progress		1,757,833	5,799,550			7,557,383
		Total Fixed Assets	11,019,084	1,757,833	5,799,550	-	12,634	18,589,101
171	115800	Notes Receivable	1,100,000		3,762,442			4,862,442
180		Total Non Current Assets	12,119,084	1,757,833	9,561,992	-	12,634	23,451,543
190		Total Assets	\$ 12,719,816	\$ 1,761,680	\$ 9,997,486	\$ 22,701	\$ 1,217,589	\$ 25,719,271
Liabilities and Net Assets								
Liabilities:								
Current Liabilities:								
312	211100	Accounts Payable - Vendors and Contractors	\$	\$ 3,847	\$ 63,505	\$	\$	\$ 67,352
341	211400	Accounts Payable - Tenant Security Deposits	45,506					45,506
345	211903	Accounts Payable - Other	6,523					6,523
		Total Current Liabilities	52,029	3,847	63,505	-	-	119,381
Accrued Liabilities:								
322	213400	Accrued Compensated Absences	44,440				14,927	59,367
321	213500	Accrued Salaries	15,971				3,078	19,049
		Total Accrued Liabilities	60,412	-	-	-	18,005	78,416
353	218200	Trust Deposits					113,571	113,571
Deferred Credits:								
342	229000	Deferred Revenue				22,701		22,701
342	229000	Deferred Interest Receivable	344,372		371,988			716,360
		Total Deferred Credits	344,372	-	371,988	22,701	-	739,060
		Total Non Current Liabilities	404,783	-	371,988	22,701	131,576	931,048
300		Total Liabilities	456,812	3,847	435,494	22,701	131,576	1,050,429
Net Assets:								
508.1	280500	Investment in Fixed Assets	11,019,084	1,757,833	5,799,550	-	12,634	18,589,101
511.1	280000	Restricted Net Assets					845,017	845,017
512.1	280000	Unrestricted Net Assets	1,243,920		3,762,442		228,362	5,234,724
		Total Equity	12,263,004	1,757,833	9,561,992	-	1,086,013	24,668,842
		Total Liabilities and Equity	\$ 12,719,816	\$ 1,761,680	\$ 9,997,486	\$ 22,701	\$ 1,217,589	\$ 25,719,271

See accompanying notes to the financial statements

HOUSING AUTHORITY OF THE CITY OF MUNCIE, INDIANA
 FINANCIAL DATA SCHEDULE
 FOR THE YEAR ENDED MARCH 31, 2008

Line Item	Acct. #	Account Descriptions	Capital			Congregate	Section 8	Total Authority
			Low Rent 14,850	Fund 14,872	Hope VI 14,866	Housing 14,170	Rental Voucher 14,371	
Operating Revenues								
703	3110	Dwelling Rentals	\$ 347,662	\$	\$	\$	\$ 347,662	
704	3510	Miscellaneous Tenant Charges and Excess Utilities	49,915				49,915	
		Total Tenant Revenue	397,577	-	-	-	397,577	
706	8020	HUD Operating Grants	1,099,637	310,380	1,041,706	23,670	4,829,242	
706.1	8029	HUD Capital Grant		415,701	1,483,442		1,899,143	
711	3610	Interest on Investments	9,108				3,311	
714	3300.01	Family Self Sufficiency Fortunitures					14,061	
715	3690	Other Income	20,710				1,722	
700		Total Operating Revenues	1,527,031	726,081	2,525,148	23,670	4,848,336	
Operating Expenses								
911	4110	Administrative Salaries	290,497		332,794		195,192	
915	4510-	Employee Benefit Contribution	112,484		120,970		93,358	
912	4170	Accounting and Auditing	18,083				11,421	
916	4190	Other Operating - Administratives Expenses	96,832	281,380	587,942		35,106	
		Total Administrative Expenses	517,897	281,380	1,041,706	-	335,077	
924	4220	Recreation, Publications and Other Services	1,150			23,670		
		Total Tenant Services	1,150	-	-	23,670	-	
931	4310	Water	37,035					
932	4320	Electricity	88,444					
933	4330	Gas	100,398					
938	4390	Other Utilities Expenses	87,006					
		Total Utilities	312,882	-	-	-	-	
941	4410	Ordinary Maintenance and Operation - Labor	281,312					
945	4510	Employee Benefit Contribution - Ordinary Maintenance	109,487					
942	4420	Maintenance and Operations - Materials and Others	65,432					
943	4430	Ordinary Maintenance and Operations - Contracts Costs	96,128					
		Total Ordinary Maintenance and Materials	552,359	-	-	-	-	
961	4510	Insurance	124,381				1,888	
964	4570	Bad Debts - Collection Losses	15,982					
962	4590	Other General Expenses	22,719				8,853	
		Total General Expenses	163,082	-	-	-	10,741	
971	4610	Extraordinary Maintenance - Contract Costs	12,365					
973	4715	House Assistance Payments					3,800,033	
974	5800	Depreciation Expense	1,155,003				3,934	
		Total Other	1,167,367	-	-	-	3,803,967	
900		Total Operating Expenses	2,714,737	281,380	1,041,706	23,670	4,149,785	
		Transfers	29,000	(29,000)			-	
		Net Income	\$ (1,158,706)	\$ 415,701	\$ 1,483,442	\$ -	\$ 698,551	

