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April 30, 2013

Board of Directors  
Housing Authority of East Chicago  
4920 Larkspur Drive, P.O. Box 498  
East Chicago, IN 46312

We have reviewed the audit report prepared by Pamela J. Simpson, CPA, Independent Public Accountant, for the period January 1, 2007 to December 31, 2007. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountant's opinion, the financial statements included in the report present fairly the financial condition of the Housing Authority of East Chicago, as of December 31, 2007 and the results of its operations for the period then ended, on the basis of accounting described in the report.

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

STATE BOARD OF ACCOUNTS

**HOUSING AUTHORITY  
OF THE CITY OF EAST CHICAGO  
EAST CHICAGO, INDIANA**

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

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**TWELVE MONTHS ENDED  
DECEMBER 31, 2007**

**HOUSING AUTHORITY OF THE CITY OF EAST CHICAGO  
EAST CHICAGO, INDIANA**

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

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## Independent Auditor's Report

Board of Commissioners  
Housing Authority of the City of East Chicago  
East Chicago, Indiana

I have audited the accompanying financial statements of Housing Authority of the City of East Chicago, as of and for the year ended December 31, 2007, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. My responsibility is to express an opinion on these basic financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Housing Authority of the City of East Chicago, as of December 31, 2007 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 July 25, 2008, on my consideration of the Housing Authority of the City of East Chicago's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal controls over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.

The management's discussion and analysis and budgetary comparison information on pages 3 through 14, are not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements of the Housing Authority of the City of East Chicago, taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements of the Housing Authority of the City of East Chicago. The accompanying financial data schedule and other additional statements and schedules listed as supplemental data in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements of the Housing Authority of the City of East Chicago. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in my opinion, is fairly stated in all materials respects in relation to the financial statements taken as a whole.

Decatur, Illinois  
July 25, 2008

Certified Public Accountant

As management of the Housing Authority of the City of East Chicago (the Authority), we offer the 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, 2007. We encourage readers to consider the information presented here in conjunction with the Authority's financial statements.

Questions concerning any of the information provided in this report or requests for additional information should be addressed to Beatriz L. Martinez, Executive Director of the Housing Authority of the City of East Chicago, 4920 Larkspur Drive, P.O. Box 498, East Chicago, Indiana 46312, (219) 397-9974 ext. 35.

### **Overview of the Financial Statements**

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

- **Statement of Net Assets** (similar to a Balance Sheet) – reports the Authority's current financial resources (short term spendable resources) with capital assets and long-term debt obligations. The statement is presented in the format where "Assets" minus "Liabilities" equals "Net Assets", *formerly known as Equity*. Assets and liabilities are presented in order of liquidity and are classified as "Current" (convertible into cash within one year) and "Non-Current".
- **Statement of Revenues, Expenses, and Changes in Net Assets** (similar to an Income Statement) reports the Authority's operating and non-operating revenues, by major source along with operating and non-operating expenses and capital contributions. The focus of this financial statement is on the "Change in Net Assets" which is similar to Net Income or Loss.
- **Statement of Cash Flows** – reports the Authority's net cash flows from operating, investing, capital and non-capital activities.
- **Comparison of budget vs. actual** – reports the Authority's actual operating revenues and expenses versus the budgeted amounts.

The focus is now on major funds rather than fund types. The Authority consists of one (1) Proprietary type fund that encompasses all of the Authority's programs. This Proprietary type fund includes all assets and liabilities using the full accrual basis of accounting. Accrual accounting is similar to the accounting used by most private sector companies which recognizes revenues and expenses when earned regardless of when cash is received or paid. The fund maintained by the Authority is required by the Department of Housing and Urban Development (HUD) with segregated programs to enhance accountability and control.

The attached analysis of entity wide net assets, revenues, and expenses are provided to assist with determining whether the financial position of the Authority as a whole is improving or deteriorating as a result of the year's activities. One can think of the Authority's net assets as the difference between what the Authority *owns* (assets) to what the Authority *owes* (liabilities). To fully assess the financial health of any Authority the reader must also consider other non-financial factors such as changes in family composition, fluctuations in the local economy, HUD mandated program administrative changes, and the physical condition of the Authority's capital assets.

The following is a brief description of the major business-type activities the Authority provides:

***Low Income Public Housing (LIPH)***

The Low Income Public Housing Program is operated under an Annual Contributions Contract (ACC) with HUD that allows the Authority to rent units it owns to low-income households at a rent that is based upon 30% of household income. The Housing Authority owns 808 units at 6 sites grouped into 4 Asset Management Projects (AMP) throughout the city of East Chicago, IN. The James Hunter site (AMP001) has 109 elderly units, John B. Nicosia site (AMP002) has 207 elderly units, West Calumet site (AMP003) has 346 family units, Harbor Scattered Sites (AMP004) has 104 family units, Columbus Drive site (AMP004) has 17 family units, and New Harbor Scattered Sites (AMP004) has 25 family units. The Authority is responsible for the management and maintenance of all units and sites. On an annual basis, the Authority submits a request for funding known as the Operating Fund Calculation of Operating Subsidy. The basic concept of the Calculation of Operating Subsidy is that the Authority has formula expenses consisting of a Project Expense Level, Utilities Expense Level, and Add-ons. HUD will fund these formula expenses based upon occupied and only HUD approved vacant units less formula income.

***Section 8 Housing Choice Voucher (Section 8 Vouchers)***

HUD has contracted with the Housing Authority through an Annual Contributions Contract (ACC) to provide funding for 636 Housing Choice Vouchers. The Authority pays Housing Assistance Payments to independent landlords for a lease that sets the low income participant's rent at 30% of adjusted income. The Housing Assistance Payment matches the difference between the total rent the Landlord can charge, at or below a fair market rent amount supplied by HUD, and the amount the tenant can pay. HUD pays the Authority a formula based administrative fee for all vouchers the Authority administers. The Authority is not responsible for the upkeep and maintenance of the units and properties associated with this program.

***Lower Income Housing Assistance Program (Section 8 Moderate Rehabilitation Program)***

HUD has contracted with the Housing Authority through an Annual Contributions Contract (ACC) to provide funding for 59 Moderate Rehabilitation (Mod Rehab) units. The program was repealed in 1991 and no new projects were authorized for development. This program provides project-based rental assistance for low income families limited to properties previously rehabilitated. The Authority currently has 59 units under contract with Harbor Realty Group and pays Housing Assistance Payments (HAP) for a lease that sets the participant's rent at 30% of household adjusted income. The Housing Assistance Payment matches the difference between the total rent the Landlord can charge, at or below a fair market rent amount supplied by HUD, and the amount the tenant can pay. For each unit the Authority administers, HUD pays the Authority an administrative fee. When vacancies occur in Mod Rehab units, the Authority refers eligible families from its waiting list to Harbor Realty Group who then selects and screens families for occupancy. The Authority is not responsible for the upkeep and maintenance of the units and property associated with this program.

***Capital Fund Program (CFP)***

This grant program is awarded by HUD on an annual basis and is the primary funding source for physical and management improvements to the Authority's properties. The Authority requisitions funds from HUD as the Authority expends funds. The Authority has four years to fully expend an annual award.

### **Economic Factors**

Significant economic factors affecting the Authority are as follows:

1. The Authority began plans in 2003 to implement an Assisted Living program to renovate 100 of the 207 units at the John B. Nicosia (29-5) elderly high rise to create a service rich environment by providing additional residential care services. The Indiana State Department of Health approved the construction plans to secure a Residential Care State License requiring construction to commence prior to 2008, however, due to lack of funding, the Authority will have to reapply for it's license.
2. Since the discontinuance of the HUD Public Housing Drug Elimination Program (PHDEP) Grant in 2002, the Authority has kept the program going in 2007 by partnering with Tri-City Mental Health to administer and fund the program through the use of grants administered by Tri-City Mental Health.
3. Even though the Agency was a "gainer" due to the new operating subsidy calculations put into effect in 2007, overall federal funding for the Department of Housing and Urban Development (HUD) was cut again by Congress for 2007 appropriations and as a result, the Authority was funded at 83.4% (a decrease of 5.6% from 2006) for public housing operating subsidies after elimination of subsidy for market conditions which represented a loss of revenues of \$629,415. HUD's allowable inflation factor was 2.4% for operating subsidy expenses while the average actual inflation factor was 3% to 27% for utilities and insurances. Even though funding could afford a higher lease up in the Sec 8 Voucher Choice Program, the Authority was only leased up 78% by the end of the year due to uncertainty of whether HAP funding would be recaptured.
4. The Authority sponsored a summer program to provide job experiences for youth from junior high to college students residing in Public Housing. Funding in the amount of \$33,447 was approved of which \$31,667 or 95% was actually spent.
5. Due to the economy continuing to be in a recessionary trend since 2002, local labor supply and demand, which affects salary and wage rates, has continued to cause unemployment to rise. Local inflationary, recessionary and employment trends also affected resident incomes. The Authority was however, able to provide raises after four years of a salary freeze to a reduced workforce.
6. Accounts receivable balances have been an ongoing problem for the Authority. Consequently, the Authority implemented more aggressive earned income verifications, rent collections and eviction procedures resulting in a decrease of \$3,194 or 4% for receivables from the beginning of the year.

**Condensed Comparative Entity-Wide Financial Statements**

The following table reflects the condensed Statement of Net Assets compared to the prior year for Business-Type Activities.

**TABLE 1**

**STATEMENT OF NET ASSETS**

	2007	2006	Net Change	Percent Variance
Cash	3,005,720	2,091,336	914,384	43.7%
Other Current Assets	450,166	461,476	-11,310	-2.5%
Capital Assets	5,443,784	6,275,861	-832,077	-13.3%
Non Current Assets	0	0	0	0.0%
<b>Total Assets</b>	<b>8,899,670</b>	<b>8,828,673</b>	<b>70,997</b>	<b>0.8%</b>
Current Liabilities	502,328	491,091	11,237	2.3%
Long Term Liabilities	53,140	45,230	7,910	17.5%
<b>Total Liabilities</b>	<b>555,468</b>	<b>536,321</b>	<b>19,147</b>	<b>3.6%</b>
Retained Earnings - Unrestricted	0	0	0	0.0%
Retained Earnings - Restricted	0	0	0	0.0%
Contributed Capital	0	0	0	0.0%
Net Invested in Capital Assets	5,443,784	6,275,861	-832,077	-13.3%
Restricted Net Assets	1,034,385	0	1,034,385	100.0%
Unrestricted Net Assets	1,866,033	2,016,874	-150,841	-7.5%
<b>Total Net Assets</b>	<b>8,344,202</b>	<b>8,292,735</b>	<b>51,467</b>	<b>0.6%</b>

***Major Factors Affecting  
The Statement of Net Assets***

**Cash** increased by \$914,384 primarily due to restricted cash of \$1,034,385 for accumulated HAP reserves and an increase in **total liabilities** of \$19,147.

**Capital assets** also changed significantly, decreasing from \$6,275,861 to \$5,443,784. This \$832,077 decrease is attributed primarily to a combination of acquisitions in the amount of \$419,023 less current year depreciation of (\$1,251,100). For more detail, see the analysis of capital assets activity in table 5.

**Restricted Net Assets** increased \$1,034,385 or 100% due to the reclassification of HAP reserves from the Unrestricted Net Assets due to under leasing of vouchers.

**Unrestricted Net Assets** decreased by \$150,841 primarily due to a \$419,023 decrease for capital expenditures, a \$1,251,100 increase due to depreciation expense and a net decrease of \$1,034,385 due to the reclassification of the Voucher Program HAP reserves to Restricted Net Assets.

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MANAGEMENT DISCUSSION AND ANALYSIS  
FISCAL YEAR ENDING DECEMBER 31, 2007

Table 2 below presents details on the change in **Unrestricted Net Assets**.

**TABLE 2**  
***CHANGE OF UNRESTRICTED NET ASSETS***

Unrestricted Net Assets 12/31/06		\$ 2,016,491
Prior Period Adjustment		<u>383</u>
Unrestricted Net Assets 12/31/06 (as restated)		2,016,874
Results of Operatons	51,467	
Adjustments:		
HAP Reserves to restricted cash	(1,034,385)	
Depreciation (1)	<u>1,251,100</u>	
Adjusted Results of Operations		268,182
Capital Expenditures		<u>(419,023)</u>
Unrestricted Net Assets 12/31/07		<u><b>\$ 1,866,033</b></u>

(1) Depreciation is treated as an expense and reduces the results of operations but does not have an impact on Unrestricted Net Assets.

