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June 24, 2014

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

We have reviewed the audit report prepared by Pamela J. Simpson, CPA, Independent Public Accountant, for the period January 1, 2012 to December 31, 2012. 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, 2012 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, 2012**

**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, 2012, and the related notes to the financial statements, which collectively compromise the Housing Authority of the City of East Chicago's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

My responsibility is to express an opinion 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 General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Housing Authority of the City of East Chicago's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, 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 express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

## **Opinion**

In my opinion, the financial statements referred to above present fairly, in all material respects, the net position of the Housing Authority of the City of East Chicago, as of December 31, 2012 and the changes in its net position and its cash flows for the year end in accordance with accounting principles generally accepted in the United States of America.

## **Report on Required Supplemental Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 14 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 statements. 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.

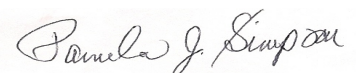
## **Report on Supplemental Information**

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Housing Authority of the City of East Chicago's financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the Office of Management and Budget Circular A-133, *Audits of States, Local Governments and None-Profit Organizations*, and is not a required part of the financial statements. Further, the financial data schedules shown on pages 46 to 50 are presented for purposes of additional analysis as required by *Uniform Financial Reporting Standards* issued by the U.S. Department of Housing and Urban Development, and are not a required part of the financial statements.

Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the above described supplemental information is fairly stated in all material respects in relation to the financial statements as a whole.

## **Report Issued in Accordance with *Government Auditing Standards***

In accordance with *Government Auditing Standards*, I have also issued my report dated May 9, 2013 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, grant agreements, and 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 the internal control over financial reporting or on compliance. This report is an integral part of a *Government Auditing Standards* and should be considered in assessing the results of my audit.



Certified Public Accountant

Decatur, Illinois  
May 9, 2013

As management of the Housing Authority of the City of East Chicago, IN (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, 2012. 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 Tia J. Cauley, Executive Director of the Housing Authority of the City of East Chicago, IN, 4920 Larkspur Drive, P.O. Box 498, East Chicago, Indiana 46312, (219) 397-9974 ext. 30.

### ***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 Position** (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 position", *formerly known as Equity*. Assets and liabilities are presented in order of liquidity.
- **Statement of Revenues, Expenses, and Changes in Fund Net Position** (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 Position" 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 position, 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 position as the difference between what the Authority *owns* (assets) to what the Authority *owes* (liabilities). To fully assess the financial health of any Authority the reader must also consider other non-financial factors such as changes in family composition, fluctuations in the local economy, HUD mandated program administrative changes, and the physical condition of the Authority's capital assets.

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

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

The Low Income Public Housing Program is operated under an Annual Contributions Contract (ACC) with HUD that allows the Authority to rent units it owns to low-income households at a rent that is based upon 30% of household income. The Housing Authority owns 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 near elderly units, John B. Nicosia site (AMP002) has 206 near 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 through November 30, 2012 increased to 652 as of December 1, 2012. 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 through November 30, 2012 and decreased to 43 units effective December 1, 2012. 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 and will phase out by September 2013 with Tenant Protection Housing Choice Vouchers in the Housing Choice Voucher Program due to a catastrophic event with Harbor Realty Group in August 2012. The Authority currently has 43 units remaining under the Moderate Rehabilitation Program and pays Housing Assistance Payments (HAP) for a lease that sets the participant's rent at 30% of household adjusted income to independent landlords. 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. 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.

### **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 2012 by partnering with Geminus to administer and fund the program through the use of grants administered by Geminus.
2. Federal funding for the Department of Housing and Urban Development (HUD) Public and Indian Housing Program was decreased by Congress for 2012 appropriations and as a result, before the reserve offset, the Authority was funded at 95.41% or \$2,632,882 after a funding proration of 4.59% resulting in a \$126,780 decrease for public housing eligible operating subsidies versus a decrease in revenues for 2011 of \$45,691. In addition to the 2012 proration of 4.59%, the agency was notified September 26, 2011 in PIH 2011-055 of an allocation adjustment from the 2010 excess operating reserves resulting in an additional 8.85% or \$244,194 decrease to the 2012 operating subsidy for a total decrease of 13.44% or \$370,974 in funding for 2012 resulting in only 86.56% or \$2,388,688 of eligible subsidy received.
3. HAP funding for 2012 was decreased by \$1,307,583 or 33% from 2011 for the Sec 8 Voucher Choice Program to offset \$858,083 in Net Restricted Position as of 12/31/11 resulting in a Net Restricted Position balance of \$28,923 as of 12/31/12. As a result, the Authority was leased 82% (up 6% from 2011) by the end of the year. 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 received 80% (up 5% from 2011) of eligible administrative funding which left an unrestricted net asset balance of \$7,997 at year end. Had to eliminate one staff position during the 4<sup>th</sup> quarter in addition to reducing other expenses throughout the year to avoid a negative unrestricted net position which affects the viability of the program's leasing functions due to the program's inability to afford sufficient staff because of funding shortfalls.
4. 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 Position compared to the prior year for Business-Type Activities.

**TABLE 1**  
**STATEMENT OF NET POSITION**

	2012	2011	Net Change	Percent Variance
Cash	2,229,453	3,711,325	-1,481,872	-39.9%
Other Current Assets	933,897	1,045,090	-111,193	-10.6%
Capital Assets	4,942,214	4,911,767	30,447	0.6%
Non Current Assets	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.0%</u>
<b>Total Assets</b>	<b>8,105,564</b>	<b>9,668,182</b>	<b>-1,562,618</b>	<b>-16.2%</b>
Current Liabilities	512,791	682,176	-169,385	-24.8%
Long Term Liabilities	<u>59,467</u>	<u>64,087</u>	<u>-4,620</u>	<u>-7.2%</u>
<b>Total Liabilities</b>	<b>572,258</b>	<b>746,263</b>	<b>-174,005</b>	<b>-23.3%</b>
Net Investment in Capital Assets	4,942,214	4,911,767	30,447	0.6%
Restricted Net Position	28,923	858,083	-829,160	-96.6%
Unrestricted Net Position	<u>2,562,169</u>	<u>3,152,069</u>	<u>-589,900</u>	<u>-18.7%</u>
<b>Total Net Position</b>	<b>7,533,306</b>	<b>8,921,919</b>	<b>-1,388,613</b>	<b>-15.6%</b>

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

**Cash** decreased primarily due to a \$1,307,583 decrease of Cash - Other Restricted for HAP payments just as **Current Liabilities** also decreased by \$169,385.

**Other Current Assets** decreased by \$111,193 or 10.6% primarily due to a \$79,250 decrease in **Accounts Receivable-HUD** for Capital funds expended but not yet drawn and a \$22,361 decrease in materials inventory.

**Capital Assets** increased \$30,447 or .6% primarily due to a combination of acquisitions in the amount of \$12,682 less current year depreciation of (\$811,395) plus the decrease in restricted net position of \$829,160. For more detail, see the analysis of capital assets activity in table 5.

**Restricted** decreased \$829,160 or 96.6% due to a decrease of HAP funding received in 2012.

**Unrestricted** decreased by \$589,900 or 18.7% primarily due to a gross operating loss of \$577,218 (excluding an \$811,395 depreciation expense) offset by \$12,682 for capital expenditures.

