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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, 2009 to December 31, 2009. 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, 2009 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**

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

**TWELVE MONTHS ENDED
DECEMBER 31, 2009**

**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, 2009, 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.

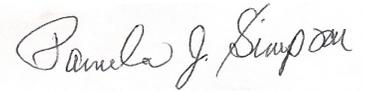
I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and 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, 2009 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 23, 2010, 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.

Handwritten signature of Pamela J. Simpson in cursive script.

Certified Public Accountant

Decatur, Illinois
July 23, 2010

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, 2009. 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 fund that encompasses all of the Authority's programs. This Proprietary 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 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. Since the discontinuance of the HUD Public Housing Drug Elimination Program (PHDEP) Grant in 2002, the Authority has kept the program going in 2009 by partnering with Tri-City Mental Health to administer and fund the program through the use of grants administered by Tri-City Mental Health.
2. Overall federal funding for the Department of Housing and Urban Development (HUD) was cut again by Congress for 2009 appropriations and as a result, the Authority was funded at 88% (a decrease of .96% from 2008) for public housing operating subsidies which represented a loss of revenues in the amount of \$362,330 in 2009 versus a loss of revenues in 2008 of \$328,168 as a result of not being funded at 100%. HUD's allowable inflation factor was 1.027 (an increase of .8% from 2008) for operating subsidy expenses and 1.0944 (an increase of 5% from 2008) for utilities with the increases being negated by the overall underfunding of 12%.
3. Even though funding was reduced in 2009 to 82% (a \$577,919 shortfall) for the Sec 8 Voucher Choice Program, the Authority leased up to 88% (up 8% from 2008 but down 2% from 90% goal) by the end of the year utilizing \$940,384 of restricted net assets leaving a balance of \$23,159. Without receiving 100% funding or additional funding, the agency will have to freeze lease ups, reduce payment standards and as a last resort, lease terminations to keep the program afloat going into 2010 which will have a negative impact on administrative revenue needed to administer the program.
4. The Agency received \$1,885,325 in ARRA stimulus funds and by the 3rd quarter of 2009, 12.19 jobs were created while 34 jobs were created by the end of the 4th quarter of 2009, with \$504,291 spent towards much needed renovations and roof replacements of various units in West Calumet and Scattered Sites to provide safe, decent and sanitary housing for our residents.
5. Due to the economy officially designated in 2008 as in a recession (a trend that has continued since 2002), local labor supply and demand, which affects local inflationary, recessionary and employment trends, salary and wage rates, unemployment has continued to rise in 2009 affecting resident incomes as well as the incomes of employees as raises were not provided in 2009 to our employees due to uncertainties of the economy and funding.
6. Due to asset management starting in 2008, two positions were eliminated from the Central Office, and several positions were reorganized to assist in decentralizing the main office and maintenance departments to specific asset management projects (amps). Due to retirements and terminations in 2009, six maintenance positions were filled in October 2009 due to understaffing at various amps.
7. Tenant accounts receivable and fraud 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 \$20,735 or 35% 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

	2009	2008	Net Change	Percent Variance
Cash	2,756,737	2,997,619	-240,882	-8.0%
Other Current Assets	915,900	480,336	435,564	90.7%
Capital Assets	3,953,404	4,552,379	-598,975	-13.2%
Non Current Assets	0	0	0	0.0%
Total Assets	7,626,041	8,030,334	-404,293	-5.0%
Current Liabilities	929,230	448,381	480,849	107.2%
Long Term Liabilities	35,657	47,534	-11,877	-25.0%
Total Liabilities	964,887	495,915	468,972	94.6%
Net Invested in Capital Assets	3,953,404	4,552,379	-598,975	-13.2%
Restricted Net Assets	23,159	962,159	-939,000	-97.6%
Unrestricted Net Assets	2,684,591	2,019,881	664,710	32.9%
Total Net Assets	6,661,154	7,534,419	-873,265	-11.6%

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

Cash decreased primarily due to a \$941,897 decrease of Cash-other restricted for HAP payments offset against an increase of \$701,015 in Cash-unrestricted just as Current Liabilities also increased by \$480,849.

Other Current Assets increased by \$435,564 or 90.7% primarily due to a \$439,612 increase in **accounts receivable-HUD** for Capital funds expended but not yet drawn.

Capital assets also changed significantly, decreasing from \$4,552,379 to \$3,953,404. This \$598,975 or 13.2% decrease is attributed to a combination of acquisitions in the amount of \$687,474 less current year depreciation of (\$851,885) plus the change in restricted nets assets of \$939,000. For more detail, see the analysis of capital assets activity in table 5.

Restricted Net Assets decreased \$939,000 or 97.6% due to utilizing the HAP reserves for increased leasing of vouchers. **Unrestricted Net Assets** increased by \$664,710 or 32.9% primarily due to a \$687,474 increase for capital expenditures, a \$851,885 increase due to depreciation expense, and a net operating loss of \$874,649.