While the result of operations is a significant measure of the Authority's activities, the analysis of the changes in Unrestricted Net Assets provides a clearer change in financial well-being.

HOUSING AUTHORITY OF THE CITY OF EAST CHICAGO  
MANAGEMENT DISCUSSION AND ANALYSIS  
FISCAL YEAR ENDING DECEMBER 31, 2007

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The following table compares the revenues and expenses for the current and previous fiscal year for Business-type activities.

**TABLE 3**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**

	2007	2006	Net Change	Percentage Change
<b><u>Revenues</u></b>				
Total Tenant Revenue	1,469,705	1,454,580	15,125	1%
HUD Operating Grants	7,393,489	6,918,038	475,451	7%
Capital Grants	326,353	531,083	-204,730	-39%
Other Government Grants	108	30,392	-30,284	-100%
Investment Income	13,198	32,737	-19,539	-60%
Fraud Recovery	57,252	24,202	33,050	137%
Other Revenue	76,022	63,745	12,277	19%
Gain/loss on Sale of Fixed Assets	-2,748	0	-2,748	-100%
<b>Total Revenue</b>	<b><u>9,333,379</u></b>	<b><u>9,054,777</u></b>	<b><u>281,350</u></b>	<b><u>3%</u></b>
<b><u>Expenses</u></b>				
Administrative	1,878,441	1,803,929	74,512	4%
Tenant Services	277,127	256,941	20,186	8%
Utilities	717,314	632,854	84,460	13%
Maintenance	1,598,475	1,256,558	341,917	27%
Protective Service	234,758	196,240	38,518	20%
General Expense	394,854	411,417	-16,563	-4%
Extraordinary Maintenance	0	35,695	-35,695	100%
Casualty Losses	0	-100	100	-100%
Housing Assistance Payments	2,929,843	3,207,985	-278,142	-9%
Depreciation Expense	1,251,100	1,386,241	-135,141	-10%
<b>Total Expenses</b>	<b><u>9,281,912</u></b>	<b><u>9,187,760</u></b>	<b><u>94,152</u></b>	<b><u>1%</u></b>
<b>Net Income (Loss)</b>	<b><u>51,467</u></b>	<b><u>-132,983</u></b>	<b><u>187,198</u></b>	<b><u>141%</u></b>

***Major Factors Affecting  
The Statement of Revenue, Expenses, and Changes in Net Assets***

**Total revenue** increased 3% overall. **HUD Operating Grants** revenue increased by 7% due to increase in Public Housing operating draws from the Capital Funds. **Capital Grants** revenue decrease of 39% was due to the Authority under-taking a less aggressive modernization program in the current fiscal year. **Other Government Grants** decreased 100% due to non renewal of FSS program Ross Grant. **Investment Income** decreased 60% due to the economic recessionary impact on interest rates. **Fraud Recovery** increased 137% due to the earned income verification. **Other Revenue** increased by 19% due to increase in insurance premium dividends. **Gain/Loss on Sale of Fixed Assets** increased 100% due to sale of vehicle below book value.

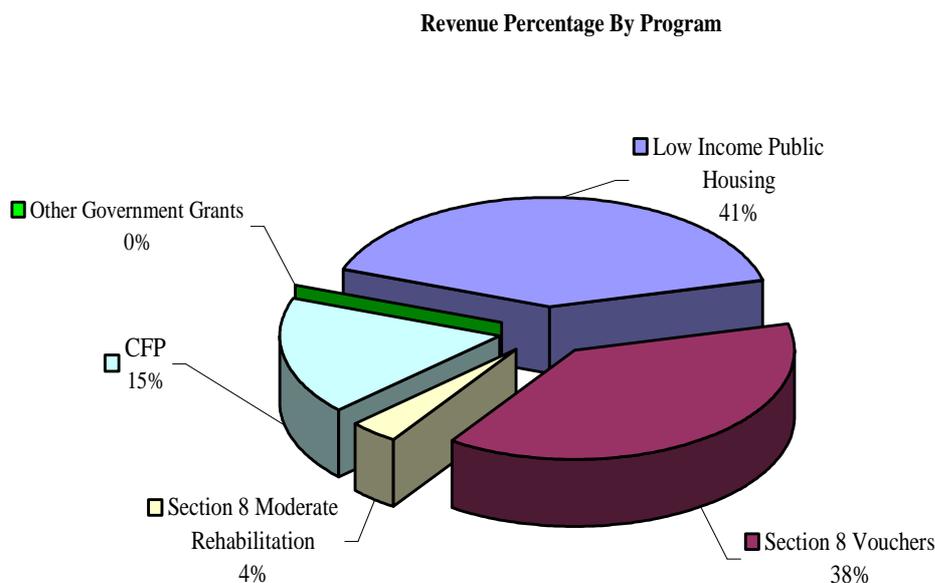
HOUSING AUTHORITY OF THE CITY OF EAST CHICAGO  
 MANAGEMENT DISCUSSION AND ANALYSIS  
 FISCAL YEAR ENDING DECEMBER 31, 2007

Overall, **total expenses**, excluding depreciation, increased approximately 3%. **Tenant Services** increased by 8% due to increase in summer program employees and activities. **Utilities** increased 13% due to rate increases and an increase in water consumption for Nicosia Senior Building due to pump and meter repairs. **Maintenance** increased 27% due to overall increase in maintenance contracts for vacancy reduction. **Protective Service** increased 20% due to increase in security for West Calumet Recreation Center. **Housing Assistance Payments** decreased 9% due to 78% occupancy in 2007 versus 81% in 2006. **Extraordinary Maintenance** decreased 100% due to no unexpected non routine maintenance. **Depreciation Expense** decreased 10% due to several assets becoming fully depreciated in prior year.

The Authority administers the following programs and the revenues generated from these programs during Fiscal Year Ending 2007 were as follows:

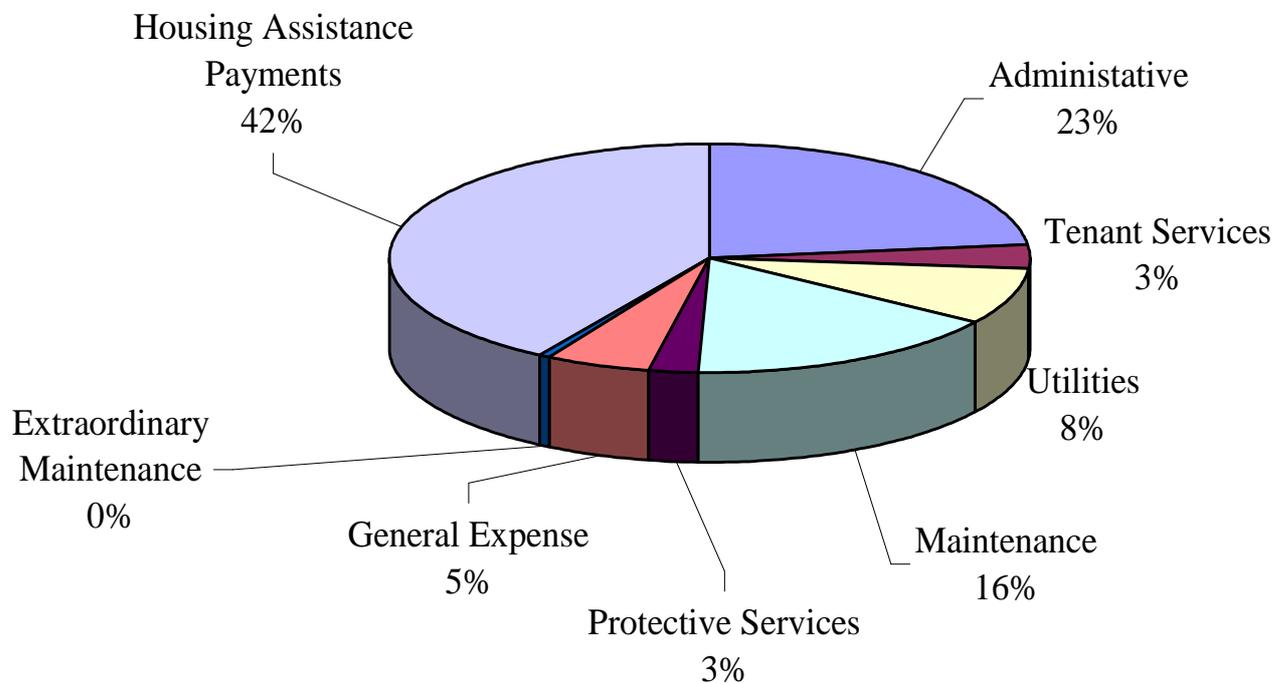
<u>Program</u>	<u>Revenues Generated</u>
Low Income Public Housing	\$3,776,547
Section 8 Vouchers	\$3,575,776
Section 8 Moderate Rehabilitation	\$350,691
Capital Fund Grant Program	\$1,625,847
Other Government Grants	\$4,518

The diagram below illustrates the percentage of revenues generated by these programs for Fiscal Year Ending December 31, 2007:



The diagram below illustrates the percentage of Authority expenditures by categories excluding Depreciation Expense for Fiscal Year Ending December 31, 2007:

### Expenses by Category



### Budgetary Analysis

The Authority adopts a consolidated annual operating budget for all programs. The budgets for Low Income Public housing and the Section 8 Programs are adopted on the basis of accounting prescribed by HUD which differs in some respects from generally accepted accounting principles.

The Authority prepares a budget for each fiscal year of the Capital Fund Grant Program that is approved by HUD. The Authority is permitted two years to obligate and four years to expend these funds. Income is only recognized as funds are expended. For the purpose of this analysis, the amount budgeted is equal to the actual expense.

HOUSING AUTHORITY OF THE CITY OF EAST CHICAGO  
MANAGEMENT DISCUSSION AND ANALYSIS  
FISCAL YEAR ENDING DECEMBER 31, 2007

The highlights below compare the variances between the original and final budgets as well as between the final budget and the actual amounts.

**Table 4**

***Housing Authority Budgetary Highlights***

	<b>Percent Variance</b>	<b>Budget Variance</b>	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Actual Variance</b>	<b>Percent Variance</b>
Tenant Revenue	0%	0	1,301,490	1,301,490	1,469,705	168,215	11%
HUD Operating Grants	0%	0	7,646,751	7,646,751	7,393,489	-253,262	-3%
HUD Capital Grants	0%	0	326,353	326,353	326,353	0	0%
Other Government Grants	0%	0	0	0	108	108	100%
Investment Income-Unrestricted	0%	0	7,180	7,180	9,085	1,905	21%
Investment Income-Restricted	0%	0	0	0	4,113	4,113	100%
Fraud Recovery	0%	0	0	0	57,252	57,252	100%
Other Revenue	0%	0	30,060	30,060	76,022	45,962	61%
Gain/Loss on Sale of Asset	0%	0	0	0	-2,748	-2,748	0%
<b>Total Revenue</b>	<b>0%</b>	<b>0</b>	<b>9,311,834</b>	<b>9,311,834</b>	<b>9,333,379</b>	<b>21,545</b>	<b>0%</b>
Administrative	0%	0	1,915,969	1,915,969	1,878,441	-37,528	-2%
Tenant Services	0%	0	282,498	282,498	277,127	-5,371	-2%
Utilities	0%	0	774,920	774,920	717,314	-57,606	-8%
Maintenance	0%	0	1,710,913	1,710,913	1,598,475	-112,438	-7%
Protective Services	0%	0	220,583	220,583	234,758	14,175	6%
General Expense	0%	0	385,110	385,110	394,854	9,744	3%
Extraordinary Maintenance	0%	0	0	0	0	0	0%
Casualty Losses	0%	0	0	0	0	0	0%
Housing Assistance Payments	0%	0	3,582,901	3,582,901	2,929,843	-653,058	-22%
Depreciation Expenses	0%	0	1,660,454	1,660,454	1,251,100	-409,354	-33%
<b>Total Expenses</b>	<b>0%</b>	<b>0</b>	<b>10,533,348</b>	<b>10,533,348</b>	<b>9,281,912</b>	<b>-1,251,436</b>	<b>-14%</b>
Net Income/(Loss)	0	0	-1,221,514	-1,221,514	51,467	1,272,981	104%

HOUSING AUTHORITY OF THE CITY OF EAST CHICAGO  
MANAGEMENT DISCUSSION AND ANALYSIS  
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### **Results of Operations**

Management prepared an entity wide budget that originally anticipated results of operation after depreciation of \$1,660,454 as a net loss of \$1,221,514 while actual results of operation after depreciation of \$1,251,100 was a net income of \$51,467 resulting in a favorable variance of \$1,272,981 or 104%. The major contributing factor was due to overall actual expenses being less than originally budgeted by \$1,251,436 or 14% which included favorable variances for Depreciation expense at \$409,354, Administrative expenses at \$37,528, Utilities at \$57,606, Maintenance at \$112,438, and HAP expenses at \$653,058.

