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April 30, 2015

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, 2013 to December 31, 2013. 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, 2013 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.

Paul D. Joyce
Paul D. Joyce, CPA
State Examiner

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

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

**TWELVE MONTHS ENDED
DECEMBER 31, 2013**

**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, 2013, and the related notes to the financial statements, which collectively comprise 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, 2013 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.

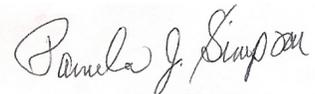
Report on Supplemental Information

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 Non-Profit Organizations*, and is not a required part of the financial statements. Further, the financial data schedules shown on pages 44 to 48 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 July 25, 2014 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.



Decatur, Illinois
July 25, 2014

Certified Public Accountant

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, 2013. 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 and are classified as "Current" (convertible into cash within one year) and "Non-Current".
- **Statement of Revenues, Expenses, and Changes in 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 Program (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 Program (Section 8 Vouchers)

HUD has contracted with the Housing Authority through an Annual Contributions Contract (ACC) to provide funding for 652 Housing Choice Vouchers through May 31, 2013 increased to 658 as of June 1, 2013, increased to 664 as of July 1, 2013 and then to 694 as of October 1, 2013 for tenant protection vouchers issued for Moderate Rehabilitation residents as the program phased out on September 30, 2013. 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)

This program provided project-based rental assistance for low income families limited to properties previously rehabilitated and paid 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 administered, HUD paid the Authority an administrative fee. The Authority was not responsible for the upkeep and maintenance of the units and property associated with this program. HUD had contracted with the Housing Authority through an Annual Contributions Contract (ACC) to provide funding for 43 Moderate Rehabilitation (Mod Rehab) units through May 31, 2013 which decreased to 37 units effective June 1, 2013, then to 30 units effective July 1, 2013 and finally to 0 units effective October 1, 2013 due to a catastrophic event with Harbor Realty Group in August 2012, with Tenant Protection Replacement Vouchers issued to the Housing Choice Voucher 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 kept the program going through 2012 by partnering with Geminus, a nonprofit organization, who administered and funded the program through the use of grants they administered. Geminus ended the partnership with the Authority in 2013 due to lack of funding.
2. Federal funding for the Department of Housing and Urban Development (HUD) Public and Indian Housing Program was decreased by Congress for 2013 appropriations and as a result, the Authority was funded at 81.86% or \$2,304,548 after a funding proration of 19.14% resulting in a \$328,334 decrease for public housing eligible operating subsidies versus a decrease in revenues for 2012 of \$370,974 (\$126,780 for operating subsidy and a \$244,194 reserve allocation adjustment/recapture).
3. HAP funding for 2013 was \$3,116,729 which decreased by \$40,963 or 1.3% from 2012 (2012 HAP funding of \$2,299,609 plus \$858,083 Net Restricted Position (NRP) from 2011) for the Section 8 Housing Choice Voucher Program. The Authority was assigned a HUD Shortfall Prevention Team in 2013 as current funding projections reflected an inability to sustain leasing of 82% at the beginning of 2013. As a result of the mandatory attrition, as of 12/31/13, leasing decreased to 78% (down 4% from 2012) and remaining NRP is \$29,703. Because of the shortfall prevention, the agency is prevented from issuing vouchers until 2014 as funding allows.
4. The agency received \$285,066 or 69% (down 12.8% or a \$41,876 decrease from 2012) of eligible administrative funding for the Section 8 Housing Choice Voucher Program which left an unrestricted net position balance of \$1,602 at year end. The Authority will have to evaluate the financial stability of the program in 2014 to avoid a negative unrestricted net position due to the program's inability to afford sufficient staff to operate the program.
5. The City of East Chicago Board of Public Works contributed \$199,500 from the city's gaming revenue for the installation of a new security and surveillance system throughout West Calumet, AMP 3 to be completed in 2014, to enhance the public safety and security of the Authority's resident population and to facilitate police protection.

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

	2013	2012	Net Change	Percent Variance
Cash	1,855,547	2,229,453	-373,906	-16.8%
Other Current Assets	1,252,965	933,897	319,068	34.2%
Capital Assets	4,624,478	4,942,214	-317,736	-6.4%
Noncurrent Assets	505	0	505	100.0%
Total Assets	7,733,495	8,105,564	-372,069	-4.6%
Deferred Outflows	0	0	0	0.0%
TOTAL	7,733,495	8,105,564	-372,069	-4.6%
Current Liabilities	639,395	512,791	126,604	24.7%
Noncurrent Liabilities	56,632	59,467	-2,835	-4.8%
Total Liabilities	696,027	572,258	123,769	21.6%
Deferred Inflows	0	0	0	0.0%
Net Investment in Capital Assets	4,624,478	4,942,214	-317,736	-6.4%
Restricted Net Position	29,703	28,923	780	2.7%
Unrestricted Net Position	2,383,287	2,562,169	-178,882	-7.0%
Total Net Position	7,037,468	7,533,306	-495,838	-6.6%
TOTAL	7,733,495	8,105,564	-372,069	-4.6%

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

Cash decreased \$373,906 or 16.8% primarily due to a \$438,168 increase in **capital expenditures**.

Other Current Assets increased by \$319,068 or 34.2% primarily due to a \$192,662 increase in **accounts receivable-HUD** for Capital Funds expended but not yet drawn, a \$148,677 increase in **accounts receivable-other government** primarily for security and surveillance system for AMP 3 and a \$22,016 decrease in materials inventory.

Current Liabilities increased by \$126,604 or 24.7% primarily due to an \$85,352 increase in **accounts payable-other government** and a \$36,058 increase in **accrued liabilities-other**.

Capital Assets/Net Investment in Capital Assets decreased \$317,736 or 6.4% primarily due to a combination of acquisitions in the amount of \$438,168 less current year depreciation of (\$755,904). For details, see the analysis of capital assets activity in table 5.

Unrestricted Net position decreased by \$178,882 or 7% primarily due to a gross operating revenue of \$259,286 (excluding a \$755,904 depreciation expense) offset by \$438,168 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 12/31/12		\$ 2,562,169
Results of Operations	(496,681)	
Adjustments:		
Depreciation (1)	755,904	
Adjusted Results of Operations		259,286
Capital Expenditures		(438,168)
Unrestricted Net Position 12/31/13		\$ 2,383,287

(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, 2013

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

	2013	2012	Net Change	Percentage Change
<u>Revenues</u>				
Total Tenant Revenue	1,714,093	1,684,792	29,301	2%
HUD Operating Grants	6,786,006	6,043,614	742,392	12%
Capital Grants	273,571	672,780	-399,209	-59%
Other Government Grants	5,000	3,496	1,504	43%
Investment Income	3,092	4,666	-1,574	-34%
Fraud Recovery	10,304	8,122	2,182	27%
Other Revenue	289,695	154,786	134,909	87%
Gain/loss on Sale of Fixed Assets	-19,974	-6,524	-13,450	-206%
Total Revenue	<u>9,061,787</u>	<u>8,565,732</u>	<u>496,055</u>	<u>6%</u>
<u>Expenses</u>				
Administrative	2,219,710	2,107,172	112,538	5%
Tenant Services	171,815	165,105	6,710	4%
Utilities	614,616	593,053	21,563	4%
Maintenance	1,556,030	1,845,417	-289,387	-16%
Protective Service	316,913	338,372	-21,459	-6%
Insurances	223,609	217,067	6,542	3%
General Expense	330,088	342,013	-11,925	-4%
Extraordinary Maintenance	60,594	78,515	-17,921	-23%
Housing Assistance Payments	3,308,346	3,456,236	-147,890	-4%
Depreciation Expense	755,904	811,395	-55,491	-7%
Total Expenses	<u>9,557,625</u>	<u>9,954,345</u>	<u>-396,720</u>	<u>-4%</u>
Net Income (Loss)	<u>-495,838</u>	<u>-1,388,613</u>	<u>892,775</u>	<u>-64%</u>

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

Overall, the 2013 **Net (Loss)** decreased by \$892,775 or 64% due to a \$496,055 increase in Total Revenue and a \$396,720 decrease in Total Expenses.