HOUSING AUTHORITY OF THE CITY OF EAST CHICAGO
MANAGEMENT DISCUSSION AND ANALYSIS
FISCAL YEAR ENDING DECEMBER 31, 2009

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

TABLE 2
CHANGE OF UNRESTRICTED NET ASSETS

Unrestricted Net Assets 12/31/08		\$ 2,019,881
Results of Operatons	(874,649)	
Adjustments:		
Depreciation (1)	851,885	
Adjusted Results of Operations		(22,764)
Capital Expenditures		687,474
Unrestricted Net Assets 12/31/09		\$ 2,684,591

(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, 2009

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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

	2009	2008	Net Change	Percentage Change
<u>Revenues</u>				
Total Tenant Revenue	1,501,795	1,503,414	-1,619	0%
HUD Operating Grants	7,203,499	7,036,873	166,626	2%
Capital Grants	252,910	55,902	197,008	352%
Other Government Grants	0	0	0	0%
Investment Income	4,352	16,637	-12,285	1%
Fraud Recovery	19,355	13,027	6,328	49%
Other Revenue	89,420	90,287	-867	-1%
Gain/loss on Sale of Fixed Assets	700	0	700	-100%
Total Revenue	<u>9,072,031</u>	<u>8,716,140</u>	<u>355,891</u>	<u>4%</u>
<u>Expenses</u>				
Administrative	1,960,543	1,976,035	-15,492	-1%
Tenant Services	236,444	309,828	-73,384	-24%
Utilities	598,134	771,880	-173,746	-23%
Maintenance	1,731,030	1,568,262	162,768	10%
Protective Service	331,739	314,859	16,880	5%
General Expense	408,254	392,384	15,870	4%
Extraordinary Maintenance	0	960	-960	100%
Casualty Losses	0	5,000	-5,000	100%
Housing Assistance Payments	3,828,651	3,169,994	658,657	21%
Depreciation Expense	851,885	1,016,721	-164,836	-16%
Total Expenses	<u>9,946,680</u>	<u>9,525,923</u>	<u>420,757</u>	<u>4%</u>
Net Income (Loss)	<u>-874,649</u>	<u>-809,783</u>	<u>-64,866</u>	<u>8%</u>

Major Factors Affecting

The Statement of Revenue, Expenses, and Changes in Net Assets

Total revenue increased 4% overall. **HUD Operating Grants** revenue increased by 2% due to increase in Public Housing operating draws from the Capital Funds. **Capital Grants** revenue increase of 352% was due to the Authority under-taking a more aggressive modernization program in the current fiscal year. **Fraud Recovery** increased 49% due to the earned income verification process. **Gain/Loss on Sale of Fixed Assets** increased 100% due to the sale of Section 8 vehicle during the current year.

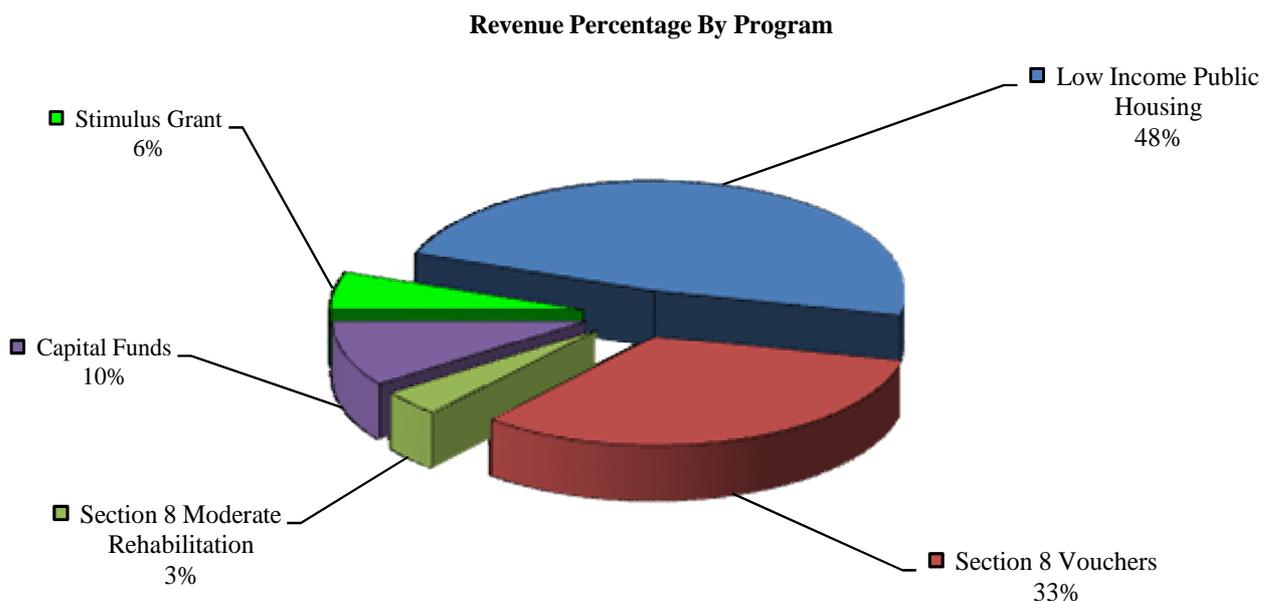
HOUSING AUTHORITY OF THE CITY OF EAST CHICAGO
 MANAGEMENT DISCUSSION AND ANALYSIS
 FISCAL YEAR ENDING DECEMBER 31, 2009

Overall, **total expenses**, including depreciation, increased approximately 4%. **Tenant Services** decreased by 24% due to decrease in summer program employees and activities and no raises given in 2009. **Utilities** decreased 23% due to relatively mild summer and winter. **Maintenance** increased 10% due to an overall increase in maintenance contracts for vacancy reduction. **Protective Service** increased 5% due to increase in security for West Calumet Recreation Center. **Housing Assistance Payments** increased 21% due to 88% occupancy in 2009 versus 80% in 2008. **Extraordinary Maintenance and Casualty losses** decreased 100% due to no unexpected non routine maintenance and casualties. **Depreciation Expense** decreased 16% 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 2009 were as follows:

<u>Program</u>	<u>Revenues Generated</u>
Low Income Public Housing	\$4,359,977
A.R.R.A. - Formula Stimulus Grant	\$504,291
Section 8 Vouchers	\$2,961,566
Section 8 Moderate Rehabilitation	\$353,571
Capital Funds	\$892,626

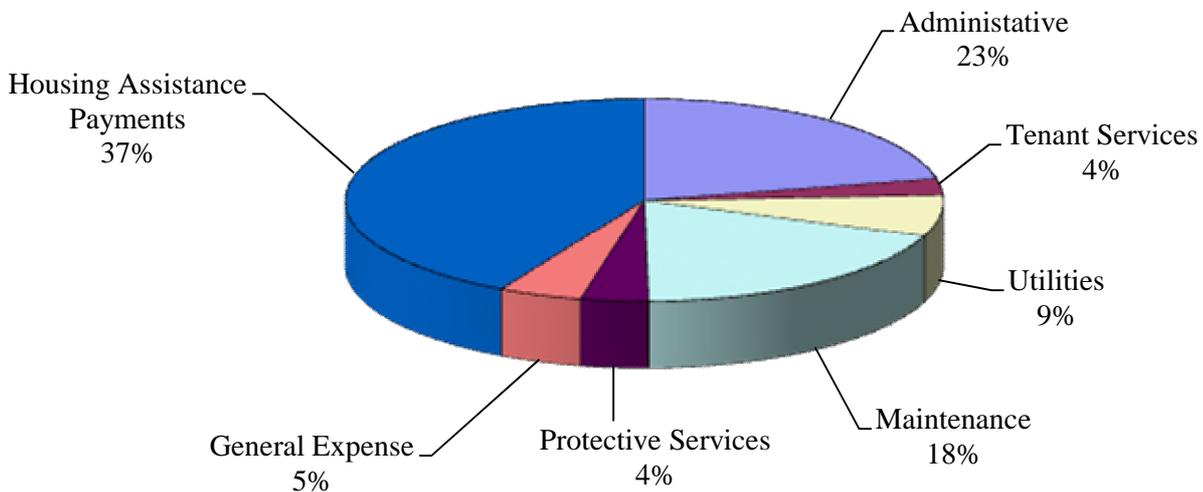
The diagram below illustrates the percentage of revenues generated by these programs for Fiscal Year Ending December 31, 2009:



:

The diagram below illustrates the percentage of Authority expenditures by categories excluding Depreciation Expense for Fiscal Year Ending December 31, 2009:

Expenses by Category



Budgetary Analysis

The Authority adopts individual annual operating budgets for all projects and 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, 2009

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

	Percent Variance	Budget Variance	Original Budget	Final Budget	Actual	Actual Variance	Percent Variance
Tenant Revenue	0%	0	1,527,310	1,527,310	1,501,795	-25,515	-2%
HUD Operating Grants	0%	0	7,048,841	7,048,841	7,203,499	154,658	2%
HUD Capital Grants	0%	0	252,910	252,910	252,910	0	0%
Investment Income-Unrestricted	0%	0	7,180	7,180	3,294	-3,886	-54%
Investment Income-Restricted	0%	0	0	0	1,058	1,058	100%
Fraud Recovery	0%	0	28,000	28,000	19,355	-8,645	-31%
Other Revenue	0%	0	36,060	36,060	89,420	53,360	60%
Gain/Loss on Sale of Asset	0%	0	0	0	700	700	100%
Total Revenue	0%	0	8,900,301	8,900,301	9,072,031	171,730	2%
Administrative	0%	0	2,099,915	2,099,915	1,960,543	-139,372	-7%
Tenant Services	0%	0	285,710	285,710	236,444	-49,266	-17%
Utilities	0%	0	687,810	687,810	598,134	-89,676	-13%
Maintenance	0%	0	1,373,720	1,373,720	1,731,030	357,310	21%
Protective Services	0%	0	257,730	257,730	331,739	74,009	22%
General Expense	0%	0	420,185	420,185	408,254	-11,931	-3%
Housing Assistance Payments	0%	0	3,419,908	3,419,908	3,828,651	408,743	11%
Depreciation Expenses	0%	0	1,542,920	1,542,920	851,885	-691,035	-45%
Total Expenses	0%	0	10,087,898	10,087,898	9,946,680	-141,218	-1%
Net Income/(Loss)	0	0	-1,187,597	-1,187,597	-874,649	312,948	26%

Results of Operations

Management prepared individual and entity wide budgets that originally anticipated results of operation after depreciation as a net loss of \$1,187,597 while actual results of operation after depreciation was a net loss of \$874,649 resulting in a favorable variance of \$312,948 or 26%. The major contributing factor was due to overall actual expenses less than originally budgeted by \$141,218 which included a favorable variance for Depreciation of \$691,035 offset by an unfavorable variance of \$408,743 for HAP payments.

HOUSING AUTHORITY OF THE CITY OF EAST CHICAGO
MANAGEMENT DISCUSSION AND ANALYSIS
FISCAL YEAR ENDING DECEMBER 31, 2009

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Tenant Rental Revenues was under budget by \$25,515 or 2% reflecting tenants paying lower rents than anticipated.

HUD Operating Grants were over budget overall by \$154,658 or 2% due to \$381,675 of capital fund stimulus grant soft costs not originally budgeted for. PHA actually received less subsidy than anticipated for Housing Choice Voucher by \$571,038 which was offset by an operating subsidy increase of \$441,597.