**Tenant Rental Revenues** was over budget by \$168,215 or 11%. The original budget reflected lower occupancy levels anticipated due to high vacancies in West Calumet's family units and Nicosia and Hunter senior buildings due to a declining market of the elderly in the senior buildings and a higher number of evictions relating to drugs, poor housekeeping and non payment of rents for the family units. The actual reflected tenants paying higher rents than anticipated.

**HUD Operating Grants** were under budget overall by \$253,262 or 3%. PHA actual operating subsidy funding in the amount of \$2,223,940 was \$159,354 or 7% less than originally anticipated due to Congress's budget cuts resulting in 83.4% funding. Funding for the Section 8 Moderate Rehabilitation Program in the amount of \$349,686 was \$46,934 or 12% less than originally anticipated and funding for the Voucher Program in the amount of \$3,149,082 was \$58,915 or 2% less than originally anticipated due to actual occupancy of 78% being less than anticipated.

**Investment Income-Unrestricted** was over budget by \$1,905 or 21% due to interest on the Section 8 Voucher operating reserves not originally budgeted for. **Investment Income-Restricted** was over budget by \$4,113 or 100% due to interest income on the general fund due to HUD for HAP reserves.

**Fraud Recovery** was over budget by \$57,252 or 100% due to the Authority earning additional income from Section 8 fraud recoveries not originally budgeted for.

**Other Revenue** was over budget by \$45,962 or 61% due to \$21,074 variance for non-dwelling rental for additional cell phone tower rental and \$24,888 dividend return on premium for housing insurance property coverage not originally budgeted.

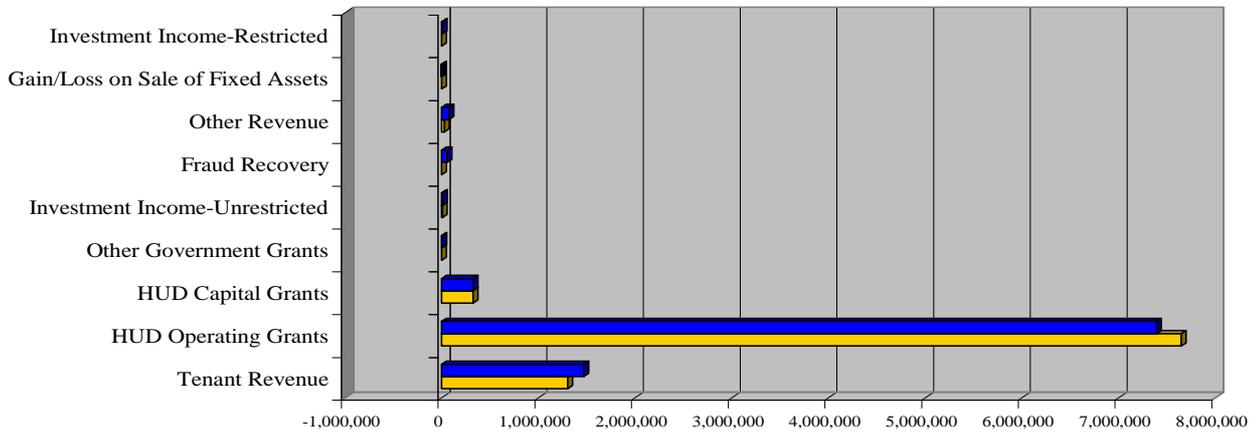
**Utilities** were under budget by \$57,606 or 8% due to actual cost of gas being less than anticipated by \$134,553 or 29% due to a mild winter, actual cost of water greater than anticipated by \$24,535 due to rate increases and an increase in water consumption for Nicosia Senior Building due to pump and meter repairs, and actual cost of electricity greater than anticipated by \$52,412 due to a hot summer and rate increase.

**Maintenance** was under budget by \$112,438 or 7% due to a \$30,222 decrease in salaries and a \$97,452 decrease in employees benefits due to decrease in maintenance staff. The decrease in salaries compared to benefits was offset by the increase in overtime due to shortage of maintenance staff and end of year hiring.

The diagrams on the next page illustrate the Authority's Budget compared to Actual for Revenue and Expense for Fiscal Year Ending December 31, 2007:

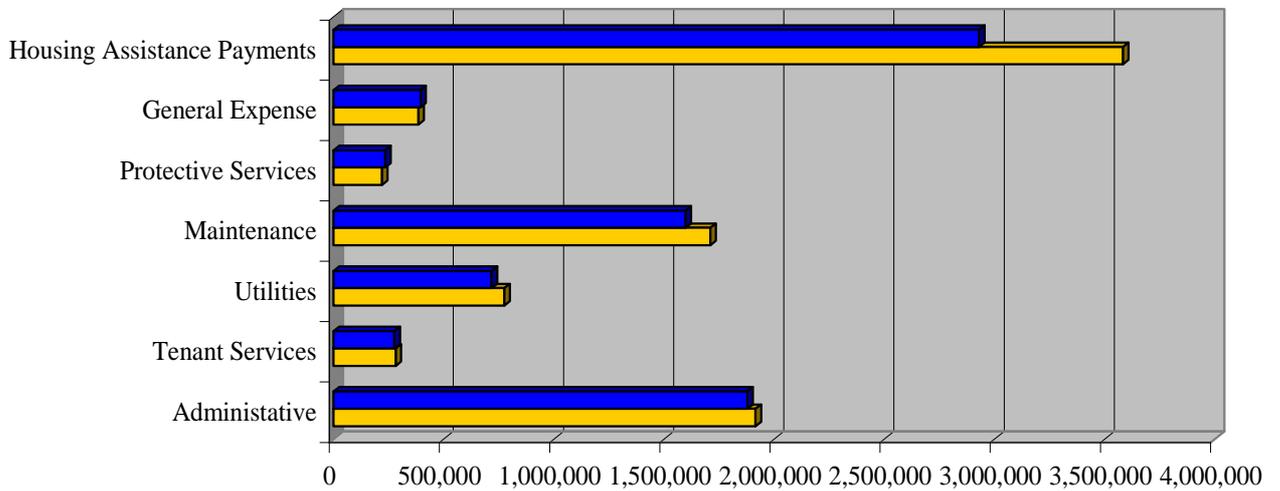
HOUSING AUTHORITY OF THE CITY OF EAST CHICAGO  
 MANAGEMENT DISCUSSION AND ANALYSIS  
 FISCAL YEAR ENDING DECEMBER 31, 2007

**Revenues - Budget Vs. Actual**



	Tenant Revenue	HUD Operating Grants	HUD Capital Grants	Other Government Grants	Investment Income-Unrestricted	Fraud Recovery	Other Revenue	Gain/Loss on Sale of Fixed Assets	Investment Income-Restricted
Actual	1,469,705	7,393,489	326,353	108	9,085	57,252	76,022	-2,748	4,113
Budget	1,301,490	7,646,751	326,353	0	7,180	0	30,060	0	0

**Expenses - Budget Vs. Actual**



	Administrative	Tenant Services	Utilities	Maintenance	Protective Services	General Expense	Housing Assistance Payments
Actual	1,878,441	277,127	717,314	1,598,475	234,758	394,854	2,929,843
Budget	1,915,969	282,498	774,920	1,710,913	220,583	385,110	3,582,901

HOUSING AUTHORITY OF THE CITY OF EAST CHICAGO  
MANAGEMENT DISCUSSION AND ANALYSIS  
FISCAL YEAR ENDING DECEMBER 31, 2007

As of year end, the Authority had \$5,443,784 invested in a variety of capital assets as reflected in the following table which represents a net decrease (additions, deductions, and depreciation) of \$832,077 or 13% from the end of the previous fiscal year.

**Table 5**  
**ANALYSIS OF CAPITAL ASSET ACTIVITY**

	2007	2006	Net Change	Percent Variance
Land	974,719	974,719	0	0.0%
Buildings	39,191,433	38,500,805	690,628	1.8%
Furniture, Equipment, & Machinery	1,130,362	1,096,111	34,251	3.1%
Site Improvements	1,383,294	1,327,330	55,964	4.2%
<b>Total Fixed Assets</b>	<b>42,679,808</b>	<b>41,898,965</b>	<b>780,843</b>	<b>1.9%</b>
Accumulated Depreciation	-37,237,829	-36,102,636	1,135,193	3.1%
Construction in Progress	1,805	479,532	-477,727	-99.6%
<b>Net Fixed Assets</b>	<b>5,443,784</b>	<b>6,275,861</b>	<b>-832,077</b>	<b>-13.3%</b>

**Furniture, Equipment, & Machinery** increased by 34,251 or 3.1%. The following is a list of the assets purchased and/or traded/sold during the fiscal year ending December 31, 2007:

Vehicles (5) - Sec 8	69,765
Vehicles Traded/Sold (5) - Sec 8	-59,644
Vehicles (5) - 29-6	78,322
Vehicles Traded/Sold (6) - 29-6	-60,211
File Cabinet-MOFFC - 29-6	502
Air Conditioners (2) - 29-6	1,242
Security Booth DVR - 29-6	3,432
Rodding Machine w/access - 29-6	843

**Site Improvements** increased by \$55,964 or 4.2%. The following is a list of the assets purchased during the fiscal year ending December 31, 2007:

Fence Replacement- 29-6	32,415
Tree Removal 29-6	14,500
Retractable Fence - 29-6	14,049

**Accumulated Depreciation** increased by \$1,135,193 or 3.1% due to the increase of the current year depreciation expense of \$1,251,100 and the decrease of \$115,907 due to vehicle dispositions.

**Construction in Progress** decreased by \$477,727 or 99.6%. This decrease represents the various modernization activities from the Capital Funds program completed on various sites of the Authority. As individual capital fund grants are completely expended and closed out, modernization costs are then transferred to the fixed asset accounts.