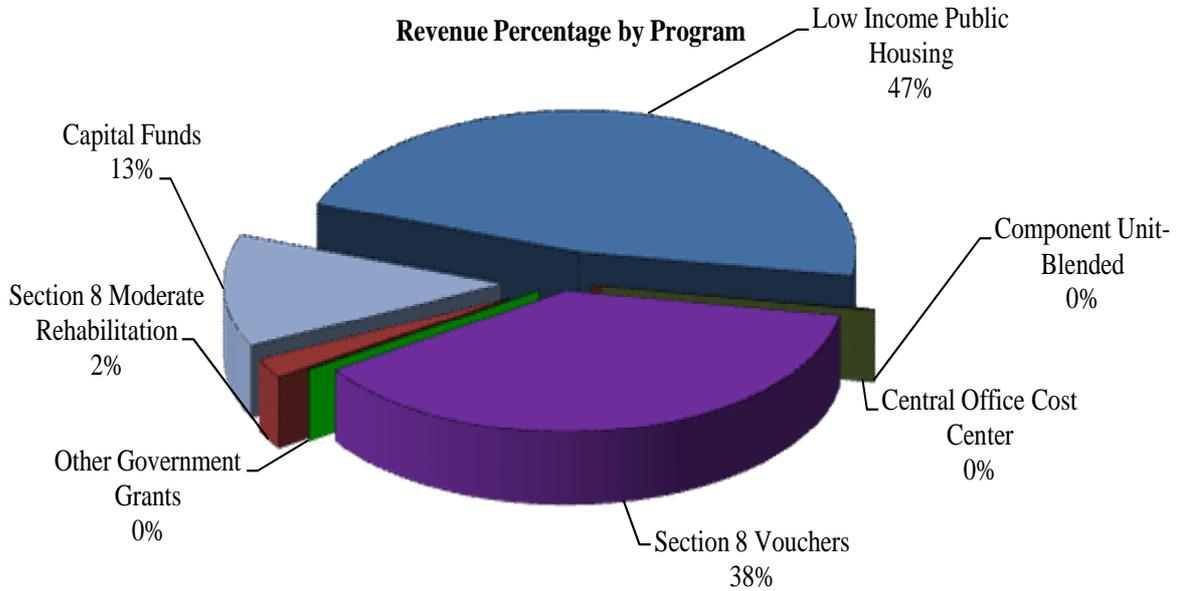
Total revenue increased overall by \$496,055 or 6% primarily reflecting a 12% increase in **HUD Operating Grants** revenue by \$742,392, an 87% or \$134,909 increase in **Other Revenue** due to the West Calumet Security Surveillance System donation from the City of East Chicago, a \$29,301 or 2% increase in **Total Tenant Revenue**, and a \$399,209 or 59% decrease in **Capital Grants** revenue due to a decrease of capital expenditure activities.

Total expenses, including depreciation, decreased approximately 4% or \$396,720 primarily due to a \$289,387 or 16% decrease in **Maintenance** expenditures reflecting reductions in maintenance contract costs for unit turnaround of \$163,995, for janitorial of \$91,918, and a \$57,464 reduction in maintenance inventory; a \$147,890 or 4% decrease in **Housing Assistance Payments** due to the shortfall prevention leasing attrition, a \$55,491 or 7% decrease in the **Depreciation Expense** due to the removal of assets under the new \$2,000 capitalization policy, a \$17,921 or 23% decrease in **Extraordinary Maintenance** for bed bug treatments agency wide, and a \$112,538 or 5% increase in **Administrative** expenses due to Management Fees.

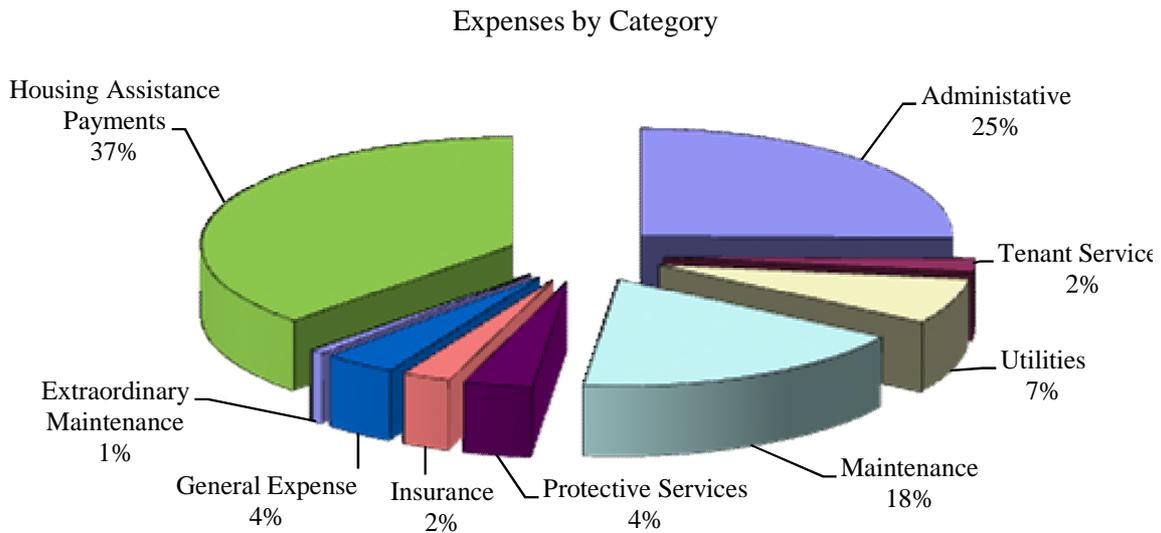
The Authority administers the following programs and the revenues generated from these programs during Fiscal Year Ending 2013 were as follows:

<u>Program</u>	<u>Revenues Generated</u>
Low Income Public Housing	\$4,269,899
Central Office Cost Center	\$1,217
Section 8 Vouchers	\$3,423,730
Section 8 Moderate Rehabilitation	\$203,203
Capital Funds	\$1,152,888
Other Government Grants	\$5,000
Component Unit-Blended	\$5,850

The diagram below illustrates the percentage of revenues generated by these programs for Fiscal Year Ending December 31, 2013:



The diagram below illustrates the percentage of Authority expenditures by categories excluding Depreciation Expense for Fiscal Year Ending December 31, 2013:



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.

