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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, 2011 to December 31, 2011. 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, 2011 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, 2011**

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

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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 the Housing Authority of the City of East Chicago, as of and for the year ended December 31, 2011, as listed in the table of contents. These financial statements are the responsibility of the Housing Authority of the City of East Chicago's management. My responsibility is to express opinions on these 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 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 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, 2011 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.

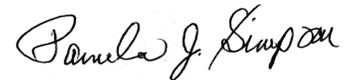
In accordance with *Government Auditing Standards*, I have also issued my report dated May 10, 2012 on my consideration of the Housing Authority of the City of East Chicago's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements with other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.

Accounting principles generally accepted in the United State of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 14 and be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I have applied certain limited procedures on the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial systems. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

My audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Housing Authority of the City of East Chicago's basic financial statements. The 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 also not a required part of the basic 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 has been subjected to the auditing procedures and certain other additional procedures in accordance with auditing standards generally accepted in the United States of America . In my opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory and statistical sections are presented for the purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and accordingly, I do not express an opinion or provide any assurance on it.

Decatur, Illinois  
May 10, 2012



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, 2011. 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.

HOUSING AUTHORITY OF THE CITY OF EAST CHICAGO  
MANAGEMENT DISCUSSION AND ANALYSIS  
FISCAL YEAR ENDING DECEMBER 31, 2011

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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 806 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 206 elderly units with 1 non dwelling unit, West Calumet site (AMP003) has 346 family units, Harbor Scattered Sites (AMP004) has 102 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 leases. 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 two years to obligate and four years to fully expend an annual award and one year to obligate and two years to expend for the A.R.R.A. formula stimulus 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 2011 by partnering with Geminus to administer and fund the program through the use of grants administered by Geminus.
2. Overall federal funding for the Department of Housing and Urban Development (HUD) was decreased by Congress for 2011 appropriations and as a result, the Authority was funded at 91% resulting in a \$45,691 or 2% decrease for public housing eligible operating subsidies versus an increase in revenues for 2010 of \$77,320. The agency was notified September 26, 2011 in PIH 2011-055 of an estimated \$243,040 decrease in 2012 operating subsidy due to an allocation adjustment of 2010 excess operating reserves.
3. The agency decreased leasing and reduced payment standards to keep the program afloat going into 2011 as HAP funding was decreased throughout half the year in 2010 which had a negative impact on administrative revenue needed to administer the program because of the decrease in leasing. HAP funding was decreased again in 2011 by \$288,693 or 7% for the Sec 8 Voucher Choice Program, and as a result the Authority was leased 77% (down 8% from 2010) by the end of the year leaving a restricted net assets balance of \$858,083 as funding started to increase during the 3rd quarter of 2011. Because of the inconsistency in funding from month to month, there has been a roller coaster effect in leasing (i.e. as funding decreases, leasing decreases, as funding increases, leasing increases but not as fast funding increases because of the turnaround time from voucher issuance to actual leasing). The agency only received 75% of eligible administrative funding which left an unrestricted net asset balance of \$5,619 at year end which also affects leasing due to staffing deficiencies going into 2012.
4. The Agency was awarded ARRA stimulus funds of \$1,885,325 in 2009 with 47 jobs created by the end of the 4<sup>th</sup> quarter of 2010, with \$504,291 spent in 2009, \$1,374,148 spent in 2010, and the remaining balance of \$6,886 spent in 2011 towards much needed renovations and roof replacements of various units in West Calumet, James Hunter Senior Building 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 2011 affecting resident incomes.

**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**

	2011	2010	Net Change	Percent Variance
Cash	3,711,325	3,451,168	260,157	7.5%
Other Current Assets	1,045,090	1,008,718	36,372	3.6%
Capital Assets	4,911,767	5,068,321	-156,554	-3.1%
Non Current Assets	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.0%</u>
<b>Total Assets</b>	<b><u>9,668,182</u></b>	<b><u>9,528,207</u></b>	<b><u>139,975</u></b>	<b><u>1.5%</u></b>
Current Liabilities	682,176	1,183,375	-501,199	-42.4%
Long Term Liabilities	<u>64,087</u>	<u>47,968</u>	<u>16,119</u>	<u>33.6%</u>
<b>Total Liabilities</b>	<b><u>746,263</u></b>	<b><u>1,231,343</u></b>	<b><u>-485,080</u></b>	<b><u>-39.4%</u></b>
Net Invested in Capital Assets	4,911,767	5,068,321	-156,554	-3.1%
Restricted Net Assets	858,083	142,838	715,245	500.7%
Unrestricted Net Assets	<u>3,152,069</u>	<u>3,085,705</u>	<u>66,364</u>	<u>2.2%</u>
<b>Total Net Assets</b>	<b><u><u>8,921,919</u></u></b>	<b><u><u>8,296,864</u></u></b>	<b><u><u>625,055</u></u></b>	<b><u><u>7.5%</u></u></b>

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

**Cash** increased primarily due to a \$728,221 increase of Cash-other restricted for HAP payments plus a decrease of \$481,974 in Cash-unrestricted just as **Current Liabilities** also decreased by \$501,199.

**Other Current Assets** increased by \$36,372 or 3.6% primarily due to a \$40,339 increase **accounts receivable-HUD** for Capital funds expended but not yet drawn.

**Long Term Liabilities** increased by \$16,119 or 33.6% due to an increase in Voucher FSS escrows.

**Capital assets** decreased \$156,554 or 3.1% primarily due to a combination of acquisitions in the amount of \$1,333,792 less current year depreciation of \$775,031 minus the increase in restricted nets assets of \$715,245 and the decrease of the prior period adjustments of \$70. For more detail, see the analysis of capital assets activity in table 5.

**Restricted Net Assets** increased \$715,245 or 500.7% due to an 8% decrease of vouchers leased in 2011.

**Unrestricted Net Assets** increased by \$66,364 or 2.2% primarily due to a gross operating income of \$1,400,156 (excluding a \$775,031 depreciation expense) offset by \$1,333,792 for capital expenditures. Table 2 below presents details on the change in **Unrestricted Net Assets**.

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

Unrestricted Net Assets 12/31/10		\$ 3,085,705
Results of Operatons	625,125	
Adjustments:		
Depreciation (1)	<u>775,031</u>	
Adjusted Results of Operations		1,400,156
Capital Expenditures		<u>(1,333,792)</u>
Unrestricted Net Assets 12/31/11		<u><b>\$ 3,152,069</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, 2011

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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**

	2011	2010	Net Change	Percentage Change
<b><u>Revenues</u></b>				
Total Tenant Revenue	1,628,538	1,589,949	38,589	2%
HUD Operating Grants	8,032,073	7,616,842	415,231	6%
Capital Grants	616,880	1,881,573	-1,264,693	-67%
Other Government Grants	0	1,000	-1,000	-100%
Investment Income	9,752	3,786	5,966	158%
Fraud Recovery	21,327	19,518	1,809	9%
Other Revenue	173,969	148,212	25,757	17%
Gain/loss on Sale of Fixed Assets	0	11,903	-11,903	-100%
<b>Total Revenue</b>	<b><u>10,482,539</u></b>	<b><u>11,272,783</u></b>	<b><u>-790,244</u></b>	<b><u>-7%</u></b>
<b><u>Expenses</u></b>				
Administrative	2,100,142	1,952,959	147,183	8%
Tenant Services	146,612	109,694	36,918	34%
Utilities	602,715	531,206	71,509	14%
Maintenance	1,969,079	1,592,467	376,612	24%
Protective Service	359,676	335,285	24,391	7%
Insurances	226,272	240,885	-14,613	-6%
General Expense	331,744	346,390	-14,646	-4%
Extraordinary Maintenance	58,351	0	58,351	100%
Casualty Losses	57,460	2,075	55,385	2669%
Housing Assistance Payments	3,230,332	3,761,691	-531,359	-14%
Depreciation Expense	775,031	764,421	10,610	1%
<b>Total Expenses</b>	<b><u>9,857,414</u></b>	<b><u>9,637,073</u></b>	<b><u>220,341</u></b>	<b><u>2%</u></b>
<b>Net Income (Loss)</b>	<b><u>625,125</u></b>	<b><u>1,635,710</u></b>	<b><u>-1,010,585</u></b>	<b><u>-62%</u></b>

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

**Total revenue** decreased 7% overall. **Total Tenant Revenue** increased by 2% due to an increase in leasing. **HUD Operating Grants** revenue increased by 6% due to an increase in Public Housing operating draws from the Capital Funds. **Capital Grants** revenue decrease of 67% was due to 73% of ARRA funding received in previous year. **Other Government Grants** decreased 100% due to no funding received from other government entities to assist with the tenant service summer programs. **Other Revenue** increased 17% due to full year of Cricket cell tower lease versus a partial year in 2010.