**HOUSING AUTHORITY OF THE CITY OF EAST CHICAGO  
EAST CHICAGO, INDIANA**

**STATEMENT OF NET ASSETS - PROPRIETARY FUNDS  
AS OF DECEMBER 31, 2007**

**ASSETS**

**Current Assets**

Cash and cash equivalents	\$ 1,947,359
Accounts receivable (interfund eliminated)	130,091
Inventory - net of allowance	179,991
Deferred charges	<u>140,084</u>

Total Current Assets \$ 2,397,525

**Capital Assets**

Land, buildings and equipment	\$ 42,681,613
Less: Accumulated depreciation	<u>-37,237,829</u>

Net Capital Assets \$ 5,443,784

**Other Restricted**

Cash	<u>\$ 1,058,361</u>
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TOTAL ASSETS \$ 8,899,670

**LIABILITIES**

**Current Liabilities**

Accounts payable (interfund eliminated)	\$ 263,189
Accrued liabilities	113,191
Tenant security deposits	113,155
Deferred credits	1,699
Other payables	<u>11,094</u>

Total Current Liabilities \$ 502,328

**Noncurrent Liabilities**

Accrued compensated absences	\$ 29,163
FSS escrow	<u>23,977</u>

Total Noncurrent Liabilities \$ 53,140

TOTAL LIABILITIES \$ 555,468

**NET ASSETS**

Unrestricted net assets	\$ 1,866,033
Restricted	1,034,385
Invested in capital assets	<u>5,443,784</u>

TOTAL NET ASSETS \$ 8,344,202

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

**HOUSING AUTHORITY OF THE CITY OF EAST CHICAGO  
EAST CHICAGO, INDIANA**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS -  
PROPRIETARY FUNDS  
TWELVE MONTHS ENDED DECEMBER 31, 2007**

**Operating Income**

**Tenant Income**

Tenant rental revenue	\$ 1,380,649
Tenant revenue - other	<u>89,056</u>
 Total Tenant and Other Rental Income	 \$ <u>1,469,705</u>

**Non-Tenant Income**

HUD grants - operating	\$ 7,393,489
Other government grants	108
Fraud recovery	57,252
Other revenue	76,022
Gain/loss on sale of fixed assets	<u>-2,748</u>
 Total Non-Tenant Income	 \$ <u>7,524,123</u>

Total Operating Income \$ 8,993,828

**Operating Expenses**

Administration	\$ 1,878,441
Tenant services	277,127
Utilities	717,314
Ordinary maintenance and operation	1,598,475
General expense	394,854
Protective services	234,758
Housing assistance payments	2,929,843
Depreciation	<u>1,251,100</u>

Total Operating Expenses \$ 9,281,912

Net Operating Income (Loss) \$ -288,084

**Nonoperating Income (Expenses)**

HUD grants - capital	\$ 326,353
Interest income	<u>13,198</u>

Total Nonoperating Income (Expenses) \$ 339,551

Changes in net assets \$ 51,467

Net assets, beginning of year 8,292,352

Prior year adjustments 383

Net Assets, end of year \$ 8,344,202

**HOUSING AUTHORITY OF THE CITY OF EAST CHICAGO  
EAST CHICAGO, INDIANA**

**COMBINED STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS  
TWELVE MONTHS ENDED DECEMBER 31, 2007**

**Operating Activities**

Operating subsidy	\$ 7,573,913
Other operating grants	108
Tenant revenue	1,454,679
Other revenues	133,274
Housing assistance payments	-2,929,843
Payments to employees	-1,906,456
Payments to suppliers and contractors	<u>-3,331,819</u>

Net Cash Provided (Used) by Operating Activities	<u>\$ 993,856</u>
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**Investing Activities**

Interest income	<u>\$ 13,198</u>
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Net Cash Provided (Used) by Investing Activities	<u>\$ 13,198</u>
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**Capital and Related Financing Activities**

HUD grants - capital	\$ 326,353
(Additions) deletions to capital assets	<u>-419,023</u>

Net Cash Provided (Used) by Capital and Related Financing Activities	<u>\$ -92,670</u>
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Net Change in Cash	\$ 914,384
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Cash Balance at December 31, 2006	<u>2,091,336</u>
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Cash Balance at December 31, 2007	<u>\$ 3,005,720</u>
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**HOUSING AUTHORITY OF THE CITY OF EAST CHICAGO  
EAST CHICAGO, INDIANA**

**COMBINED STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS  
TWELVE MONTHS ENDED DECEMBER 31, 2007**

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

Net operating income (loss)	\$ -288,084
Adjustment to Reconcile Operating Income (Loss) to Net Cash Flows from Operating Activities:	
Depreciation	1,251,100
Adjustment to net assets	383
(Increase) decrease in accounts receivable	112,563
(Increase) decrease in deferred charges	-87
(Increase) decrease in inventories	-36,191
Increase (decrease) in accounts payable	27,980
Increase (decrease) in accrued liabilities	-81,501
Increase (decrease) in deferred revenues	-416
Increase (decrease) in other liabilities	<u>8,109</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 993,856</u>

**HOUSING AUTHORITY OF THE CITY OF EAST CHICAGO  
EAST CHICAGO, INDIANA**

**NOTES TO FINANCIAL STATEMENTS  
TWELVE MONTHS ENDED DECEMBER 31, 2007**

**Note 1 - Summary of Significant Accounting Policies**

(a) Organization and Reporting Entity -

The Housing Authority was established January 25, 1965 by the City of East Chicago pursuant to the laws of the State of Indiana, as a municipal corporation (IC36-7-18-14), 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 East Chicago and concluded that the City does not maintain an oversight responsibility for the Authority's operations. An independent Board of Commissioners, appointed by the City, is responsible for the activities of the Authority. The Authority recruits and employs its executive staff and has substantial legal authority to control its affairs without requiring approval of the City government. Debt incurred by the Authority is not an obligation of the City; the City does not review or approve the Authority's budget, is not entitled to any surplus funds generated by the Authority's operations and is not responsible for any deficits incurred by the Authority. Consequently, in accordance with evaluating the criteria set forth in Section 2100 and 2600 of the Governmental Accounting Standards Board Codification, management has concluded that the Housing Authority of the City of East Chicago 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 OF THE CITY OF EAST CHICAGO  
EAST CHICAGO, INDIANA**

**NOTES TO FINANCIAL STATEMENTS  
TWELVE MONTHS ENDED DECEMBER 31, 2007  
(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
- \* Section 8 Moderate Rehabilitation
- \* Capital Fund Program
- \* State and Local
- \* ROSS

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 assets are those with a maturity of less than one month at date of purchase.

(e) Accounts Receivable -

The tenants accounts receivable discloses the gross amount due from the tenants at December 31, 2007, 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.

(f) Inventories and Materials -

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

**HOUSING AUTHORITY OF THE CITY OF EAST CHICAGO  
EAST CHICAGO, INDIANA**

**NOTES TO FINANCIAL STATEMENTS  
TWELVE MONTHS ENDED DECEMBER 31, 2007  
(CONTINUED)**

**Note 1 - Summary of Significant Accounting Policies**

(g) Investments -

Investments are stated at cost which approximates market.

(h) 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 five hundred dollars (\$500) 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	27-1/2 years
Equipment	5 years
Transportation equipment	5 years
Furniture and fixtures	5 years
Leasehold improvements	10 years

A "half-year" convention will be utilized whereby one-half year of depreciation is recorded in the year of acquisition and the year of disposition.

(I) Income Tax -

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

**HOUSING AUTHORITY OF THE CITY OF EAST CHICAGO  
EAST CHICAGO, INDIANA**

**NOTES TO FINANCIAL STATEMENTS  
TWELVE MONTHS ENDED DECEMBER 31, 2007  
(CONTINUED)**

**Note 1 - Summary of Significant Accounting Policies**

(j) 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.

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

(l) 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.

**HOUSING AUTHORITY OF THE CITY OF EAST CHICAGO  
EAST CHICAGO, INDIANA**

**NOTES TO FINANCIAL STATEMENTS  
TWELVE MONTHS ENDED DECEMBER 31, 2007  
(CONTINUED)**

**Note 2 - Cash and Investments (Continued)**

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

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

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

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

The cash deposits held at financial institutions can be categorized according to three levels of risk. These three levels of risk are as follows:

Category 1 - Deposits which are insured or collateralized with securities held by the Housing Authority or by its agent in the Housing Authority's name.

Category 2 - Deposits which are collateralized with securities held by the pledging financial institution's trust department or agent in the Housing Authority's name.

Category 3 - Deposits which are not collateralized or insured.

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

<u>Program</u>	<u>Book Balance</u>	<u>Bank Balance</u>
Low Rent	\$ 1,572,788	\$ 1,674,544
Voucher	<u>1,432,932</u>	<u>1,457,996</u>
Total	<u>\$ 3,005,720</u>	<u>\$ 3,132,540</u>

**HOUSING AUTHORITY OF THE CITY OF EAST CHICAGO  
EAST CHICAGO, INDIANA**

**NOTES TO FINANCIAL STATEMENTS  
TWELVE MONTHS ENDED DECEMBER 31, 2007  
(CONTINUED)**

**Note 3 - Compensated Absences**

As of January 1, 1998 existing employees no longer accrue vacation time monthly. Vacation hours an employee is entitled to for the current year are placed into a new bank for immediate use (does not include new employees with less than one year of service). New employees must wait until their one year anniversary to take vacation. This new bank of vacation time must be taken in full by the end of the current year or it is lost. If an employee leaves the agency before the end of the year due to retirement, termination, resignation, job elimination, etc., the new bank of vacation hours will be calculated on an accrual basis based upon regular time actually worked and any excess vacation hours taken will be deducted from the final paycheck.

Employee's vacation hours as of December 31, 1997 were placed into an old bank but will not be used until they have used all of their new vacation bank. Only unused vacation time from the old bank as of December 31, 1997 will carryover from year to year until fully exhausted. Maximum vacation hours from the old bank if an employee is entitled to if they leave the agency is still 360 hours.

Vacation leave must be requested at least two weeks in advance with available time verified by accounting and approved by the supervisor and the executive director. Vacation time is taken in increments of hours only (i.e. no quarter, half, and three-fourths hours).

**Annual Leave**

- A. Annual leave requests are granted on a seniority basis based on years of employment. Employees are required to take annual leave in the year in which it is earned. Annual leave will not be advanced to employees except at the discretion of the executive director. Newly hired employees are not entitled to annual leave until they have successfully completed one full year of employment.
- B. All permanent full-time administrative employees shall receive a paid vacation after one full year of employment. Paid vacations will be granted as follows to employees according to years of service:

1/2 on 1/16; 1/2 on 7/16  
Less than 5 years - 12 days annually  
More than five years but less than 10 years - 18 days annually  
Ten years or more - 24 days annually

All permanent full-time maintenance employees shall receive a paid vacation after one full year of employment. Paid vacations will be granted as follows to employees according to years of service:

1/2 on 1/16; 1/2 on 7/16  
Less than 5 years - 10 days annually  
More than 5 years but less than 15 years - 15 days annually  
Fifteen years or more - 20 days annually

**Accumulation of Vacation Time**

Cumulative maximum carryover of unused leave at the beginning of any leave year may not exceed forty-five (45) days of vacation accrual for any employee, if applicable.

**HOUSING AUTHORITY OF THE CITY OF EAST CHICAGO  
EAST CHICAGO, INDIANA**

**NOTES TO FINANCIAL STATEMENTS  
TWELVE MONTHS ENDED DECEMBER 31, 2007  
(CONTINUED)**

**Note 4 - Defined Contribution Plan**

The Housing Authority provides pension benefits for all of its full-time employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Housing Authority contributions forfeited by employees who leave employment prior to vesting are used to reduce current costs and contribution requirements. For the fiscal year ended December 31, 2007, the actual contributions by the Housing Authority were \$306,653.