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

Table 4

Housing Authority Budgetary Highlights

	Percent Variance	Budget Variance	Original Budget	Final Budget	Actual	Actual Variance	Percent Variance
Tenant Revenue	-6%	-94,870	1,787,150	1,692,280	1,714,093	21,813	1%
HUD Operating Grants	1%	67,290	6,873,208	6,940,498	6,786,006	-154,492	-2%
HUD Capital Grants	0%	0	273,571	273,571	273,571	0	0%
Other State/Local Grant	0%	0	0	0	5,000	5,000	0%
Investment Income-Unrestricted	-60%	-2,070	5,500	3,430	3,092	-338	-10%
Fraud Recovery	0%	0	1,000	1,000	10,304	9,304	930%
Other Revenue	-1%	-1,840	127,480	125,640	289,695	164,055	131%
Gain or Loss On Sale of Assets	0%	0	0	0	-19,974	-19,974	0%
Total Revenue	0%	-31,490	9,067,909	9,036,419	9,061,787	25,368	0%
Administrative	-2%	-40,340	2,307,370	2,267,030	2,219,710	-47,320	-2%
Tenant Services	2%	4,710	183,740	188,450	171,815	-16,635	-9%
Utilities	5%	34,430	593,210	627,640	614,616	-13,024	-2%
Maintenance	3%	50,350	1,446,510	1,496,860	1,556,030	59,170	4%
Protective Services	-3%	-13,130	417,934	404,804	316,913	-87,891	-22%
Insurance	-2%	-4,990	228,280	223,290	223,609	319	0%
General Expense	4%	14,450	328,260	342,710	330,088	-12,622	-4%
Extraordinary Maintenance	35%	21,900	40,000	61,900	60,594	-1,306	-2%
Housing Assistance Payments	1%	25,740	3,397,970	3,423,710	3,308,346	-115,364	-3%
Depreciation Expenses	0%	0	695,000	695,000	755,904	60,904	8%
Total Expenses	1%	93,120	9,638,274	9,731,394	9,557,625	-173,769	-2%
Net Income/(Loss)	18%	-124,610	-570,365	-694,975	-495,838	199,137	29%

Results of Operations

Management revised individual and entity wide budgets that originally anticipated a loss of \$570,365 to a \$694,975 net loss reflecting a \$124,610 increase in losses primarily due to an anticipated decrease in **Tenant Revenue** of \$94,870 and to a \$67,290 anticipated proration in subsidy not originally budgeted for in **HUD Operating Grants** in addition to a \$40,340 decrease in **Administrative Expenses**, a \$34,430 increase in **Utilities**, a \$50,350 increase in **Maintenance** primarily for electrical contracts, a \$21,900 increase in **Extraordinary Maintenance** for bed bug eradication PHA-Wide, and a \$25,740 increase in **HAP Expenses**.

Actual results of operation was a net loss of \$495,838 resulting in an overall decrease of \$199,137 or 29% less than anticipated from the revised budget primarily due to the \$164,055 increase in **Other Revenue** for security surveillance system donation, a \$154,492 decrease in **HUD Operating Grants** primarily due to the phase out of the Moderate Rehabilitation Program, a \$19,974 **Loss on Sale of Assets**, and a \$21,813 increase in **Tenant Revenue**, a \$9,304 increase in Section 8 Fraud Recovery, a \$5,000 increase in offset by an overall decrease of \$173,769 in Total Expenses.

Administrative expenses were under revised budget by \$47,320 or 2% primarily due to actual salaries less than anticipated based on a merit salary scale.

Tenant Service was under budget by \$16,635 or 9% primarily due to budgeted amount of \$9,969 for the resident participation not used by the resident councils.

Utilities were under budget by \$13,024 or 2% primarily due to electricity being less than anticipated by \$28,750 and gas and water being more than anticipated by \$11,793 and \$3,933 respectively.

Maintenance was over revised budget by \$59,170 or 4% primarily due to a \$38,090 increase in Materials, a \$43,946 increase in electrical contracts, a \$25,219 increase in routine maintenance contracts, a \$26,912 increase in miscellaneous contracts, an \$11,942 decrease in extermination contracts, and a \$58,483 decrease in salaries and benefits due to understaffing of employees, retirements, and terminations.

General Expense is \$12,622 or 4% under revised budget primarily due to compensated absences being less than anticipated by \$11,079 due to salaries being less than anticipated agency wide.

Protective Service was under revised budget by \$87,891 or 22% primarily due to reduction of hours for security services for AMP 1, AMP 2, and AMP 3.

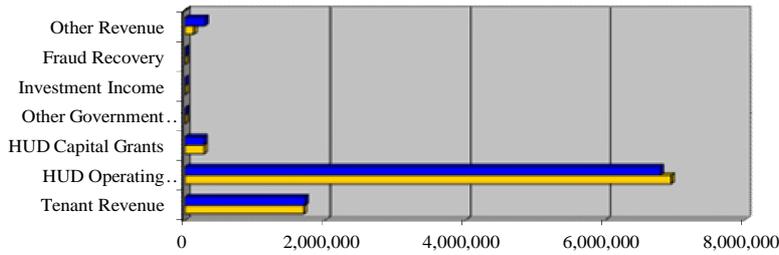
Housing Assistance Payments were under revised budget by \$115,364 or 3% due to shortfall prevention and attrition which decreased occupancy from the previous year of 82% to 70%.

Depreciation Expense was \$60,904 over revised budget due to \$438,168 increase in capital expenditures.

HOUSING AUTHORITY OF THE CITY OF EAST CHICAGO, IN
MANAGEMENT DISCUSSION AND ANALYSIS
FISCAL YEAR ENDING DECEMBER 31, 2013

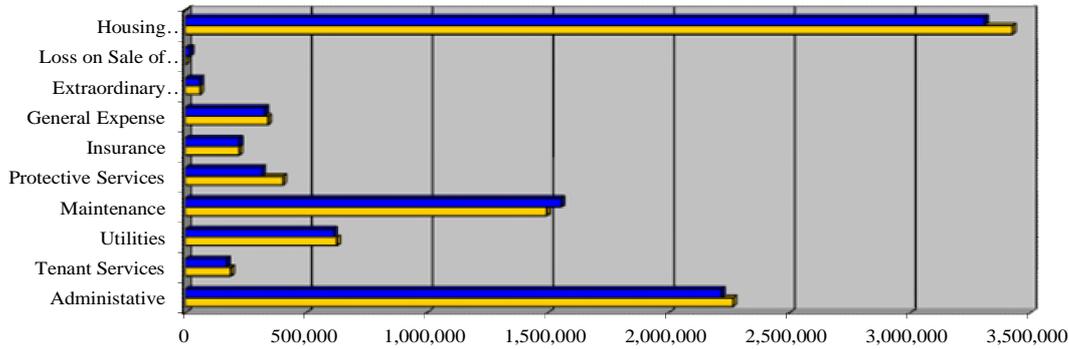
The diagrams below illustrate the Authority's Budget compared to Actual for Revenue and Expense for Fiscal Year Ending December 31, 2013:

Revenues - Budget Vs. Actual



	Tenant Revenue	HUD Operating Grants	HUD Capital Grants	Other Government Grants	Investment Income	Fraud Recovery	Other Revenue
■ Actual	1,714,093	6,786,006	273,571	5,000	3,092	10,304	289,695
■ Budget	1,692,280	6,940,498	273,571	0	3,430	1,000	125,640

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	2,219,710	171,815	614,616	1,556,030	316,913	223,609	330,088	60,594	19,974	3,308,346
■ Budget	2,267,030	188,450	627,640	1,496,860	404,804	223,290	342,710	61,900	0	3,423,710

As of the end of the year, the Authority had \$4,624,478 invested in a variety of capital assets as reflected in the following table which represents a net decrease (additions, deductions, and depreciation) of \$317,736 or 6.4% from the end of the previous fiscal year.