See accompanying notes to the financial statements

HOUSING AUTHORITY OF THE CITY OF MUNCIE, INDIANA
 SCHEDULE OF FEDERAL EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED MARCH 31, 2008

EXHIBIT D

FEDERAL GRANTOR	ANNUAL CONTRIBUTION OR AWARD CONTRACT #	PROGRAM OR AWARD CFDA #	FEDERAL AWARDS EXPENDED	TOTAL PROGRAM EXPENDITURES
Major Programs - U S Department of Housing and Urban Development				
<u>Direct Program</u>				
<u>Low Rent Housing Program</u>				
Low Rent Housing Programs	C - 348	14.850	\$ 1,099,637	\$ 2,714,737
Revitalization of Severely Distressed Public Housing	C - 348	14.866	2,525,148	2,525,148
Capital Fund Program	C - 348	14.872	<u>726,081</u>	<u>726,081</u>
Total Low Rent Housing Programs			4,350,866	5,965,966
<u>Housing Assistance Payment Program</u>				
Section 8 - Housing Choice Voucher Program	C - 2025	14.871	<u>4,829,242</u>	<u>4,149,785</u>
Total Housing Assistance Program Payments			4,829,242	4,149,785
Total U S Department of Housing and Urban Development (Major Programs)			<u>9,180,108</u>	<u>10,115,751</u>
Non-Major Programs				
U S Department of Housing and Urban Development				
Congregate Housing Grant	C - 348	14.170	<u>23,670</u>	<u>23,670</u>
Total U.S. Department of Housing and Urban Development (Non-Major Programs)			23,670	23,670
Total All Programs - U S Department of Housing and Urban Development			<u>\$ 9,203,778</u>	<u>\$ 10,139,421</u>

Note 1 - Basis of Presentation

The Schedule of Expenditures of Federal Awards includes the federal grant activity of Housing Authority of the City of Muncie, Indiana and is presented on the accrual basis of accounting. The information in the schedule is presented in accordance with the requirement of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

See accompanying notes for the financial statements.

HOUSING AUTHORITY OF THE CITY OF MUNCIE, INDIANA
 STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED MARCH 31, 2008, (WITH COMPARATIVE TOTALS FOR 2007)

EXHIBIT E

	2008	2007
REVENUES		
HUD Program Grants	\$ 23,670	\$ 72,240
TOTAL REVENUES	<u>23,670</u>	<u>72,240</u>
EXPENSES		
Administrative	23,670	72,240
TOTAL EXPENSES	<u>23,670</u>	<u>72,240</u>
CHANGE IN NET ASSETS	0	0
NET ASSETS AT MARCH 31, 2007	0	0
NET ASSETS AT MARCH 31, 2008	<u>\$ 0</u>	<u>\$ 0</u>

See accompanying notes to the financial statements.

HOUSING AUTHORITY OF THE CITY OF MUNCIE, INDIANA
 STATEMENT OF ACTIVITIES
 BUDGET AND ACTUAL - CONGREGATE HOUSING
 FOR THE YEAR ENDED MARCH 31, 2008

EXHIBIT F

	BUDGET	ACTUAL	VARIANCE
REVENUES			
HUD Program Grants	\$ 23,670	\$ 23,670	\$ 0
TOTAL REVENUES	<u>23,670</u>	<u>23,670</u>	<u>0</u>
EXPENSES			
Administrative	<u>23,670</u>	<u>23,670</u>	<u>0</u>
TOTAL EXPENSES	<u>23,670</u>	<u>23,670</u>	<u>0</u>
CHANGE IN NET ASSETS	0	0	0
NET ASSETS AT APRIL 1, 2007	0	0	0
NET ASSETS AT MARCH 31, 2008	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

See accompanying notes to the financial statements.