**Note 5 - Accounts Receivable - Net of Allowance**

Accounts receivable consists of the following accounts:

HUD	\$ 6,215
Tenants accounts receivable (net)	38,741
Fraud recovery	38,081
Other	<u>47,054</u>
Subtotal	\$ 130,091
Interfund	<u>96,305</u>
Total	<u>\$ 226,396</u>

**Note 6 - Deferred Charges**

This classification includes the following accounts:

Prepaid insurance	<u>\$ 140,084</u>
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**Note 7 - Fixed Assets**

Balance as of December 31, 2007	\$ 5,443,784
Balance as of December 31, 2006	<u>6,275,861</u>
Net Increase (Decrease)	<u>\$ -832,077</u>

**Reconciliation**

Property betterments and additions	\$ 422,970
Dispositions	-3,947
Depreciation expense	<u>-1,251,100</u>
Net Increase (Decrease)	<u>\$ -832,077</u>

**HOUSING AUTHORITY OF THE CITY OF EAST CHICAGO  
EAST CHICAGO, INDIANA**

**NOTES TO FINANCIAL STATEMENTS  
TWELVE MONTHS ENDED DECEMBER 31, 2007  
(CONTINUED)**

**Note 7 - Fixed Assets** (Continued)

<u>Analysis</u>	01/01/2007 <u>Balance</u>	Additions/ <u>Transfers</u>	Deletions/ <u>Transfers</u>	12/31/2007 <u>Balance</u>
Land	\$ 974,719	\$ 0	\$ 0	\$ 974,719
Buildings	38,500,805	1,117,086	426,458	39,191,433
Equipment and furniture	1,096,111	164,044	129,793	1,130,362
Leasehold improvements	1,327,330	60,964	5,000	1,383,294
Construction in progress	<u>479,532</u>	<u>0</u>	<u>477,727</u>	<u>1,805</u>
Total	\$ 42,378,497	\$ 1,342,094	\$ 1,038,978	\$ 42,681,613
Accumulated depreciation	<u>-36,102,636</u>	<u>115,907</u>	<u>1,251,100</u>	<u>-37,237,829</u>
Total	<u>\$ 6,275,861</u>	<u>\$ 1,458,001</u>	<u>\$ 2,290,078</u>	<u>\$ 5,443,784</u>

**Note 8 - Notes Payable**

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

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

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

**Note 9 - Accounts Payable**

This classification includes the following accounts:

Vendors and contractors	\$ 199,622
Accounts payable - HUD	63,567
Accounts payable - other	<u>11,094</u>
Subtotal	\$ 274,283
Interfund	<u>96,305</u>
Total	<u>\$ 370,588</u>

**HOUSING AUTHORITY OF THE CITY OF EAST CHICAGO  
EAST CHICAGO, INDIANA**

**NOTES TO FINANCIAL STATEMENTS  
TWELVE MONTHS ENDED DECEMBER 31, 2007  
(CONTINUED)**

**Note 10 - Accrued Liabilities**

At December 31, 2007 the following accounts were accrued:

Current Portion:

Payroll and payroll taxes	\$ 45,380
PILOT	<u>67,811</u>

Total Current Portion	\$ <u>113,191</u>
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Noncurrent Portion:

Accrued compensated absences	\$ <u>29,163</u>
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Total	\$ <u><u>142,354</u></u>
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**Note 11 - Deferred Credits**

This classification consists of the following accounts:

Tenants prepaid rent	\$ <u><u>1,699</u></u>
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**Note 12 - 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 Voucher and Moderate Rehabilitation administrative fees are calculated using a variable rate per HUD.

**Note 13 - Allocation of Costs**

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

**Note 14 - 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.

**HOUSING AUTHORITY OF THE CITY OF EAST CHICAGO  
EAST CHICAGO, INDIANA**

**NOTES TO FINANCIAL STATEMENTS  
TWELVE MONTHS ENDED DECEMBER 31, 2007  
(CONTINUED)**

**Note 15 - Prior Period Adjustments**

Prior period adjustments posted directly to surplus are detailed below:

Adjustment of settlement by HUD	\$ <u>383</u>
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**Note 16 - Risk Management**

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

For insured programs there has been no significant reduction in insurance coverage. Settled claims have not exceeded insurance coverage or the risk pool coverage in the current or past three years.

**Note 17 - Economic Dependency**

The Housing Authority received most of its revenue (83%) from the United States Department of Housing and Urban Development. This funding is subject to federal government appropriations and potential funding reductions.

**Note 18 Contracts/Commitments**

As of December 31, 2007, the Housing Authority had entered into the following operating lease obligations:

<u>Lease Obligations</u>	<u>Lease Term</u>	<u>Monthly Payment</u>
Konica/Minolta Digital Copier	36 months	\$ 470.00
2005 Chevy Malibu exp 06/08	36 months	267.80
Mailing system exp 06/08	36 months	294.00

## **SUPPLEMENTAL DATA**

**HOUSING AUTHORITY OF THE CITY OF EAST CHICAGO  
EAST CHICAGO, INDIANA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2007**

<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*	14.850a	C-651	FYE 12/31/07	\$ 2,223,940	\$ 2,223,940	\$ 2,223,940
Lower Income Housing Assistance Program - Moderate Rehabilitation*	14.856	C-2030K	FYE 12/31/07	\$ 349,686	\$ 349,686	\$ 349,686
Housing Choice Voucher Program*	14.871	C-2030V	FYE 12/31/07	\$ 3,515,959	\$ 3,515,959	\$ 3,515,959
Public Housing - Capital Fund*	14.872	C-651	FYE 12/31/07	\$ 4,393,718	\$ 1,625,847	\$ 1,625,847
ROSS Grant	14.870	----	FYE 12/31/07	\$ 37,350	\$ 4,410	\$ 4,410
Total Federal Assistance				<u>\$ 10,520,653</u>	<u>\$ 7,719,842</u>	<u>\$ 7,719,842</u>

\*Denotes major program.

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS (SEFA)  
TWELVE MONTHS ENDED DECEMBER 31, 2007**

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

**HOUSING AUTHORITY OF THE CITY OF EAST CHICAGO  
EAST CHICAGO, INDIANA**

**STATEMENT OF NET ASSETS  
DECEMBER 31, 2007**

<b><u>ASSETS</u></b>	<b><u>Low Rent</u></b>	<b><u>Capital Funds</u></b>	<b><u>Voucher</u></b>
<b>Current Assets</b>			
Cash and cash equivalents	\$ 1,563,504	\$ 0	\$ 383,855
Accounts receivable (net of allowance)	85,795	1,805	32,477
Due from other funds	24,373	0	0
Inventory	179,991	0	0
Deferred charges	<u>135,608</u>	<u>0</u>	<u>4,118</u>
Total Current Assets	<u>\$ 1,989,271</u>	<u>\$ 1,805</u>	<u>\$ 420,450</u>
<b>Capital Assets</b>			
Land, buildings and equipment	\$ 41,680,089	\$ 867,351	\$ 100,891
Less: Accumulated depreciation	<u>-37,092,859</u>	<u>-75,380</u>	<u>-66,262</u>
Net Capital Assets	<u>\$ 4,587,230</u>	<u>\$ 791,971</u>	<u>\$ 34,629</u>
<b>Other Restricted</b>			
Cash	<u>\$ 9,284</u>	<u>\$ 0</u>	<u>\$ 1,049,077</u>
TOTAL ASSETS	<u>\$ 6,585,785</u>	<u>\$ 793,776</u>	<u>\$ 1,504,156</u>
<b><u>LIABILITIES</u></b>			
<b>Current Liabilities</b>			
Accounts payable	\$ 193,318	\$ 0	\$ 6,150
Due to other funds	0	1,805	90,090
Other payables	11,094	0	0
Accrued liabilities	108,891	0	3,957
Tenant security deposits	113,155	0	0
Deferred revenue	<u>1,699</u>	<u>0</u>	<u>0</u>
Total Current Liabilities	<u>\$ 428,157</u>	<u>\$ 1,805</u>	<u>\$ 100,197</u>
<b>Noncurrent Liabilities</b>			
Accrued compensated absences	\$ 28,437	\$ 0	\$ 668
FSS escrow	<u>9,284</u>	<u>0</u>	<u>14,693</u>
Total Noncurrent Liabilities	<u>\$ 37,721</u>	<u>\$ 0</u>	<u>\$ 15,361</u>
TOTAL LIABILITIES	<u>\$ 465,878</u>	<u>\$ 1,805</u>	<u>\$ 115,558</u>
<b><u>NET ASSETS</u></b>			
Unrestricted net assets	\$ 1,532,677	\$ 0	\$ 319,584
Restricted	0	0	1,034,385
Invested in capital assets	<u>4,587,230</u>	<u>791,971</u>	<u>34,629</u>
TOTAL NET ASSETS	<u>\$ 6,119,907</u>	<u>\$ 791,971</u>	<u>\$ 1,388,598</u>

**HOUSING AUTHORITY OF THE CITY OF EAST CHICAGO  
EAST CHICAGO, INDIANA**

**STATEMENT OF NET ASSETS  
DECEMBER 31, 2007  
(CONTINUED)**

<u>ASSETS</u>	<u>Mod Rehab</u>	<u>State and Local</u>	<u>ROSS</u>
<b>Current Assets</b>			
Cash and cash equivalents	\$ 0	\$ 0	\$ 0
Accounts receivable (net of allowance)	5,604	0	4,410
Due from other funds	71,932	0	0
Deferred charges	<u>358</u>	<u>0</u>	<u>0</u>
Total Current Assets	<u>\$ 77,894</u>	<u>\$ 0</u>	<u>\$ 4,410</u>
<b>Capital Assets</b>			
Land, buildings and equipment	\$ 33,282	\$ 0	\$ 0
Less: Accumulated depreciation	<u>-3,328</u>	<u>0</u>	<u>0</u>
Net Capital Assets	<u>\$ 29,954</u>	<u>\$ 0</u>	<u>\$ 0</u>
<b>TOTAL ASSETS</b>	<u>\$ 107,848</u>	<u>\$ 0</u>	<u>\$ 4,410</u>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Accounts payable - vendors	\$ 63,721	\$ 0	\$ 0
Due to other funds	0	0	4,410
Accrued liabilities	<u>343</u>	<u>0</u>	<u>0</u>
Total Current Liabilities	<u>\$ 64,064</u>	<u>\$ 0</u>	<u>\$ 4,410</u>
<b>Noncurrent Liabilities</b>			
Accrued compensated absences	<u>\$ 58</u>	<u>\$ 0</u>	<u>\$ 0</u>
Total Noncurrent Liabilities	<u>\$ 58</u>	<u>\$ 0</u>	<u>\$ 0</u>
<b>TOTAL LIABILITIES</b>	<u>\$ 64,122</u>	<u>\$ 0</u>	<u>\$ 4,410</u>
<b>NET ASSETS</b>			
Unrestricted net assets	\$ 13,772	\$ 0	\$ 0
Invested in capital assets	<u>29,954</u>	<u>0</u>	<u>0</u>
<b>TOTAL NET ASSETS</b>	<u>\$ 43,726</u>	<u>\$ 0</u>	<u>\$ 0</u>

**HOUSING AUTHORITY OF THE CITY OF EAST CHICAGO  
EAST CHICAGO, INDIANA**

**STATEMENT OF REVENUE AND EXPENDITURES  
TWELVE MONTHS ENDED DECEMBER 31, 2007**

<b><u>Operating Income</u></b>	<u>Low Rent</u>	<u>Capital Funds</u>	<u>Voucher</u>
<b>Tenant Income</b>			
Tenant rental revenue	\$ 1,380,649	\$ 0	\$ 0
Tenant revenue - other	<u>89,056</u>	<u>0</u>	<u>0</u>
Total Tenant Income	<u>\$ 1,469,705</u>	<u>\$ 0</u>	<u>\$ 0</u>
<b>Non-Tenant Income</b>			
HUD grants - operating	\$ 2,223,940	\$ 1,299,494	\$ 3,515,959
Fraud recovery	0	0	53,796
Other revenue	<u>76,022</u>	<u>0</u>	<u>0</u>
Total Non-Tenant Income	<u>\$ 2,299,962</u>	<u>\$ 1,299,494</u>	<u>\$ 3,569,755</u>
Total Operating Income	<u>\$ 3,769,667</u>	<u>\$ 1,299,494</u>	<u>\$ 3,569,755</u>
<b><u>Operating Expenses</u></b>			
Administration	\$ 1,407,588	\$ 87,499	\$ 349,207
Tenant services	272,609	0	0
Utilities	717,314	0	0
Ordinary maintenance and operation	991,902	606,573	0
General expense	381,434	0	12,611
Protective services	14,175	220,583	0
Housing assistance payments	0	0	2,618,280
Depreciation	<u>1,170,094</u>	<u>69,234</u>	<u>4,825</u>
Total Operating Expenses	<u>\$ 4,955,116</u>	<u>\$ 983,889</u>	<u>\$ 2,984,923</u>
Net Operating Income (Loss)	<u>\$ -1,185,449</u>	<u>\$ 315,605</u>	<u>\$ 584,832</u>
<b><u>Nonoperating Income (Expense)</u></b>			
HUD - capital	\$ 0	\$ 326,353	\$ 0
Interest income	6,880	0	6,021
Transfer	<u>384,839</u>	<u>-384,839</u>	<u>0</u>
Total Nonoperating Income (Expense)	<u>\$ 391,719</u>	<u>\$ -58,486</u>	<u>\$ 6,021</u>
Changes in Net Assets	<u>\$ -793,730</u>	<u>\$ 257,119</u>	<u>\$ 590,853</u>