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

**TABLE 2**  
**CHANGE OF UNRESTRICTED NET POSITION**

Unrestricted Net Position 12/31/11		\$ 3,152,069
Results of Operations	(1,388,613)	
Adjustments:		
Depreciation (1)	811,395	
Adjusted Results of Operations		(577,218)
Capital Expenditures		(12,682)
Unrestricted Net Position 12/31/12		<b>\$ 2,562,169</b>

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

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

HOUSING AUTHORITY OF THE CITY OF EAST CHICAGO, IN  
MANAGEMENT DISCUSSION AND ANALYSIS  
FISCAL YEAR ENDING DECEMBER 31, 2012

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 FUND**  
**NET POSITION**

	2012	2011	Net Change	Percentage Change
<b><u>Revenues</u></b>				
Total Tenant Revenue	1,684,792	1,628,538	56,254	4%
HUD Operating Grants	6,043,614	8,032,073	-1,988,459	-25%
Capital Grants	672,780	616,880	55,900	9%
Other Government Grants	3,496	0	3,496	100%
Investment Income	4,666	9,752	-5,086	-52%
Fraud Recovery	8,122	21,327	-13,205	-62%
Other Revenue	154,786	173,969	-19,183	-11%
Gain/loss on Sale of Fixed Assets	-6,524	0	-6,524	100%
<b>Total Revenue</b>	<b><u>8,565,732</u></b>	<b><u>10,482,539</u></b>	<b><u>-1,916,807</u></b>	<b><u>-18%</u></b>
<b><u>Expenses</u></b>				
Administrative	2,107,172	2,100,142	7,030	0%
Tenant Services	165,105	146,612	18,493	13%
Utilities	593,053	602,715	-9,662	-2%
Maintenance	1,845,417	1,969,079	-123,662	-6%
Protective Service	338,372	359,676	-21,304	-6%
Insurances	217,067	226,272	-9,205	-4%
General Expense	342,013	331,744	10,269	3%
Extraordinary Maintenance	78,515	58,351	20,164	35%
Casualty Losses	0	57,460	-57,460	-100%
Housing Assistance Payments	3,456,236	3,230,332	225,904	7%
Depreciation Expense	811,395	775,031	36,364	5%
<b>Total Expenses</b>	<b><u>9,954,345</u></b>	<b><u>9,857,414</u></b>	<b><u>96,931</u></b>	<b><u>1%</u></b>
<b>Net Income (Loss)</b>	<b><u><u>-1,388,613</u></u></b>	<b><u><u>625,125</u></u></b>	<b><u><u>-2,013,738</u></u></b>	<b><u><u>-322%</u></u></b>

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

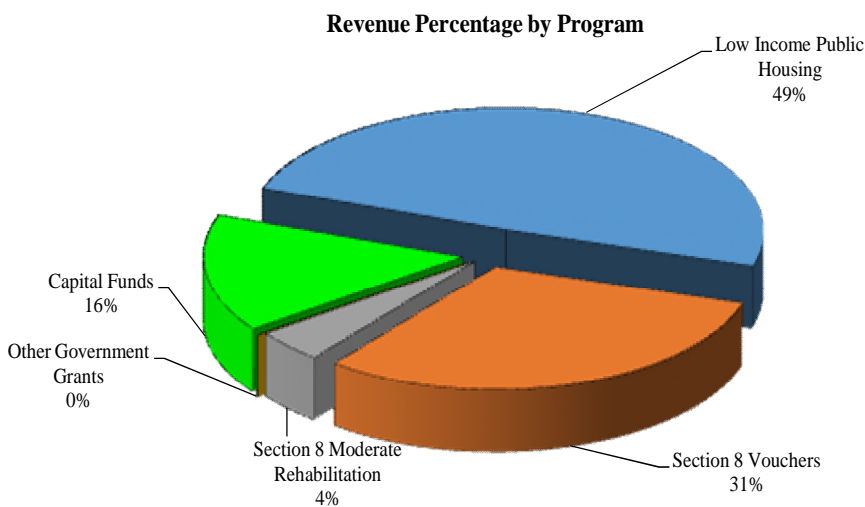
**Total revenue** decreased overall by \$1,916,807 or 18% primarily reflecting a decrease in **HUD Operating Grants** revenue by 25% due to a decrease in Public Housing operating subsidy of \$348,214 which included a \$244,194 allocation adjustment of 2010 reserves in addition to a decrease of \$1,307,583 in Housing Choice Voucher subsidy. **Capital Grants** revenue increase of \$55,900 or 9% was due to increase of capital expenditure draws.

Overall, **total expenses**, including depreciation, increased approximately 1% or \$96,931 primarily due to a \$225,904 or 7% increase in **Housing Assistance Payments** and a \$123,662 or 6% decrease in **Maintenance** expenditures reflecting an \$85,339 reduction in maintenance contract costs and a \$31,486 reduction in salaries due to reductions in staff.

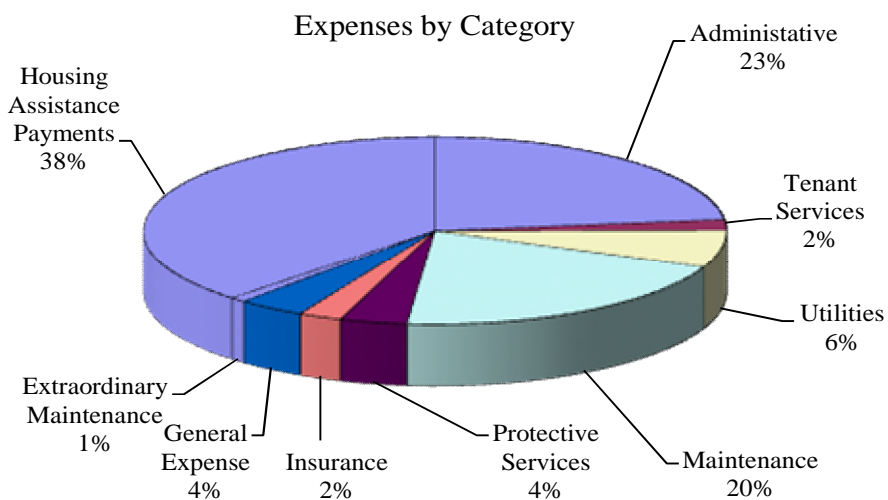
The Authority administers the following programs and the revenues generated from these programs during Fiscal Year Ending 2012 were as follows:

<u>Program</u>	<u>Revenues Generated</u>
Low Income Public Housing	\$4,217,071
Section 8 Vouchers	\$2,643,830
Section 8 Moderate Rehabilitation	\$368,010
Capital Funds	\$1,333,325
Other Government Grants	\$3,496

The diagram below illustrates the percentage of revenues generated by these programs for Fiscal Year Ending December 31, 2012:



The diagram below illustrates the percentage of Authority expenditures by categories excluding Depreciation Expense for Fiscal Year Ending December 31, 2012:



### **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, IN  
MANAGEMENT DISCUSSION AND ANALYSIS  
FISCAL YEAR ENDING DECEMBER 31, 2012

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

**Table 4**

**Housing Authority Budgetary Highlights**

	<b>Percent Variance</b>	<b>Budget Variance</b>	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Actual Variance</b>	<b>Percent Variance</b>
Tenant Revenue	-9%	-145,180	1,811,750	1,666,570	1,684,792	18,222	1%
HUD Operating Grants	-19%	-1,122,130	7,138,685	6,016,555	6,043,614	27,059	0%
HUD Capital Grants	0%	0	672,780	672,780	672,780	0	0%
Other State/Local Grant	100%	3,496	0	3,496	3,496	0	0%
Investment Income-Unrestricted	-52%	-2,560	7,490	4,930	4,666	-264	-5%
Fraud Recovery	-96%	-5,430	11,100	5,670	8,122	2,452	30%
Other Revenue	-39%	-56,970	202,710	145,740	154,786	9,046	6%
Gain or Loss On Sale of Assets	100%	600	0	600	-6,524	-7,124	-1187%
<b>Total Revenue</b>	<b>-16%</b>	<b>-1,328,174</b>	<b>9,844,515</b>	<b>8,516,341</b>	<b>8,565,732</b>	<b>49,391</b>	<b>1%</b>
Administrative	0%	2,332	2,197,788	2,200,120	2,107,172	-92,948	-4%
Tenant Services	3%	5,331	171,730	177,061	165,105	-11,956	-7%
Utilities	-8%	-46,225	639,435	593,210	593,053	-157	0%
Maintenance	-1%	-17,210	1,889,519	1,872,309	1,845,417	-26,892	-1%
Protective Services	22%	59,010	210,525	269,535	338,372	68,837	20%
Insurance	-8%	-18,340	239,690	221,350	217,067	-4,283	-2%
General Expense	-4%	-13,590	326,680	313,090	342,013	28,923	8%
Extraordinary Maintenance	100%	84,110	0	84,110	78,515	-5,595	-7%
Housing Assistance Payments	3%	96,390	3,308,240	3,404,630	3,456,236	51,606	1%
Depreciation Expenses	-8%	-64,000	869,874	805,874	811,395	5,521	1%
<b>Total Expenses</b>	<b>1%</b>	<b>87,808</b>	<b>9,853,481</b>	<b>9,941,289</b>	<b>9,954,345</b>	<b>13,056</b>	<b>0%</b>
Net Income/(Loss)	99%	-1,415,982	-8,966	-1,424,948	-1,388,613	36,335	3%