HOUSING AUTHORITY OF THE CITY OF EAST CHICAGO  
 MANAGEMENT DISCUSSION AND ANALYSIS  
 FISCAL YEAR ENDING DECEMBER 31, 2011

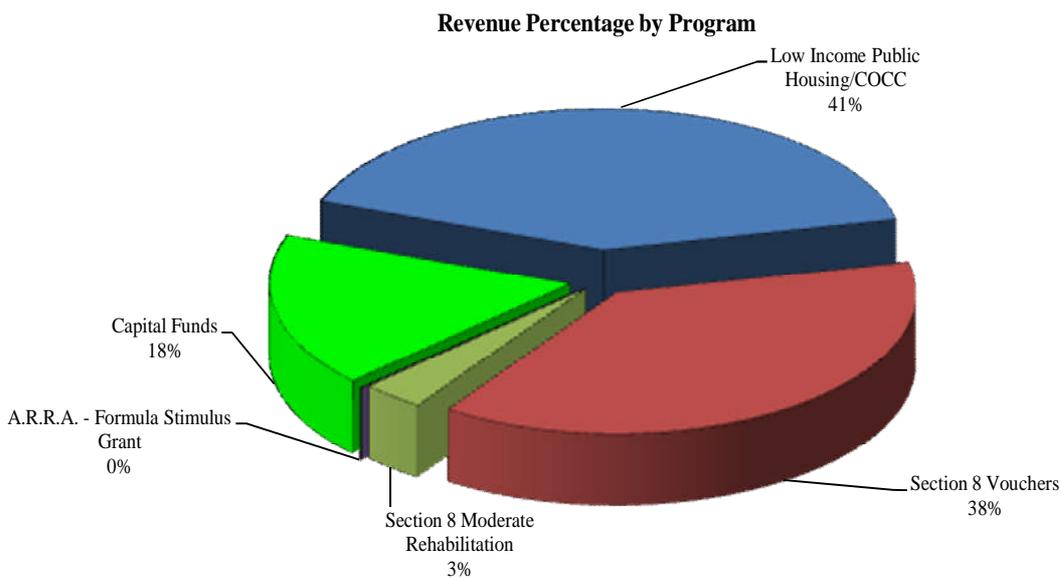
**Gain/Loss on Sale of Fixed Assets** decreased 100% due to no sale or replacement of assets during the current year.

Overall, **total expenses**, including depreciation, increased approximately 2%. **Tenant Services** increased by 34% due to salary of employee returning from leave of absence and increase in summer activities. **Utilities** increased 14% due to rate increases and relatively harsher summer and winter than anticipated. **Maintenance** increased 24% due to increase in unit turnarounds due high vacancies. **Extraordinary Expense** increased 100% due to bed bug eradications at James B. Nicosia Senior Building. **Casualty Losses** increased 2669% due to deductibles from theft of air conditioners agency wide. **Housing Assistance Payments** decreased 14% due to decrease in leasing and a change in payment standards.

The Authority administers the following programs and the revenues generated from these programs during Fiscal Year Ending 2011 were as follows:

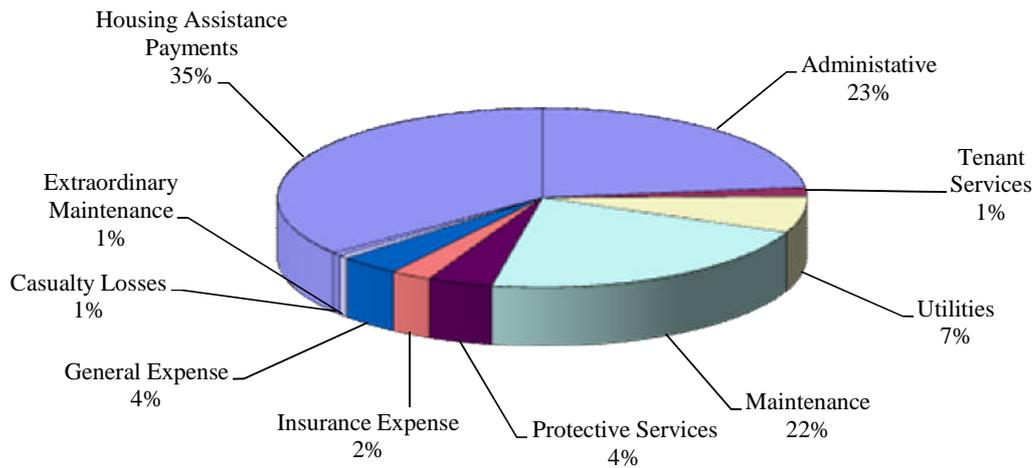
<u>Program</u>	<u>Revenues Generated</u>
Low Income Public Housing/COCC	\$4,286,191
A.R.R.A. – Formula Stimulus Grant	\$6,886
Section 8 Vouchers	\$3,972,027
Section 8 Moderate Rehabilitation	\$350,726
Capital Funds	\$1,866,709

The diagram below illustrates the percentage of revenues generated by these programs for Fiscal Year Ending December 31, 2011:



The diagram below illustrates the percentage of Authority expenditures by categories excluding Depreciation Expense for Fiscal Year Ending December 31, 2011:

**Expenses by Category**



### **Budgetary Analysis**

The Authority adopts individual annual operating budgets approved by the board of commissioners 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, 2011

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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	2%	37,350	1,593,140	1,630,490	1,628,538	-1,952	0%
HUD Operating Grants	3%	237,820	7,824,781	8,062,601	8,032,073	-30,528	0%
HUD Capital Grants	0%	0	616,880	616,880	616,880	0	0%
Investment Income-Unrestricted	47%	3,510	3,980	7,490	8,280	790	10%
Investment Income-Restricted	0%	0	0	0	1,472	1,472	0%
Fraud Recovery	0%	0	11,100	11,100	21,327	10,227	92%
Other Revenue	57%	85,480	65,280	150,760	173,969	23,209	15%
<b>Total Revenue</b>	<b>3%</b>	<b>364,160</b>	<b>10,115,161</b>	<b>10,479,321</b>	<b>10,482,539</b>	<b>3,218</b>	<b>0%</b>
Administrative	-4%	-91,391	2,287,068	2,195,677	2,100,142	-95,535	-4%
Tenant Services	-27%	-46,480	217,140	170,660	146,612	-24,048	-14%
Utilities	10%	62,310	586,585	648,895	602,715	-46,180	-7%
Maintenance	15%	296,200	1,697,301	1,993,501	1,969,079	-24,422	-1%
Protective Services	63%	223,710	131,414	355,124	359,676	4,552	1%
Insurance	-20%	-49,120	293,810	244,690	226,272	-18,418	-8%
General Expense	27%	58,270	161,210	219,480	331,744	112,264	51%
Extraordinary Maintenance	0%	58,360	0	58,360	58,351	-9	0%
Casualty Losses	0%	0	0	0	57,460	57,460	0%
Housing Assistance Payments	-15%	-500,100	3,808,340	3,308,240	3,230,332	-77,908	-2%
Depreciation Expenses	-96%	-755,920	1,542,920	787,000	775,031	-11,969	-2%
<b>Total Expenses</b>	<b>-7%</b>	<b>-744,161</b>	<b>10,725,788</b>	<b>9,981,627</b>	<b>9,857,414</b>	<b>-124,213</b>	<b>-1%</b>
Net Income/(Loss)	223%	1,108,321	-610,627	497,694	625,125	127,431	-26%

**Results of Operations**

Management revised individual and entity wide budgets that originally anticipated a loss of \$610,627 to a \$497,694 net income reflecting a \$1,108,321 decrease to anticipated losses primarily due to anticipated decreases in depreciation expense of \$755,920 and in Housing Assistance Payments of \$500,000. Actual results of operation was a net income of \$625,125 resulting in an increase of \$127,431 or 26% more than anticipated primarily due to the \$124,213 decrease in overall Total Expenses.