**HOUSING AUTHORITY OF THE CITY OF EAST CHICAGO  
EAST CHICAGO, INDIANA**

**STATEMENT OF REVENUE AND EXPENDITURES  
TWELVE MONTHS ENDED DECEMBER 31, 2007  
(CONTINUED)**

<b><u>Operating Income</u></b>	<b><u>Mod Rehab</u></b>	<b><u>State and Local</u></b>	<b><u>ROSS</u></b>
<b><u>Non-Tenant Income</u></b>			
HUD grants - operating	\$ 349,686	\$ 0	\$ 4,410
Other government grants	0	108	0
Fraud recovery	3,456	0	0
Gain/loss on sale of fixed assets	<u>-2,748</u>	<u>0</u>	<u>0</u>
Total Operating Income	<u>\$ 350,394</u>	<u>\$ 108</u>	<u>\$ 4,410</u>
<b><u>Operating Expenses</u></b>			
Administration	\$ 34,147	\$ 0	\$ 0
Tenant services	0	108	4,410
General expense	809	0	0
Housing assistance payments	311,563	0	0
Depreciation	<u>6,947</u>	<u>0</u>	<u>0</u>
Total Operating Expenses	<u>\$ 353,466</u>	<u>\$ 108</u>	<u>\$ 4,410</u>
Net Operating Income (Loss)	<u>\$ -3,072</u>	<u>\$ 0</u>	<u>\$ 0</u>
<b><u>Nonoperating Income (Expense)</u></b>			
Interest income	<u>\$ 297</u>	<u>\$ 0</u>	<u>\$ 0</u>
Total Nonoperating Income (Expense)	<u>\$ 297</u>	<u>\$ 0</u>	<u>\$ 0</u>
Changes in Net Assets	<u><u>\$ -2,775</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 0</u></u>

**HOUSING AUTHORITY OF THE CITY OF EAST CHICAGO  
EAST CHICAGO, INDIANA**

**CHANGES IN NET ASSETS  
TWELVE MONTHS ENDED DECEMBER 31, 2007**

<u>Invested in Capital Assets</u>	<u>Low Rent</u>	<u>Capital Funds</u>	<u>Voucher</u>
Balance at December 31, 2006	\$ 5,360,797	\$ 904,525	\$ 2,972
Current year net income (loss)	-1,143,240	257,119	31,657
Transfer	<u>369,673</u>	<u>-369,673</u>	<u>0</u>
Balance at December 31, 2007	<u>\$ 4,587,230</u>	<u>\$ 791,971</u>	<u>\$ 34,629</u>
 <u>Restricted Net Assets</u>			
Balance at December 31, 2006	\$ 0	\$ 0	\$ 0
Current year net income (loss)	0	0	561,814
Transfer	<u>0</u>	<u>0</u>	<u>472,571</u>
Balance at December 31, 2007	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,034,385</u>
 <u>Unrestricted Net Assets</u>			
Balance at December 31, 2006	\$ 1,183,167	\$ 0	\$ 794,773
Current year net income (loss)	349,510	0	-2,618
Transfer	<u>0</u>	<u>0</u>	<u>-472,571</u>
Balance at December 31, 2007	<u>\$ 1,532,677</u>	<u>\$ 0</u>	<u>\$ 319,584</u>
Total Net Assets	<u>\$ 6,119,907</u>	<u>\$ 791,971</u>	<u>\$ 1,388,598</u>

**HOUSING AUTHORITY OF THE CITY OF EAST CHICAGO  
EAST CHICAGO, INDIANA**

**CHANGES IN NET ASSETS  
TWELVE MONTHS ENDED DECEMBER 31, 2007  
(CONTINUED)**

<u>Invested in Capital Assets</u>	<u>Mod Rehab</u>	<u>State and Local</u>	<u>ROSS</u>
Balance at December 31, 2006	\$ 7,567	\$ 0	\$ 0
Current year net income (loss)	<u>22,387</u>	<u>0</u>	<u>0</u>
Balance at December 31, 2007	<u>\$ 29,954</u>	<u>\$ 0</u>	<u>\$ 0</u>
 <u>Unrestricted Net Assets</u>			
Balance at December 31, 2006	\$ 38,551	\$ 0	\$ 0
Current year net income (loss)	-25,162	0	0
Prior year adjustments	<u>383</u>	<u>0</u>	<u>0</u>
Balance at December 31, 2007	<u>\$ 13,772</u>	<u>\$ 0</u>	<u>\$ 0</u>
Total Net Assets	<u>\$ 43,726</u>	<u>\$ 0</u>	<u>\$ 0</u>

**HOUSING AUTHORITY OF THE CITY OF EAST CHICAGO  
EAST CHICAGO, INDIANA**

**STATEMENT OF CASH FLOWS  
TWELVE MONTHS ENDED DECEMBER 31, 2007**

<b><u>Operating Activities</u></b>	<b><u>Low Rent</u></b>	<b><u>Capital Funds</u></b>	<b><u>Voucher</u></b>
Operating subsidy	\$ 2,223,940	\$ 1,372,198	\$ 3,515,959
Tenant revenue	1,454,679	0	0
Other revenue	76,022	0	0
Fraud recovery	0	0	53,796
Housing assistance payments	0	0	-2,618,280
Payments to employees	-1,617,847	-30,877	-233,055
Payments to suppliers and contractors	<u>-2,138,116</u>	<u>-956,482</u>	<u>-137,010</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ -1,322</u>	<u>\$ 384,839</u>	<u>\$ 581,410</u>
 <b><u>Investing Activities</u></b>			
Interest income	<u>\$ 6,880</u>	<u>\$ 0</u>	<u>\$ 6,021</u>
Net Cash Provided (Used) by Investing Activities	<u>\$ 6,880</u>	<u>\$ 0</u>	<u>\$ 6,021</u>
 <b><u>Capital and Related Financing Activities</u></b>			
HUD grants - capital	\$ 0	\$ 326,353	\$ 0
Additions (deletions) to fixed assets	-26,854	-326,353	-36,482
Transfers	<u>384,839</u>	<u>-384,839</u>	<u>0</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>\$ 357,985</u>	<u>\$ -384,839</u>	<u>\$ -36,482</u>
Net Change in Cash	\$ 363,543	\$ 0	\$ 550,949
Cash Balance at December 31, 2006	<u>1,209,245</u>	<u>0</u>	<u>881,983</u>
Cash Balance at December 31, 2007	<u>\$ 1,572,788</u>	<u>\$ 0</u>	<u>\$ 1,432,932</u>

**HOUSING AUTHORITY OF THE CITY OF EAST CHICAGO  
EAST CHICAGO, INDIANA**

**STATEMENT OF CASH FLOWS  
TWELVE MONTHS ENDED DECEMBER 31, 2007  
(CONTINUED)**

<b><u>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities</u></b>	<b><u>Low Rent</u></b>	<b><u>Capital Funds</u></b>	<b><u>Voucher</u></b>
Net operating income (loss)	\$ -1,185,449	\$ 315,605	\$ 584,832
Adjustment to Reconcile Operating Income (Loss) to Net Cash Flows from Operating Activities:			
Depreciation	1,170,094	69,234	4,825
(Increase) decrease in accounts receivable	101,473	72,704	-28,681
(Increase) decrease in deferred charges	617	0	-647
(Increase) decrease in inventories	-36,191	0	0
Increase (decrease) in accounts payable	24,851	-72,704	17,962
Increase (decrease) in accrued liabilities	-80,243	0	-1,156
Increase (decrease) in deferred revenues	-308	0	0
Increase (decrease) in other liabilities	<u>3,834</u>	<u>0</u>	<u>4,275</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ -1,322</u>	<u>\$ 384,839</u>	<u>\$ 581,410</u>

**HOUSING AUTHORITY OF THE CITY OF EAST CHICAGO  
EAST CHICAGO, INDIANA**

**STATEMENT OF CASH FLOWS  
TWELVE MONTHS ENDED DECEMBER 31, 2007  
(CONTINUED)**

<b><u>Operating Activities</u></b>	<b><u>Mod Rehab</u></b>	<b><u>State and Local</u></b>	<b><u>ROSS</u></b>
Operating grants	\$ 461,816	\$ 108	\$ 0
Fraud recovery	3,456	0	0
Housing assistance payments	-311,563	0	0
Payments to employees	-20,267	0	-4,410
Payments to suppliers and contractors	<u>-104,405</u>	<u>-216</u>	<u>4,410</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 29,037</u>	<u>\$ -108</u>	<u>\$ 0</u>
<b><u>Investing Activities</u></b>			
Interest income	<u>\$ 297</u>	<u>\$ 0</u>	<u>\$ 0</u>
Net Cash Provided (Used) by Investing Activities	<u>\$ 297</u>	<u>\$ 0</u>	<u>\$ 0</u>
<b><u>Capital and Related Financing Activities</u></b>			
Additions (deletions) to fixed assets	<u>\$ -29,334</u>	<u>\$ 0</u>	<u>\$ 0</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>\$ -29,334</u>	<u>\$ 0</u>	<u>\$ 0</u>
Net Change in Cash	\$ 0	\$ -108	\$ 0
Cash Balance at December 31, 2006	<u>0</u>	<u>108</u>	<u>\$ 0</u>
Cash Balance at December 31, 2007	<u><u>\$ 0</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 0</u></u>

**HOUSING AUTHORITY OF THE CITY OF EAST CHICAGO  
EAST CHICAGO, INDIANA**

**STATEMENT OF CASH FLOWS  
TWELVE MONTHS ENDED DECEMBER 31, 2007  
(CONTINUED)**

<u>Reconciliation of Operating Income (Loss) to Net Cash</u> <u>Provided (Used) by Operating Activities</u>	<u>Mod Rehab</u>	<u>State and Local</u>	<u>ROSS</u>
Net operating income (loss)	\$ -3,072	\$ 0	\$ 0
Adjustment to Reconcile Operating Income (Loss) to Net Cash Flows from Operating Activities:			
Depreciation	6,947	0	0
Adjustment to net assets	383	0	0
 (Increase) decrease in accounts receivable	 -28,973	 0	 4,410
(Increase) decrease in deferred charges	-57	0	0
 Increase (decrease) in accounts payable	 53,911	 0	 -4,410
Increase (decrease) in accrued liabilities	-102	0	0
Increase (decrease) in deferred revenues	<u>0</u>	<u>-108</u>	<u>0</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 29,037</u>	<u>\$ -108</u>	<u>\$ 0</u>

**HOUSING AUTHORITY OF THE CITY OF EAST CHICAGO  
EAST CHICAGO, INDIANA**

**PHA's STATEMENT AND CERTIFICATION OF ACTUAL MODERNIZATION COST  
PHASE IN36P029501-05**

1. The Actual Modernization Costs of Phase IN36P029501-05 are as follows:

Funds approved	\$ 1,467,988
Funds expended	<u>1,467,988</u>
Excess of Funds Approved	<u><u>\$ 0</u></u>
Funds advanced	
Project notes, non-HUD	\$ 1,467,988
Funds expended	<u>1,467,988</u>
Excess of Funds Advanced	<u><u>\$ 0</u></u>

2. The distribution of costs by project, as shown on the final Statement of Modernization Cost, dated October 12, 2007, 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.

**HOUSING AUTHORITY OF THE CITY OF EAST CHICAGO  
EAST CHICAGO, INDIANA**

**PHA's STATEMENT AND CERTIFICATION OF ACTUAL MODERNIZATION COST  
PHASE IN36P029501-06**

1. The Actual Modernization Costs of Phase IN36P029501-06 are as follows:

Funds approved	\$ 1,423,058
Funds expended	<u>1,423,058</u>
Excess of Funds Approved	<u><u>\$ 0</u></u>
Funds advanced	
Project notes, non-HUD	\$ 1,423,058
Funds expended	<u>1,423,058</u>
Excess of Funds Advanced	<u><u>\$ 0</u></u>

2. The distribution of costs by project, as shown on the final Statement of Modernization Cost, dated December 26, 2007, 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.

**HOUSING AUTHORITY OF THE CITY OF EAST CHICAGO  
EAST CHICAGO, INDIANA**

**PHA's STATEMENT AND CERTIFICATION OF ACTUAL MODERNIZATION COST  
PHASE IN36P029502-06**

1. The Actual Modernization Costs of Phase IN36P029502-06 are as follows:

Funds approved	\$ 42,043
Funds expended	<u>42,043</u>
Excess of Funds Approved	<u><u>\$ 0</u></u>
Funds advanced	
Project notes, non-HUD	\$ 42,043
Funds expended	<u>42,043</u>
Excess of Funds Advanced	<u><u>\$ 0</u></u>

2. The distribution of costs by project, as shown on the final Statement of Modernization Cost, dated December 26, 2007, 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.