**HOUSING AUTHORITY OF THE CITY OF MUNCIE, INDIANA
 STATEMENT OF REVITALIZATION OF SEVERELY DISTRESSED
 PUBLIC HOUSING PROGRAM COSTS - UNCOMPLETED
 FOR THE YEAR ENDED MARCH 31, 2008**

EXHIBIT G

ANNUAL CONTRIBUTION CONTRACT C - 348 PHASES IN36URD00L102
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501 01

1. The total amount of Development Costs (herein called the "Actual Development Cost") of the Revitalization of Severely Distressed Public Housing. Costs are shown below for Program Number IN36-URD00L102

Funds Approved	\$ 12,352,941
Funds Expended	<u>11,429,091</u>
Excess\(\Deficit) of Funds Approved	<u>\$ 923,850</u>
Funds Advanced	\$ 11,377,332
Funds Expended	<u>11,429,091</u>
Excess\(\Deficit) of Funds Advanced	<u>\$ (51,759)</u>

1. The Revitalization of Severely Distressed Public Housing Program Costs are shown above.
2. Cost additions for the audit period totaled \$2,525,148 for IN 36-URD00L102, and, accordingly, were audited by Velma Butler & Company, Ltd.

See accompanying notes for the financial statements.

HOUSING AUTHORITY OF THE CITY OF MUNCIE, INDIANA
 STATEMENT OF CAPITAL FUND PROGRAM COSTS - UNCOMPLETED
 FOR THE YEAR ENDED MARCH 31, 2008

EXHIBIT H

ANNUAL CONTRIBUTION CONTRACT C - 348
 PHASES IN36PO10 - 501-04 , 501-05, 501-06 AND 501-07

	501-04	501-05	501-06	501-07	Total
Funds Approved	\$ 869,839	\$ 856,277	\$ 845,423	\$ 568,680	\$ 3,140,219
Funds Expended	<u>862,770</u>	<u>683,378</u>	<u>704,194</u>	<u>46,795</u>	<u>2,297,136</u>
Excess\(\Deficit) of Funds Approved	<u>\$ 7,069</u>	<u>\$ 172,899</u>	<u>\$ 141,229</u>	<u>\$ 521,885</u>	<u>\$ 843,083</u>
Funds Advanced	\$ 862,770	\$ 683,378	\$ 704,194	\$ 46,795	\$ 2,297,136
Funds Expended	<u>862,770</u>	<u>683,378</u>	<u>704,194</u>	<u>46,795</u>	<u>2,297,136</u>
Excess\(\Deficit) of Funds Advanced	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

1. Capital Fund Program costs for Phases IN 36 - 501-04, IN 36 - 501-05 and IN 36-502-06 are shown above.
2. Cost additions for the audit period totaled \$76,289 for IN 36 - 501-04, \$148,411 for IN 36 - 501-05, \$452,053 for IN - 36 - 501-06 a \$ 49,328 for IN - 36 -501-07, and accordingly, were audited by Velma Butler & Company Ltd.

See accompanying notes for the financial statements.

SINGLE AUDIT REPORTS



**Report on Internal Controls Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements Performed
in Accordance with Government Auditing Standards**

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

U.S. Department of Housing and Urban Development
Indianapolis Office
Public Housing Division
151 North Delaware
Indianapolis, Indiana 46204-2526

We have audited the financial statements of the governmental activities and the business-type activities of the Housing Authority of the City of Muncie, Indiana (the Authority) as of and for the year ended March 31, 2008, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated September 10, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Authority's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the Authority's financial statements that is more than inconsequential will not be prevented or detected by the Authority's internal control.

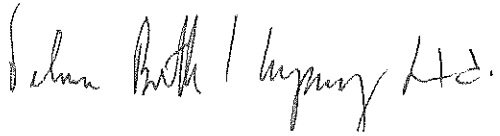
A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Authority's internal control.

Our consideration of internal control over financial reporting 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. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements, noncompliance with which could have 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 our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the audit committee, management, Board of Directors, 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.

A handwritten signature in cursive script that reads "Velma Butler / Company Ltd." The signature is written in dark ink and is positioned above the typed name of the company.

Velma Butler & Company, Ltd.
Chicago, Illinois

September 10, 2008



**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 Muncie, Indiana
Muncie, Indiana

U.S. Department of Housing and Urban Development
Indianapolis Office
Public Housing Division
151 North Delaware
Indianapolis, Indiana 46204-2526

Compliance

We have audited the compliance of the Housing Authority of the City of Muncie, Indiana (the Authority) 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 March 31, 2008. The Authority'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 the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

We conducted our 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 we 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 the Authority's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Authority's compliance with those requirements.