**Investment Income-Unrestricted** was over revised budget by \$790 or 10% due to more interest earned than anticipated. **Investment Income-Restricted** was over budget by \$1,472 due to interest income on the general fund due to HUD for HAP reserves not originally budgeted for.

HOUSING AUTHORITY OF THE CITY OF EAST CHICAGO  
MANAGEMENT DISCUSSION AND ANALYSIS  
FISCAL YEAR ENDING DECEMBER 31, 2011

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**Fraud Recovery** was over budget by \$10,227 or 92% due to the Authority earning more income from Section 8 fraud recoveries than anticipated.

**Other Revenue** was over revised budget by \$23,209 or 15% primarily due to \$35,196 dividend return on premium for housing insurance property coverage not originally budgeted.

**Administrative** expenses were under budget by \$95,535 or 4% just as **General Expense** was over budget by \$112,264 primarily due to compensated absences budgeted as administrative expenses but actually recorded as General Expense.

**Tenant Service** was under budget by \$24,048 or 14% primarily due to budgeted amount of \$10,085 for the resident participation not used by the resident councils.

**Utilities** were under revised budget by \$46,180 or 7% due to actual cost of gas, water and electricity being less than anticipated.

**Maintenance** was under revised budget by \$24,422 or 1% primarily due to understaffing of employees during later part of year for AMP 1, AMP 3, and AMP 4 due to retirements and terminations.

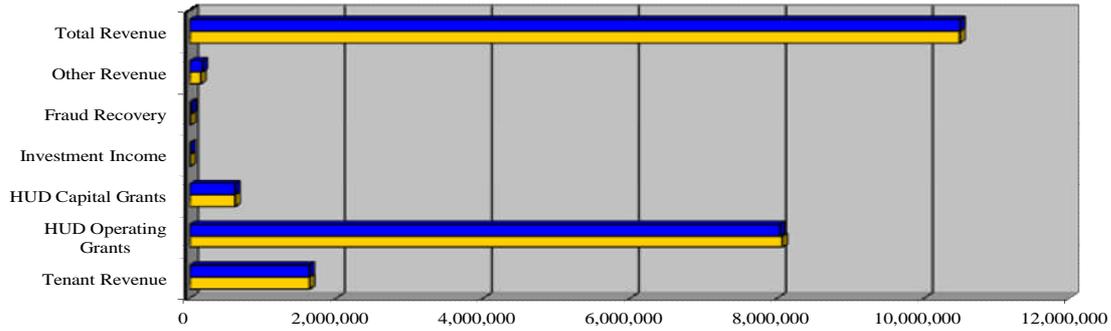
**Casualty loss** was over budget by \$57,460 primarily due to deductibles for numerous air conditioner thefts entity wide not recoverable from insurance.

**Housing Assistance Payments** were under revised budget by \$77,908 or 2% due to 8% decrease in occupancy from the previous year from 85% to 77%.

HOUSING AUTHORITY OF THE CITY OF EAST CHICAGO  
 MANAGEMENT DISCUSSION AND ANALYSIS  
 FISCAL YEAR ENDING DECEMBER 31, 2011

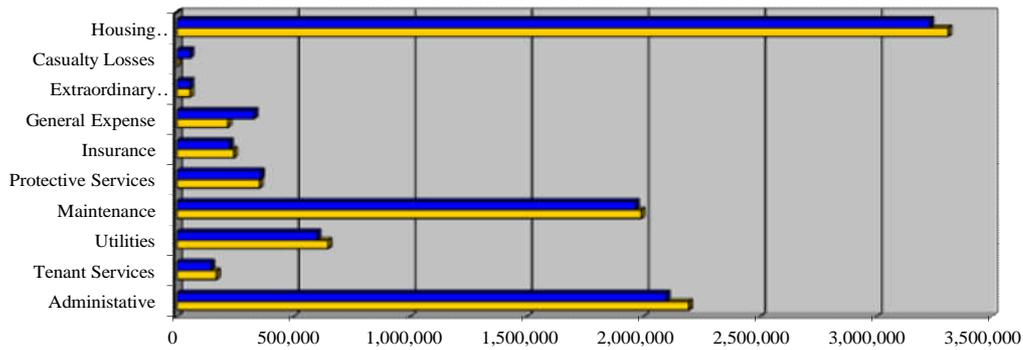
The diagrams below illustrate the Authority's Budget compared to Actual for Revenue and Expense for Fiscal Year Ending December 31, 2011:

**Revenues - Budget Vs. Actual**



	Tenant Revenue	HUD Operating Grants	HUD Capital Grants	Investment Income	Fraud Recovery	Other Revenue	Total Revenue
Actual	1,628,538	8,032,073	616,880	9,752	21,327	173,969	10,482,539
Budget	1,630,490	8,062,601	616,880	7,490	11,100	150,760	10,479,321

**Expenses - Budget Vs. Actual**



	Administrative	Tenant Services	Utilities	Maintenance	Protective Services	Insurance	General Expense	Extraordinary Maintenance	Casualty Losses	Housing Assistance Payments
Actual	2,100,142	146,612	602,715	1,969,079	359,676	226,272	331,744	58,351	57,460	3,230,332
Budget	2,195,677	170,660	648,895	1,993,501	355,124	244,690	219,480	58,360	0	3,308,240

HOUSING AUTHORITY OF THE CITY OF EAST CHICAGO  
MANAGEMENT DISCUSSION AND ANALYSIS  
FISCAL YEAR ENDING DECEMBER 31, 2011

As of the end of the year, the Authority had \$4,911,767 invested in a variety of capital assets as reflected in the following table which represents a net decrease (additions, deductions, and depreciation) of \$156,554 or 3.1% from the end of the previous fiscal year.

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

	2011	2010	Net Change	Percent Variance
Land	974,719	974,719	0	0.0%
Buildings	39,542,935	38,724,416	818,519	2.1%
Furniture, Equipment, & Machinery	1,013,489	1,011,891	1,598	0.2%
Site Improvements	1,412,917	1,412,917	0	0.0%
<b>Total Fixed Assets</b>	<b>42,944,060</b>	<b>42,123,943</b>	<b>820,117</b>	<b>1.9%</b>
Accumulated Depreciation	-38,231,613	-37,456,582	775,031	2.1%
Construction in Progress	199,320	400,960	-201,640	-50.3%
<b>Net Fixed Assets</b>	<b>4,911,767</b>	<b>5,068,321</b>	<b>-156,554</b>	<b>-3.1%</b>

**Buildings** increased by \$818,519 or 2.1% primarily due to \$50,496 Security System Upgrade, \$55,906 Security Room Upgrade, and \$11,578 Sec 504 ADA architecture fees for AMP 2 John B. Nicosia Senior Building; \$18,900 HVAC replacement for main office, \$345,519 roof replacements for 4700/4800 buildings, \$12466 furnace replacements, and \$28,527 for sprinkler system repairs for AMP 3 West Calumet; \$17,885 roof replacements at AMP 4 29-2 Scattered Sites, and \$6,640 furnace replacement at AMP 4 29-9 New Scattered Sites.