Table 5
ANALYSIS OF CAPITAL ASSET ACTIVITY

	2013	2012	Net Change	Percent Variance
Land	981,717	974,717	7,000	0.7%
Buildings and Site Improvements	42,178,276	41,959,104	219,172	0.5%
Furniture, Equipment, & Machinery	891,182	925,809	-34,627	-3.7%
Total Fixed Assets	44,051,175	43,859,630	191,545	0.4%
Accumulated Depreciation	-39,576,322	-38,917,416	658,906	1.7%
Construction in Progress	149,625	0	149,625	0.0%
Net Fixed Assets	4,624,478	4,942,214	-317,736	-6.4%

Land increased by \$7,000 or .7% due to a six unit apartment building purchased for PHA’s non-profit instrumentality, Managed East Chicago Housing Association (MECHA).

Buildings increased by \$219,172 or .5% primarily due to \$7,025 for water meter replacement for AMP 1 James Hunter Senior Building; \$61,339 for sprinkler head replacements and \$22,200 for D-bldg fire alarm system installation for AMP 3 West Calumet; \$6,218 air conditioner replacements, \$5,995 water line installations, \$2,400 roof replacement, and \$42,182 HVAC Protection Cages at AMP 4 29-2 Scattered Sites; \$19,695 for six unit apartment building purchased for (MECHA).

Furniture, Equipment, & Machinery decreased by \$34,627 or 3.7% due to \$28,961 in acquisitions less \$63,588 for removal of items from depreciation schedule that fell under new capitalization policy which increased the threshold from \$1,000 to \$2,000.

29-1 Riding Stanley Lawn Mower	2,999
29-5 Waste Caddy	5,281
29-6 Riding Scagg Lawn Tractor w/bagger	20,681
	28,961

Accumulated Depreciation increased by \$658,906 or 1.7% due to the current year’s depreciation expense of \$755,904 less \$96,998 due to removal of items from depreciation schedule that fell under new capitalization policy which increased the threshold from \$1,000 to \$2,000.

Construction in Progress increased by \$149,625 or 100% primarily due to West Calumet, AMP 3 Security Surveillance System installation in progress. As projects are completely expended, 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, 2013**

ASSETS

Cash - operating		\$ 1,613,413
Cash - restricted		242,134
Receivables (net)		976,869
Inventory - net of allowance		160,675
Prepaid expenses		115,421
Capital assets:		
Land, improvements and construction in progress	\$ 1,131,342	
Other capital assets, net of depreciation	<u>3,493,136</u>	
Total Capital Assets		\$ 4,624,478
Noncurrent Assets:		
Other assets		<u>\$ 505</u>
Total Assets		<u>\$ 7,733,495</u>

DEFERRED OUTFLOWS OF RESOURCES

\$ 0

Total Assets and Total Deferred Outflows

\$ 7,733,495

LIABILITIES

Accounts payable		\$ 92,799
Accrued liabilities		385,305
Tenant security deposits		154,890
Unearned revenue		6,401
Noncurrent liabilities:		
Earned compensated absences		23,914
FSS escrow		<u>32,718</u>
Total Liabilities		<u>\$ 696,027</u>

DEFERRED INFLOWS OF RESOURCES

\$ 0

NET POSITION

Net investment in capital assets		\$ 4,624,478
Restricted		29,703
Unrestricted		<u>2,383,287</u>
Total Net Position		<u>\$ 7,037,468</u>
Total Liabilities, Net Position and Total Deferred Inflows		<u>\$ 7,733,495</u>

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

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

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION -
PROPRIETARY FUNDS
TWELVE MONTHS ENDED DECEMBER 31, 2013**

Operating Income

Tenant Income

Tenant rental revenue	\$ 1,567,392
Tenant revenue - other	<u>146,701</u>
Total Tenant and Other Rental Income	<u>\$ 1,714,093</u>

Non-Tenant Income

HUD grants - operating	\$ 6,786,006
Other governmental grants	5,000
Fraud recovery	10,304
Other revenue	289,695
Gain or loss on sale of fixed assets	<u>-19,974</u>
Total Non-Tenant Income	<u>\$ 7,071,031</u>

Total Operating Income	<u>\$ 8,785,124</u>
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Operating Expenses

Administration	\$ 2,219,710
Tenant services	171,815
Utilities	614,616
Ordinary maintenance and operation	1,556,030
General expense	553,697
Protective services	316,913
Extraordinary maintenance	60,594
Housing assistance payments	3,308,346
Depreciation	<u>755,904</u>

Total Operating Expenses	<u>\$ 9,557,625</u>
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Net Operating Income (Loss)	<u>\$ -772,501</u>
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Nonoperating Income (Expenses)

HUD grants - capital	\$ 273,571
Interest income	<u>3,092</u>

Total Nonoperating Income (Expenses)	<u>\$ 276,663</u>
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Changes in net position	\$ -495,838
Net position, beginning of year	<u>7,533,306</u>

Net position, end of year	<u>\$ 7,037,468</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, 2013**

Operating Activities

Operating subsidy	\$ 6,600,399
Tenant revenue	1,705,285
Other revenues	280,025
Housing assistance payments	-3,308,346
Payments to employees	-2,159,001
Payments to suppliers and contractors	<u>-3,330,763</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ -212,401</u>

Investing Activities

Interest income	<u>\$ 3,092</u>
Net Cash Provided (Used) by Investing Activities	<u>\$ 3,092</u>

Capital and Related Financing Activities

HUD grants - capital	\$ 273,571
(Additions) deletions to capital assets	<u>-438,168</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>\$ -163,732</u>
Net Change in Cash	\$ -373,041
Cash Balance at December 31, 2012	<u>2,228,588</u>
Cash Balance at December 31, 2013	<u>\$ 1,855,547</u>

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

**COMBINED STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
TWELVE MONTHS ENDED DECEMBER 31, 2013**

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

Net operating income (loss)	\$ -772,501
Adjustment to Reconcile Operating Income (Loss) to Net Cash Flows from Operating Activities:	
Depreciation	755,904
(Increase) decrease in accounts receivable	-334,830
(Increase) decrease in prepaid expenses	-5,992
(Increase) decrease in inventories	21,754
(Increase) decrease in deferred outflows	0
(Increase) decrease in other assets	-505
Increase (decrease) in accounts payable	-24,136
Increase (decrease) in other liabilities	141,630
Increase (decrease) in unearned revenues	-629
Increase (decrease) in FSS escrow	<u>6,904</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ -212,401</u>

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

**NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED DECEMBER 31, 2013**

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 one active component unit.