### Results of Operations

Management revised individual and entity wide budgets that originally anticipated a loss of \$8,966 to a \$1,424,948 net loss reflecting a \$1,415,982 increase in losses primarily due to an anticipated decrease in **Housing Assistance Payments Revenue** of \$1,364,500 to utilize Net Restricted Position and to reflect anticipated proration in subsidy not originally budgeted for in **HUD Operating Grants** in addition to an \$84,110 increase in **Extraordinary Maintenance** for bed bug eradication PHA-Wide not originally budgeted for.

Actual results of operation was a net loss of \$1,388,613 resulting in a decrease of \$36,335 or 3% less than anticipated from the revised budget primarily due to the \$49,391 increase in overall Total Revenue from \$27,059 in **HUD Operating Grants** and \$18,222 in **Tenant Revenue** offset by an overall increase of \$13,056 in Total Expenses.

**Administrative** expenses were under revised budget by \$92,948 or 4% primarily due to a \$55,453 decrease of administrative salaries and benefits resulting from the elimination of one administrative staff position from the Housing Choice Voucher Program during the latter part of the year due to HUD administrative fee funding shortfalls and due to actual salaries less than anticipated based on a merit salary scale in addition to the cancellation of employer provided dental and vision fringe benefits mid-year for both the Section 8 and Public Housing Programs. Legal Expenses were also \$10,730 less than anticipated.

**Tenant Service** was under budget by \$11,956 or 7% primarily due to budgeted amount of \$9,990 for the resident participation not used by the resident councils.

**Maintenance** was under revised budget by \$26,892 or 1% primarily due to an \$11,703 decrease in Materials and a \$9,658 decrease in salaries and benefits due to understaffing of employees during later part of year for AMP 1, AMP 3, and AMP 4 retirements and terminations.

**General Expense** is \$28,923 or 8% over revised budget primarily due to \$16,371 for AMP 3 (West Calumet) and \$14,657 for AMP 4 in write offs of uncollectible accounts receivable for vacant units being greater than anticipated.

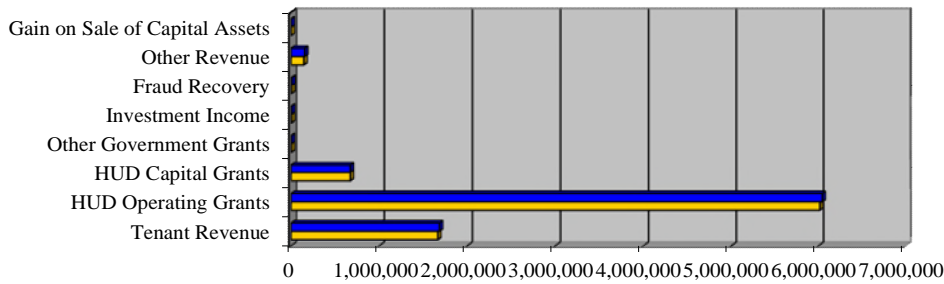
**Protective Service** was over revised budget by \$68,837 or 20% primarily due to reduction of security services for AMP 1, AMP 2, and AMP 3 not occurring during 4<sup>th</sup> quarter as anticipated due to increase in criminal activity during the year.

**Housing Assistance Payments** were under revised budget by \$51,606 or 1% due to increase in occupancy from the previous year of 77% to 82%.

HOUSING AUTHORITY OF THE CITY OF EAST CHICAGO, IN  
MANAGEMENT DISCUSSION AND ANALYSIS  
FISCAL YEAR ENDING DECEMBER 31, 2012

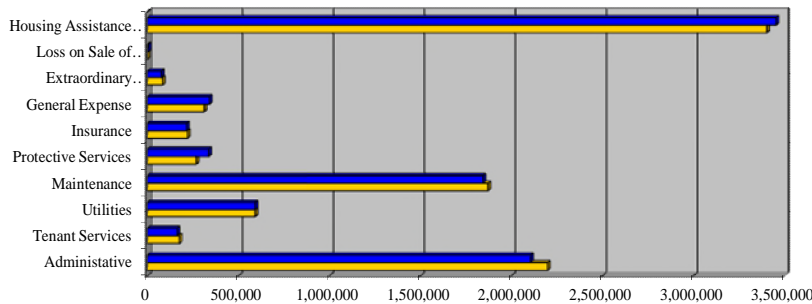
The diagrams below illustrate the Authority's Budget compared to Actual for Revenue and Expense for Fiscal Year Ending December 31, 2012:

**Revenues - Budget Vs. Actual**



	Tenant Revenue	HUD Operating Grants	HUD Capital Grants	Other Government Grants	Investment Income	Fraud Recovery	Other Revenue	Gain on Sale of Capital Assets
Actual	1,684,792	6,043,614	672,780	3,496	4,666	8,122	154,786	600
Budget	1,666,570	6,016,555	672,780	3,496	4,930	5,670	145,740	600

**Expenses - Budget Vs. Actual**



	Administrative	Tenant Services	Utilities	Maintenance	Protective Services	Insurance	General Expense	Extraordinary Maintenance	Loss on Sale of Capital Assets	Housing Assistance Payments
Actual	2,107,172	165,105	593,053	1,845,417	338,372	217,067	342,013	78,515	7,124	3,456,236
Budget	2,200,120	177,061	593,210	1,872,309	269,535	221,350	313,090	84,110	0	3,404,630



HOUSING AUTHORITY OF THE CITY OF EAST CHICAGO, IN  
MANAGEMENT DISCUSSION AND ANALYSIS  
FISCAL YEAR ENDING DECEMBER 31, 2012

As of the end of the year, the Authority had \$4,942,214 invested in a variety of capital assets as reflected in the following table which represents a net increase (additions, deductions, and depreciation) of \$30,447 or .6% from the end of the previous fiscal year.

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

	2012	2011	Net Change	Percent Variance
Land	974,719	974,719	0	0.0%
Buildings and Site Improvements	41,959,102	40,955,852	1,003,250	2.4%
Furniture, Equipment, & Machinery	925,809	1,013,489	-87,680	-8.7%
Site Improvements	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.0%</u>
<b>Total Fixed Assets</b>	<b><u>43,859,630</u></b>	<b><u>42,944,060</u></b>	<b><u>915,570</u></b>	<b><u>2.1%</u></b>
Accumulated Depreciation	-38,917,416	-38,231,613	685,803	1.8%
Construction in Progress	<u>0</u>	<u>199,320</u>	<u>-199,320</u>	<u>-100.0%</u>
<b>Net Fixed Assets</b>	<b><u><u>4,942,214</u></u></b>	<b><u><u>4,911,767</u></u></b>	<b><u><u>30,447</u></u></b>	<b><u><u>0.6%</u></u></b>

**Buildings** increased by \$1,003,250 or 2.4% primarily due to \$220,090 for roof replacement for AMP 1 James Hunter Senior Building; \$318,267 ADA Units Remodeled and \$3,792 for a/c replacements for AMP 2 John B. Nicosia Senior Building; \$16,516 for speed humps, \$13,519 front entrance gate replacement, \$182,182 roof replacements, \$12,378 security system upgrade, \$ 18,404 a/c replacements and \$218,770 for HVAC protection cages for AMP 3 West Calumet; \$6,540 roof replacements at AMP 4 29-2 Scattered Sites.