**Accumulated Depreciation** increased by \$775,031 or 2.1% due to the current year's depreciation expense.

**Construction in Progress** decreased by \$201,640 or 50.3% primarily due to 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, 2011**

**ASSETS**

**Current Assets**

Cash and cash equivalents	\$ 2,820,455
Accounts receivable (interfund eliminated)	733,198
Inventory - net of allowance	204,566
Deferred charges	<u>107,326</u>

Total Current Assets \$ 3,865,545

**Restricted Assets**

Cash	<u>\$ 890,870</u>
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Total Restricted Assets \$ 890,870

**Capital Assets**

Land, buildings and equipment	\$ 43,143,380
Less: Accumulated depreciation	<u>-38,231,613</u>

Net Capital Assets \$ 4,911,767

TOTAL ASSETS \$ 9,668,182

**LIABILITIES**

**Current Liabilities**

Accounts payable (interfund eliminated)	\$ 184,537
Accrued liabilities	345,570
Tenant security deposits	144,665
Deferred revenue	<u>7,404</u>

Total Current Liabilities \$ 682,176

**Noncurrent Liabilities**

Accrued compensated absences	\$ 38,660
FSS escrow	<u>25,427</u>

Total Noncurrent Liabilities \$ 64,087

TOTAL LIABILITIES \$ 746,263

**NET ASSETS**

Unrestricted net assets	\$ 4,911,767
Restricted	858,083
Invested in capital assets	<u>3,152,069</u>

TOTAL NET ASSETS \$ 8,921,919

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, 2011**

**Operating Income**

**Tenant Income**

Tenant rental revenue	\$ 1,490,809
Tenant revenue - other	<u>137,729</u>
Total Tenant and Other Rental Income	<u>\$ 1,628,538</u>

**Non-Tenant Income**

HUD grants - operating	\$ 8,032,073
Fraud recovery	21,327
Other revenue	<u>173,969</u>
Total Non-Tenant Income	<u>\$ 8,227,369</u>

Total Operating Income	<u>\$ 9,855,907</u>
------------------------	---------------------

**Operating Expenses**

Administration	\$ 2,100,142
Tenant services	146,612
Utilities	602,715
Ordinary maintenance and operation	1,969,079
General expense	558,016
Protective services	359,676
Extraordinary maintenance	58,351
Casualty losses	57,460
Housing assistance payments	3,230,332
Depreciation	<u>775,031</u>

Total Operating Expenses	<u>\$ 9,857,414</u>
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Net Operating Income (Loss)	<u>\$ -1,507</u>
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**Nonoperating Income (Expenses)**

HUD grants - capital	\$ 616,880
Interest income	<u>9,752</u>

Total Nonoperating Income (Expenses)	<u>\$ 626,632</u>
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Changes in net assets	\$ 625,125
Net assets, beginning of year	8,296,864
Prior year adjustments	<u>-70</u>

Net Assets, end of year	<u>\$ 8,921,919</u>
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The notes to financial statements are an integral part of this statement.

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

**COMBINED STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS  
TWELVE MONTHS ENDED DECEMBER 31, 2011**

**Operating Activities**

Operating subsidy	\$ 7,985,091
Tenant revenue	1,638,781
Other revenues	195,296
Housing assistance payments	-3,230,332
Payments to employees	-2,121,476
Payments to suppliers and contractors	<u>-4,215,358</u>

Net Cash Provided (Used) by Operating Activities	<u>\$ 252,002</u>
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**Investing Activities**

Interest income	<u>\$ 9,752</u>
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Net Cash Provided (Used) by Investing Activities	<u>\$ 9,752</u>
-----------------------------------------------------	-----------------

**Capital and Related Financing Activities**

HUD grants - capital	\$ 616,880
(Additions) deletions to capital assets	<u>-618,477</u>

Net Cash Provided (Used) by Capital and Related Financing Activities	<u>\$ -1,597</u>
-------------------------------------------------------------------------	------------------

Net Change in Cash	\$ 260,157
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Cash Balance at December 31, 2010	<u>3,451,168</u>
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Cash Balance at December 31, 2011	<u><u>\$ 3,711,325</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, 2011**

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

Net operating income (loss)	\$ -1,507
Adjustment to Reconcile Operating Income (Loss) to Net Cash Flows from Operating Activities:	
Depreciation	775,031
Adjustments to net assets	-70
(Increase) decrease in accounts receivable	-49,697
(Increase) decrease in deferred charges	15,775
(Increase) decrease in inventories	-2,450
Increase (decrease) in accounts payable	-404,683
Increase (decrease) in accrued liabilities	-96,784
Increase (decrease) in deferred revenues	3,411
Increase (decrease) in other liabilities	<u>12,976</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 252,002</u>

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

**NOTES TO FINANCIAL STATEMENTS  
TWELVE MONTHS ENDED DECEMBER 31, 2011**

**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 active 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, 2011  
(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)
- \* Central Office Cost Center (COCC)
- \* Section 8 Choice Vouchers
- \* Section 8 Moderate Rehabilitation
- \* Capital Fund Program
- \* Formula Capital Fund 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, 2011  
(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, 2011, 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 one thousand dollars (\$1,000) or more and the anticipated life or useful life of said equipment or property is more than one (1) year, the same shall be capitalized and recorded as non-expendable equipment and charged as a capital expenditure.

Land, buildings and equipment contains the following:

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

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

**NOTES TO FINANCIAL STATEMENTS  
TWELVE MONTHS ENDED DECEMBER 31, 2011  
(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, 2011  
(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 budgets 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 disables 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.

**Note 2 - Related Party Transactions**

The East Chicago Housing Authority shared certain employees and office expenses throughout 2011 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, 2011 were reflected on the Central Office Cost Center's balance sheet as account receivable - other government in the amount of \$10,880.

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

**NOTES TO FINANCIAL STATEMENTS  
TWELVE MONTHS ENDED DECEMBER 31, 2011  
(CONTINUED)**

**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.

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

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

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

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

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

**NOTES TO FINANCIAL STATEMENTS  
TWELVE MONTHS ENDED DECEMBER 31, 2011  
(CONTINUED)**

**Note 3 - Cash and Investments** (Continued)

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

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

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

Category 3 - Deposits which are not collateralized or insured.

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

<u>Program</u>	<u>Book Balance</u>	<u>Bank Balance</u>
Low Rent (AMPS & COCC)	\$ 2,679,521	\$ 2,800,894
Voucher	933,256	946,307
Mod Rehab	<u>98,548</u>	<u>98,548</u>
Total	<u>\$ 3,711,325</u>	<u>\$ 3,845,749</u>

**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.

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

**NOTES TO FINANCIAL STATEMENTS  
TWELVE MONTHS ENDED DECEMBER 31, 2011  
(CONTINUED)**

**Note 4 - Compensated Absences** (Continued)

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.
- 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.

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

**NOTES TO FINANCIAL STATEMENTS  
TWELVE MONTHS ENDED DECEMBER 31, 2011  
(CONTINUED)**

**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, 2011, the actual contributions by the Housing Authority were \$290,669. Total annual payroll expense was \$2,115,660.

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.

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

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

**NOTES TO FINANCIAL STATEMENTS  
TWELVE MONTHS ENDED DECEMBER 31, 2011  
(CONTINUED)**

**Note 6 - Accounts Receivable - Net of Allowance**

Accounts receivable consists of the following accounts:

Accounts receivable - HUD	\$ 657,062
Accounts receivable - other government	29,228
Accounts receivable - miscellaneous	1,482
Tenants accounts receivable	45,211
Allowance for doubtful - tenants	-10,901
Fraud recovery	26,053
Allowance for doubtful - fraud	<u>-14,937</u>
Subtotal	\$ 733,198
Interfund	<u>30,213</u>
Total	<u>\$ 763,411</u>

**Note 7 - Deferred Charges**

This classification includes the following accounts:

Prepaid insurance	<u>\$ 107,326</u>
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**Note 8 - Fixed Assets**

Balance as of December 31, 2011	\$ 4,911,767
Balance as of December 31, 2010	<u>5,068,321</u>
Net Increase (Decrease)	<u>\$ -156,554</u>

**Reconciliation**

Property betterments and additions	\$ 616,880	
Replacement of equipment	1,597	
Depreciation expense	<u>-775,031</u>	*
Net Increase (Decrease)	<u>\$ -156,554</u>	

\*Current year depreciation expense recognized.