Investment Income-Unrestricted was under budget by \$3,886 or 54% due to decrease in interest rates to .10% due to recession. **Investment Income-Restricted** was over budget by \$1,058 or 100% due to interest income on the general fund due to HUD for HAP reserves not originally budgeted for.

Fraud Recovery was under budget by \$8,645 or 31% due to the Authority earning less income from Section 8 fraud recoveries than originally anticipated.

Other Revenue was over budget by \$53,360 or 60% due to \$17,395 variance for non-dwelling rental for additional cell phone tower rental and \$41,227 dividend return on premium for housing insurance property coverage not originally budgeted.

Administrative was under budget by \$139,372 or 7% primarily due to office salaries of \$112,534 and employment benefits of \$24,958 for vacant staff positions not filled.

Tenant Service was under budget by \$49,266 or 17% due to summer workers salaries not originally budgeted.

Utilities were under budget by \$89,676 or 13% due to actual cost of gas, water and electricity being less than anticipated due to a relatively mild summer and winter.

Maintenance was over budget by \$357,310 or 21% primarily due to \$337,482 of Capital Fund Stimulus grant used for unit turnaround at West Calumet and Scattered Sites due to high vacancies and was not originally budgeted for as funds were awarded in March 2009.

Protective Services was over budget by \$74,009 or 22% primarily due to added security costs for West Calumet Recreation Center and an overall rate increase not originally budgeted for.

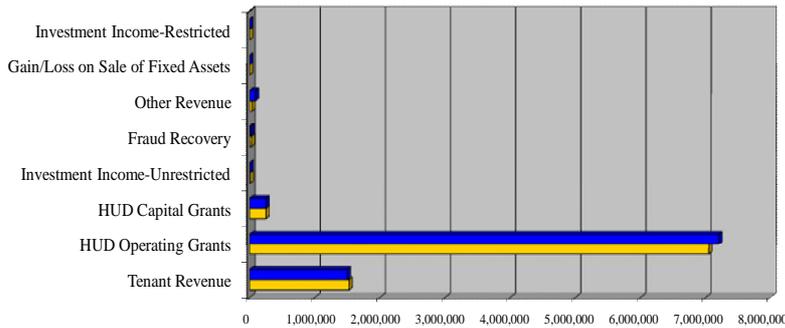
Housing Assistance Payments were over budget by \$408,743 or 11% due to an increase in actual occupancy to 88% from 80% in previous year which was greater than originally anticipated.

Depreciation Expenses were under budget by \$691,035 or 45% due to fully depreciated assets and not purchasing as much depreciable assets as originally anticipated.

**HOUSING AUTHORITY OF THE CITY OF EAST CHICAGO
MANAGEMENT DISCUSSION AND ANALYSIS
FISCAL YEAR ENDING DECEMBER 31, 2009**

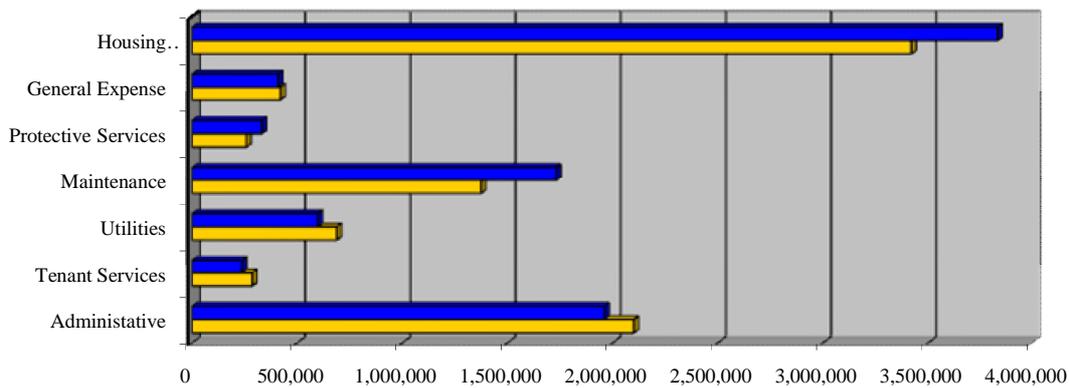
The diagrams below illustrate the Authority's Budget compared to Actual for Revenue and Expense for Fiscal Year Ending December 31, 2009:

Revenues - Budget Vs. Actual



	Tenant Revenue	HUD Operating Grants	HUD Capital Grants	Investment Income-Unrestricted	Fraud Recovery	Other Revenue	Gain/Loss on Sale of Fixed Assets	Investment Income-Restricted
■ Actual	1,501,795	7,203,499	252,910	3,294	19,355	89,420	700	1,058
■ Budget	1,527,310	7,048,841	252,910	7,180	28,000	36,060	0	0

Expenses - Budget Vs. Actual



	Administrative	Tenant Services	Utilities	Maintenance	Protective Services	General Expense	Housing Assistance Payments
■ Actual	1,960,543	236,444	598,134	1,731,030	331,739	408,254	3,828,651
■ Budget	2,099,915	285,710	687,810	1,373,720	257,730	420,185	3,419,908

HOUSING AUTHORITY OF THE CITY OF EAST CHICAGO
MANAGEMENT DISCUSSION AND ANALYSIS
FISCAL YEAR ENDING DECEMBER 31, 2009

As of the end of the year, the Authority had \$3,953,404 invested in a variety of capital assets as reflected in the following table which represents a net decrease (additions, deductions, and depreciation) of \$598,975 or 13.2% from the end of the previous fiscal year.