**Furniture, Equipment, & Machinery** decreased by \$87,680 or 8.7% due to \$37,828 in acquisitions less \$125,592 for removal of items from depreciation schedule that fell under new capitalization policy which increased the threshold from \$500 to \$1,000.

29-1 Key Box	5,206
29-5 Key Box	5,206
29-6 Key Box Upgrade	1,522
29-6 Drain Cleaning Machine	2,915
29-6 2012 Chevy Silverado Truck	<u>22,979</u>
	37,828

**Accumulated Depreciation** increased by \$685,803 or 1.8% due to the current year's depreciation expense of \$811,395 less \$125,592 due to removal of items from depreciation schedule that fell under new capitalization policy which increased the threshold from \$500 to \$1,000.

**Construction in Progress** decreased by \$199,320 or 100% 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 POSITION - PROPRIETARY FUNDS  
AS OF DECEMBER 31, 2012**

**ASSETS**

Cash and cash equivalents	\$ 2,229,453
Receivables (net)	642,039
Inventory - net of allowance	182,429
Prepaid expenses	109,429

Capital assets:

Land, improvements and construction in progress	\$ 974,719
Other capital assets, net of depreciation	<u>3,967,495</u>

Total Capital Assets \$ 4,942,214

Total Assets \$ 8,105,564

**DEFERRED OUTFLOWS OF RESOURCES** \$ 0

**Total Assets and Total Deferred Outflows** \$ 8,105,564

**LIABILITIES**

Accounts payable (interfund eliminated)	\$ 117,610
Accrued liabilities	233,936
Tenant security deposits	154,215
Unearned revenue	7,030

Noncurrent liabilities:

Earned compensated absences	33,653
FSS escrow	<u>25,814</u>

Total Liabilities \$ 572,258

**DEFERRED INFLOWS OF RESOURCES** \$ 0

**NET POSITION**

Net investment in capital assets	\$ 4,942,214
Restricted	28,923
Unrestricted	<u>2,562,169</u>

Total Net Position \$ 7,533,306

**Total Liabilities, Net Position and Total Deferred Inflows** \$ 8,105,564

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

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION -  
PROPRIETARY FUNDS  
TWELVE MONTHS ENDED DECEMBER 31, 2012**

**Operating Income**

**Tenant Income**

Tenant rental revenue	\$ 1,538,537
Tenant revenue - other	<u>146,255</u>
Total Tenant and Other Rental Income	<u>\$ 1,684,792</u>

**Non-Tenant Income**

HUD grants - operating	\$ 6,043,614
Other governmental grants	3,496
Fraud recovery	8,122
Other revenue	154,786
Gain (loss) on sale of fixed assets	<u>-6,524</u>
Total Non-Tenant Income	<u>\$ 6,203,494</u>

Total Operating Income \$ 7,888,286

**Operating Expenses**

Administration	\$ 2,107,172
Tenant services	165,105
Utilities	593,053
Ordinary maintenance and operation	1,845,417
General expense	559,080
Protective services	338,372
Extraordinary maintenance	78,515
Housing assistance payments	3,456,236
Depreciation	<u>811,395</u>

Total Operating Expenses \$ 9,954,345

Net Operating Income (Loss) \$ -2,066,059

**Nonoperating Income (Expenses)**

HUD grants - capital	\$ 672,780
Interest income	<u>4,666</u>

Total Nonoperating Income (Expenses) \$ 677,446

Changes in net position \$ -1,388,613

Net position, beginning of year 8,921,919

Net position, end of year \$ 7,533,306

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

**COMBINED STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS  
TWELVE MONTHS ENDED DECEMBER 31, 2012**

**Operating Activities**

Operating subsidy	\$ 6,122,864
Tenant revenue	1,679,334
Other revenues	159,880
Housing assistance payments	-3,456,236
Payments to employees	-2,141,146
Payments to suppliers and contractors	<u>-3,683,037</u>

Net Cash Provided (Used) by Operating Activities	<u>\$ -1,318,341</u>
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**Investing Activities**

Interest income	<u>\$ 4,666</u>
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Net Cash Provided (Used) by Investing Activities	<u>\$ 4,666</u>
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**Capital and Related Financing Activities**

HUD grants - capital	\$ 672,780
(Additions) deletions to capital assets	<u>-841,842</u>

Net Cash Provided (Used) by Capital and Related Financing Activities	<u>\$ -169,062</u>
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Net Change in Cash	\$ -1,482,737
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Cash Balance at December 31, 2011	<u>3,711,325</u>
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Cash Balance at December 31, 2012	<u><u>\$ 2,228,588</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, 2012**

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

Net operating income (loss)	\$ -2,066,059
Adjustment to Reconcile Operating Income (Loss) to Net Cash Flows from Operating Activities:	
Depreciation	811,395
(Increase) decrease in accounts receivable	91,159
(Increase) decrease in prepaid expenses	-2,103
(Increase) decrease in inventories	22,137
Increase (decrease) in accounts payable	-58,242
Increase (decrease) in accrued liabilities	-116,641
Increase (decrease) in unearned revenues	-374
Increase (decrease) in other liabilities	<u>387</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ -1,318,341</u>

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

**NOTES TO FINANCIAL STATEMENTS  
TWELVE MONTHS ENDED DECEMBER 31, 2012**

**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, 2012  
(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)
- \* Capital Fund Program
- \* Central Office Cost Center (COCC)
- \* Housing Choice Vouchers
- \* Section 8 Moderate Rehabilitation

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 Net Investment in Capital Assets, Restricted and Unrestricted.

(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 position 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, 2012  
(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, 2012, 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, 2012  
(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 Position -

GASB Statement 63 requires the classification of net position into three components as defined below:

- 1) Net investment in capital assets - capital assets, net of accumulated depreciation, reduced by the outstanding balances of debt and deferred inflows of resources related to the acquisition, construction or improvement of those assets.
- 2) Restricted - restricted assets reduced by liabilities and deferred inflows of resources related to those assets.
- 3) Unrestricted - amounts not required to be reported in the other components of net position.

(l) Income Tax -

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

(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.

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

**NOTES TO FINANCIAL STATEMENTS  
TWELVE MONTHS ENDED DECEMBER 31, 2012  
(CONTINUED)**

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

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

**Note 2 - Cash and Investments**

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

All cash and investments are insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC) or other equivalent insurance company of the depository financial institutions. The deposits exceeding the insured or registered limits are public funds covered by the State of Indiana Public Deposit Fund.

*Custodial Credit Risk*

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

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

**NOTES TO FINANCIAL STATEMENTS  
TWELVE MONTHS ENDED DECEMBER 31, 2012  
(CONTINUED)**

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

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

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

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

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

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

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

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

Category 3 - Deposits which are not collateralized or insured.

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

<u>Program</u>	<u>Book Balance</u>	<u>Bank Balance</u>
Low Rent (AMPS & COCC)	\$ 2,147,558	\$ 2,229,866
Voucher	54,295	70,308
State & Local	1,504	1,504
Mod Rehab	<u>26,096</u>	<u>26,096</u>
Total	<u>\$ 2,229,453</u>	<u>\$ 2,327,774</u>

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

**NOTES TO FINANCIAL STATEMENTS  
TWELVE MONTHS ENDED DECEMBER 31, 2012  
(CONTINUED)**

**Note 3 - Compensated Absences**

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

Employee's vacation hours as of December 31, 1997 were placed into an old bank but will not be used until they have used all of their new vacation bank. Unused vacation time from the old bank as of December 31, 1997 will carryover from year to year until fully exhausted. Maximum vacation hours from the old bank if an employee is entitled to if they leave the agency is still 360 hours. For all compensated absences, the liability is valued at the pay rates in effect at the end of the Authority's fiscal year.