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

**NOTES TO FINANCIAL STATEMENTS  
TWELVE MONTHS ENDED DECEMBER 31, 2011  
(CONTINUED)**

**Note 8 - Fixed Assets (Continued)**

<b><u>Analysis</u></b>	01/01/2011 <u>Balance</u>	Additions/ <u>Transfers</u>	Deletions/ <u>Transfers</u>	12/31/2011 <u>Balance</u>
Land	\$ 974,719	\$ 0	\$ 0	\$ 974,719
Buildings	38,724,416	818,519	0	39,542,935
Equipment and furniture	1,011,891	1,598	0	1,013,489
Leasehold improvements	1,412,917	0	0	1,412,917
Construction in progress	<u>400,960</u>	<u>0</u>	<u>201,640</u>	<u>199,320</u>
Total	\$ 42,524,903	\$ 820,117	\$ 201,640	\$ 43,143,380
Accumulated depreciation	<u>-37,456,582</u>	<u>0</u>	<u>775,031</u>	* <u>-38,231,613</u>
Total	<u>\$ 5,068,321</u>	<u>\$ 820,117</u>	<u>\$ 976,671</u>	<u>\$ 4,911,767</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.

**Note 10 - Accounts Payable**

This classification includes the following accounts:

Vendors and contractors	\$ 78,456
Accounts payable - HUD	34,934
Other	<u>71,147</u>
Subtotal	\$ 184,537
Interfund	<u>30,213</u>
Total	<u>\$ 214,750</u>

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

**NOTES TO FINANCIAL STATEMENTS  
TWELVE MONTHS ENDED DECEMBER 31, 2011  
(CONTINUED)**

**Note 11 - Accrued Liabilities**

At December 31, 2011 the following accounts were accrued:

Current Portion:

Payroll and payroll taxes	\$ 95,711
Accrued liabilities - other	66,040
PILOT	<u>183,819</u>
Total Current Portion	<u>\$ 345,570</u>

Noncurrent Portion:

Accrued compensated absences	<u>\$ 38,660</u>
Total	<u><u>\$ 384,230</u></u>

**Note 12 - Summary of Long Term Liabilities**

A summary of long term liabilities as of December 31, 2011:

	01/01/2011			12/31/2011
	<u>Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u>
FSS escrow	\$ 12,451	\$ 12,976	\$ 0	\$ 25,427
Accrued compensated absences	<u>35,517</u>	<u>3,143</u>	<u>0</u>	<u>38,660</u>
Total	<u><u>\$ 47,968</u></u>	<u><u>\$ 16,119</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 64,087</u></u>

**Note 13 - Deferred Revenues**

This classification consists of the following accounts:

Tenants prepaid rent	\$ 7,360
Other	<u>44</u>
Total	<u><u>\$ 7,404</u></u>

**Note 14 - 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, 2011  
(CONTINUED)**

**Note 15 - 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 16 - 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 17 - Contracts/Commitments**

As of December 31, 2011, the Housing Authority had entered into the following pending construction projects in progress:

	<u>Funds Approved</u>	<u>Funds Expended To Date</u>
CFP 501-09	\$ 1,470,810	\$ 1,340,095
CFP 501-10	1,468,174	696,351
CFP 501-11	<u>1,249,415</u>	<u>130,669</u>
Total	<u>\$ 4,188,399</u>	<u>\$ 2,167,115</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.

**Note 19 - 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.

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

**NOTES TO FINANCIAL STATEMENTS  
TWELVE MONTHS ENDED DECEMBER 31, 2011  
(CONTINUED)**

**Note 20 - Prior Period Adjustments**

Prior period adjustments posted directly to surplus are detailed below:

Adjustment of	\$ <u>          -70</u>
---------------	-------------------------

**Note 21 - Contracts/Commitments**

As of December 31, 2011, the Housing Authority had entered into the following operating lease obligation:

<u>Lease Obligations</u>	<u>Lease Term</u>	<u>Monthly Payment</u>
RICOH Copier	36 months	\$ 281
Pitney Bowes Postage Machine	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, 2011**

<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 12/31/11	\$ <u>2,492,679</u>	\$ <u>2,492,679</u>	\$ <u>2,492,679</u>
Lower Income Housing Assistance Program - Moderate Rehabilitation*	14.856	C-2030K	FYE 12/31/11	\$ <u>348,545</u>	\$ <u>348,545</u>	\$ <u>348,545</u>
Housing Choice Voucher Program*	14.871	C-2030V	FYE 12/31/11	\$ <u>3,934,134</u>	\$ <u>3,934,134</u>	\$ <u>3,359,295</u>
Public Housing - Capital Fund*	14.872	C-651	FYE 12/31/11	\$ <u>7,138,459</u>	\$ <u>1,866,709</u>	\$ <u>1,866,709</u>
A.R.R.A. Formula Capital Fund Stimulus Grant	14.885	C-651	FYE 12/31/11	\$ <u>1,885,325</u>	\$ <u>6,886</u>	\$ <u>6,886</u>
Total Federal Assistance				\$ <u>15,799,142</u>	\$ <u>8,648,953</u>	\$ <u>8,074,114</u>

\*Denotes major program.

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

**PHA's STATEMENT AND CERTIFICATION OF ACTUAL MODERNIZATION COST  
PHASE IN36P029501-07**

1. The Actual Modernization Costs of Phase IN36P029501-07 are as follows:

Funds approved	\$ 1,460,629
Funds expended	<u>1,460,629</u>
Excess of Funds Approved	<u><u>\$ 0</u></u>
Funds advanced	
Grants	\$ 1,460,629
Funds expended	<u>1,460,629</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 January 6, 2012, 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 IN36P029501-08**

1. The Actual Modernization Costs of Phase IN36P029501-08 are as follows:

Funds approved	\$ 1,489,431
Funds expended	<u>1,489,431</u>
Excess of Funds Approved	<u><u>\$ 0</u></u>
Funds advanced	
Grants	\$ 1,489,431
Funds expended	<u>1,489,431</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 June 7, 2012, 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 IN36S029501-09**

1. The Actual Modernization Costs of Phase IN36S029501-09 are as follows:

Funds approved	\$ 1,885,325
Funds expended	<u>1,885,325</u>
Excess of Funds Approved	<u><u>          0</u></u>
Funds advanced Grants	\$ 1,885,325
Funds expended	<u>1,885,325</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 January 6, 2012, 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.



**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 the Housing Authority of the City of East Chicago as of and for the year ended December 31, 2011, and have issued my report thereon dated May 10, 2012. 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 the 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 *deficiency in internal control* 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the 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, regulations, 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 such 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 I reported to management of the Housing Authority of the City of East Chicago in a separate letter dated May 10, 2012.

This report is intended solely for the information and use of management, Board of Commissioners, others within the entity, and Housing and Urban Development and is not intended to be and should not be used by anyone other than these specified parties.

Handwritten signature of Pamela J. Simpson in cursive script.

Certified Public Accountant

Decatur, Illinois  
May 10, 2012

**Independent Auditor's Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133**

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

**Compliance**

I have audited the Housing Authority of the City of East Chicago's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Housing Authority of the City of East Chicago's major federal programs for the year ended December 31, 2011. The 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 the Housing Authority of the City of East Chicago's management. My responsibility is to express an opinion on the 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. 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 requirement 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, the Housing Authority of the City of East Chicago complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011. The results of my auditing procedures disclosed no instances of noncompliance with those requirements.

## Internal Control Over Compliance

Management of the 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 the 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 to determine the auditing procedures for the purpose of expressing my opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

My consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, 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.

This report is intended solely for the information and use of management, Board of Commissioners, others within the entity, Housing and Urban Development, 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.