Table 5
ANALYSIS OF CAPITAL ASSET ACTIVITY

	2009	2008	Net Change	Percent Variance
Land	974,719	974,719	0	0.0%
Buildings	37,185,560	37,072,770	112,790	0.3%
Furniture, Equipment, & Machinery	1,028,675	1,092,666	-63,991	-5.9%
Site Improvements	1,352,409	1,337,509	14,900	1.1%
Total Fixed Assets	40,541,363	40,477,664	63,699	0.2%
Accumulated Depreciation	-36,710,575	-35,925,285	785,290	2.2%
Construction in Progress	122,616	0	122,616	100.0%
Net Fixed Assets	3,953,404	4,552,379	-598,975	-13.2%

Buildings increased by \$112,790 or .3% primarily due to \$82,310 for roof replacements at AMP 4 Scattered Sites 29-2, \$19,950 water heater/boiler replacement at AMP 2 Nicosia Senior Building, and \$8,400 main gas line replacement at AMP 1 Hunter Senior Building.

Furniture, Equipment, & Machinery decreased by \$63,991 or 5.9% primarily due to the removal of fully depreciated assets.

Site Improvements increased by \$14,900 or 1.1% due to a driveway replacement for AMP 4 Scattered Sites.

Accumulated Depreciation increased by \$785,290 or 2.2% primarily due to current year's depreciation expense of \$851,885.

Construction in Progress increased by \$122,616 or 100% primarily due to \$110,626 for roof replacements at AMP 3 West Calumet Complex. This increase also represents the various modernization activities from the Capital Funds program in progress 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, 2009**

ASSETS

Current Assets

Cash and cash equivalents	\$ 2,724,609
Accounts receivable (interfund eliminated)	579,211
Inventory - net of allowance	213,968
Deferred charges	<u>122,721</u>

Total Current Assets \$ 3,640,509

Restricted Assets

Cash	<u>\$ 32,128</u>
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Total Restricted Assets \$ 32,128

Capital Assets

Land, buildings and equipment	\$ 40,663,979
Less: Accumulated depreciation	<u>-36,710,575</u>

Net Capital Assets \$ 3,953,404

TOTAL ASSETS \$ 7,626,041

LIABILITIES

Current Liabilities

Accounts payable (interfund eliminated)	\$ 281,010
Accrued liabilities	226,494
Tenant security deposits	138,415
FSS escrow	11,503
Deferred revenue	<u>271,808</u>

Total Current Liabilities \$ 929,230

Noncurrent Liabilities

Accrued compensated absences	\$ 26,688
FSS escrow	<u>8,969</u>

Total Noncurrent Liabilities \$ 35,657

TOTAL LIABILITIES \$ 964,887

NET ASSETS

Unrestricted net assets	\$ 2,684,591
Restricted	23,159
Invested in capital assets	<u>3,953,404</u>

TOTAL NET ASSETS \$ 6,661,154

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, 2009**

Operating Income

Tenant Income

Tenant rental revenue	\$ 1,415,128
Tenant revenue - other	<u>86,667</u>

Total Tenant and Other Rental Income \$ 1,501,795

Non-Tenant Income

HUD grants - operating	\$ 7,203,499
Fraud recovery	19,355
Other revenue	89,420
Gain or loss on sale of capital assets	<u>700</u>

Total Non-Tenant Income \$ 7,312,974

Total Operating Income \$ 8,814,769

Operating Expenses

Administration	\$ 1,960,543
Tenant services	236,444
Utilities	598,134
Ordinary maintenance and operation	1,731,030
General expense	408,254
Protective services	331,739
Housing assistance payments	3,828,651
Depreciation	<u>851,885</u>

Total Operating Expenses \$ 9,946,680

Net Operating Income (Loss) \$ -1,131,911

Nonoperating Income (Expenses)

HUD grants - capital	\$ 252,910
Interest income	<u>4,352</u>

Total Nonoperating Income (Expenses) \$ 257,262

Changes in net assets	\$ -874,649
Net assets, beginning of year	7,534,419
Prior period adjustments	<u>1,384</u>

Net Assets, end of year \$ 6,661,154

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

**COMBINED STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
TWELVE MONTHS ENDED DECEMBER 31, 2009**

Operating Activities

Operating subsidy	\$ 7,040,007
Tenant revenue	1,546,141
Other revenues	109,475
Housing assistance payments	-3,828,651
Payments to employees	-1,901,208
Payments to suppliers and contractors	<u>-3,210,998</u>

Net Cash Provided (Used) by Operating Activities	<u>\$ -245,234</u>
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Investing Activities

Interest income	<u>\$ 4,352</u>
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Net Cash Provided (Used) by Investing Activities	<u>\$ 4,352</u>
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Capital and Related Financing Activities

HUD grants - capital	\$ 252,910
(Additions) deletions to capital assets	<u>-252,910</u>

Net Cash Provided (Used) by Capital and Related Financing Activities	<u>\$ 0</u>
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Net Change in Cash	\$ -240,882
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Cash Balance at December 31, 2008	<u>2,997,619</u>
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Cash Balance at December 31, 2009	<u><u>\$ 2,756,737</u></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, 2009**