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

Board of Commissioners  
Housing Authority of the City of East Chicago  
East Chicago, Indiana

I have audited the financial statements of Housing Authority of the City of East Chicago as of and for the year ended December 31, 2007, which collectively comprise the Housing Authority of the City of East Chicago's basic financial statements and have issued my report thereon dated July 25, 2008. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

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

A control deficiency exists when the design or operation of a control does not allow management or employee, 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 Housing Authority of the City of East Chicago'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 Housing Authority of the City of East Chicago's financial statements that is more than inconsequential will not be prevented or detected by the Housing Authority of the City of East Chicago'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 Housing Authority of the City of East Chicago's internal control.

My consideration of the 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. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above. This report is intended solely for the information of management, the Board of Commissioners and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Housing Authority of the City of East Chicago's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulation, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

I noted certain matters that we reported to management of Housing Authority of the City of East Chicago, in a separate letter dated July 25, 2008.

This reported in intended solely for the information of management, the Board of Commissioners, 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  
July 25, 2008

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 of the City of East Chicago  
East Chicago, Indiana

### **Compliance**

I have audited the compliance of Housing Authority of the City of East Chicago 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, 2007. Housing Authority of the City of East Chicago's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Housing Authority of the City of East Chicago's management. My responsibility is to express an opinion on Housing Authority of the City of East Chicago's compliance based on my audit.

I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Housing Authority of the City of East Chicago'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 of the City of East Chicago's compliance with those requirements.

In my opinion, Housing Authority of the City of East Chicago 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, 2007. 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 items 2007-01 and 2007-02.

### **Internal Control Over Compliance**

The management of Housing Authority of the City of East Chicago is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing my audit, I considered Housing Authority of the City of East Chicago'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 of the City of East Chicago's internal control over compliance.

My consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, I identified certain deficiencies in internal control over compliance that I consider to be significant deficiencies.

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. I consider the deficiencies in the internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2007-1 and 2007-2 to be a significant deficiency.

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. Of the significant deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs, I consider items 2007-1 and 2007-2 to be material weaknesses.

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

In addition, I noticed other matters involving the internal control and its operation that I have reported to management of Housing Authority of the City of East Chicago in a separate letter dated July 25, 2008.

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  
July 25, 2008

Certified Public Accountant

**HOUSING AUTHORITY OF THE CITY OF EAST CHICAGO  
EAST CHICAGO, INDIANA**

**STATUS OF PRIOR AUDIT FINDINGS**

The prior audit for the period ended December 31, 2006 contained no findings.

**HOUSING AUTHORITY OF THE CITY OF EAST CHICAGO  
EAST CHICAGO, INDIANA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - SUMMARY  
FOR THE YEAR ENDED DECEMBER 31, 2007**

**Section I - Summary of Auditor's Results**

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

*Financial Statements*

Type of auditor's report: Unqualified

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

\* Significant deficiency (ies) identified that are not  
considered to be material weaknesses? \_\_\_\_\_ yes X \_\_\_\_\_ none reported

Noncompliance material to financial statements noted \_\_\_\_\_ yes X \_\_\_\_\_ no

*Federal Awards*

Internal control over major programs:

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

\* Significant deficiency (ies) identified that are not  
considered to be material weaknesses? \_\_\_\_\_ yes X \_\_\_\_\_ none reported

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

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

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

**CFDA Number(s)**

Public and Indian Housing	14.850a
Public Housing - Capital Funds	14.872
Housing Choice Vouchers	14.871
Lower Income Housing Assistance Program - Moderate Rehabilitation	14.856

**HOUSING AUTHORITY OF THE CITY OF EAST CHICAGO  
EAST CHICAGO, INDIANA**

**CURRENT FINDINGS AND RECOMMENDATIONS**

**Section II - Financial Statement Findings**

There were no financial statement audit findings discussed with Beatriz L. Martinez, Executive Director, Sharon Johnson, Director of Finance and other members of management, during the course of the audit or at an exit conference held July 25, 2008.

**Section III - Federal Award Findings**

There were two federal award audit finding discussed with Beatriz L. Martinez, Executive Director, Sharon Johnson, Director of Finance and other members of management, during the course of the audit and at an exit conference held July 25, 2008.

**Finding 2007-1: Annual Recertifications Not Completed Timely**

*Condition and Criteria:* HUD regulations require that all public housing tenant files contain evidence that leases are updated annually. In order to properly update these leases, all files must contain documentation that recertifications are properly documented and completed timely. My examination of twenty-five (25) public housing files indicated that recertifications were completed and electronically submitted late for seven (7) of those files. Additionally those same files did not contain complete annual applications or timely executed lease addendums.

*Effect:* The annual recertification process was not completed in accordance with HUD guidelines.

*Cause:* During the current fiscal year, the Housing Authority changed a policy that related to the completion of annual recertifications. Previously the Housing Authority completed all tenant annual recertifications during the first few months of the fiscal year, however, in 2007 it was determined that all future recertifications would be completed on the anniversary of the tenant's occupancy. As a result many of the annual examinations were not completed properly or in a timely manner.

*Auditor's Recommendation:* The annual recertification process should be reviewed with all applicable housing staff. Each Housing Manager should review the housing reports on a monthly basis to determine which files are due for the annual recertification. The proper annual applications and lease addendums should be completed in a timely manner.

*Grantee Response:* Executive Director Beatriz Martinez immediately reviewed the annual recertification process with the Managers and has adopted the following procedures to secure that all monthly annual recertification files are completed in a timely manner effective no later than October 1, 2008.

The managers will run monthly ***Annual Recertification report due*** from the PHA-Web and the PIC system. All the monthly Annual recertification files due on this report will be processed by the Intake Specialists. Managers will then run a monthly ***Annual Recertification report completed*** from the PHA-Web system and compare it with the monthly ***Annual Recertification's report due*** to make sure that all recertification files were processed.

The East Chicago Housing Authority will develop and implement an internal quality control system with a monthly monitoring done by the site Managers. A sample selection of residents' files will be selected to review and secure that all documents required are completed in each file. This system will establish a consistency of procedure practices between all sites.

**HOUSING AUTHORITY OF THE CITY OF EAST CHICAGO  
EAST CHICAGO, INDIANA**

**CURRENT FINDINGS AND RECOMMENDATIONS**

**Finding 2007-2: Incomplete Public Housing Tenant Files**

*Condition and Criteria:* HUD regulations require that all participant files contain adequate documentation to support a tenant's eligibility and the accurate calculation of tenant rent payments. During my test of tenant files (25 files examined) I noted incomplete documentation and incorrect calculations of seven (7) of those files.

*Effect:* It cannot be determined if the tenant rent was calculated in accordance with HUD regulations.

*Cause:* Adequate quality control procedures had not been implemented to assure that tenant eligibility was adequately documented. The procedures in place did not provide adequate assurance that correct data was collected and used in the calculation of rent payments to be paid by each eligible tenant.

*Auditor's Recommendation:* I recommend that quality control procedures be reviewed and revised to ensure that all required documentation is maintained in each file to support eligibility. Procedures should be developed to ensure that all housing staff are familiar with the policies established in the Housing Authority's Admissions and Continued Occupancy Policy and that they are trained in the proper procedures for applying those policies and HUD regulations.

*Grantee Response:* Executive Director Beatriz Martinez had a meeting with all management staff to plan and implement an internal quality control procedure in the Authority's Admissions and Occupancy Policy to ensure all required documentation is maintained in each file to support eligibility. Beginning October 1, 2008 monthly a selected number of files will be reviewed by the site managers to certify that all required documents have been processed, and they will also check the calculation of the resident's rent payment.

Staff will receive training in the proper procedures for applying these policies and HUD regulations as needed. In 2008 and thereafter.

**HOUSING AUTHORITY OF THE CITY OF EAST CHICAGO  
EAST CHICAGO, INDIANA**

**SCHEDULE OF ADJUSTING JOURNAL ENTRIES  
DECEMBER 31, 2007**

<u>Mod Rehab</u>	<u>Audit Account Number</u>	<u>Debit</u>	<u>Credit</u>	<u>Posting Account Number</u>
(1)				
Accounts payable - HUD	2118.3	\$ 4,137.84		2118.3
A. C. earned	3410		\$ 4,137.84	2806.1
(To adjust per year end settlement at 12/31/07)				

PHA: IN029 FYED: 12/31/2007

Line Item No	Account Description	Low Rent Public Housing	Lower Income Housing Assistance Program_Section 8 Moderate Rehabilitat IN029MR0002	Resident Opportunity and Supportive Services	Housing Choice Vouchers	Public Housing Capital Fund Program	State/Local	Total
111	Cash - Unrestricted	\$1,450,349	\$0	\$0	\$383,855	\$0	\$0	\$1,834,204
113	Cash - Other Restricted	\$9,284	\$0	\$0	\$1,049,077	\$0	\$0	\$1,058,361
114	Cash - Tenant Security Deposits	\$113,155	\$0	\$0	\$0	\$0	\$0	\$113,155
100	Total Cash	\$1,572,788	\$0	\$0	\$1,432,932	\$0	\$0	\$3,005,720
122	Accounts Receivable - HUD Other Projects	\$0	\$0	\$4,410	\$0	\$1,805	\$0	\$6,215
125	Accounts Receivable - Miscellaneous	\$47,054	\$0	\$0	\$0	\$0	\$0	\$47,054
126	Accounts Receivable - Tenants - Dwelling Rents	\$65,806	\$0	\$0	\$0	\$0	\$0	\$65,806
126.1	Allowance for Doubtful Accounts - Dwelling Rents	\$-27,065	\$0	\$0	\$0	\$0	\$0	\$-27,065
126.2	Allowance for Doubtful Accounts - Other	\$0	\$0	\$0	\$0	\$0	\$0	\$0
128	Fraud Recovery	\$10,376	\$5,604	\$0	\$44,579	\$0	\$0	\$60,559
128.1	Allowance for Doubtful Accounts - Fraud	\$-10,376	\$0	\$0	\$-12,102	\$0	\$0	\$-22,478
120	Total Receivables, net of allowances for doubtful accounts	\$85,795	\$5,604	\$4,410	\$32,477	\$1,805	\$0	\$130,091
142	Prepaid Expenses and Other Assets	\$135,608	\$358	\$0	\$4,118	\$0	\$0	\$140,084
143	Inventories	\$181,809	\$0	\$0	\$0	\$0	\$0	\$181,809
143.1	Allowance for Obsolete Inventories	\$-1,818	\$0	\$0	\$0	\$0	\$0	\$-1,818
144	Interprogram Due From	\$24,373	\$71,932	\$0	\$0	\$0	\$0	\$96,305
150	Total Current Assets	\$1,998,555	\$77,894	\$4,410	\$1,489,527	\$1,805	\$0	\$3,552,191
161	Land	\$974,719	\$0	\$0	\$0	\$0	\$0	\$974,719
162	Buildings	\$38,502,549	\$0	\$0	\$5,000	\$683,884	\$0	\$39,191,433
164	Furniture, Equipment & Machinery - Administration	\$880,491	\$33,282	\$0	\$95,891	\$120,698	\$0	\$1,130,362
165	Leasehold Improvements	\$1,322,330	\$0	\$0	\$0	\$60,984	\$0	\$1,383,294
166	Accumulated Depreciation	\$-37,092,859	\$-3,328	\$0	\$-66,262	\$-75,380	\$0	\$-37,237,829
167	Construction In Progress	\$0	\$0	\$0	\$0	\$1,805	\$0	\$1,805
160	Total Fixed Assets, Net of Accumulated Depreciation	\$4,587,230	\$29,954	\$0	\$34,829	\$791,971	\$0	\$5,443,784
180	Total Non-Current Assets	\$4,587,230	\$29,954	\$0	\$34,829	\$791,971	\$0	\$5,443,784
190	Total Assets	\$6,585,785	\$107,848	\$4,410	\$1,504,156	\$793,776	\$0	\$8,995,975