Certified Public Accountant

Decatur, Illinois  
May 10, 2012

**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, 2010 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, 2011**

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

*Financial Statements*

Type of auditor's report: Unqualified

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

\* Significant deficiency (ies) identified? \_\_\_\_\_ 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? \_\_\_\_\_ 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 OMB Circular A-133? \_\_\_\_\_ yes X no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.850a	Public and Indian Housing
14.856	Lower-Income Housing Assistance Program - Moderate Rehabilitation
14.871	Housing Choice Voucher Program
14.872	Public Housing - Capital Funds

Dollar threshold used to distinguish between type A and type B programs: \$ 300,000

Auditee qualified as low-risk auditee? X yes \_\_\_\_\_ no

**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 Sharon Johnson, Director of Finance and other members of management, during the course of the audit or at an exit conference held May 10, 2012.

**Section III - Federal Award Audit Findings**

There were no federal award audit findings discussed with Sharon Johnson, Director of Finance and other members of management, during the course of the audit and at an exit conference held May 10, 2012.

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

**SCHEDULE OF ADJUSTING JOURNAL ENTRIES  
DECEMBER 31, 2011**

<u>Amp 1</u>	<u>Audit Account Number</u>	<u>Debit</u>	<u>Credit</u>	<u>Posting Account Number</u>
(1)				
Materials	4420	\$ 10,124.73		2806
Allowance for obsolete inventory	1260.05	102.27		1260.05
Inventory - materials	1260		\$ 10,227.00	1260
(To adjust materials inventory to actual per discussion with Housing Authority)				
(2)				
Accounts receivable - HUD	1125	\$ 10,124.73		1125
To operations	4590.1	10,124.73		2806
Soft cost grants - 1406	3401.1		\$ 10,124.73	2806
Capital Fund - non const.	3401.34		10,124.73	2806
(To adjust for transfer discussed with PHA to cover the inventory adjustment)				
<u>Amp 3</u>				
(1)				
A/R - other - local grant	1129	\$ 18,347.96		1129
Water	4310		\$ 18,347.96	2806
(To record receivable from Department of Water for over-billing as of 12/31/11)				

Housing Authority of the City of East Chicago (IN029)  
EAST CHICAGO, IN

Entity Wide Balance Sheet Summary

Submission Type: Audited/A-133

Fiscal Year End: 12/31/2011

	Project Total	14.871 Housing Choice Vouchers	14.885 Formula Capital Fund Stimulus Grant	14.856 Lower Income Housing Assistance Program_Section 8 Moderate	COCC	Subtotal	ELIM	Total
111 Cash - Unrestricted	\$1,675,114	\$50,013		\$98,548	\$852,115	\$2,675,790		\$2,675,790
112 Cash - Restricted - Modernization and Development				\$0				
113 Cash - Other Restricted	\$267	\$883,243		\$0		\$883,510		\$883,510
114 Cash - Tenant Security Deposits	\$144,665			\$0		\$144,665		\$144,665
115 Cash - Restricted for Payment of Current Liabilities	\$7,360			\$0		\$7,360		\$7,360
100 Total Cash	\$1,827,406	\$933,256	\$0	\$98,548	\$852,115	\$3,711,325	\$0	\$3,711,325
121 Accounts Receivable - PHA Projects				\$0				
122 Accounts Receivable - HUD Other Projects	\$657,062			\$0		\$657,062		\$657,062
124 Accounts Receivable - Other Government	\$18,348			\$0	\$10,880	\$29,228		\$29,228
125 Accounts Receivable - Miscellaneous	\$1,432	\$50		\$0		\$1,482		\$1,482
126 Accounts Receivable - Tenants	\$45,211			\$0		\$45,211		\$45,211
126.1 Allowance for Doubtful Accounts - Tenants	-\$10,901			\$0		-\$10,901		-\$10,901
126.2 Allowance for Doubtful Accounts - Other	\$0	\$0		\$0	\$0	\$0		\$0
127 Notes, Loans, & Mortgages Receivable - Current				\$0				
128 Fraud Recovery	\$17,725	\$7,386		\$942		\$26,053		\$26,053
128.1 Allowance for Doubtful Accounts - Fraud	-\$10,611	-\$4,062		-\$264		-\$14,937		-\$14,937
129 Accrued Interest Receivable				\$0				
120 Total Receivables, Net of Allowances for Doubtful Accounts	\$718,266	\$3,374	\$0	\$678	\$10,880	\$733,198	\$0	\$733,198
131 Investments - Unrestricted				\$0				
132 Investments - Restricted				\$0				
135 Investments - Restricted for Payment of Current Liability				\$0				
142 Prepaid Expenses and Other Assets	\$98,615	\$3,780		\$328	\$4,603	\$107,326		\$107,326
143 Inventories	\$206,632			\$0		\$206,632		\$206,632
143.1 Allowance for Obsolete Inventories	-\$2,066			\$0		-\$2,066		-\$2,066
144 Inter Program Due From				\$0	\$30,213	\$30,213	-\$30,213	\$0
145 Assets Held for Sale				\$0				
150 Total Current Assets	\$2,848,853	\$940,410	\$0	\$99,554	\$697,811	\$4,786,628	-\$30,213	\$4,756,415

Housing Authority of the City of East Chicago (IN029)  
EAST CHICAGO, IN

Entity Wide Balance Sheet Summary

Submission Type: Audited/A-133

Fiscal Year End: 12/31/2011

	Project Total	14,871 Housing Choice Vouchers	14,885 Formula Capital Fund Stimulus Grant	14,856 Lower Income Housing Assistance Program_Section 8 Moderate	COCC	Subtotal	ELIM	Total
161 Land	\$974,719			\$0		\$974,719		\$974,719
162 Buildings	\$39,542,935			\$0		\$39,542,935		\$39,542,935
163 Furniture, Equipment & Machinery - Dwellings	\$886,039	\$64,631		\$0	\$62,819	\$1,013,489		\$1,013,489
164 Furniture, Equipment & Machinery - Administration	\$1,412,917			\$0		\$1,412,917		\$1,412,917
165 Leasehold Improvements	-\$38,120,606	-\$62,159		\$0	-\$48,848	-\$38,231,613		-\$38,231,613
166 Accumulated Depreciation	\$199,320			\$0		\$199,320		\$199,320
167 Construction in Progress				\$0				
168 Infrastructure				\$0				
160 Total Capital Assets, Net of Accumulated Depreciation	\$4,895,324	\$2,472	\$0	\$0	\$13,971	\$4,911,767	\$0	\$4,911,767
171 Notes, Loans and Mortgages Receivable - Non-Current				\$0				
172 Notes, Loans, & Mortgages Receivable - Non Current - Past Due				\$0				
173 Grants Receivable - Non Current				\$0				
174 Other Assets				\$0				
176 Investments in Joint Ventures				\$0				
180 Total Non-Current Assets	\$4,895,324	\$2,472	\$0	\$0	\$13,971	\$4,911,767	\$0	\$4,911,767
190 Total Assets	\$7,744,177	\$942,882	\$0	\$99,554	\$911,782	\$9,698,395	-\$30,213	\$9,668,182
311 Bank Overdraft				\$0				
312 Accounts Payable <= 90 Days	\$56,281	\$16,067		\$465	\$5,643	\$78,456		\$78,456
313 Accounts Payable >90 Days Past Due				\$0				
321 Accrued Wage/Payroll Taxes Payable	\$53,645	\$7,148		\$622	\$34,296	\$95,711		\$95,711
322 Accrued Compensated Absences - Current Portion				\$0				
324 Accrued Contingency Liability				\$0				
325 Accrued Interest Payable				\$0				
331 Accounts Payable - HUD PHA Programs				\$34,934		\$34,934		\$34,934
332 Account Payable - PHA Projects				\$0				
333 Accounts Payable - Other Government	\$183,819			\$0		\$183,819		\$183,819
341 Tenant Security Deposits	\$144,665			\$0		\$144,665		\$144,665
342 Deferred Revenues	\$7,360	\$44		\$0		\$7,404		\$7,404
343 Current Portion of Long-term Debt - Capital Projects/Mortgage Revenue				\$0				
344 Current Portion of Long-term Debt - Operating Borrowings				\$0				
345 Other Current Liabilities	\$71,147			\$0		\$71,147		\$71,147
346 Accrued Liabilities - Other	\$65,780	\$119		\$11	\$130	\$66,040		\$66,040
347 Inter Program - Due To		\$27,796		\$2,417		\$30,213	-\$30,213	\$0
348 Loan Liability - Current				\$0				
310 Total Current Liabilities	\$582,697	\$51,174	\$0	\$38,449	\$40,069	\$712,389	-\$30,213	\$682,176