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

Net operating income (loss)	\$ -1,131,911
Adjustment to Reconcile Operating Income (Loss) to Net Cash Flows from Operating Activities:	
Depreciation	851,885
Adjustments to net assets	1,384
(Increase) decrease in accounts receivable	-414,152
(Increase) decrease in deferred charges	7,437
(Increase) decrease in inventories	-28,849
Increase (decrease) in accounts payable	127,433
Increase (decrease) in accrued liabilities	76,467
Increase (decrease) in deferred revenues	267,969
Increase (decrease) in other liabilities	<u>-2,897</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ -245,234</u>

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

**NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED DECEMBER 31, 2009**

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 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) has 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 the City does not maintain an oversight responsibility for the Authority's operations. However, the Housing Authority is a related organization to the City of East Chicago since an independent seven member Board of Commissioners appointed and removed by the Mayor of the City of East Chicago, 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, 2009
(CONTINUED)**

Note 1 - Summary of Significant Accounting Policies

(c) Financial Statement Presentation

Although a formal policy has not been adopted, in financial statement preparation the Authority distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with the Authority's principal ongoing operations. Principal operating revenues are tenant rents and HUD grants. Operating expenses include administration, maintenance, insurance, depreciation, utilities, housing assistance payments and other general expenses. All revenues and expenses not meeting these definitions are reported as non-operating revenues and expenses.

(d) Funds -

Each of the programs of the Housing Authority are organized on a basis of fund accounting, using a separate set of self balancing accounts as prescribed by HUD. The programs of the Housing Authority are:

- * Low Rent Public Housing (Amps and COCC)
- * Section 8 Choice Vouchers
- * Section 8 Moderate Rehabilitation
- * Capital Fund Program
- * American Recovery and Reinvestment Act - Formula Capital Stimulus Grant

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

Proprietary Fund Types:

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

(e) Cash and Cash Equivalents -

For purposes of the statement of cash flows, the Housing Authority considers all highly liquid investments to be cash equivalents. Highly liquid assets are those with a maturity of less than one (1) month at date of purchase.

(f) Interprogram Receivables and Payables

During the course of operations, numerous transactions occur within individual programs that may result in amounts owed between these programs. These receivables and payables are classified as "due from other programs" or "due to other programs" on the combining statement of net assets and have been eliminated in the basic financial statements.

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

**NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED DECEMBER 31, 2009
(CONTINUED)**

Note 1 - Summary of Significant Accounting Policies

(g) Accounts Receivable -

The tenants accounts receivable discloses the gross amount due from the tenants at December 31, 2009, 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 semi-annually writes off uncollectible accounts receivable to the allowance account based on a review of the current status of existing receivables for lease end participating tenants and the determination that the receivable will not be collected.

(h) Inventories and Materials -

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

(I) Investments -

Investments are stated at cost which approximates market.

(j) 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.

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

**NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED DECEMBER 31, 2009
(CONTINUED)**

Note 1 - Summary of Significant Accounting Policies

(j) Fixed Assets - (Continued)

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.

(k) Net Assets -

GASB Statement 34 requires the classification of net assets into three components as defined below:

- 1) Invested in capital assets, net of related debt - this component of net assets consists of capital assets, net of accumulated depreciation, costs to be recovered from future revenues and unamortized debt expense reduced by outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.
- 2) Restricted - this component of net assets consist of constraints placed on net assets use through external constraints imposed by creditors, contributors or laws and regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- 3) Unrestricted - this component of net assets consists of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

(l) Income Tax -

The Authority, organized as a local municipal 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, 2009
(CONTINUED)**

Note 1 - Summary of Significant Accounting Policies

(m) 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.

- (n) The Housing Authority adopts a budget annually. The budget is submitted to the Board of Commissioners for approval. Subsequent budget revisions may also be required to be submitted for approval.
- (o) 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.
- (p) Leasing activities (as lessor) - the Authority is the lessor of dwelling units mainly to low income and/or elderly and disabled residents. The rents under the lease are determined generally by the resident's income as adjusted by eligible deductions regulated by HUD, although the resident may elect for a flat rent option. Leases may be cancelled by the lessee at any time with proper notice. The Authority may cancel the lease only for cause.
- (q) Rental income is recognized as rents become due.
- (r) At any time during the year and at year end, there are construction projects in process. These projects include modernizing rental units. The projects are funded by HUD and funds are requested periodically as costs are incurred.

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

**NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED DECEMBER 31, 2009
(CONTINUED)**

Note 2 - Related Party Transactions

The East Chicago Housing Authority shared certain employees and office expenses throughout 2009 with the City of East Chicago Department of Redevelopment (a city department). Both entities share office space and the same payroll department, who are Housing Authority employees, with separate Board of Directors appointed by the Mayor of the City of East Chicago. The expenses of the payroll department are allocated and reimbursed using time sheet allocations, while all other expenses are either direct costs to each entity or allocated using the number of programs in the office or the number of staff by program for certain shared office expenses such as telephone, utilities, etc. Reimbursements occur weekly, however, any unreimbursed expenses incurred by the City of East Chicago's Department of Redevelopment for payroll, fringe benefits and certain other expenses through December 31, 2009 were reflected on the Central Office Cost Center's balance sheet as account receivable - other government in the amount of \$14,341.

Note 3 - 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 \$200,000 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, 2009
(CONTINUED)**

Note 3 - 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 (AMPS & COCC)	\$ 2,282,994	\$ 2,293,083
Voucher	<u>473,743</u>	<u>515,623</u>
Total	<u>\$ 2,756,737</u>	<u>\$ 2,808,706</u>

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

**NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED DECEMBER 31, 2009
(CONTINUED)**

Note 4 - 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. 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. For all compensated absences, the liability is valued at the pay rates in effect at the end of the Authority's fiscal year.