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

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

**Annual Leave**

- A. Annual leave requests are granted on a seniority basis based on years of employment. Employees are required to take annual leave in the year in which it is received. Annual leave will not be advanced to employees except at the discretion of the executive director. Newly hired employees are not entitled to annual leave until they have successfully completed one full year of employment, except at the discretion of the executive director.

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

**NOTES TO FINANCIAL STATEMENTS  
TWELVE MONTHS ENDED DECEMBER 31, 2012  
(CONTINUED)**

**Note 3 - Compensated Absences** (Continued)

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

½ on January 16; ½ on July 16  
Less than five years - 12 days annually  
More than five years but less than ten 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 five years - ten days annually  
More than five years but less than fifteen years - 15 days annually  
Fifteen years or more - 20 days annually

**Accumulation of Vacation Time**

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

**Note 4 - Defined Contribution Plan**

The Housing Authority provides pension benefits for all of its full-time employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Housing Authority contributions forfeited by employees who leave employment prior to vesting are used to reduce current costs and contribution requirements. For the fiscal year ended December 31, 2012, the actual contributions by the Housing Authority were \$286,720. Total annual payroll expense was \$2,126,527.

**Life Associates, Inc. Money Purchase Plan**

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

**Eligible Employee**

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

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

**NOTES TO FINANCIAL STATEMENTS  
TWELVE MONTHS ENDED DECEMBER 31, 2012  
(CONTINUED)**

**Note 4 - Defined Contribution Plan** (Continued)

Employer Contributions and Forfeitures

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

Vesting Percentage

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

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

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

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

Accounts receivable consists of the following accounts:

Accounts receivable - PHA projects	\$ 15,142
Accounts receivable - HUD	577,812
Accounts receivable - other government	948
Accounts receivable - miscellaneous	4,871
Tenants accounts receivable	48,558
Allowance for doubtful - tenants	-8,790
Fraud recovery	16,918
Allowance for doubtful - fraud	<u>-13,420</u>
Subtotal	\$ 642,039
Interfund	<u>9,944</u>
Total	<u>\$ 651,983</u>

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

**NOTES TO FINANCIAL STATEMENTS  
TWELVE MONTHS ENDED DECEMBER 31, 2012  
(CONTINUED)**

**Note 6 - Prepaid Expenses**

This classification includes the following accounts:

Prepaid insurance	\$ <u>109,429</u>
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**Note 7 - Fixed Assets**

Balance as of December 31, 2012	\$ 4,942,214
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Balance as of December 31, 2011	<u>4,911,767</u>
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Net Increase (Decrease)	\$ <u>30,447</u>
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**Reconciliation**

Property betterments and additions	\$ 811,139
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Replacement of equipment	30,703
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Depreciation expense	<u>-811,395</u> *
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Net Increase (Decrease)	\$ <u>30,447</u>
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**Analysis**

	01/01/2012 <u>Balance</u>	Additions/ <u>Transfers</u>	Deletions/ <u>Transfers</u>	12/31/2012 <u>Balance</u>
Land	\$ 974,719	\$ 0	\$ 0	\$ 974,719
Buildings	39,542,935	2,416,167	0	41,959,102
Equipment and furniture	1,013,489	0	87,680	925,809
Leasehold improvements	1,412,917	0	1,412,917	0
Construction in progress	<u>199,320</u>	<u>672,780</u>	<u>872,100</u>	<u>0</u>
Total	\$ 43,143,380	\$ 3,088,949	\$ 2,372,699	\$ 43,859,630
Accumulated depreciation	<u>-38,231,613</u>	<u>-811,395</u> *	<u>-125,592</u>	<u>-38,917,416</u>
Total	<u>\$ 4,911,767</u>	<u>\$ 2,277,554</u>	<u>\$ 2,247,107</u>	<u>\$ 4,942,214</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, 2012  
(CONTINUED)**

**Note 8 - Accounts Payable**

This classification includes the following accounts:

Vendors and contractors	\$ 74,576
Accounts payable - HUD - interest	15,210
Other	<u>27,824</u>
Subtotal	\$ 117,610
Interfund	<u>9,944</u>
Total	<u>\$ 127,554</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 - Other Liabilities**

Other liabilities consists of the following:

**Current Portion:**

Wages/payroll taxes payable	\$ 98,268
Other liabilities	40,342
Payment in lieu of taxes	<u>95,326</u>
Total Current Portion	<u>\$ 233,936</u>

**Noncurrent Portion:**

Earned compensated absences	<u>\$ 33,653</u>
Total	<u>\$ 267,589</u>



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

**NOTES TO FINANCIAL STATEMENTS  
TWELVE MONTHS ENDED DECEMBER 31, 2012  
(CONTINUED)**

**Note 11 - Summary of Long Term Liabilities**

A summary of long term liabilities as of December 31, 2012:

	01/01/2012			12/31/2012
	<u>Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u>
FSS escrow	\$ 25,427	\$ 387	\$ 0	\$ 25,814
Earned compensated absences	<u>38,660</u>	<u>0</u>	<u>5,007</u>	<u>33,653</u>
Total	<u>\$ 64,087</u>	<u>\$ 387</u>	<u>\$ 5,007</u>	<u>\$ 59,467</u>

**Note 12 - Unearned Revenue**

This classification consists of the following accounts:

Tenants prepaid rent	\$ 5,482
Other	<u>1,548</u>
Total	<u>\$ 7,030</u>

**Note 13 - Administrative Fee**

The PHA receives an "Administrative Fee" as part of the annual contribution from HUD to cover the costs (including overhead) of administering the HAP Program. The Moderate Rehabilitation administrative fees are calculated using a variable rate per HUD. The Voucher rate is determined annually by HUD.

**Note 14 - Allocation of Costs**

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

**Note 15 - Contingencies**

Federal Grants

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

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

**NOTES TO FINANCIAL STATEMENTS  
TWELVE MONTHS ENDED DECEMBER 31, 2012  
(CONTINUED)**

**Note 16 - Contracts/Commitments**

As of December 31, 2012, the Housing Authority had entered into the following pending construction projects in progress:

	<u>Funds Approved</u>	<u>Funds Expended To Date</u>
CFP 501-10	\$ 1,468,174	\$ 1,255,190
CFP 501-11	1,249,415	651,850
CFP 501-12	<u>1,149,659</u>	<u>132,715</u>
Total	<u>\$ 3,867,248</u>	<u>\$ 2,039,755</u>

As of December 31, 2012, 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

**Note 17 - 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 18 - Economic Dependency**

The Housing Authority received most of its revenue (78%) from the United States Department of Housing and Urban Development. This funding is subject to federal government appropriations and potential funding reductions.

**Note 19 - Restricted Net Position**

Restricted Net Position is restricted for the following:

HAP	<u>\$ 28,923</u>
-----	------------------

## **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, 2012**

<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 12/31/12	\$ <u>2,388,688</u>	\$ <u>2,388,688</u>	\$ <u>2,388,688</u>
Public Housing - Capital Fund*	14.872	C-651	FYE 12/31/12	\$ <u>5,338,058</u>	\$ <u>1,333,325</u>	\$ <u>1,333,325</u>
Housing Choice Voucher Program	14.871	C-2030V	FYE 12/31/12	\$ <u>2,626,551</u>	\$ <u>2,626,551</u>	\$ <u>2,626,551</u>
Lower Income Housing Assistance Program - Moderate Rehabilitation	14.856	C-2030K	FYE 12/31/12	\$ <u>367,830</u>	\$ <u>367,830</u>	\$ <u>367,830</u>
Total Federal Assistance				\$ <u>10,721,127</u>	\$ <u>6,716,394</u>	\$ <u>6,716,394</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 IN36P029501-09**

1. The Actual Modernization Costs of Phase IN36P029501-09 are as follows:

Funds approved	\$ 1,470,810
Funds expended	<u>1,470,810</u>
Excess of Funds Approved	<u><u>\$ 0</u></u>
Funds advanced	
Grants	\$ 1,470,810
Funds expended	<u>1,470,810</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 11, 2013, 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.