(b) Component Units -

Consistent with applicable guidance, the criteria used by the Authority to include component units within its reporting entity are financial accountability and the nature and significance of the relationship. The Authority included organizations as component units under the following financial accountability criteria:

1. Organizations for which the Authority appoints a voting majority of the organizations governing body and for which (a) the Authority is able to impose its will on the organization or (b) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the Authority.

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

**NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED DECEMBER 31, 2013
(CONTINUED)**

Note 1 - Summary of Significant Accounting Policies

(b) Component Units - (Continued)

2. A financial benefit or burden relationship between the Authority and the component unit.
3. Management of the Authority have operational responsibility for the activities of the component unit.

The following is a brief description of the blended component unit meeting the above criteria that is included in the PHA's financial reporting entity.

The Managed East Chicago Housing Association, Inc. is a not-for-profit subsidiary established to provide safe, affordable and decent housing for the residents of East Chicago, Indiana by constructing, acquiring, owning, leasing and renting facilities. It provides low-rent housing to qualified individuals. The Component Unit is supported primarily through rental income receipts. The Component Unit's board of directors are not required to be members of the ECHA's board.

(c) 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.

(d) 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.

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

**NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED DECEMBER 31, 2013
(CONTINUED)**

Note 1 - Summary of Significant Accounting Policies

(e) 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
- * Housing Choice Vouchers
- * State and Local
- * Component Unit - MECHA
- * Lower Income Housing Assistance - Section 8 Moderate Rehabilitation
- * Central Office Cost Center (COCC)

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.

(f) 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.

(g) 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, 2013
(CONTINUED)**

Note 1 - Summary of Significant Accounting Policies

(h) Accounts Receivable -

The tenants accounts receivable discloses the gross amount due from the tenants at December 31, 2013, 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.

(I) Inventories and Materials -

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

(j) Investments -

Investments are stated at cost which approximates market.

(k) 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 two thousand dollars (\$2,000) 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, 2013
(CONTINUED)**

Note 1 - Summary of Significant Accounting Policies

(k) 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.

(l) 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.

(m) Income Tax -

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

(n) 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, 2013
(CONTINUED)**

Note 1 - Summary of Significant Accounting Policies

- (o) 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.
- (p) 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.
- (q) 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.
- (r) Rental income is recognized as rents become due.
- (s) 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, 2013
(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)	\$ 1,592,435	\$ 1,655,366
Voucher	208,165	215,339
MECHA	37,043	41,108
Mod Rehab	<u>17,904</u>	<u>17,904</u>
Total	<u>\$ 1,855,547</u>	<u>\$ 1,929,717</u>

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

**NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED DECEMBER 31, 2013
(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., any excess vacation hours not taken will be included in 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, 2013
(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 with Principal Mutual Life Insurance Company. 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, 2013, the actual contributions by the Housing Authority were \$284,213. Total annual payroll expense was \$2,179,221.

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, 2013
(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 - Post-Employment Benefits

The Housing Authority does not provide post employment retirement benefits. As a result there are no disclosures included in these statements as required by GASB 45.

Note 6 - Accounts Receivable - Net of Allowance

Accounts receivable consists of the following accounts:

Accounts receivable - HUD	\$ 770,474
Accounts receivable - PHA projects	1,393
Accounts receivable - other government	149,625
Accounts receivable - miscellaneous	4,494
Tenants accounts receivable	60,731
Allowance for doubtful - tenants	-10,605
Fraud recovery	9,258
Allowance for doubtful - fraud	<u>-8,501</u>
Subtotal	\$ 976,869
Interfund	<u>164,932</u>
Total	<u>\$ 1,114,801</u>

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

**NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED DECEMBER 31, 2013
(CONTINUED)**

Note 7 - Prepaid Expenses

This classification includes the following accounts:

Prepaid insurance	\$ <u>115,421</u>
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Note 8 - Capital Assets

Balance as of December 31, 2013	\$ 4,624,478
Balance as of December 31, 2012	<u>4,942,214</u>
Net Increase (Decrease)	<u>\$ -317,736</u>

Reconciliation

Property betterments and additions	\$ 429,181
Replacement of equipment	28,961
Disposal on nonexpendable equipment	-19,974
Depreciation expense	<u>-755,904</u> *
Net Increase (Decrease)	<u>\$ -317,736</u>

Analysis

	01/01/2013 <u>Balance</u>	Additions/ <u>Transfers</u>	Deletions/ <u>Transfers</u>	12/31/2013 <u>Balance</u>
Land	\$ 974,717	\$ 7,000	\$ 0	\$ 981,717
Buildings	41,959,104	272,556	53,384	42,178,276
Equipment and furniture	925,809	28,961	63,588	891,182
Construction in progress	<u>0</u>	<u>149,625</u>	<u>0</u>	<u>149,625</u>
Total	\$ 43,859,630	\$ 458,142	\$ 116,972	\$ 44,200,800
Accumulated depreciation	<u>-38,917,416</u>	<u>96,998</u>	<u>755,904</u> *	<u>-39,576,322</u>
Total	<u>\$ 4,942,214</u>	<u>\$ 555,140</u>	<u>\$ 872,876</u>	<u>\$ 4,624,478</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, 2013
(CONTINUED)**

Note 9 - Accounts Payable

This classification includes the following accounts:

Vendors and contractors	\$ 71,688
Accounts payable - HUD	17,904
Accounts payable - HUD interest	793
Other current liabilities	<u>2,414</u>
Subtotal	\$ 92,799
Interfund	<u>164,932</u>
Total	<u>\$ 257,731</u>

Note 10 - 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 11 - Other Liabilities

Other liabilities consists of the following:

Current Portion:

Wages/payroll taxes payable	\$ 128,227
Payment in lieu of taxes	180,678
Utilities payable	<u>76,400</u>
Total Current Portion	<u>\$ 385,305</u>

Noncurrent Portion:

Earned compensated absences	<u>\$ 23,914</u>
Total	<u>\$ 409,219</u>

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

**NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED DECEMBER 31, 2013
(CONTINUED)**

Note 12 - Summary of Long Term Liabilities

A summary of long term liabilities as of December 31, 2013:

	01/01/2013			12/31/2013
	<u>Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u>
FSS escrow	\$ 25,814	\$ 6,904	\$ 0	\$ 32,718
Earned compensated absences	<u>33,653</u>	<u>0</u>	<u>9,739</u>	<u>23,914</u>
Total	<u>\$ 59,467</u>	<u>\$ 6,904</u>	<u>\$ 9,739</u>	<u>\$ 56,632</u>

Note 13 - Unearned Revenue

This classification consists of the following accounts:

Tenants prepaid rent	\$ 6,355
Other	<u>46</u>
Total	<u>\$ 6,401</u>

Note 14 - Administrative Fee

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

Note 15 - Allocation of Costs

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

Note 16 - Contingencies

Federal Grants

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

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

**NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED DECEMBER 31, 2013
(CONTINUED)**

Note 17 - Contracts/Commitments

As of December 31, 2013, the Housing Authority had entered into the following pending construction projects in progress:

	<u>Funds Approved</u>	<u>Funds Expended To Date</u>
CFP 501-11	\$ 1,249,415	\$ 1,190,005
CFP 501-12	1,149,659	534,465
CFP 501-13	<u>1,086,066</u>	<u>0</u>
Total	<u>\$ 3,485,140</u>	<u>\$ 1,724,470</u>

As of December 31, 2013, the Housing Authority had entered into the following operating lease obligation:

<u>Lease Obligations</u>	<u>Lease Term</u>	<u>Monthly Payment</u>
Pitney Bowes Postage Machine	36 months	\$ 1,075

Note 18 - Risk Management

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

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

Note 19 - Economic Dependency

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

Note 20 - Restricted Net Position

Restricted Net Position is restricted for the following:

HAP	<u>\$ 29,703</u>
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SUPPLEMENTAL DATA

EAST CHICAGO, INDIANA

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2013**

<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 12/31/13	\$ <u>2,306,330</u>	\$ <u>2,306,330</u>	\$ <u>2,306,330</u>
Public Housing - Capital Fund	14.872	C-651	FYE 12/31/13	\$ <u>5,338,058</u>	\$ <u>1,152,888</u>	\$ <u>1,152,888</u>
Housing Choice Voucher Program*	14.871	C-2030V	FYE 12/31/13	\$ <u>3,401,795</u>	\$ <u>3,401,795</u>	\$ <u>3,401,795</u>
Lower Income Housing Assistance Program - Moderate Rehabilitation	14.856	C-2030K	FYE 12/31/13	\$ <u>198,564</u>	\$ <u>198,564</u>	\$ <u>198,564</u>
Total Federal Assistance				\$ <u>11,244,747</u>	\$ <u>7,059,577</u>	\$ <u>7,059,577</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 IN36P029501-10**

1. The Actual Modernization Costs of Phase IN36P029501-10 are as follows:

Funds approved	\$ 1,468,174
Funds expended	<u>1,468,174</u>
Excess of Funds Approved	<u><u>\$ 0</u></u>
Funds advanced	
Grants	\$ 1,468,174
Funds expended	<u>1,468,174</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 March 4, 2014, 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, 2013, and the related notes to the financial statements and have issued my report thereon dated July 25, 2014.

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.

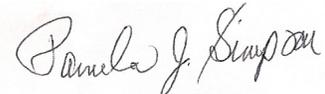
Compliance and Other Matters

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 July 25, 2014.

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
July 25, 2014



**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, 2013. 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, 2013.

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 July 25, 2014.

Report on Internal Control Over Compliance

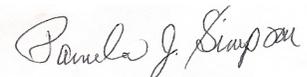
Management of the Housing Authority of the City of East Chicago is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing my audit of compliance, I considered the Housing Authority 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
July 25, 2014



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, 2012 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, 2013**

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:

CFDA Number(s)

Name of Federal Program or Cluster

14.871

Housing Choice Voucher Program

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 or Sharon Johnson, Director of Finance and other members of management, during the course of the audit or at an exit conference held July 25, 2014.

Section III - Federal Award Audit Findings

There were no federal award audit findings discussed with Tia Cauley, Executive Director or Sharon Johnson, Director of Finance and other members of management, during the course of the audit and at an exit conference held July 25, 2014.

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

**SCHEDULE OF ADJUSTING JOURNAL ENTRIES
DECEMBER 31, 2013**

<u>Voucher</u>	<u>Audit Account Number</u>	<u>Debit</u>	<u>Credit</u>	<u>Posting Account Number</u>
(1)				
Voucher cash memo	1111.31	\$ 18.03		1111.31
Auditing	4171		\$.93	2826.20
Transfer to/from program	4701		17.10	2826.20
Operating reserve - contra	2826.90	18.03		2826.90
Operating reserve - voucher	2826.20		18.03	2826.20
(To record additional entries per H/A #1)				
(2)				
HAP - FSS escrow	4715.20	\$ 229.00		2826.21
A/R - port-in	1129.10	1,393.15		1129.10
Portable admin fees earned	3310		\$ 44.15	2826.20
Vendors (vouchers)	2111.40		251.00	2111.40
HAP - occupied units	4715.1		1,098.00	2826.21
FSS escrow - liability	2182		229.00	2182
(To record additional entries per H/A #2)				
(3)				
Accounts payable - HUD	2118.40	\$ 100.00		2118.40
Interest - general fund	3610		\$ 100.00	2826.20
(To adjust payable to HUD for \$100 retained for administrative costs)				
<u>MECHA</u>				
(1)				
Accumulated depreciation	1400.95	\$ 127.00		1400.95
Depreciation expense	4800		\$ 127.00	2801
(To adjust expense for amount calculated on land that is not depreciated)				
<u>Mod Rehab</u>				
(1)				
A/P - HUD (MIR 2)	2118.30	\$ 18.03		2118.30
Auditing	4171		.93	2806.01
Transfer to/from program	4701	17.10		2806.01
Mod Rehab cash memo	1111.32		\$ 18.03	1111.32
A.C. earned - Section 8	3410		18.03	2806.01
Admin fees - contra	3602	17.10		2806.01
Admin fees earned	3601		17.10	2806.01
Project account (MIR 2)	2827.10	18.03		2827.10
Project account - contra	2827.90		18.03	2827.90
(To record additional entries per H/A)				