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).

Employees can accumulate a maximum of 240 hours of sick leave. For every three months the accumulated sick leave is consistently 240 hours, the employee earns 8 additional hours of vacation leave the following month. Since the Authority has no obligation for the accumulated sick leave until it is actually taken, no accrual for sick leave has been made.

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 received. 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, except at the discretion of the executive director.

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

**NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED DECEMBER 31, 2009
(CONTINUED)**

Note 4 - Compensated Absences (Continued)

Annual Leave (Continued)

- 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:

½ on January 16; ½ on July 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:

½ on January 16; ½ on July 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.

Note 5 - 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, 2009, the actual contributions by the Housing Authority were \$316,018. Total annual payroll expense was \$ 1,895,348.

Life Associates, Inc. Money Purchase Plan

This agreement together with the Life Associates Inc. basic defined contribution plan constitutes amendment No. 1 to the Plan.

Eligible Employee

An eligible employee is an employee of the Housing Authority that meets the requirements employed in the following employment classification: i) paid on a salaried basis, ii) paid on a commission basis, iii) paid on an hourly basis. Is customarily employed for at least 20 hours per week, for at least 5 months per year.

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

**NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED DECEMBER 31, 2009
(CONTINUED)**

Note 5 - Defined Contribution Plan (Continued)

Employer Contributions and Forfeitures

Contributions are made for each person who was an active member at anytime since the last contribution date. The amount of the employer contribution for such person shall be calculated as of the contribution date and shall be equal to 14.70% of their monthly pay.

Vesting Percentage

Vesting percentage is used to determine the nonforfeitable percentage of a member's account resulting from contributions. The vesting percentage for a member who is an employee on or after the date he reaches normal retirement age or early retirement age shall be 100%. The vesting percentage for a member who is an employee on the date they become totally disabled or dies shall be 100%.

Member's account resulting from our contributions is subject to the vesting schedule selected below:

<u>Vesting Service</u>	<u>Vesting Percentage</u>
Less than 1 year	50
1 year	60
2 years	70
3 years	80
4 years	90
5 years or more	100

Note 6 - Accounts Receivable - Net of Allowance

Accounts receivable consists of the following accounts:

HUD	\$ 518,713
Tenants accounts receivable (net)	12,833
Fraud recovery (net)	29,264
Other	<u>18,401</u>
Subtotal	\$ 579,211
Interfund	<u>269,015</u>
Total	<u><u>\$ 848,226</u></u>

Note 7 - Deferred Charges

This classification includes the following accounts:

Prepaid insurance	<u><u>\$ 122,721</u></u>
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**HOUSING AUTHORITY OF THE CITY OF EAST CHICAGO
EAST CHICAGO, INDIANA**

**NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED DECEMBER 31, 2009
(CONTINUED)**

Note 8 - Fixed Assets

Balance as of December 31, 2009	\$ 3,953,404
Balance as of December 31, 2008	<u>4,552,379</u>
Net Increase (Decrease)	<u>\$ -598,975</u>

Reconciliation

Property betterments and additions	\$ 252,910	
Depreciation expense	<u>-851,885</u>	*
Net Increase (Decrease)	<u>\$ -598,975</u>	

*Current year depreciation expense recognized.

<u>Analysis</u>	01/01/2009 <u>Balance</u>	Additions/ <u>Transfers</u>	Deletions/ <u>Transfers</u>	12/31/2009 <u>Balance</u>
Land	\$ 974,719	\$ 0	\$ 0	\$ 974,719
Buildings	37,072,770	112,790	0	37,185,560
Equipment and furniture	1,092,666	2,604	66,595	1,028,675
Leasehold improvements	1,337,509	14,900	0	1,352,409
Construction in progress	<u>0</u>	<u>122,616</u>	<u>0</u>	<u>122,616</u>
Total	\$ 40,477,664	\$ 252,910	\$ 66,595	\$ 40,663,979
Accumulated depreciation	<u>-35,925,285</u>	<u>66,595</u>	<u>851,885</u>	* <u>-36,710,575</u>
Total	<u>\$ 4,552,379</u>	<u>\$ 319,505</u>	<u>\$ 918,480</u>	<u>\$ 3,953,404</u>

Note 9 - 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.

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

**NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED DECEMBER 31, 2009
(CONTINUED)**

Note 10 - Accounts Payable

This classification includes the following accounts:

Vendors and contractors	\$ 280,183
Other	<u>827</u>
Subtotal	\$ 281,010
Interfund	<u>269,015</u>
Total	<u>\$ 550,025</u>

Note 11 - Accrued Liabilities

At December 31, 2009 the following accounts were accrued:

Current Portion:

Payroll and payroll taxes	\$ 79,652
Accrued compensated absences	770
PILOT	<u>146,072</u>
Total Current Portion	<u>\$ 226,494</u>

Noncurrent Portion:

Accrued compensated absences	<u>\$ 26,688</u>
Total	<u>\$ 253,176</u>

Note 12 - Deferred Revenues

This classification consists of the following accounts:

Tenants prepaid rent	\$ 2,805
Other deferred revenues	<u>269,003</u>
Total	<u>\$ 271,808</u>

Note 13 - 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 Moderate Rehabilitation administrative fees are calculated using a variable rate per HUD. The Voucher rate is determined annually by HUD.