**Independent Auditor's 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, 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, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Housing Authority of the City of East Chicago, as of and for the year ended December 31, 2012, and the related notes to the financial statements and have issued my report thereon dated May 9, 2013.

**Internal Control Over Financial Reporting**

In planning and performing my audit of the financial statements, I considered the Housing Authority of the City of East Chicago's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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.

*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 Housing Authority of the City of East Chicago's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

My consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control, that might be material weaknesses or significant deficiencies. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

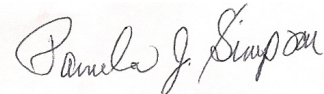
**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Housing Authority of the City of East Chicago's financial statements are free from material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a 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 the management the Housing Authority of the City of East Chicago in a separate letter dated May 9, 2013.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Housing Authority of the City of East Chicago's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Housing Authority of the City of East Chicago's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Certified Public Accountant

Decatur, Illinois  
May 9, 2013



**Independent Auditor's Report on Compliance For Each Major Federal Program;  
Report on Internal Control Over Compliance Required by OMB Circular A-133**

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

**Report on Compliance for Each Major Program**

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, 2012. 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.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

**Auditor's Responsibility**

My responsibility is to express an opinion on compliance for each of the Housing Authority of the City of East Chicago's major federal programs based on my audit of the types of compliance requirements referred to above.

I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations (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 compliance requirements referred to above that could have a material effect on the major federal programs occurred. An audit includes examining, on a test basis, evidence about the Housing Authority of the City of East Chicago's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances.

I believe that my audit provides a reasonable basis for my opinion on compliance with each major program. However, my audit does not provide a legal determination of the Housing Authority of the City of East Chicago's compliance.

**Opinion on Each Major Program**

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 identified above for the year ended December 31, 2012.



## **Other Matters**

The results of my auditing procedures disclosed no instances of noncompliance which are required to be reported in accordance with *OMB Circular A-133*.

I noted certain matters that I reported to the management of the Housing Authority of the City of East Chicago in a separate letter dated May 9, 2013.

## **Report on Internal Control Over Compliance**

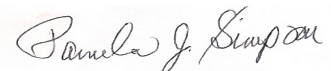
Management of the Housing Authority of the City of East Chicago is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing my audit of compliance, I considered the Housing Authority of the City of East Chicago's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing my opinion on compliance for each major federal program 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 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 requirements 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 will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a *material weakness* in internal control over compliance, yet important enough to merit the attention by those charged with governance.

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 *material weaknesses* or *significant deficiencies*. I did not identify any deficiencies in internal control over compliance that I consider to be *material weaknesses*, as defined above. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of my testing of internal control over compliance and the results of my testing based on the requirements of *OMB Circular A-133*. Accordingly, this report is not suitable for any other purpose.

Decatur, Illinois  
May 9, 2013



Certified Public Accountant

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

**STATUS OF PRIOR AUDIT FINDINGS**

The prior audit for the period ended December 31, 2011 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, 2012**

**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
14.872	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 Tia Cauley, Executive Director and Sharon Johnson, Director of Finance and other members of management, during the course of the audit or at an exit conference held May 9, 2013.

**Section III - Federal Award Audit Findings**

There were no federal award audit findings discussed with Tia Cauley, Executive Director and Sharon Johnson, Director of Finance and other members of management, during the course of the audit and at an exit conference held May 9, 2013.

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

**SCHEDULE OF ADJUSTING JOURNAL ENTRIES  
DECEMBER 31, 2012**

<u>Voucher</u>	<u>Audit Account Number</u>	<u>Debit</u>	<u>Credit</u>	<u>Posting Account Number</u>
(1)				
Other deferred credits	2290	\$ 364.00		2290
A/R - fraud recovery	1122.94		\$ 364.00	1122.94
Allowance for doubtful fraud	1122.90	364.00		1122.90
Fraud recovery retained	3300.10		182.00	2826.20
HAP - fraud recovery	4715.50		182.00	2806.20
(To correct receivable for A. Harris written off at year end)				
(2)				
HAP - occupied	4715.1	\$ 835.00		2806.20
Vendor A/P - HAP	2114.40		\$ 835.00	2111.40
(To record additional liability for HAP adjustments for 2012, paid in April and May 2013)				
(3)				
Accounts receivable - other	1129	\$ 1,854.00		1129
HAP - occupied	4715.10		\$ 1,854.00	2806.20
(To record receivable from landlord for overpayment for August - October 2012. Amount received in April 2013)				
(4)				
Cash	1111.31	\$ 9,944.23		1111.31
Due to COCC	2119.10		\$ 9,944.23	2119.10
(To transfer cash back from COCC for restricted balances)				
(5)				
Tenant services salary	4210	\$ 8,669.30		2826.20
Employee benefits	4222	658.56		2826.20
FSS salaries - admin	4110.10		\$ 8,669.30	2826.20
FSS benefits - admin	4182.10		658.56	2826.20
(To reclassify FSS coordinator expense not covered by FSS grant at 12/31/2012)				
(6)				
Interest income - HUD	3610	\$ 864.55		2826.20
Accounts payable - HUD	2218.40		\$ 864.55	2118.40
(To reclassify restricted net position interest income as of 12/31/2012)				

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

**SCHEDULE OF ADJUSTING JOURNAL ENTRIES  
DECEMBER 31, 2012**

<u>COCC</u>	<u>Audit Account Number</u>	<u>Debit</u>	<u>Credit</u>
(1)			
Cash - COCC	1111.13	\$ 13,702.97	1111.13
Accounts receivable - other	1129	\$ 13,702.97	1129
(To reclassify two checks from Section 8 that should be labeled outstanding deposits at 12/31/12)			
(2)			
Accounts receivable - VO	1129.10	\$ 9,944.23	1129.10
Due to COCC	1111.13	\$ 9,944.23	1111.13
(To transfer cash to Voucher for restricted balances)			
<u>Amp 3</u>			
(1)			
CFP (1408) management imp	16073401.31	\$ 32,680.84	
Contract costs-protective svcs.	16044480	5,069.91	
Contract costs-protective svcs.	16054480	27,610.93	
A/R - HUD (2009)	1125	5,069.91	
A/R - HUD (2010)	1125	27,610.93	
Security 29-6	15131408.16	5,069.91	
Funding advances - 501-09	15131600	5,069.91	
Security 29-6	15141408.16	27,610.93	
Funding advances - 501-10	15141600	27,610.93	
Funding advances - contra	15161699	32,680.84	
Mod Cost contra 501-12	15169800	32,680.84	
Contract costs-protective svcs.	16074480	\$ 32,680.84	
CFP (1408) management imp	16053401.31	5,069.91	
CFP (1408) management imp	16053401.31	27,610.93	
A/R - HUD (2012)	1125	32,680.84	
Funding advances - contra	15131699	5,069.91	
Funding advances - 501-09	15139800	5,069.91	
Funding advances - contra	15141699	27,610.93	
Mod Cost contra 501-10	15149800	27,610.93	
Security 29-6	15161408.16	32,680.84	
Funding advances - 501-12	15161600	32,680.84	
(To reclassify security expenses at 12/31/12 to CFP 2009 and CFP 2010 from 2012)			