Housing Authority of the City of East Chicago (IN029)

EAST CHICAGO, IN

Entity Wide Balance Sheet Summary

Submission Type: Audited/A-133

Fiscal Year End: 12/31/2011

	Project Total	14,871 Housing Choice Vouchers	14,885 Formula Capital Fund Stimulus Grant	14,856 Lower Income Housing Assistance Program_Section 8 Moderate	COCC	Subtotal	ELIM	Total
351 Long-term Debt, Net of Current - Capital Projects/Mortgage Revenue				\$0				
352 Long-term Debt, Net of Current - Operating Borrowings				\$0				
353 Non-current Liabilities - Other	\$287	\$25,160		\$0		\$25,427		\$25,427
354 Accrued Compensated Absences - Non Current	\$18,366	\$374		\$32	\$19,888	\$38,660		\$38,660
355 Loan Liability - Non Current				\$0				
356 FASB 5 Liabilities				\$0				
357 Accrued Pension and OPEB Liabilities				\$0				
350 Total Non-Current Liabilities	\$18,633	\$25,534	\$0	\$32	\$19,888	\$64,087	\$0	\$64,087
300 Total Liabilities	\$601,330	\$76,708	\$0	\$38,481	\$59,957	\$776,476	-\$30,213	\$746,263
508.1 Invested In Capital Assets, Net of Related Debt	\$4,895,324	\$2,472		\$0	\$13,971	\$4,911,767		\$4,911,767
509.2 Fund Balance Reserved				\$0				
511.2 Unreserved, Designated Fund Balance				\$0				
511.1 Restricted Net Assets		\$858,083		\$0		\$858,083		\$858,083
512.1 Unrestricted Net Assets	\$2,247,523	\$5,619	\$0	\$61,073	\$837,854	\$3,152,069		\$3,152,069
512.2 Unreserved, Undesignated Fund Balance				\$0				
513 Total Equity/Net Assets	\$7,142,847	\$866,174	\$0	\$61,073	\$851,825	\$8,921,919	\$0	\$8,921,919
600 Total Liabilities and Equity/Net Assets	\$7,744,177	\$942,882	\$0	\$99,554	\$911,782	\$9,698,395	-\$30,213	\$9,668,182

Housing Authority of the City of East Chicago (IN029)  
EAST CHICAGO, IN

Entity Wide Revenue and Expense Summary

Submission Type: Audited/A-133

Fiscal Year End: 12/31/2011

	Project Total	14,871 Housing Choice Vouchers	14,885 Formula Capital Fund Stimulus Grant	14,856 Lower Income Housing Assistance Program_Section 8 Moderate	COCC	Subtotal	ELIM	Total
70300 Net Tenant Rental Revenue	\$1,490,809			\$0		\$1,490,809		\$1,490,809
70400 Tenant Revenue - Other	\$137,729			\$0		\$137,729		\$137,729
70500 Total Tenant Revenue	\$1,628,538	\$0	\$0	\$0	\$0	\$1,628,538	\$0	\$1,628,538
70600 HUD PHA Operating Grants	\$3,743,297	\$3,934,134	\$6,097	\$348,545		\$8,032,073		\$8,032,073
70610 Capital Grants	\$616,091		\$789	\$0		\$616,880		\$616,880
70710 Management Fee				\$0	\$719,537	\$719,537	-\$719,537	\$0
70720 Asset Management Fee				\$0	\$96,720	\$96,720	-\$96,720	\$0
70730 Book Keeping Fee				\$0	\$110,677	\$110,677	-\$110,677	\$0
70740 Front Line Service Fee				\$0				
70750 Other Fees				\$0				
70700 Total Fee Revenue				\$0	\$926,934	\$926,934	-\$926,934	\$0
70800 Other Government Grants				\$0				
71100 Investment Income - Unrestricted	\$5,454	\$103		\$398	\$2,325	\$8,280		\$8,280
71200 Mortgage Interest Income				\$0				
71300 Proceeds from Disposition of Assets Held for Sale				\$0				
71310 Cost of Sale of Assets				\$0				
71400 Fraud Recovery				\$0				
71500 Other Revenue	\$157,195	\$19,544		\$1,783		\$21,327		\$21,327
71600 Gain or Loss on Sale of Capital Assets		\$16,774		\$0		\$173,969		\$173,969
72000 Investment Income - Restricted		\$1,472		\$0		\$1,472		\$1,472
70000 Total Revenue	\$6,150,575	\$3,972,027	\$6,886	\$350,726	\$929,259	\$11,409,473	-\$926,934	\$10,482,539
91100 Administrative Salaries	\$519,987	\$163,956		\$13,636	\$474,686	\$1,172,265		\$1,172,265
91200 Auditing Fees	\$5,390	\$3,570		\$310	\$530	\$9,800		\$9,800
91300 Management Fee	\$641,039	\$70,280	\$690	\$7,548		\$719,537	-\$719,537	\$0
91310 Book-keeping Fee	\$62,055	\$43,905		\$4,717		\$110,677	-\$110,677	\$0
91400 Advertising and Marketing				\$0				
91500 Employee Benefit contributions - Administrative	\$270,859	\$85,776		\$7,412	\$169,065	\$533,112		\$533,112
91600 Office Expenses	\$162,504	\$25,142		\$2,144	\$110,517	\$300,307		\$300,307
91700 Legal Expense	\$26,377	\$230		\$20	\$21,355	\$47,980		\$47,980
91800 Travel	\$17,041	\$1,785		\$155	\$17,697	\$36,678		\$36,678
91810 Allocated Overhead				\$0				
91900 Other				\$0				
91000 Total Operating - Administrative	\$1,705,252	\$394,624	\$690	\$35,942	\$793,848	\$2,930,356	-\$830,214	\$2,100,142

Housing Authority of the City of East Chicago (IN029)  
EAST CHICAGO, IN

Entity Wide Revenue and Expense Summary

Submission Type: Audited/A-133

Fiscal Year End: 12/31/2011

	Project Total	14.871 Housing Choice Vouchers	14.885 Formula Capital Fund Stimulus Grant	14.856 Lower Income Housing Assistance Program_Section 8 Moderate	COCC	Subtotal	ELIM	Total
92000 Asset Management Fee	\$96,720			\$0		\$96,720	-\$96,720	\$0
92100 Tenant Services - Salaries	\$102,137			\$0		\$102,137		\$102,137
92200 Relocation Costs				\$0				
92300 Employee Benefit Contributions - Tenant Services	\$37,203			\$0		\$37,203		\$37,203
92400 Tenant Services - Other	\$7,272			\$0		\$7,272		\$7,272
92500 Total Tenant Services	\$146,612	\$0	\$0	\$0	\$0	\$146,612	\$0	\$146,612
93100 Water	\$80,585	\$120		\$11	\$110	\$80,826		\$80,826
93200 Electricity	\$230,041	\$1,661		\$144	\$2,070	\$293,916		\$293,916
93300 Gas	\$226,160	\$956		\$83	\$774	\$227,973		\$227,973
93400 Fuel	\$0			\$0				
93500 Labor	\$0			\$0				
93600 Sewer	\$0			\$0				
93700 Employee Benefit Contributions - Utilities	\$0			\$0				
93800 Other Utilities Expense	\$0			\$0				
93000 Total Utilities	\$596,786	\$2,737	\$0	\$238	\$2,954	\$602,715	\$0	\$602,715
94100 Ordinary Maintenance and Operations - Labor	\$677,414			\$0		\$677,414		\$677,414
94200 Ordinary Maintenance and Operations - Materials and Other	\$300,933			\$0		\$300,933		\$300,933
94300 Ordinary Maintenance and Operations Contracts	\$686,173		\$5,407	\$0		\$691,580		\$691,580
94500 Employee Benefit Contributions - Ordinary Maintenance	\$299,152			\$0		\$299,152		\$299,152
94000 Total Maintenance	\$1,963,672	\$0	\$5,407	\$0	\$0	\$1,969,079	\$0	\$1,969,079
95100 Protective Services - Labor	\$0			\$0				
95200 Protective Services - Other Contract Costs	\$356,262	\$237		\$21	\$3,156	\$359,676		\$359,676
95300 Protective Services - Other				\$0				
95500 Employee Benefit Contributions - Protective Services	\$0			\$0				
95000 Total Protective Services	\$356,262	\$237	\$0	\$21	\$3,156	\$359,676	\$0	\$359,676
96110 Property Insurance	\$121,341	\$923		\$80	\$1,003	\$123,347		\$123,347
96120 Liability Insurance	\$32,258	\$3,077		\$268	\$112	\$35,715		\$35,715
96130 Workmen's Compensation	\$20,310	\$3,926		\$352	\$7,422	\$31,010		\$31,010
96140 All Other Insurance	\$28,970	\$2,623		\$228	\$4,379	\$36,200		\$36,200
96100 Total Insurance Premiums	\$202,879	\$9,549	\$0	\$828	\$12,916	\$226,272	\$0	\$226,272