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

**NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED DECEMBER 31, 2009
(CONTINUED)**

Note 14 - Allocation of Costs

The PHA allocated some expenses not attributable to a specific program to all programs under management. The basis for these allocations varied with the type of expenses as management deemed equitable.

Note 15 - Contingencies

Federal Grants

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

Note 16 - Prior Period Adjustments

Prior period adjustments posted directly to surplus are detailed below:

Adjustment to FSS escrow	\$ <u>1,384</u>
--------------------------	-----------------

Note 17 - Contracts/Commitments

As of December 31, 2009, the Housing Authority had entered into the following pending construction projects in progress:

	<u>Funds Approved</u>	<u>Funds Expended To Date</u>
CFP 501-07	\$ 1,460,629	\$ 1,180,755
CFP 501-08	1,489,431	796,724
CFP 501-09	1,470,810	82,828
Stimulus Grant 501-09	<u>1,885,325</u>	<u>504,291</u>
Total	<u>\$ 6,306,195</u>	<u>\$ 2,564,598</u>

Note 18 - 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.

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

**NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED DECEMBER 31, 2009
(CONTINUED)**

Note 19 - Economic Dependency

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

Note 20 Contracts/Commitments

As of December 31, 2009, the Housing Authority had entered into the following operating lease obligation:

<u>Lease Obligations</u>	<u>Lease Term</u>	<u>Monthly Payment</u>
Konica/Minolta Digital Copier	36 months	\$ 470
Pitney Bowes	36 months	\$ 1,075

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, 2009**

<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 12/31/09	\$ <u>2,766,605</u>	\$ <u>2,766,605</u>	\$ <u>2,766,605</u>
Lower Income Housing Assistance Program - Moderate Rehabilitation*	14.856	C-2030K	FYE 12/31/09	\$ <u>349,845</u>	\$ <u>349,845</u>	\$ <u>349,845</u>
Housing Choice Voucher Program*	14.871	C-2030V	FYE 12/31/09	\$ <u>2,943,042</u>	\$ <u>2,943,042</u>	\$ <u>2,943,042</u>
Public Housing - Capital Fund*	14.872	C-651	FYE 12/31/09	\$ <u>4,420,870</u>	\$ <u>892,626</u>	\$ <u>892,626</u>
A.R.R.A. - Formula Capital Stimulus Grant*	14.885	C-651	FYE 12/31/09	\$ <u>1,885,325</u>	\$ <u>504,291</u>	\$ <u>504,291</u>
Total Federal Assistance				\$ <u>12,365,687</u>	\$ <u>7,456,409</u>	\$ <u>7,456,409</u>

*Denotes major program.

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS (SEFA)
TWELVE MONTHS ENDED DECEMBER 31, 2009**

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.

PAMELA J. SIMPSON, C.P.A.

433 WEST PERSHING ROAD

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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, 2009, which collectively comprise the Housing Authority of the City of East Chicago's basic financial statements and have issued my report thereon dated July 23, 2010. 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 23, 2010.

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 23, 2010



Certified Public Accountant

PAMELA J. SIMPSON, C.P.A.

433 WEST PERSHING ROAD

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(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 the Housing Authority 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, 2009. The Housing Authority 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 the Housing Authority of East Chicago's management. My responsibility is to express an opinion on the Housing Authority 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 the Housing Authority 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 the Housing Authority of East Chicago's compliance with those requirements.

In my opinion, the Housing Authority 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, 2009. However, the results of my auditing procedures disclosed no instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133.

Internal Control Over Compliance

The management of the Housing Authority 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 the Housing Authority 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 East Chicago's internal control over compliance.

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

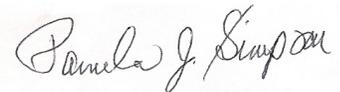
A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

My consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control over compliance that I consider to be material weaknesses, as defined above.

In addition, I noticed other matters involving the internal control and its operation that I have reported to management of the Housing Authority of East Chicago in a separate letter dated July 23, 2010.

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 23, 2010



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, 2008 contained no audit 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, 2009**

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? _____ yes X_____ 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? _____ yes X_____ no

<u>Major Programs: (Threshold \$300,000)</u>	<u>CFDA Number(s)</u>
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
A.R.R.A. - Capital Formula Stimulus Grant	14.885

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

CURRENT FINDINGS AND RECOMMENDATIONS

Section II - Financial Statement Audit 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 23, 2010.

Section III - Federal Award Audit Findings

There were no federal award 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 and at an exit conference held July 23, 2010.

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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, 2009, 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. In reviewing the Housing Authority's current insurance coverage and using the form HUD-5462, contained in HUD handbook 7401.5, I determined that the Authority's bonding coverage may not be adequate. The current coverage is \$175,000 per occurrence, however using the calculation on form HUD-5462, I suggest that the coverage be increased to \$200,000.
2. During my review of current procurement procedures and related payments, it was determined that the contracts for elevator maintenance had not been "bid" since 2003. I suggest that the maintenance contract be reviewed and bids obtained for future contracts to determine that he authority is receiving the best possible price/services.
3. A sample of disbursements was tested to determine that they were allowed and fully supported by required documentation as detailed in the procurement policies. One purchase examined that was not supported by three quotes as required by internal policy.

4. While examining related party transactions, it was determined that informal requests for reimbursement of certain payment are presented to the City of East Chicago Department of Redevelopment, however, no formal billings are presented. As a result reconciliation of related party transactions and the resulting accounts receivable (or payable) is difficult.

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 23, 2010



Certified Public Accountant