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: 12/31/2013

	Project Total	14,871 Housing Choice Vouchers	2 State/Local	\$6.2 Component Unit - Blended	14,866 Lower Income Housing Assistance Program, Section 8 Modest	COCC	Subtotal	ELIM	Total
111 Cash - Unrestricted	\$766,293	\$147,780		\$36,118	\$0	\$663,242	\$1,613,413		\$1,613,413
112 Cash - Restricted - Modernization and Development					\$0				
113 Cash - Other Restricted	\$2,680	\$69,612			\$0		\$62,192		\$62,192
114 Cash - Tenant Security Deposits	\$154,090			\$800	\$0		\$154,890		\$154,890
115 Cash - Restricted for Payment of Current Liabilities	\$6,230	\$793		\$125	\$17,904		\$25,052		\$25,052
100 Total Cash	\$929,193	\$208,185	\$0	\$37,043	\$17,904	\$663,242	\$1,855,547	\$0	\$1,855,547
121 Accounts Receivable - PHA Projects		\$1,393			\$0		\$1,393		\$1,393
122 Accounts Receivable - HUD Other Projects	\$770,474				\$0		\$770,474		\$770,474
123 Accounts Receivable - Other Government	\$149,625				\$0		\$149,625		\$149,625
125 Accounts Receivable - Miscellaneous	\$3,017				\$0	\$1,477	\$4,494		\$4,494
126 Accounts Receivable - Tenants	\$60,731				\$0		\$60,731		\$60,731
126.1 Allowance for Doubtful Accounts - Tenants	-\$10,605				\$0		-\$10,605		-\$10,605
126.2 Allowance for Doubtful Accounts - Other	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
127 Notes, Loans, & Mortgages Receivable - Current	\$3,028	\$6,230			\$0		\$9,258		\$9,258
128 Fraud Recovery	-\$2,271	-\$8,230			\$0		-\$8,501		-\$8,501
128.1 Allowance for Doubtful Accounts - Fraud					\$0				
129 Accrued Interest Receivable	\$973,999	\$1,383	\$0	\$0	\$0	\$1,477	\$976,869	\$0	\$976,869
120 Total Receivables, Net of Allowances for Doubtful Accounts									
131 Investments - Unrestricted					\$0				
132 Investments - Restricted					\$0				
135 Investments - Restricted for Payment of Current Liability	\$102,315	\$4,900		\$1,384	\$0	\$5,622	\$115,421		\$115,421
142 Prepaid Expenses and Other Assets	\$158,171			\$4,084	\$0		\$162,255		\$162,255
143 Inventories	-\$1,580			\$0	\$0		-\$1,580		-\$1,580
143.1 Allowance for Obsolete Inventories					\$0	\$164,932	\$164,932		\$0
144 Initial Program Due From					\$0				
145 Assets Held for Sale	\$2,162,098	\$214,458	\$0	\$42,511	\$17,904	\$936,473	\$3,273,444	-\$164,932	\$3,108,512
150 Total Current Assets									
161 Land	\$974,717			\$7,000	\$0		\$981,717		\$981,717
162 Buildings	\$42,158,581			\$19,565	\$0		\$42,178,146		\$42,178,146
163 Furniture, Equipment & Machinery - Dwellings	\$787,436	\$51,236			\$0	\$22,510	\$861,182		\$861,182
164 Furniture, Equipment & Machinery - Administration					\$0				
165 Leasehold Improvements					\$0				
166 Accumulated Depreciation	-\$39,472,218	-\$51,236		-\$356	\$0	-\$52,510	-\$39,576,322		-\$39,576,322
167 Construction in Progress	\$149,625				\$0		\$149,625		\$149,625
168 Infrastructure					\$0				
160 Total Capital Assets, Net of Accumulated Depreciation	\$4,596,141	\$0	\$0	\$26,337	\$0	\$0	\$4,622,478	\$0	\$4,622,478
171 Notes, Loans and Mortgages Receivable - Non-Current					\$0				
172 Notes, Loans, & Mortgages Receivable - Non-Current - Past Due					\$0				
173 Grants Receivable - Non-Current					\$0				
174 Other Assets				\$505	\$0		\$505		\$505
176 Investments in Joint Ventures					\$0				
180 Total Non-Current Assets	\$4,596,141	\$0	\$0	\$26,642	\$0	\$0	\$4,622,783	\$0	\$4,622,783
190 Total Assets	\$6,780,239	\$214,458	\$0	\$69,353	\$17,904	\$836,473	\$7,888,427	-\$164,932	\$7,723,495
200 Deferred Outflow of Resources					\$0				
290 Total Assets and Deferred Outflow of Resources	\$6,780,239	\$214,458	\$0	\$69,353	\$17,904	\$836,473	\$7,888,427	-\$164,932	\$7,723,495

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: 12/31/2013

	Project Total	14.871 Housing Choice Vouchers	2.State/Local	9.2 Component Unit - Blended	14.856 Lower Income Housing Assistance Program, Section 8 Modest	COCC	Subtotal	ELIM	Total
70300 Net Tenant Rental Revenue	\$1,561,667			\$5,725	\$0		\$1,567,392		\$1,567,392
70400 Tenant Revenue - Other	\$146,576			\$125	\$0		\$146,701		\$146,701
70500 Total Tenant Revenue	\$1,708,243	\$0	\$0	\$5,850	\$0	\$0	\$1,714,093	\$0	\$1,714,093
70600 HUD PHA Operating Grants	\$3,185,647	\$3,401,795			\$198,864		\$6,786,006		\$6,786,006
70610 Capital Grants	\$273,571				\$0	\$900,864	\$273,571	-\$900,864	\$0
70710 Management Fee					\$0	\$96,960	\$96,960	-\$96,960	\$0
70720 Asset Management Fee					\$0	\$116,378	\$116,378	-\$116,378	\$0
70730 Book Keeping Fee					\$0				\$0
70740 Front Line Service Fee					\$0				\$0
70750 Other Fees					\$0				\$0
70700 Total Fee Revenue					\$0	\$1,114,202	\$1,114,202	-\$1,114,202	\$0
70800 Other Government Grants			\$5,000		\$0		\$5,000		\$5,000
71100 Investment Income - Unrestricted	\$1,609	\$132			\$142	\$1,009	\$3,092		\$3,092
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	\$5,807				\$4,497		\$10,304		\$10,304
71500 Other Revenue	\$272,051	\$17,436			\$0	\$208	\$289,695		\$289,695
71600 Gain or Loss on Sale of Capital Assets	-\$18,524	-\$1,440			\$0		-\$19,974		-\$19,974
72000 Investment Income - Restricted					\$0				\$0
70000 Total Revenue	\$5,422,767	\$3,423,730	\$5,000	\$5,850	\$203,203	\$1,115,419	\$10,175,989	-\$1,114,202	\$9,061,787
91100 Administrative Salaries	\$532,843	\$161,326			\$6,261	\$559,257	\$1,259,687		\$1,259,687
91200 Auditing Fees	\$5,390	\$3,724			\$156	\$730	\$10,000		\$10,000
91300 Management Fee	\$822,204	\$75,036			\$3,624	\$900,864	\$900,864	-\$900,864	\$0
91310 Book-keeping Fee	\$67,215	\$46,899			\$2,265		\$116,378	-\$116,378	\$0
91400 Advertising and Marketing					\$0				\$0
91500 Employee Benefit Contributions - Administrative	\$240,337	\$78,856			\$3,283	\$205,455	\$527,931		\$527,931
91600 Office Expenses	\$173,706	\$26,458		\$31,197	\$1,251	\$90,188	\$312,800		\$312,800
91700 Legal Expense	\$20,234			\$4,477	\$0	\$20,908	\$45,619		\$45,619
91800 Travel	\$14,884	\$831			\$37	\$4,540	\$20,342		\$20,342
91810 Allocated Overhead					\$0				\$0
91900 Other					\$0	\$43,331	\$43,331		\$43,331
91000 Total Operating - Administrative	\$1,876,813	\$393,179	\$0	\$35,674	\$16,677	\$914,409	\$3,236,952	-\$1,017,242	\$2,219,710
92000 Asset Management Fee	\$96,960				\$0		\$96,960	-\$96,960	\$0
92100 Tenant Services - Salaries	\$112,822	\$6,405			\$0		\$119,327		\$119,327
92200 Relocation Costs					\$0				\$0
92300 Employee Benefit Contributions - Tenant Services	\$37,562	\$505			\$0		\$38,067		\$38,067
92400 Tenant Services - Other	\$9,421	\$5,000			\$0		\$14,421		\$14,421
92500 Total Tenant Services	\$159,805	\$6,910	\$5,000	\$0	\$0	\$0	\$171,815	\$0	\$171,815