In our opinion, the Authority 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 March 31, 2008.

However, the results of our 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 items 2008-1 and 2008-2.

Internal Control Over Compliance

The management of the Authority 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 our audit, we considered the Authority's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal controls over compliance in accordance with OMB Circular A-133.

A *control deficiency* in the Authority'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 Authority'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 Authority's internal control.

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

Our consideration of the internal control over compliance was for the limited purpose described in the preceding paragraph and not necessarily identify all deficiencies in the Authority's internal control that might be significant deficiencies or material weaknesses as defined below.

This report is intended solely for the information and use of the audit committee, management, Board of Directors, 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.

A handwritten signature in cursive script that reads "Velma Butler & Company, Ltd." The signature is written in dark ink and is positioned above the typed name of the company.

Velma Butler & Company, Ltd.
Chicago, Illinois

September 10, 2008

SUMMARY OF AUDITORS' RESULTS

**HOUSING AUTHORITY OF THE CITY OF MUNCIE, INDIANA
SCHEDULE OF CURRENT YEAR FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED MARCH 31, 2008**

Section II – Financial Statement Findings

There were no reportable findings for the fiscal year ended March 31, 2008.

Section III – Federal Award Findings and Questioned Costs

Finding 2008-1 Deficiencies in Tenant File Documentation – Low Rent

During our test of tenant files, we noted that for the Low Rent Program the Housing Authority did not always maintain records to adequately document its compliance with the tenant eligibility requirements. Out of 20 tenant files tested, we noted the following:

- One file did not contain a signed application,
- Three files did not contain a current HUD Form 9886, and
- Three files did not contain a waiting list letter.

HUD procedures require the Authority to maintain complete and accurate tenant files; which consist of annual recertification applications, third party verification of reported annual income, signed residential lease agreements, support for tenant rent calculations, move-in forms, residents' birth certificates, registration for housing, documentation that the tenant was on a waiting list, social security cards and state identification forms amongst other things.

Recommendation

We recommend that the Housing Authority of the City of Muncie strengthen its record documentation procedures to include all the required forms.

Authority Response

The tenants selected for review had been tenant for 15 to 25 years. During that time we changed software and misplaced the original application and misplaced the original waiting lists from which the tenants were originally selected. Nevertheless, we will reinforce to our staff the importance of assuring that all tenant files contain the appropriate documentation.

Finding 2008-2 Deficiencies in Tenant File Documentation – Section 8

During our tests of tenant files per the Section 8 Program, we noted that the Housing Authority also did not always maintain records to adequately document its compliance with the tenant eligibility requirements. Out of 20 tenant files tested, we noted the following:

- One file did not contain a waiting list letter.

Again, HUD procedures require the Authority to maintain complete and accurate tenant files; which consist of annual recertification applications, third party verification of reported annual income, signed residential lease agreements, support for tenant rent calculations, move-in forms, residents' birth certificates, registration for housing, documentation that the tenant was on a waiting list, social security cards and state identification forms amongst other things.

**HOUSING AUTHORITY OF THE CITY OF MUNCIE, INDIANA
SCHEDULE OF CURRENT YEAR FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED MARCH 31, 2008 continued . . .**

Recommendation

We recommend that the Housing Authority of the City of Muncie strengthen its record documentation procedures to include all the required forms.

Authority Response

We will reinforce to our staff the importance of assuring that all tenant files contain the appropriate documentation.

**HOUSING AUTHORITY OF THE CITY OF MUNCIE, INDIANA
STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED MARCH 31, 2008**

Section IV – Summary of Prior Year Audit Findings

There were no reportable findings for the fiscal year ended March 31, 2007.

**HOUSING AUTHORITY OF THE CITY OF MUNCIE, INDIANA
STATEMENT OF COMPLIANCE WITH
SECTION 8 MANAGEMENT ASSESSMENT PROGRAM
FOR THE YEAR ENDED MARCH 31, 2008**

Velma Butler & Company, Ltd. audited the Authority's compliance with the Section 8 Housing Management Assessment Program and did not observe any material instances of noncompliance.

**HOUSING AUTHORITY OF THE CITY OF MUNCIE, INDIANA
STATEMENT OF COMPLIANCE WITH
PUBLIC HOUSING ASSESSMENT SYSTEM PROGRAM
FOR THE YEAR ENDED MARCH 31, 2008**

Velma Butler & Company, Ltd. audited the Authority's compliance with the Public Housing Assessment System Program and did not observe any material instances of noncompliance.