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

**SCHEDULE OF ADJUSTING JOURNAL ENTRIES  
DECEMBER 31, 2012**

<u>Amp 4</u>	<u>Audit</u> <u>Account Number</u>	<u>Debit</u>	<u>Credit</u>
(1)			
CFP (1406) operations	12043401.30	\$ 5,069.91	
To operations	12054590.10	5,069.91	
A/R - HUD (2010)	1125	5,069.91	
Funding advances - contra	15161699	5,069.91	
Mod Cost contra 501-09	15149800	5,069.91	
Operations 29-2	15141406.20	5,069.91	
Funding advances - 501-10	15141600	5,069.91	
CFP (1406) operations	12043401.30		\$ 5,069.91
To operations	12054590.10		5,069.91
A/R - HUD (2009)	1125		5,069.91
Operations 29-2	15141406.20		5,069.91
Funding advances - 501-09	15139600		5,069.91
Funding advances - contra	15161699		5,069.91
Mod Cost contra 501-10	15149800		5,069.91

(To reclassify transfer funds to operations at 12/31/12 to CFP 2010 from CFP 2009)





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: 12/31/2012

	Project Total	14,871 Housing Choice Vouchers	2 State/Local	14,856 Lower Income Housing Assistance Program, Section 8 Moderate	COCC	Subtotal	ELIM	Total
311 Bank Overdraft				\$0				
312 Accounts Payable <= 90 Days		\$3,892		\$3,913	\$66,771	\$74,576		\$74,576
313 Accounts Payable >90 Days Past Due				\$0				
321 Accrued Wage/Payroll Taxes Payable	\$62,695	\$8,059		\$514	\$27,000	\$98,268		\$98,268
322 Accrued Compensated Absences - Current Portion				\$0				
324 Accrued Contingency Liability				\$0				
325 Accrued Interest Payable				\$0				
331 Accounts Payable - HUD PHA Programs		\$865		\$14,345		\$15,210		\$15,210
332 Account Payable - PHA Projects	\$95,326			\$0		\$95,326		\$95,326
333 Accounts Payable - Other Government	\$154,215			\$0		\$154,215		\$154,215
341 Tenant Security Deposits	\$5,460	\$45	\$1,504	\$1		\$7,030		\$7,030
342 Deferred Revenues				\$0				
343 Current Portion of Long-term Debt - Capital Projects/Mortgage Revenue Bonds				\$0				
344 Current Portion of Long-term Debt - Operating Borrowings	\$27,074			\$0	\$750	\$27,824		\$27,824
345 Other Current Liabilities	\$39,229			\$0	\$1,113	\$40,342		\$40,342
346 Accrued Liabilities - Other		\$9,944		\$0		\$9,944	-\$9,944	\$0
347 Inter Program - Due To				\$0				
348 Loan Liability - Current	\$384,019	\$22,805	\$1,504	\$18,773	\$95,634	\$522,735	-\$9,944	\$512,791
310 Total Current Liabilities								
351 Long-term Debt, Net of Current - Capital Projects/Mortgage Revenue				\$0				
352 Long-term Debt, Net of Current - Operating Borrowings	\$1,307	\$24,507		\$0		\$25,814		\$25,814
353 Non-current Liabilities - Other	\$15,138	\$1,080		\$69	\$17,366	\$33,653		\$33,653
354 Accrued Compensated Absences - Non Current				\$0				
355 Loan Liability - Non Current				\$0				
356 FASB 5 Liabilities				\$0				
357 Accrued Pension and OPEB Liabilities				\$0				
350 Total Non-Current Liabilities	\$16,445	\$25,587	\$0	\$69	\$17,366	\$59,467	\$0	\$59,467
300 Total Liabilities	\$400,464	\$48,392	\$1,504	\$18,842	\$113,000	\$582,202	-\$9,944	\$572,258
508.1 Invested In Capital Assets, Net of Related Debt	\$4,937,007	\$1,620		\$0	\$3,587	\$4,942,214		\$4,942,214
511.1 Restricted Net Assets		\$28,923		\$0		\$28,923		\$28,923
512.1 Unrestricted Net Assets	\$1,705,391	\$6,377	\$0	\$7,533	\$842,968	\$2,562,169		\$2,562,169
513 Total Equity/Net Assets	\$6,642,398	\$36,920	\$0	\$7,533	\$848,455	\$7,533,306	\$0	\$7,533,306
600 Total Liabilities and Equity/Net Assets	\$7,042,862	\$85,312	\$1,504	\$26,375	\$959,455	\$8,115,508	-\$9,944	\$8,105,564

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: 12/31/2012

	Project Total	14,871 Housing Choice Vouchers	2 State/Local	14,856 Lower Income Housing Assistance Program, Section 8 Moderate	COCC	Subtotal	ELIM	Total
70300 Net Tenant Rental Revenue	\$1,538,537			\$0		\$1,538,537		\$1,538,537
70400 Tenant Revenue - Other	\$146,255			\$0		\$146,255		\$146,255
70500 Total Tenant Revenue	\$1,684,792	\$0	\$0	\$0	\$0	\$1,684,792	\$0	\$1,684,792
70600 HUD PHA Operating Grants	\$3,049,233	\$2,626,551		\$367,680		\$6,043,614		\$6,043,614
70610 Capital Grants	\$672,780			\$0		\$672,780		\$672,780
70710 Management Fee				\$0	\$719,010	\$719,010	-\$719,010	\$0
70720 Asset Management Fee				\$0	\$96,720	\$96,720	-\$96,720	\$0
70730 Book Keeping Fee				\$0	\$117,067	\$117,067	-\$117,067	\$0
70740 Front Line Service Fee				\$0				\$0
70750 Other Fees				\$0				\$0
70700 Total Fee Revenue				\$0	\$932,797	\$932,797	-\$932,797	\$0
70800 Other Government Grants			\$3,496	\$0		\$3,496		\$3,496
71100 Investment Income - Unrestricted	\$3,056	\$26		\$180	\$1,404	\$4,666		\$4,666
71200 Mortgage Interest Income				\$0				\$0
71300 Proceeds from Disposition of Assets Held for Sale				\$0				\$0
71310 Cost of Sale of Assets				\$0				\$0
71400 Fraud Recovery		\$8,122		\$0		\$8,122		\$8,122
71500 Other Revenue	\$147,430	\$7,331		\$0	\$25	\$154,786		\$154,786
71600 Gain or Loss on Sale of Capital Assets	-\$7,809	\$1,800		\$0	-\$515	-\$6,524		-\$6,524
72000 Investment Income - Restricted				\$0		\$0		\$0
70000 Total Revenue	\$5,549,482	\$2,643,830	\$3,496	\$368,010	\$933,711	\$9,498,529	-\$932,797	\$8,565,732
91100 Administrative Salaries	\$40,498	\$158,694		\$13,343	\$503,424	\$1,215,959		\$1,215,959
91200 Auditing Fees	\$5,390	\$3,570		\$310	\$530	\$9,800		\$9,800
91300 Management Fee	\$636,270	\$75,408		\$7,332		\$719,010	-\$719,010	\$0
91310 Book-keeping Fee	\$65,355	\$47,130		\$4,582		\$117,067	-\$117,067	\$0
91400 Advertising and Marketing				\$0				\$0
91500 Employee Benefit Contributions - Administrative	\$259,794	\$79,275		\$6,860	\$179,798	\$525,727		\$525,727
91600 Office Expenses	\$120,422	\$92,093		\$7,126	\$52,811	\$212,452		\$212,452
91700 Legal Expense	\$38,702	\$57		\$5	\$29,649	\$68,413		\$68,413
91800 Travel	\$27,220	\$946		\$74	\$3,405	\$31,545		\$31,545
91810 Allocated Overhead				\$0				\$0
91900 Other				\$0	\$43,276	\$43,276		\$43,276
91000 Total Operating - Administrative	\$1,693,651	\$397,073	\$0	\$39,632	\$812,893	\$2,943,249	-\$836,077	\$2,107,172
92000 Asset Management Fee	\$56,720			\$0		\$56,720	-\$56,720	\$0
92100 Tenant Services - Salaries	\$111,001	\$8,669		\$0		\$119,670		\$119,670
92200 Relocation Costs				\$0				\$0
92300 Employee Benefit Contributions - Tenant Services	\$35,892	\$659		\$0		\$36,551		\$36,551
92400 Tenant Services - Other	\$5,388		\$3,496	\$0		\$8,884		\$8,884
92500 Total Tenant Services	\$152,281	\$9,328	\$3,496	\$0	\$0	\$165,105	\$0	\$165,105