Housing Authority of the City of East Chicago (IN029)  
EAST CHICAGO, IN

Entity Wide Revenue and Expense Summary

Submission Type: Audited/A-133

Fiscal Year End: 12/31/2011

	Project Total	14,871 Housing Choice Vouchers	14,885 Formula Capital Fund Stimulus Grant	14,856 Lower Income Housing Assistance Program, Section 8 Moderate	COCC	Subtotal	ELIM	Total
96200 Other General Expenses	\$928	\$4,149		\$0		\$5,077		\$5,077
96210 Compensated Absences	\$99,234	\$15,830		\$1,377	\$47,403	\$163,844		\$163,844
96300 Payments in Lieu of Taxes	\$87,567			\$0		\$87,567		\$87,567
96400 Bad debt - Tenant Rents	\$75,256			\$0		\$75,256		\$75,256
96500 Bad debt - Mortgages				\$0				
96600 Bad debt - Other				\$0				
96800 Severance Expense				\$0				
96000 Total Other General Expenses	\$262,965	\$19,979	\$0	\$1,377	\$47,403	\$331,744	\$0	\$331,744
96710 Interest of Mortgage (or Bonds) Payable				\$0				
96720 Interest on Notes Payable (Short and Long Term)				\$0				
96730 Amortization of Bond Issue Costs				\$0				
96700 Total Interest Expense and Amortization Cost	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
96900 Total Operating Expenses	\$5,331,168	\$427,126	\$6,097	\$38,506	\$660,277	\$6,663,174	-\$926,934	\$5,736,240
97000 Excess of Operating Revenue over Operating Expenses	\$819,407	\$3,544,901	\$789	\$312,220	\$68,982	\$4,746,299	\$0	\$4,746,299
97100 Extraordinary Maintenance	\$58,351			\$0		\$58,351		\$58,351
97200 Casualty Losses - Non-capitalized	\$57,460			\$0		\$57,460		\$57,460
97300 Housing Assistance Payments		\$2,915,006		\$303,967		\$3,218,973		\$3,218,973
97350 HAP Portability-In		\$11,359		\$0		\$11,359		\$11,359
97400 Depreciation Expense	\$757,694	\$5,804		\$0	\$11,533	\$775,031		\$775,031
97500 Fraud Losses				\$0				
97600 Capital Outlays - Governmental Funds				\$0				
97700 Debt Principal Payment - Governmental Funds				\$0				
97800 Dwelling Units Rent Expense				\$0				
90000 Total Expenses	\$6,204,673	\$3,359,295	\$6,097	\$342,473	\$671,810	\$10,784,348	-\$926,934	\$9,857,414

Housing Authority of the City of East Chicago (IN029)  
EAST CHICAGO, IN

Entity Wide Revenue and Expense Summary

Submission Type: Audited/A-133

Fiscal Year End: 12/31/2011

	Project Total	14,671 Housing Choice Vouchers	14,885 Formula Capital Fund Stimulus Grant	14,856 Lower Income Housing Assistance Program_Section 8 Moderate	COCC	Subtotal	ELIM	Total
10010 Operating Transfer In	\$517,758	\$50,000		\$0		\$567,758	-\$567,758	\$0
10020 Operating Transfer Out	-\$517,758			\$0	-\$50,000	-\$567,758	\$567,758	\$0
10030 Operating Transfers from/to Primary Government				\$0				
10040 Operating Transfers from/to Component Unit				\$0				
10050 Proceeds from Notes, Loans and Bonds				\$0				
10060 Proceeds from Property Sales				\$0				
10070 Extraordinary Items, Net Gain/Loss				\$0				
10080 Special Items (Net Gain/Loss)				\$0				
10091 Inter Project Excess Cash Transfer In				\$0				
10092 Inter Project Excess Cash Transfer Out				\$0				
10093 Transfers between Program and Project - In				\$0				
10094 Transfers between Project and Program - Out		\$50,000	\$0	\$0	-\$50,000	\$0	\$0	\$0
10100 Total Other financing Sources (Uses)	\$0	\$50,000	\$0	\$0	-\$50,000	\$0	\$0	\$0
10000 Excess (Deficiency) of Total Revenue Over (Under) Total Expenses	-\$54,098	\$662,732	\$789	\$8,253	\$7,449	\$625,125	\$0	\$625,125
11020 Required Annual Debt Principal Payments	\$0	\$0	\$0	\$0	\$0	\$0		\$0
11030 Beginning Equity	\$7,196,156	\$203,442	\$0	\$52,890	\$844,376	\$8,296,864		\$8,296,864
11040 Prior Period Adjustments, Equity Transfers and Correction of Errors	\$789		-\$789	-\$70		-\$70		-\$70
11050 Changes in Compensated Absence Balance				\$0				
11060 Changes in Contingent Liability Balance				\$0				
11070 Changes in Unrecognized Pension Transition Liability				\$0				
11080 Changes in Special Term/Severance Benefits Liability				\$0				
11090 Changes in Allowance for Doubtful Accounts - Dwelling Rents				\$0				
11100 Changes in Allowance for Doubtful Accounts - Other				\$0				
11170 Administrative Fee Equity		\$8,091		\$0		\$8,091		\$8,091
11180 Housing Assistance Payments Equity		\$858,083		\$0		\$858,083		\$858,083
11190 Unit Months Available	8842	7632		708		17162		17162
11210 Number of Unit Months Leased	8274	5856		629		14759		14759
11270 Excess Cash	\$1,589,036			\$0		\$1,589,036		\$1,589,036
11610 Land Purchases	\$0			\$0		\$0		\$0
11620 Building Purchases	\$616,880			\$0		\$616,880		\$616,880
11630 Furniture & Equipment - Dwelling Purchases	\$0			\$0		\$0		\$0
11640 Furniture & Equipment - Administrative Purchases	\$0			\$0		\$0		\$0
11650 Leasehold Improvements Purchases	\$0			\$0		\$0		\$0
11660 Infrastructure Purchases	\$0			\$0		\$0		\$0
13510 CFFP Debt Service Payments	\$0			\$0		\$0		\$0
13901 Replacement Housing Factor Funds	\$0			\$0		\$0		\$0



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 the Housing Authority of the City of East Chicago as of and for the year ended December 31, 2011, 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 the Housing Authority of the City of East Chicago's internal control. Accordingly, I do not express an opinion on the effectiveness of the 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. There was a new capitalization policy adopted in December 2011 effective for FY 2011, which increased the capitalization limit from \$500 to \$1,000. There are items that will need to be removed from depreciation schedule that fell under new threshold such as limit like computers, flag poles, etc.

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.

Certified Public Accountant

Decatur, Illinois  
May 10, 2012