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: 12/31/2013

	Project Total	14,871 Housing Choice Vouchers	2 State/Local	6.2 Component Unit - Blended	14,555 Lower Income Housing Assistance Program, Section 6 Moderate	COCC	Subtotal	ELIM	Total
93100 Water	\$9,470	\$338		\$872	\$13	\$351	\$94,844		\$94,844
93200 Electricity	\$290,038	\$4,175		\$369	\$167	\$4,342	\$299,091		\$299,091
93300 Gas	\$217,378	\$1,328		\$547	\$50	\$1,378	\$220,691		\$220,691
93400 Fuel					\$0				
93500 Labor					\$0				
93600 Sewer					\$0				
93700 Employee Benefit Contributions - Utilities					\$0				
93900 Other Utilities Expense					\$0				
93000 Total Utilities	\$600,836	\$5,841	\$0	\$1,568	\$230	\$6,071	\$614,516	\$0	\$614,516
94100 Ordinary Maintenance and Operations - Labor	\$936,287				\$0		\$936,287		\$936,287
94200 Ordinary Maintenance and Operations - Materials and Other	\$254,369			\$2,279	\$0	\$1,135	\$256,648		\$256,648
94300 Ordinary Maintenance and Operations Contracts	\$354,929			\$2,598	\$0	\$2,160	\$359,707		\$359,707
94500 Employee Benefit Contributions - Ordinary Maintenance	\$309,358				\$0		\$309,358		\$309,358
94000 Total Maintenance	\$1,546,973	\$0	\$0	\$4,877	\$0	\$2,160	\$1,556,030	\$0	\$1,556,030
95100 Protective Services - Labor					\$0				
95200 Protective Services - Other Contract Costs	\$315,362	\$795			\$48	\$705	\$316,913		\$316,913
95300 Protective Services - Other					\$0				
95500 Employee Benefit Contributions - Protective Services					\$0				
95000 Total Protective Services	\$315,362	\$795	\$0	\$0	\$48	\$705	\$316,913	\$0	\$316,913
96100 Property Insurance	\$114,641	\$1,331		\$778	\$56	\$1,387	\$118,193		\$118,193
96120 Liability Insurance	\$33,668	\$3,521		\$211	\$137	\$1,135	\$36,692		\$36,692
96130 Workmen's Compensation	\$21,068	\$2,669			\$124	\$13,082	\$37,143		\$37,143
96140 All Other Insurance	\$23,089	\$2,375			\$39	\$3,858	\$29,381		\$29,381
96100 Total Insurance Premiums	\$192,666	\$10,096	\$0	\$989	\$416	\$19,442	\$223,609	\$0	\$223,609
96200 Other General Expenses	\$1,932	\$4,014			\$0	\$266	\$6,212		\$6,212
96210 Compensated Absences	\$88,654	\$16,902			\$774	\$47,590	\$163,920		\$163,920
96300 Payments in Lieu of Taxes	\$66,079				\$0		\$66,079		\$66,079
96400 Bad debt - Tenant Rents	\$63,877				\$0		\$63,877		\$63,877
96500 Bad debt - Mortgages					\$0				
96500 Bad debt - Other					\$0				
96600 Severance Expense					\$0				
96000 Total Other General Expenses	\$260,542	\$26,916	\$0	\$0	\$774	\$47,555	\$330,068	\$0	\$330,068
96700 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	\$0
96900 Total Operating Expenses	\$5,052,107	\$437,740	\$5,000	\$43,128	\$16,345	\$890,853	\$6,546,983	-\$1,114,202	\$5,432,781
97000 Excess of Operating Revenue over Operating Expenses	\$370,680	\$2,965,990	\$0	-\$37,278	\$184,858	\$124,756	\$3,629,006	\$0	\$3,629,006

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: 12/31/2013

	Project Total	14,871 Housing Choice Vouchers	2 State/Local	6.2 Component Unit - Blended	14,836 Lower Income Housing Assistance Program - Section 8 Moderate	COCC	Subtotal	ELIM	Total
97100 Extraordinary Maintenance	\$60,594				\$0		\$60,594		\$60,594
97200 Casualty Losses - Non-capitalized					\$0				
97300 Housing Assistance Payments	\$3,118,853	\$3,118,853			\$178,559		\$3,297,412		\$3,297,412
97350 HAP Portability-In	\$10,934	\$10,934			\$0		\$10,934		\$10,934
97400 Depreciation Expense	\$751,778	\$180		\$258	\$0	\$3,567	\$755,904		\$755,904
97500 Fraud Losses					\$0				
97500 Capital Outlays - Governmental Funds					\$0				
97700 Debt Principal Payment - Governmental Funds					\$0				
97800 Dwelling Units Rent Expense	\$5,864,480	\$3,567,707	\$5,000	\$43,496	\$195,904	\$894,250	\$10,671,827	-\$1,114,202	\$9,557,625
90000 Total Expenses									
10010 Operating Transfer In	\$552,369	\$138,362		\$75,000	\$0		\$865,731	-\$865,731	\$0
10020 Operating Transfer Out	-\$652,369				-\$13,832	-\$199,630	-\$865,731	\$865,731	\$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				
10081 Inter Project Excess Cash Transfer In	\$27,000				\$0		\$27,000	-\$27,000	\$0
10082 Inter Project Excess Cash Transfer Out	-\$27,000				\$0		-\$27,000	\$27,000	\$0
10093 Transfers between Program and Project - In					\$0				
10094 Transfers between Project and Program - Out					\$0				
10100 Total Other Financing Sources (Uses)	\$0	\$138,362	\$0	\$75,000	-\$13,832	-\$199,630	\$0	\$0	\$0
10000 Excess (Deficiency) of Total Revenue Over (Under) Total Expenses	-\$441,993	-\$5,815	\$0	-\$37,364	-\$7,533	-\$78,361	-\$495,838	\$0	-\$495,838
11020 Required Annual Debt Principal Payments	\$0	\$0	\$0	\$0	\$0	\$0	\$0		\$0
11030 Beginning Equity	\$6,562,959	\$58,920	\$0	\$0	\$7,533	\$846,455	\$7,533,306		\$7,533,306
11040 Prior Period Adjustments, Equity Transfers and Correction of Errors					\$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	\$0	\$1,602			\$0		\$1,602		\$1,602
11180 Housing Assistance Payments Equity		\$25,703			\$0		\$29,703		\$29,703
11190 Unit Months Available	9660	6313	0	30	342	0	16345		16345
11210 Number of Unit Months Leased	8968	6261	0	15	302	0	15546		15546
11270 Excess Cash	\$951,548				\$0		\$951,548		\$951,548
11610 Land Purchases	\$0				\$0	\$0	\$0		\$0
11620 Building Purchases	\$402,466				\$0	\$0	\$402,466		\$402,466
11630 Furniture & Equipment - Dwelling Purchases	\$0				\$0	\$0	\$0		\$0
11640 Furniture & Equipment - Administrative Purchases	\$28,961				\$0	\$0	\$28,961		\$28,961
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, 2013, 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. On the financial statements, security deposit liability is being adjusted to what is "due" instead of what is "collected" on the reports. This practice coincides with the reports generated by the tenant accounting software, however, it appears to overstate the actual liability for deposits collected.

3. Wages and benefits allocated/charged to the not for profit component (MECHA) are being reported as consulting fees. This practice does not allow for a reconciliation of the wages or benefits to payroll reports. While the expense in total are correct, the wages and related personnel expenses for the combined agency are understated. In order to report total wages and benefits on the financial statements, ECHA should report all of the wages and bill MECHA a fee for reimbursement. ECHA and MECHA would then report offsetting inter fund revenues and expenses in the same manner as the COCC and other programs of ECHA currently report.

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
July 25, 2014