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: 12/31/2012

	Project Total	14.871 Housing Choice Vouchers	2 State/Local	14.856 Lower Income Housing Assistance Program_Section 8 Moderate	COCC	Subtotal	ELIM	Total
93100 Water	\$92,392	\$202		\$17	\$212	\$92,823		\$92,823
93200 Electricity	\$324,140	\$2,619		\$228	\$2,847	\$329,834		\$329,834
93300 Gas	\$168,753	\$756		\$66	\$821	\$170,396		\$170,396
93400 Fuel				\$0				
93500 Labor				\$0				
93600 Sewer				\$0				
93700 Employee Benefit Contributions - Utilities				\$0				
93800 Other Utilities Expense				\$0				
93900 Total Utilities	\$585,285	\$3,577	\$0	\$311	\$3,880	\$593,053	\$0	\$593,053
94100 Ordinary Maintenance and Operations - Labor	\$645,928			\$0		\$645,928		\$645,928
94200 Ordinary Maintenance and Operations - Materials and Other	\$311,834			\$0		\$311,834		\$311,834
94300 Ordinary Maintenance and Operations Contracts	\$604,149			\$0	\$2,092	\$606,241		\$606,241
94500 Employee Benefit Contributions - Ordinary Maintenance	\$281,414			\$0		\$281,414		\$281,414
94000 Total Maintenance	\$1,843,325	\$0	\$0	\$0	\$2,092	\$1,845,417	\$0	\$1,845,417
95100 Protective Services - Labor				\$0				
95200 Protective Services - Other Contract Costs				\$0				
95300 Protective Services - Other	\$337,713	\$185		\$16	\$468	\$338,372		\$338,372
95500 Employee Benefit Contributions - Protective Services				\$0				
95000 Total Protective Services	\$337,713	\$185	\$0	\$16	\$468	\$338,372	\$0	\$338,372
96110 Property Insurance	\$108,761	\$1,044		\$91	\$1,135	\$111,031		\$111,031
96120 Liability Insurance	\$36,427	\$2,930		\$255	\$75	\$39,687		\$39,687
96130 Workmen's Compensation	\$20,673	\$3,018		\$262	\$10,392	\$34,345		\$34,345
96140 All Other Insurance	\$25,274	\$2,391		\$208	\$4,131	\$32,004		\$32,004
96100 Total Insurance Premiums	\$191,135	\$9,383	\$0	\$816	\$15,733	\$217,067	\$0	\$217,067
96200 Other General Expenses	\$1,737	\$3,788		\$0	\$132	\$5,657		\$5,657
96210 Compensated Absences	\$89,160	\$15,109		\$1,289	\$49,024	\$154,582		\$154,582
96300 Payments in Lieu of Taxes	\$95,326			\$0		\$95,326		\$95,326
96400 Bad debt - Tenant Rents	\$86,209			\$239		\$86,448		\$86,448
96500 Bad debt - Mortgages				\$0				
96600 Bad debt - Other				\$0				
96800 Severance Expense				\$0				
96000 Total Other General Expenses	\$272,432	\$18,897	\$0	\$1,528	\$49,156	\$342,013	\$0	\$342,013
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	\$5,172,542	\$438,443	\$3,496	\$42,303	\$884,212	\$6,540,996	-\$932,797	\$5,608,199
97000 Excess of Operating Revenue over Operating Expenses	\$376,940	\$2,205,387	\$0	\$325,707	\$49,499	\$2,957,533	\$0	\$2,957,533

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: 12/31/2012

	Project Total	14,871 Housing Choice Vouchers	2 State/Local	14,856 Lower Income Housing Assistance Program_Section 8 Moderate	COCC	Subtotal	ELIM	Total
97100 Extraordinary Maintenance	\$78,515			\$0		\$78,515		\$78,515
97200 Casualty Losses - Non-capitalized				\$0				
97300 Housing Assistance Payments		\$3,133,550		\$322,706		\$3,456,236		\$3,456,236
97350 HAP Portability-In				\$0				
97400 Depreciation Expense	\$798,874	\$2,652		\$0	\$9,869	\$811,395		\$811,395
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	\$6,049,931	\$3,574,625	\$3,496	\$365,009	\$894,081	\$10,887,142	-\$932,797	\$9,954,345
10010 Operating Transfer In	\$100,100	\$101,541		\$0		\$201,641	-\$201,641	\$0
10020 Operating transfer Out	-\$100,100			-\$56,541	-\$45,000	-\$201,641	\$201,641	\$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	\$44,403			\$0		\$44,403	-\$44,403	\$0
10092 Inter Project Excess Cash Transfer Out	-\$44,403			\$0		-\$44,403	\$44,403	\$0
10093 Transfers between Program and Project - In				\$0				
10094 Transfers between Project and Program - Out				\$0				
10100 Total Other financing Sources (Uses)	\$0	\$101,541	\$0	-\$56,541	-\$45,000	\$0	\$0	\$0
10000 Excess (Deficiency) of Total Revenue Over (Under) Total Expenses	-\$500,449	-\$829,254	\$0	-\$53,540	-\$5,370	-\$1,388,613	\$0	-\$1,388,613
11020 Required Annual Debt Principal Payments	\$0	\$0	\$0	\$0	\$0	\$0		\$0
11030 Beginning Equity	\$7,142,847	\$866,174	\$0	\$61,073	\$851,825	\$8,921,919		\$8,921,919
11040 Prior Period Adjustments, Equity Transfers and Correction of Errors				\$0		\$0		\$0
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	\$7,997			\$0		\$7,997		\$7,997
11180 Housing Assistance Payments Equity	\$28,923			\$0		\$28,923		\$28,923
11190 Unit Months Available	9660	6334		692		16686		16686
11210 Number of Unit Months Leased	8714	6288		613		15615		15615
11270 Excess Cash	\$1,054,863			\$0		\$1,054,863		\$1,054,863
11610 Land Purchases	\$0			\$0	\$0	\$0		\$0
11620 Building Purchases	\$672,780			\$0	\$0	\$672,780		\$672,780
11630 Furniture & Equipment - Dwelling Purchases	\$0			\$0	\$0	\$0		\$0
11640 Furniture & Equipment - Administrative Purchases	\$0			\$0	\$0	\$0		\$0
11650 Leasehold Improvements Purchases	\$0			\$0	\$0	\$0		\$0
11660 Infrastructure Purchases	\$0			\$0	\$0	\$0		\$0
13510 CFFP Debt Service Payments	\$0			\$0	\$0	\$0		\$0
13901 Replacement Housing Factor Funds	\$0			\$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, 2012, in accordance with auditing standards generally accepted in the United States 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 or 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.

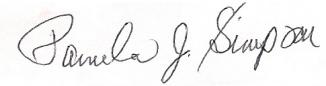
Because of inherent limitations in any system of internal accounting control, errors or irregularities may nevertheless occur and not be detected. Also, projection of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the 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. Sound accounting practices require that the Housing Authority adopt a policy regarding the classification of cash and cash equivalents vs. investments. Generally accepted accounting procedures allow investments with a maturity date of six months or less at the time of purchase to be classified as cash equivalents (as opposed to investments) in your financial statements. The housing authority has not adopted a formal policy at this time, therefore, I recommend that the agency adopt a policy that coincides with their current practice.
2. During my examination of participant files for Low Rent it was noted that files do not have consistent filing method from site to site. In order to maintain consistency in the files, it is suggested that the order of the files become uniform.

3. During the review of the Housing Authority's contract files, it was noted that one contract file examined was over the small contract amount, but it did contain a bid bond per PHA policy. The low bidder did not provide bid bond because it was not specified in the RFP.

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 9, 2013