PHA: IN029 FYED: 12/31/2007

Line Item No.	Account Description	Low Rent Public Housing	Lower Income Housing Assistance Program Section 8 Moderate Rehabilitation IN029MR0002	Resident Opportunity and Supportive Services	Housing Choice Vouchers	Public Housing Capital Fund Program	State/Local	Total
312	Accounts Payable <= 90 Days	\$193,318	\$154	\$0	\$6,150	\$0	\$0	\$199,622
321	Accrued Wage/Payroll Taxes Payable	\$41,080	\$343	\$0	\$3,957	\$0	\$0	\$45,380
331	Accounts Payable - HUD PHA Programs	\$0	\$63,567	\$0	\$0	\$0	\$0	\$63,567
333	Accounts Payable - Other Government	\$67,811	\$0	\$0	\$0	\$0	\$0	\$67,811
341	Tenant Security Deposits	\$113,155	\$0	\$0	\$0	\$0	\$0	\$113,155
342	Deferred Revenues	\$1,699	\$0	\$0	\$0	\$0	\$0	\$1,699
345	Other Current Liabilities	\$11,094	\$0	\$0	\$0	\$0	\$0	\$11,094
347	Interprogram Due To	\$0	\$0	\$4,410	\$90,090	\$1,805	\$0	\$96,305
310	Total Current Liabilities	\$428,157	\$64,064	\$4,410	\$100,197	\$1,805	\$0	\$598,633
354	Accrued Compensated Absences - Non Current	\$28,437	\$58	\$0	\$668	\$0	\$0	\$29,163
353	Noncurrent Liabilities - Other	\$9,284	\$0	\$0	\$14,693	\$0	\$0	\$23,977
350	Total Noncurrent Liabilities	\$37,721	\$58	\$0	\$15,361	\$0	\$0	\$53,140
300	Total Liabilities	\$465,878	\$64,122	\$4,410	\$115,558	\$1,805	\$0	\$651,773
508	Total Contributed Capital	\$0	\$0	\$0	\$0	\$0	\$0	\$0
508.1	Invested in Capital Assets, Net of Related Debt	\$4,587,230	\$29,954	\$0	\$34,829	\$791,071	\$0	\$5,443,084
511	Total Reserved Fund Balance	\$0	\$0	\$0	\$0	\$0	\$0	\$0
511.1	Restricted Net Assets	\$0	\$0	\$0	\$1,034,385	\$0	\$0	\$1,034,385
512.1	Unrestricted Net Assets	\$1,532,677	\$13,772	\$0	\$319,584	\$0	\$0	\$1,866,033
513	Total Equity/Net Assets	\$6,119,907	\$43,726	\$0	\$1,388,598	\$791,071	\$0	\$8,344,202
600	Total Liabilities and Equity/Net Assets	\$6,585,785	\$107,848	\$4,410	\$1,504,156	\$793,776	\$0	\$8,995,875

PHA: IN029 FYED: 12/31/2007

Line Item No.	Account Description	Low Rent Public Housing	Lower Income Housing Assistance Program Section 8 Moderate Rehabilitation IN029MR0002	Resident Opportunity and Supportive Services	Housing Choice Vouchers	Public Housing Capital Fund Program	State/Local	Total
703	Net Tenant Rental Revenue	\$1,380,649	\$0	\$0	\$0	\$0	\$0	\$1,380,649
704	Tenant Revenue - Other	\$89,056	\$0	\$0	\$0	\$0	\$0	\$89,056
705	Total Tenant Revenue	\$1,469,705	\$0	\$0	\$0	\$0	\$0	\$1,469,705
706	HUD PHA Operating Grants	\$2,223,940	\$349,686	\$4,410	\$3,515,959	\$1,209,494	\$0	\$7,393,489
706.1	Capital Grants	\$0	\$0	\$0	\$0	\$326,353	\$0	\$326,353
708	Other Government Grants	\$0	\$0	\$0	\$0	\$0	\$108	\$108
711	Investment Income - Unrestricted	\$6,880	\$297	\$0	\$1,908	\$0	\$0	\$9,085
714	Fraud Recovery	\$0	\$3,456	\$0	\$53,796	\$0	\$0	\$57,252
715	Other Revenue	\$76,022	\$0	\$0	\$0	\$0	\$0	\$76,022
710	Gain/Loss on Sale of Fixed Assets	\$0	\$-2,748	\$0	\$0	\$0	\$0	\$-2,748
720	Investment Income - Restricted	\$0	\$0	\$0	\$4,113	\$0	\$0	\$4,113
700	Total Revenue	\$3,776,547	\$350,691	\$4,410	\$3,575,776	\$1,625,847	\$108	\$9,333,370

PHA: IN029 FYED: 12/31/2007

Line Item No	Account Description	Low Rent Public Housing	Lower Income Housing Assistance Program Section 8 Moderate Rehabilitation IN029MR0002	Resident Opportunity and Supportive Services	Housing Choice Vouchers	Public Housing Capital Fund Program	State/Local	Total
911	Administrative Salaries	\$691,960	\$20,174	\$0	\$232,003	\$30,877	\$0	\$1,175,014
912	Auditing Fees	\$2,900	\$232	\$0	\$2,668	\$0	\$0	\$5,800
914	Compensated Absences	\$-87	\$-9	\$0	\$-104	\$0	\$0	\$-200
915	Employee Benefit Contributions - Administrative	\$296,125	\$8,539	\$0	\$68,855	\$6,074	\$0	\$379,593
916	Other Operating - Administrative	\$216,690	\$5,211	\$0	\$45,785	\$50,548	\$0	\$318,234
921	Tenant Services - Salaries	\$188,310	\$0	\$4,410	\$0	\$0	\$0	\$192,720
923	Employee Benefit Contributions - Tenant Services	\$55,201	\$0	\$0	\$0	\$0	\$0	\$55,201
924	Tenant Services - Other	\$29,098	\$0	\$0	\$0	\$0	\$108	\$29,206
931	Water	\$107,196	\$0	\$0	\$0	\$0	\$0	\$107,196
932	Electricity	\$279,291	\$0	\$0	\$0	\$0	\$0	\$279,291
933	Gas	\$330,827	\$0	\$0	\$0	\$0	\$0	\$330,827
941	Ordinary Maintenance and Operations - Labor	\$542,058	\$0	\$0	\$0	\$0	\$0	\$542,058
942	Ordinary Maintenance and Operations - Materials and Other	\$135,166	\$0	\$0	\$0	\$9,234	\$0	\$144,400
943	Ordinary Maintenance and Operations - Contract Costs	\$132,270	\$0	\$0	\$0	\$597,339	\$0	\$729,609
945	Employee Benefit Contributions - Ordinary Maintenance	\$182,408	\$0	\$0	\$0	\$0	\$0	\$182,408
952	Protective Services - Other Contract Costs	\$14,175	\$0	\$0	\$0	\$220,583	\$0	\$234,758
961	Insurance Premiums	\$270,978	\$809	\$0	\$9,297	\$0	\$0	\$281,084
962	Other General Expenses	\$416	\$0	\$0	\$3,314	\$0	\$0	\$3,730
963	Payments in Lieu of Taxes	\$67,811	\$0	\$0	\$0	\$0	\$0	\$67,811
964	Bad Debt - Tenant Rents	\$42,229	\$0	\$0	\$0	\$0	\$0	\$42,229
969	Total Operating Expenses	\$3,785,022	\$34,956	\$4,410	\$361,818	\$914,655	\$108	\$5,100,969
970	Excess Operating Revenue over Operating Expenses	\$-8,475	\$315,735	\$0	\$3,213,958	\$711,192	\$0	\$4,232,410
973	Housing Assistance Payments	\$0	\$311,583	\$0	\$2,618,280	\$0	\$0	\$2,929,863
974	Depreciation Expense	\$1,170,094	\$8,547	\$0	\$4,825	\$69,234	\$0	\$1,251,100
990	Total Expenses	\$4,955,116	\$353,466	\$4,410	\$2,984,923	\$983,889	\$108	\$9,281,912
1001	Operating Transfers In	\$384,839	\$0	\$0	\$0	\$0	\$0	\$384,839
1002	Operating Transfers Out	\$0	\$0	\$0	\$0	\$-384,839	\$0	\$-384,839
1010	Total Other Financing Sources (Uses)	\$384,839	\$0	\$0	\$0	\$-384,839	\$0	\$0
1000	Excess (Deficiency) of Total Revenue Over (Under) Total Expenses	\$-793,730	\$-2,775	\$0	\$590,853	\$257,119	\$0	\$51,467

PHA: IN029 FYED: 12/31/2007

Line Item No.	Account Description	Low Rent Public Housing	Lower Income Housing Assistance Program Section 8 Moderate Rehabilitation IN029MR0002	Resident Opportunity and Supportive Services	Housing Choice Vouchers	Public Housing Capital Fund Program	State/Local	Total
1102	Debt Principal Payments - Enterprise Funds	\$0	\$0	\$0	\$0	\$0	\$0	\$0
1103	Beginning Equity	\$6,543,964	\$46,118	\$0	\$797,745	\$904,525	\$0	\$8,292,352
1104	Prior Period Adjustments, Equity Transfers and Correction of Errors	\$369,673	\$383	\$0	\$0	\$-369,673	\$0	\$383
1120	Unit Months Available	9,696	708	0	7,168	0	0	17,572
1121	Number of Unit Months Leased	7,610	631	0	5,960	0	0	14,201
1117	Administrative Fee Equity	\$0	\$0	\$0	\$354,214	\$0	\$0	\$354,214
1118	Housing Assistance Payments Equity	\$0	\$0	\$0	\$1,034,384	\$0	\$0	\$1,034,384

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

**433 WEST PERSHING ROAD  
DECATUR, ILLINOIS 62526  
(217) 872-1908**

Board of Commissioners  
Housing Authority of the City of East Chicago  
East Chicago, Indiana

In planning and performing my audit of the financial statements of Housing Authority of the City of East Chicago as of and for the year ended December 31, 2007, in accordance with auditing standards generally accepted in the United State of America, I considered the Housing Authority's internal control over financial reporting (internal control) as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Housing Authority of the City of East Chicago's internal control. Accordingly, I do not express an opinion on the effectiveness of Housing Authority of the City of East Chicago's internal control.

The administration of the Housing Authority is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgements by the administration are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use of disposition and that transactions are executed in accordance with authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may nevertheless occur and not be detected. Also, projection of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

My study and evaluation made for the limited purpose described in the first paragraph would not necessarily disclose all material weaknesses in the system. However, my study and evaluation disclosed certain conditions in the following areas of which you should be aware in order to improve operating efficiencies and strengthen internal controls:

1. The Housing Authority should review depreciation schedules and determine that they do reconcile to physical counts of equipment still in the possession and in use. Any obsolete equipment or tools should be eliminated from the depreciation schedule. For example, the Section 8 depreciation schedule has 16 typewriters and 2 Tandy computers listed. Other schedules were noted to contain several computers that are more than ten years old.
2. While reviewing Section 8 files there were 3 errors noted. Two were medical allowances and the other was a data entry error.
3. Internal controls need to be expanded with written documentation of procedures. All current written procedures should be pulled together and incorporated into a manual distributed to all applicable staff.
4. During a test of disbursements, one contract not awarded to low bid. There was no documentation as to why, although board minutes referred to a "discussion".
5. During review of Public Housing files, seven files had errors (one or more) out of the sample of twenty-five files. Another seven files had annual recertifications completed late (or not at all) due to reporting "interim" and change from a January 1 report to the anniversary date. The same files were missing annual applications and addendums.

6. Error noted in interest allocation on PHA FSS escrow participants worksheets. Worksheets indicate interest allocated all year at a rate not used in calculation.
7. Inventory report didn't have adequate detail of total dollar amount extended.
8. While reviewing Capital Fund contracts, some errors were detected. No proof of advertising for bids in files, no bonds in files (performance or bid), no inspection of work punch lists and no detail of preconstruction conference were found.

This communication is intended solely for the information and used of management, the Board of Commissioners, and others within the housing authority, and is not intended to be and should not be used by anyone other than these specified parties. Please feel free to contact me if you have any questions.

Decatur, Illinois  
July 25, 2008

Certified Public Accountant